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THE EFFECT OF OWNERSHIP STRUCTURE ON DIVIDEND POLICY IN JORDAN

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Abstract

The current research explores the ownership structure’s impact on the dividend policy from a Jordanian perspective. Above all, using data from industrial companies indexed on Amman Stock Exchange (ASE) between 2017 and 2021, the study reveals the impact of these concepts “Institutional ownership, foreign ownership, and managerial ownership” on dividend decisions. Confirmation of a positive relationship between institutional ownership and the probability of paying dividends is provided. Furthermore, the findings show a negative relationship between foreign ownership and paying dividends. Besides, the findings demonstrate that managerial ownership does not impact dividend payment decisions. The study, however, recommends taking into account the ownership structure among investors when investment decisions are made to assist them in selecting the appropriate investment opportunities.

Keywords: Ownership Structure; Agency Theory; Dividends Policy; Jordan

1. INTRODUCTION

A dividend policy is defined as the payout policy followed by a company to determine the size and pattern distribution (Baker et al., 2012). Besides, it speaks of the payout policy used to determine the rhythm and size of cash distribution concerning dividends to the shareholders over time. The dividend is a fragment distribution for the earnings of a firm declared by the company’s directors’ board with inputs from high management (Baker, 2009). Moreover, paying dividends impacts the ability of the company to gain earnings to achieve shareholder wealth and progress opportunities. As said by (Pruitt & Gitman, 1991), dividend decisions, financing, and investment are in the same category where the dividend policy is not considered apart from other decisions by the management. As stated by (Hakansson, 1982, p. 1),

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“Dividends regularly inundate the empirical world with cash as the sun burns the desert, and one problem related to this pattern lies in being established on insignificance”. Consequently, much determination is required to simplify the picture and reveal the puzzle.

In the same context, the ownership structure as an equity distribution either in terms of capital or votes is identified as the equity owners (Jensen & Meckling, 1976). Among the key components in corporate governance is the ownership structure thanks to the competence of the managed firms and the managers’ persuasion incentives. Much ink has been spilled on ownership structure and the company’s financial policy by previous scholars (Gul & Kealey, 1999; Hansen & Crutchley, 1989). Additionally, firms’ decisions constructed on dividend policy are affected by corporate ownership structure (Ramli, 2010). Importantly, Agency theory assumes the availability of the interest conflict interest between shareholders and managers known as the agency costs of the dividends. In this situation, each group has its interests regarding who is the subject of the target and contract to satisfy its interests.

In the process of making financial decisions, the companies are regularly affected by the companies’ policies themselves. Previous related empirical studies by (Nimer et al. 2012; Al-Gharaibeh, 2013; Miko & Kamardin; 2015; Mossadak, et al., 2016) demonstrate that corporate ownership structure always affects the dividend policy. Corporate theories maintain that the relationship between ownership structure and dividend payout is fueled by the impact of agency problems (Jensen, 1986). Additionally, the assumptions of extensively dispersed ownership construct the related literature on the function and role of the modern company. In the same vein, previous pieces of literature indicate that certain ownership contractions exist among the biggest companies in the USA (Demsetz, 1988; Morck et al., 1988).

Past pieces of research on the relationship between dividend policy and ownership structure have chiefly concentrated on the evolving market, where deters are abandoned by developing countries to adopt novel viewpoints (Warrad et al. 2012; Jabbouri, 2016). As stated by (Claessens, Djankov, & Lang, 2000), almost all Asian countries have significantly altered with no important changes to patterns namely: share of the robust family ownership within the companies. In another related study by (Zhang & Keasey, 2002), it is found that the United Kingdom has a high level of explanatory power between ownership structure and dividend policy. On the other hand, Sulong and Ahmed (2011) demonstrate that the relationship between dividends and ownership structure in Malaysia is described by a low degree of explanatory power. The aforesaid studies indicate contradictory attitudes and beliefs in developing, developing, and evolving markets concerning explanatory power.

In the current work, the relationship between Jordan's ownership structure and dividend policy is investigated to contribute to the current shreds of research by analyzing the ownership structure’s effect on dividend policy in Jordan under the evolving market. Furthermore, it broadly uncovers the relationship between dividend policy and ownership structure in an emerging market such as Jordan which is still a new research venue to explore. The next section gives an insight into the related studies and the process to develop the three hypotheses.

