The relationship between Ownership Structure and Stock Price Volatility with Dividend in Listed Firms of Tehran Stock Exchange

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ABSTRACT

The main purpose of corporations is to maximize shareholders wealth. One of the factors which affect it is the company's dividend policy; therefore, discussion of dividend policy has always been considered as one of the most important financial issues. This study investigates the impact of ownership structure and stock price volatility on payout ratio in listed Firms of Tehran Stock Exchange. In this context, multiple linear regressions were used. The findings of studying 113 Companies during the time period between 2006 and 2011 showed that Institutional ownership, Stock price volatility and corporate ownership affect the ratio of firms dividends in Tehran Stock Exchange. However, there is not meaningful relationship between managerial ownership and dividend policy.

INTRODUCTION

Dividend policy has long been a subject of interest to financial researchers, and it still remains as controversial topic in the field of financial management. Corporation dividend policy is still a complex topic for financial researchers. It is controversial from two very important aspects: on the one hand, it is a factor affecting the investment decisions of companies. Distribution of profits reduces internal sources and increases the need for external resources. On the other hand, many shareholders are demanding cash dividends. Hence, managers must always achieve a balance between shareholders' interests and the opportunities for profitable investment with the aim of maximizing shareholder wealth. Thus, the dividend decisions which are taken by corporate executives are very sensitive and important [4]. Dividend policies are also one of the cases that are affected by agency conflicts. Generally, there are two different perspectives on the relationship between dividends policy and agency conflicts. In the first view, dividend policy is a solution to decrease agency conflicts between managers and shareholders and in the second view, dividend policy is an alternative to agency problems [9]. According to agency theory, ownership structures partially determine corporate governance as a result of efforts to minimize the costs associated with the separation of ownership and control. Agency costs are lower in firms with high managerial ownership shares because there is better alignment of shareholder and manager goals [7] and in firms which have large block shareholders are better able to monitor managerial activities [17]. Therefore, one of the key issues in corporate governance is awareness of ownership structures so that we can develop necessary strategies for better performance and also increase the company's share value [14]. On the other hand, DeAngelo showed that dividend policy is related to the fluctuation of the stock price because dividend policy contains information which gives messages about the status of the company to shareholders. So, the aim of this study is to investigate the relationship between ownership structure and stock price volatility with dividend in listed firms of Tehran Stock Exchange.

Literature Review:

Dividend Policy:

Nowadays, most of the economy activities are investing, and one of the requirements for the Development of any society is investing. In addition to, we can admit which no society will not Progress without investment; moreover, information is needed for investing in a society. This information is much higher credit rating,
A decision which will be made based on this information, will be closer to success [16]. Cash dividend and yielding stocks has a special status among some of the beneficiaries due to its objectivity and tangibility [6]. Dividend policy attracts special shareholders (according to their tax status) and sudden change in dividend payment will because they become discomfort and Unhappiness [5]. The objective of a financial manager in its company's dividend policy is that while providing adequate funds for companies, he can maximize owners' wealth as well as [11].

The effect of dividend changes on stock price and Return:
Most of managers tend that good news spread in the firm quickly as they act slowly about bad news. So it is natural that investors are skeptical about their remarks. Dividend policy may state things that the company's management is unwilling to express. If managers are not willing to cut dividend for some reason and even if they feel that in case of more dividend payments, the company will be in a better financial position they resort to different funds in order to divide more profits; otherwise, it is not unlikely that they reduce dividend or even stop it. This is why that dividend changes give information to shareholders about how they really think, plan, and act. Information rarely can be obtained through other sources (it is possible that we can rely on management anticipated as well as dividend policy reflects and carries this information). For this reason declaration of dividend sometimes leads to reduction, and it occasionally leads to an increase in stock price. These changes are permanent in case of corporate operations how good or bad in this maneuver, and we can say that the results are reflected in changes of dividend [16].

Ownership Structure:
The stockholders' composition is considered as one of the main aspects of firms' ownership structure.

Stockholders' Composition:
Akin to the research carried out by Namazi and kermani (1999) [12], ownership structure is measured by four variables: Foreign Ownership, Institutional Ownership, Corporate Ownership, and Managerial Ownership.

