

Dividend Payout and Capital Structure: A Family Firm Perspective

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Abstract : Family involvement in business is universal across countries, with varying characteristics. Firms of developed economies have diffused ownership structure; however, that of emerging markets have concentrated ownership structure, having resemblance with that of family firms. Optimization of dividend payout and leverage are very crucial for firm's valuation. This paper studies dividend paying behavior of National Stock Exchange listed Indian firms from financial year 2007 to 2016. The final sample consists of 422 firms and of these more than 49% (207) are family firms. Results reveal that family firms pay lower dividend and are more leveraged compared to non-family firms. This unique data set helps to understand dividend behavior and capital structure of sample firms over a long-time period and across varying family ownership concentration. Using panel regression models, this paper examines factors affecting dividend payout and capital structure and establishes a link between the two using Two-stage Least Squares regression model. Profitability shows a positive impact on dividend and negative impact on leverage, confirming signaling and pecking order theory. Further, findings support bankruptcy theory as firm size has a positive relation with dividend and leverage and volatility shows a negative relation with both dividend and leverage. Findings are also consistent with agency theory, family ownership concentration has negative relation with both dividend payments and leverage. Further, the impact of family ownership control confirms the similar finding. The study further reveals that firms with high family ownership concentration (family control) do have an impact on determining the level of private benefits. Institutional ownership is not significant for dividend payments. However, it shows significant negative relation with leverage for both family and non-family firms. Dividend payout and leverage show mixed association with each other. This paper provides evidence of how varying level of family ownership concentration and ownership control influences the dividend policy and capital structure of firms in an emerging market like India and it can have significant contribution towards understanding and formulating corporate dividend policy decisions and capital structure for emerging economies, where majority of firms exhibit behavior of family firm.

Keywords : dividend, family firms, leverage, ownership structure

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