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2. LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

The dividend is defined as “The chief motive that obliges shareholders to interact in developing capital for organizing companies gearing them to makes some risks in investment” (Baker et al., 2012, p.2). In this mood, the corporations’ management constructs a dividend policy for sharing dividends among financiers and investors for their added contribution. A significant impact is made by the dividend policy on how worthy is the company as it shall balance between the growth process and pay-out policies within its structure.

As observed by (Jensen & Meckling, 1976), the relationship of the agency is commonly created in certain affairs as the managers are assigned by the owners to perform some of their duties and required work. The contradicting interest between managers and investors normally leads to a rise in agency costs. Short et al. (2002) postulate that a pivotal role is played by the dividend policy in lessening the agency cost. Likewise, Jensen (1986) indicates that problems are initiated between managers and investors by the process of paying dividends. In other words, the conflict is caused by the interest and efforts of the managers to get returns into the business. However, the interests of the owners aim to attain returns from their investments.

Though the shareholders work on attaining dividends instead of flowing back to the business, directors preserve and channel the capital to unbeneficial businesses or other domains for their benefits and targets. Hence, a conflict is raised between the directors and shareholders. Alternatively, several conflicts are resolved by the dividend payout policy. Rozeff (1982) agrees that paying dividends as a procedure is adopted by many companies to decrease agency costs. Numerous researchers assume that the procedure to control the dividend policies assist the shareholders in reducing agency cost. As reported by (Han et al., 1999), investment ownership and dividend pay-out are closely intertwined. Japanese companies are an example of the agency conflict between the directors and investors caused by the act of insincerity in using the assets of the fund of the shareholders by the managers (Da Silva et al., 2005). Stouraitis and Wu (2004) assert that adoption of the policy of the dividend payment policy can strongly help in overcoming several over-investment problems; the area of conflicting interests between the agents and principals.

However, another related work by (Miller & Modigliani, 1961) supposes zero conflicts between the shareholders and managers. On the contrary, the supposition is unworkable as similar interests are not always shared by investors and managers. Shareholders might face agency costs stemming from the would-be contradictory interests of the managers and shareholders. Agency cost refers to the internal cost paid to an agent acting in the best interests of a manager. The costs, accordingly, increase thanks to the interest conflicts between shareholders and management. A key role is played by the dividend policy to minimize agency costs stemming from the contradictory interests of the said parties (Short et al., 2002). The lion's share of shareholders assigns the owner numerous efforts to properly manage the company so that the values of the shareholder are strongly increased. Otherwise, the company is required by the management to make the best use of their wealth and power that are beyond the shareholders’ concerns.

2.1 Institutional Ownership & Dividend Policy

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For attaining supplementary funding for maximizing the monitoring process of the capital market, corporations are always pushed by the dividends payments for securing a place in the exterior capital markets (Rozeff, 1982; Easterbrook, 1984). Yet, as argued by (Demsetz & Lehn, 1985; Shleifer & Vishny, 1986), institutional block holders, i.e. banks, unit trusts, investments, and insurance companies can act as a monitoring method in the company's management, thus decreasing the desire for high levels of dividend payouts.

As argued by (Zeckhauser and Pound, 1990), institutional shareholders might not participate in the process of direct monitoring thanks to their long standpoint of investment. Generally, companies are stimulated by institutions to pay a higher level of dividends, and thus these companies shall get closer to the external capital market for financial necessities in the future. Similarly, companies are also required by institutions to pay higher levels of dividends to enhance the monitoring process of the capital markets to a greater extent, especially when believing that they have pricey or inadequate direct monitoring exercises (Farinha, 2003). Accordingly, the relationship linking dividend payout and institutional ownership has a positive nature.

With the analysis provided to examine the shareholder ownership identity's effect on dividend policy, it is shown that with higher levels of institutional ownership, companies in Tunis pay out a lower dividend in proportion to the institutional investors' efficient monitoring role (Kouki & Guizani, 2009; ALmerri & Al-Okdeh2020). On contrary, Abdelsalam et al. (2008) demonstrate a positive relationship between decisions regarding the dividend policy and institutional ownership made by companies in Egypt. Correspondingly, Manos (2002) shows that institutional ownership positively impacts the payout ratios of the companies in India which disagrees with the claim that the corporations' abilities in terms of efficient monitoring decrease the demand for the dividend-induced method. Without a doubt, this is in line with the preferences of the dividend-induced monitoring process of the Indian corporations, demonstrating bigger agency conflicts in the evolving Indian market; therefore there is an inefficient degree of direct institutional monitoring. Accordingly, hypothesis No. 1 can be:

H1: Institutional ownership and dividend policy have a mutual relationship.