Foreign ownership:
It is equal to the percentage of maintained shares by foreigners of the whole shares of the company which includes: foreign partners, foreign financial entities, foreign nationalities and those who are not residing in Iran. This variable has been used in researches done by Namazi and kermani (2008) [12] in the same way. Since there was not a main foreigner Ownership in companies studied and thus the lack of valid information, no test was done about this ownership and no views are presented.

Institutional Ownership:
It is equal to the percentage of maintained shares by governmental and public companies of the whole shares of the company which these companies include: Insurance companies, financial entities, banks, governmental companies and other parts of Government. This variable has been used in researches done by Namazi and kermani [12] in the same way. As a result, there are two conflicting perspectives about the relationship between Structural ownership, and dividend policy:

Reverse relationship (negative):
When there are conflicts of interest, the supervision activity of foreign or external activity is considered as an important controlling element. Institutional investors are considered to be a group of foreign supervisors. There should exist an alternative relationship between dividend policy and institutional ownership if great institutions investor act as supervising agencies and dividend is paid to reduce agency expenditures. This relationship creates a negative relationship between the percentage of stock owned by institutional ownership and dividend policy [18].

Direct relationship (positive):
The incentive of institutional investors of getting benefits from supervising activities forces this group of investors has no desire to direct supervision by them. These investors force companies to increase the distributed profit rather than direct supervision. In other words, institutional investors prefer to distribute free cash flows in the form of distributed profit so as to reduce agency costs related to free cash flows [18]. According to agency theory, when there is a conflict of interest between managers and shareholders, regular profit distribution can reduce agency conflicts and through this the range of future probable misuse of resources by management decreases. Based on these assumptions and considering that accumulated profit is an internal financial supply resource, paying distribution profit forces the companies to get help from external or foreign markets when they need financial support. The role of institutional ownership in this hypothesis is derived from the preferences of...
institutional investors based on the distribution of cash flows in order to reduce agency expenditures. Regarding the effective position of institutional investors, it is expected this group of owners affect financial policies of the company including profit dividend Policy [1].

Corporate Ownership:
It is equal to the percentage of maintained shares by cooperative firm Members out of the whole shares of the company and consists of different types of cooperative Companies, except those which were mentioned previously. This variable has been used in Researches done by Namazi and kermani (2008) in the same way.

Managerial ownership:
It is equal to the percentage of maintained shares by family members of the board of directors. This variable has been used in researches done by Namazi and kermani (2008) [12] in the same way. In general, there are two theories about managerial ownership effect on Dividend policy. In the First theory, its argued that increasing the dividend decreases agency Problems and the conflict resulted from free cash flows, because payment to shareholders. Decreases management control and it decreases the authority of the managers [7]. Internal investors (such as managers), tend not to divide the stock profit because they want to Preserve their control over the cash flows which are being considered as distributional [8]. Hence, it is expected there is a reverse relationship between managerial ownership amount and divided profit. In contrast, the second approach argued that ownership management may be for the convergence of interests between managers and Shareholders and reduces the free cashflow and so managerial ownership causes more profit Distribution [18].

Previous Empirical Studies:
The effect of growth factors, beta and agency costs on dividend policy by Rozeff (1982) [15] Examined. He used regression model, and findings of his research indicated that dividend Policy (the ratio of dividend pay) has a reverse and meaningful relationship with past and future Sales growth rate, beta coefficient and managerial ownership organization; in addition to, it has a Direct and meaningful relationship with the number of shareholders.

The relationship between the ownership structure and liability policies and profit dividend Policies by Jensen and et al (1992) [7] studied. The research findings indicated amount of managerial ownership varies for different companies, and companies with high managerial ownership choose a lower level of liability and distributive profit. Moreover, profitability influences growth and capital expenditures protect a balanced hierarchical pattern of liability and dividend policy.

The relationship between ownership structure and dividend policy among Indian companies Studied by [10], the findings of his research indicated the amount of joint Ownership and managerial ownership is positively and meaningfully effective and institutional Ownership Influences the level of distributed profit conversely. There is no evidence showing a meaningful Relationship between foreign ownership and dividend policy.