2.2 FOREIGN OWNERSHIP & DIVIDEND POLICY

As put by (Jeon et al., 2011), foreign project financers and investors are characterized by efficient supervision and control methods since their international practices and norms enable the company to promote robust practices of the governance process. Conversely, foreign venture capitalists and investors call for bigger dividends to pay compensation for increased risk, for the informational asymmetry is higher than domestic investors. In the same vein, Al-Najjar and Kilincarslan (2016) pinpoint the relationship between dividend policy and foreign ownership using the companies' data between 2003 and 2012 in Istanbul, Turkey. The results show a statistically significant negative impact is combined between dividend policy and foreign ownership. It is also seen that the necessity to pay dividends in the Turkish market is reduced by the foreign investors' increasing level of ownership. Moreover, Batainah (2021) uses ASE-based data related to 66 directors in Jordanian service

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and industrial companies between 2014 and 2017 to explore the relationship between foreign ownership and dividend policy. The findings indicate the availability of a significant negative effect between dividend policy and foreign ownership. Conversely, Kowerski and Wypych (2016) demonstrate that dividend payments and foreign ownership combine a positive relationship thanks to the desirable nature of the dividends as an income source for foreign investors.

Additionally, with the use of 710 observations between 2006 and 2016, Setiawan et al. (2016) look at the relationship between dividend policy and foreign ownership. The study shows that the dividend policy and foreign ownership have a mutually significant and positive effect. Their study shows that foreign owners recommend companies pay more dividends since foreign owners favor receiving higher returns in the dividend method than reinvesting. Likewise, as stated by (Jeon et al., 2011; Musallam & Lin, 2019), it is indicated that the relationship between dividend policy and foreign ownership has a positive and significant nature. Accordingly, hypothesis No. 2 can be:

H2: Dividend policy and foreign ownership have a mutual relationship.

2.3 MANAGERIAL OWNERSHIP & DIVIDEND POLICY

Managerial shareholding encompasses stock embraced by decision makers such as directors' board, and general managers, alongside executive officers involved in managing the firm both by attending meetings and making representations in the board of directors. Rozeff's work in the eighties formatted in developing "The cost Minimization Model" marks the first attempt to relate ownership structure to dividend policy. Rozeff indicates that dividend payout is negatively related to insider ownership. Therefore, managers are actively encouraged by managerial ownership to achieve the firm's whole objectives. What is more, a high level of managerial ownership supports the confidence of the investors and depresses the requirement to pay higher dividends.

Afterward, numerous related studies ubiquitously uphold Rozeff's findings. Miko and Kamardin (2015), for instance, examine the method of ownership structure that impacts the dividend policy in Nigerian companies. Of late, empirically exploring the said relationship at the Karachi Stock Exchange, Ahmad and Javid (2010) show a similar finding. By the same token, Ali et al. (2018) make a piece of evidence supporting the negative relationship between managerial ownership and the policy of dividend payment. As a result, the dividend payout ratio (DPR) is reduced by the increasing ratio of managerial ownership (Sakinc & Gungor, 2015). As the dividend pay-out and decisions to pay a dividend are possibly associated, Heckman's 2-stage technique is adopted by (Alphonse & Tran, 2014) to identify the existing 2-step relationship within the two dividend decisions in the Vietnamese non-financial sector. It is noted that insider ownership negatively impacts these two decisions.

Besides, Ozo et al. (2015) indicate that with the company and market's exceptional features, dividend policy sometimes varies. In this domain, different results are attained in companies with higher free cash flow. Particularly, using the OLS technique in a Japanese context, a positive relationship is postulated between bank ownership and managerial ownership on dividend yield in companies with free cash flow difficulties (Stouraitis & Wu, 2004).

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Equally, "In a context with an imputation tax, the insider ownership positively affects both the dividend pay-out decisions and the decisions to pay or not to pay dividends (Balachandran et al., 2019, p.1). In contrast, with the use of the Tobit and Logit Model to explore the two dividend decisions, Al-Najjar and Kilincarslan (2016) show no significant relationship between the possibility of paying the dividend and the board's ownership held by the family. Additionally, with the adoption of the partial and full adjustment models in the Jordanian market, the inconsistent results attained by (Al-Gharaibeh et al., 2013) are seen in the two models. The relationship of managerial ownership is positive with the full adjustment model, while it is negative with the partial adjustment model. Still, in the matter of the two models of explanatory power, the partial adjustment model is inferior compared to the full adjustment model. Alternatively, other studies (Abubakar & Umar, 2020; Ali et al., 2018) postulate an insignificant relationship between dividend pay-out and managerial ownership. In a similar mood, Miko and Kamardin (2015) evaluate the ownership structure's impact on the dividend policy in several Nigerian companies between 2001 and 2010, using the Pooled OLS analysis approach. The results demonstrate that dividend policy and managerial ownership share a negative relationship. Alike results are also attained in Nigerian companies by (Afolayan, 2015; Andow & David, 2016). As gleaned from the aforesaid literature review, a case of inconsistency is found among the previous results on the method of managerial ownership impacting dividend policy. Importantly, one of the two decisions against the variables of the ownership structure has only been examined. More importantly, very few studies exploring the two decisions have not taken into account the possible relationship between the two decisions. Accordingly, hypothesis No. 3 can be:

H3: Managerial ownership and dividend policy have a mutual relationship.

3. METHOD

3.1 Study Sample Selection

The whole 43 industrial companies on the Amman Stock Exchange between 2017 and 2021 represent the study population. The inadequate data and the inaccessible financial reports necessitate the total number of companies incorporated into the analysis to be 36 companies, demonstrating 83.72 % of the entire population. As financial companies are administered by certain policies and regulations inapplicable to other companies operating in other sectors, it has been decided to exclude the financial sector companies, i.e. real estate, insurance, banks, and diversified financial service from the required analysis. The databases of the Amman Stock Exchange and the Security Depository Center are adopted to collate ownership structure information and dividend data from the companies' annual financial reports.

3.2 Model and Variables Descriptions

Achieving the study objectives requires formulating the model's empirical form as follows:

$$DY_{it} = \beta_o + \beta_1 IO_{it} + \beta_2 FO_{it} + \beta_3 MO_{it} + \beta_4 SIZE_{it} + \varepsilon_{it}$$

The dividend yield ratio (DY) is used to measure the dependent variable (Dividend Policy) termed as dividends paid per share divided by the closing price per share for a firm. If the dividend is paid, the variable takes a positive value, and if the dividend is unpaid, it takes zero

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value. With that "Institutional ownership (IO), foreign ownership (FO), and managerial ownership (MO)" are used as independent variables in the current study. In proportion to institutional ownership (IO), studies by (Mehdi et al., 2017; Reyna, 2017) calculate institutional ownership as a percentage of a company's shares held by pension funds, banks, mutual funds, insurance firms, and other financial institutions. Furthermore, as put by (Ibrahim & Shuaibu 2016), foreign ownership (FO) is measured as a percentage of a company's shares held by foreign companies. As per (Shafai & Shafai, 2020), managerial ownership (MO) is measured as a percentage of managerial ownership; the percentage of directors, executives, managers, and their families divided by the company's total equity. The cash flow level and firm size are used as the control variables incorporated into the study. Lastly, taking the natural logarithm of the firm's total assets helps in measuring the firm size (SIZE).

4. RESULTS & DISCUSSION

4.1 Descriptive Statistics

As shown in Table (1), the descriptive statistics for the independent variables, dependent variable (DY), and control variable between 2017 and 2021 are appropriately detailed. As gleaned from the table, the companies' average dividend yield ratio in the study sample is (2.95%). At the Jordanian level, however, this value is less than that described by Aizyadat (2022) indicating a 4.87% average dividend yield for a 57-firm sample officially listed on ASE between 2013 and 2019. Relating to the various structures of ownership for Jordanian companies, (44.6%) of the ownership is in the possession of institutions ranging from (0%) to (96.5%). This finding is near enough Bataineh (2021), demonstrating that the institutional ownership percentage is (47.8%) in service and industrial companies officially listed on ASE between 2014 and 2017. However, (9.5%) of the ownership is in the possession of foreign investors. Also, the findings signpost that the managerial ownership possesses only about (1.2%) of ownership and this finding is on the brink of Aizyadat (2022) specifying that the managerial ownership's percentage is (1.5%). Lastly, taking the natural logarithm of the firm's total assets helps in measuring the firm size (SIZE) varying from 4.9% to 8.1% with a 6.3% average.