The effect of ownership structure on dividend policy of Japanese companies examined by [18]. The findings resulted from regression for the data related to the years Between1992 and 2000 indicated that the effect of managerial ownership and bank ownership on the yield of dividend has been positive especially for firms with low growth rate.

A study did by Harada and Nguyen [3] about the effect of ownership structure on dividend Policy of Japanese companies. The findings of his research indicated that there is a negative relationship between ownership concentration and paid distributive profit. Besides, there is less Probability companies with centralized ownership increase distributive profit along with Profitability increase, and there is more probability that they will pay no profits by improving Investing opportunities.

Dividend policy and effective factors on it in Tunisian Stock Exchange studied by Nicer et al [13]. The findings of that research indicated that its profitability and consistency positively affect paid distributive Profit, and cash transformation of stock market affects paid distributive Profit negatively. However, ownership concentration and financial leverage do not influence the Amount of distributive profit.

MATERIALS AND METHODS
The method of research is deductive – inductive. It is deductive because we explain the research Hypotheses according to existing theories and is inductive now that correlation analysis will be used to test hypotheses. Correlation research includes all the ways in which we try to determine the relationship between different variables by using linear regression. The purpose of the Correlation analysis is approximately study of one or more variable changes with changes in one or more variables. This study merely examine the degree of correlation and relationships Between variables and when apply that the number of variables are large in test position. On the Other hand, this method not only necessarily identify causal relationships but also, is its purpose Only to determine which variable has the positive or negative relative.
Hypotheses:

**H1:** There is a meaningful relationship between Institution Ownership and payout ratio in listed Firms of Tehran Stock Exchange.

**H2:** There is a meaningful relationship between Managerial Ownership and payout ratio in listed Firms of Tehran Stock Exchange.

**H3:** There is a meaningful relationship between Corporate Ownership and payout ratio in Listed Firms of Tehran Stock Exchange.

**H4:** There is a meaningful relationship Price Volatility and payout ratio in listed Firms of Tehran Stock Exchange.

Variables:

In this research, Ownership Structure and Stock Price Volatility are independent variable, and Payout ratio is the dependent.

Independent Variable:

The independent variable in this research is the Ownership Structure of companies and Stock Price Volatility. Ownership structure is assessed through four variables of institutional ownership, managerial ownership, corporate ownership and foreign ownership like Kumar's [10] research. In addition, to determine Price Volatility we used the standard deviation of each company's stock price over the year.

Dependent Variable:

The dependent variable in this research is payout ratio. Expressing the dividend that the company pays to shareholders as a percentage of earnings per share by this relationship. So as to Calculate it, dividend per share divided by the earnings per share.

Sample:

Sample is all the listed companies in Tehran Stock Exchange will be selected by considering the Following conditions:

1- Information that needed to calculate variable researching companies is available during the research period.

2- Stocks of companies that their stock are traded; moreover, transactions are not interrupted.

3- In order to be compared properly and avoid divergences, the fiscal year should end on 29th of Esfand (March 21st.); furthermore, during the years between 2006 and 2011 they shouldn’t have changed their fiscal year.

4- Companies having dividends paid during the period of investigation

5- Corporations that are not investment firms.

Companies mentioned in the sample part selected as samples during the time 2006-2011 as samples.

Data collection:

So as to collect data needed, we have used financial statements and accompanying notes. For this, we have used Rahavard-e-Novin software and also the official site of Tehran Stock Exchange.

Model of hypothesis test:

Since the present research is based on correlation studies, we will use the multivariable regressions to analyze data.

\[ d_{it} = \beta_0 + \beta_1 INSO_{it} + \beta_2 MO_{it} + \beta_3 CO_{it} + \beta_4 SPV_{it} + \epsilon_{it} \]

In this formula; dependent variable include; Dividend Policy (di). Also independent variables include; INSO: institutional ownership, MO: managerial ownership, CO: corporate ownership and SPV: Stock Price Volatility.

Method of data analysis:

Kolmogorov – Smirnov was used in order to investigate normality of the data. The results of this test are as following:

Results:
Table 1: Results of normality test

<table>
<thead>
<tr>
<th>multivariable regressions model</th>
<th>Kolmogorov-Smirnov Z statistic</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.093</td>
<td>Kolmogorov-Smirnov Z statistic</td>
<td>0.187</td>
</tr>
</tbody>
</table>

As we can see from the above table, the significant values of all the variables are more than 0.05; therefore, assumption of normality of the data is accepted.

Finding and Results:

Table 2: The estimated regression coefficients

<table>
<thead>
<tr>
<th>p-value</th>
<th>T-statistics</th>
<th>standardized beta coefficient</th>
<th>estimation of standard deviation</th>
<th>estimated regression coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.000</td>
<td>6.150</td>
<td>7.950</td>
<td>48.891</td>
<td>Constant coefficient</td>
</tr>
<tr>
<td>0.001</td>
<td>3.233</td>
<td>0.331</td>
<td>0.100</td>
<td>Institutional ownership</td>
</tr>
<tr>
<td>0.392</td>
<td>0.956</td>
<td>0.083</td>
<td>0.113</td>
<td>Managerial ownership</td>
</tr>
<tr>
<td>0.012</td>
<td>2.532</td>
<td>0.320</td>
<td>0.901</td>
<td>Corporate ownership</td>
</tr>
<tr>
<td>0.002</td>
<td>3.121</td>
<td>0.134</td>
<td>0.003</td>
<td>Stock Price Volatility</td>
</tr>
</tbody>
</table>

First Hypothesis:
There is a meaningful relationship between institutional Ownership and Payout Ratio in listed Firms of Tehran Stock Exchange. As it is shown in the above figure (Table 2), the variable of Institutional Ownership (p-value<0.05) has a meaningful and positive relationship with the company's payout ratio.

Second Hypothesis:
There is not a meaningful relationship between managerial Ownership and Payout Ratio in listed Firms of Tehran Stock Exchange. As it is shown in the above figure (Table 2), the variable of managerial Ownership (p-value>0.05) does not have a meaningful relationship with the company's Dividend per Share ratio.

Third Hypothesis:
There is a meaningful relationship between structure between corporate Ownership and Payout Ratio in listed Firms of Tehran Stock Exchange. As it is shown in the above figure (Table 2), the variable of corporate Ownership (p-value<0.05) has a meaningful and positive relationship with the company's Dividend per Share ratio.

Fourth Hypothesis:
There is a meaningful relationship between stock Price Volatility and Payout Ratio in listed Firms of Tehran Stock Exchange. As it is shown in the above figure (Table 2), the variable of Price Volatility (p-value<0.05) has a meaningful and positive relationship with the company's Dividend per Share ratio.

Conclusion:
The main purpose in this article is to study the relationship between Dividend Policy, Ownership Structure and Stock Price Validity in Companies Listed at Tehran Stock Exchange.

1-6. the results of testing the first hypothesis showed that there is a positive and meaningful relationship between Institution Ownership and the company's Dividend per Share ratio in listed Firms of Tehran Stock Exchange. The results indicated that Institutional investors in Iran do not like to supervise directly so as to reduce conflicts of interest by themselves. Hence, these investors force companies to increase the distributed profit in order to reduce range of future probable misuse of resources by management and reduce agency conflicts.

2-6. the results of testing the second hypothesis showed that there isn't a meaningful relationship between Managerial Ownership and the company's Dividend per Share ratio in listed Firms of Tehran Stock Exchange. No significant relationship between managerial ownership and Dividend per Share ratio indicated that the managers do not have an independent role in the case of the profit distribution or reinvestment of profits.

3-6. the results of testing the third hypothesis indicated that there isn't a meaningful relationship between corporate ownership and the company's Dividend per Share ratio in listed Firms of Tehran Stock Exchange. Considering that corporate are usually financed through debt and equity; therefore, corporate owners increase the distributed profit so as to attract shareholders to invest in companies.

4-6. the results of testing the fourth hypothesis showed that there is a positive and meaningful relationship between Price Volatility and the Dividend per Share ratio in listed Firms of Tehran Stock Exchange. a positive
relationship between stock price volatility and dividend payment ratio indicate that stock price of companies that have reported higher profits is increased. Thus, investors can decrease their investment risk by investing in these companies.

**REFERENCE**