TABLE 1: Descriptive Statistics

Variable	Symbol	Mean	Standard Deviation	Maximum	Minimum
Dividend Policy	DY	2.95	3.82	0.00	13.54
Institutional Ownership	IO	0.446	0.315	0.00	0.965
Foreign Ownership	FO	0.095	0.207	0.00	0.985
Managerial Ownership	MO	0.151	0.243	0.00	0.971
Firm Size	SIZE	6.325	0.517	8.120	4.981

4.2 Main Empirical Results

As shown in Table (2), it is strongly evident that a positive relationship between institutional

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ownership and the possibility to pay dividends is available. In other words, the institutional variable's coefficient is statistically positive and significant, demonstrating that a higher level of institutional ownership creates a higher dividend yield ratio. This positive relationship is in agreement with the perspective of the agency, hinting that institutional shareholders can be a valid instrument to lessen agency costs between the management and shareholders. The shareholders may be unable to directly observe the operations of the corporation and therefore inducing companies to pay more dividends to ease the management's probable opportunistic behavior by decreasing the available cash flow. Contrariwise, institutional investors' priority is to gain their income dividends to be appropriately invested consistent with their related policies of the investment. This finding is per (Benjamin et al., 2016; Mehdi et al., 2017; Bataineh, 2021) and is inconsistent with (Berezinets et al., 2017; Mardani & Indrawati, 2018) hinting that lower dividend payments are caused by the higher level of institutional ownership.

Likewise, as shown in Table (2), foreign ownership and paying dividends share a negative relationship, as the coefficient is statistically negative and significant. Among the key explanations for this relationship is that low dividend payment is a priority to foreign investors in the circumstances thanks to their efficient role to control the managers' opportunistic behavior in developing markets due to their related experience and knowledge. Another cause for this relationship rests in the belief that foreign investors prioritize preserving their earnings for financing the long-standing progress of the company thanks to their pursuit of investment opportunities except those in their countries. This finding is in agreement with the studies by (Al-Najjar & Kilincarslan, 2016; Bataineh, 2021).

In the same context, Table (2) also demonstrates that dividend payment decisions and managerial ownership share zero significant relationships. The managerial variable's coefficient is positive but statistically insignificant at the entire traditional significance level. This suggests that the managerial ownership of a particular corporation does not impact the dividend payment decision during the study period. This is because managerial ownership is insignificantly related to dividend payout as directors have a small ownership percentage that does not affect more decisions on dividend policy (Shafai & Shafai, 2020; Suwaidan & Khalaf, 2020). Additionally, this result disagrees with (Ibrahim & Shuaibu, 2016; Balachandran et al., 2019; Aizyadat, 2022) along with agency theory affirming that being on the rise, managerial ownership reduces the possibility of dividend payment.

TABLE 2: Regression Analysis Results of Ownership Structure and Dividend Policy

Variables	**Cofe.**	**t-stat**
Intercept	-2.135	0.029
Institutional Ownership (IO)	1.541	0.034***
Foreign Ownership (FO)	-1.863	0.058**
Managerial Ownership (MO)	0.695	0.026
Firm Size (SIZE)	-0.087	-0.620
Adj.R2	0.306	
Obs.	180	
F-stat	7.358	

***, ** and * indicate significance at 1%, 5% and 10% respectively

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5. CONCLUSION

In a nutshell, the impact of ownership structures "Institutional ownership, foreign ownership, and managerial ownership" on the dividend policy for a 36-firm sample in the industrial sector in Jordan. The findings mainly demonstrate a relationship with a positive significance between dividend yield and institutional ownership. A key reason for this relationship is that the institutional shareholder possibly will directly fail to control and monitor the performance and operations of the company. Hence, in safeguarding shareholders, the institutional shareholders are required to lean on companies to pay additional cash dividends so that the managers' opportunistic behavior and control over resources are reduced. Foreign ownership inclines to pay a lower cash dividend as foreign shareholders possibly will be longstanding investors, prioritizing that the company will reinvest a high amount of its earnings to finance its long-standing progress and development over short-term cash dividends. More importantly, the study specifies that managerial ownership is insignificantly related to dividend payout as directors have a small ownership percentage that does not affect more decisions on dividend policy. Given the aforesaid, the current study recommends conducting new studies investigating new variables such as board diversity and family ownership to measure the concept of dividends in Jordan.

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