Shifting A Company's Ownership Structure And The Impact On Its Dividend Policy

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Abstract
The purpose of this study is to review the literature on ownership structure theories in order to determine the influence of a change in ownership structure on the dividend policy in the company under investigation. While capital structure research studies were initially concentrated mostly on developed countries, the findings demonstrated that, as time has progressed, the number of research studies in emerging markets has increased. Furthermore, the capital structure research investigations were undertaken primarily by taking into account all of the industries at the same time, with just a little amount of attention paid to a certain industrial sector. Almost all of the studies were empirical in nature, allowing for the possibility of doing primary research. In recent years, many types of regression have become prominent econometric tools in this field. This work demonstrated the importance of trade-off theory in elucidating the capital structure of enterprises, regardless of the state of the economy at the time of writing. The complete assessment revealed the current gaps and highlighted the important themes that are emerging in the realm of the capital structure. In contrast to a traditional review paper, this study classifies the sample based on several parameters and presents the findings in a graphical format to cover research gaps, avenues, evolving themes, key aspects, impactful authors and their papers, and other relevant topics in the ownership structure domain, such as ownership structure. It makes ready-made information available for potential research projects in this subject, which may be used immediately.

Keywords: ownership structure, dividend policy, investor behavior, .
Introduction

The ownership structure in the financial industry is one of the most contentious issues. The study of corporate finance policies, as well as the presence of an ideal ownership structure, has occupied a significant amount of economic research time. Modigliani and Miller, who claimed that the decision to finance a capital structure makes no difference, are just the beginning of the long list of theories that have emerged in this area. These theories include the exchange theory, signal theory, and order theory, each of which has its own set of considerations. While this literature has advanced significantly over the years, recent events, such as the financial and economic crisis, have altered the macroeconomic environment, which has influenced the behavior of businesses and their decisions on capital expenditure (Mostarac, Petrovic: 2013).

Several scholars have attempted to explain why corporations pay a considerable fraction of their earnings as dividends, even when the quantity of dividends given to shareholders does not improve the value of the company, following Miller and Modigliani's (1961) suggestion that dividends are inappropriate. What are some of the most often cited reasons for corporations to pay dividends? According to this theory, there is a conflict of interest between directors and shareholders, and thus, the free cash flow hypothesis is supported by the evidence. Managers have the option of diverting corporate resources away from operating in the best interests of shareholders in order to profit themselves. Unwarranted mergers and acquisitions, as well as excessive expenditure on franchises, are examples of selfish behavior on the part of management (Thanatawee, 2013: 121).

In addition to other business policies, the dividend policy is one that has an impact on the ownership structure of the organization. It is possible to utilize dividends to ease agency difficulties in a firm and, as a result, to replace (big ownership) in the role of control tools. Major shareholders, on the other hand, can use their influence to seize control of the firm and divert its resources to their own benefit. This can limit the amount of corporate dividend payments that can be made when there are strong agency disputes. According to this viewpoint, it is vital to investigate the link between big shareholders, particularly the largest shareholder, and dividend policy in order to acquire a better understanding of corporate payout decisions. Specifically (Ramli, 2010: 171).

Ownership Structure

Although considerable debate has centered on firms' choice of ownership structure since the pioneering work of MM (1958), the choice of finance has remained a 'mystery' for scholars more than seventy years after that date. 'How do corporations determine their ownership structures?' is an issue to examine. At first sight, the discussion revolved on the precise determinants at the corporate level, with the choice of capital for the ownership structure based on financial management considerations as the basis for the ownership structure (Mogha & Williams, 2020: 2).

In the realm of finance, the capital structure literature acknowledged that MM's (1958) evidence for the relevance of capital structure was based on a set of assumptions that included the following elements: (Ardalan, 2017: 697).
1. There are no transaction fees in the capital markets.
2. Borrowing and lending may be done at a risk-free rate by individuals.
3. There are no charges associated with bankruptcy or business.
4. There are only two forms of debt that companies can issue: risk-free financing and equity.
5. It is presumed that all businesses are in the same risk class.
6. The sole type of government taxation is corporate taxation.
7. All cash flows are long-term in nature.
8. There are no options for a reference to be provided.
9. There are no fees or commissions to pay to an agency.
10. Changes in the capital structure have no effect on operating cash flows in any way whatsoever.

Capital Structure Theories
Based on the argument of a perfect capital market and the capital structure irrelevance model, a number of ideas have evolved throughout the years. Firms are assumed to have a single optimal debt ratio, and they trade off the benefits and costs of debt vs equity financing, according to trade-off theory. It is assumed by Pecking Order Theory (Myers, 1984; Myers and Majluf, 1984) that corporations adhere to a funding hierarchy in order to reduce the problem of information asymmetry. However, none of these two hypotheses provides a comprehensive explanation of why some organizations prefer debt financing while others prefer equity financing in different situations. Baker and Wurgler (2002) developed a new theory of capital structure, market timing theory, which explains the current capital structure as the cumulative result of previous attempts to time the equity market. This concept has been around for quite some time, but it has only recently acquired traction. However, Baker and Wurgler (2002) demonstrate that the impact of market timing on capital structure is regular and continuous, contrary to the findings of previous empirical research. As a result, the predictions of these theories occasionally conflicted with one another, and the issue posed by Myers (1984) 32 years ago, "How do enterprises determine their capital structure?" continues to be relevant today.

1. **The Traditional Theory**: Traditionalism in Finance First and foremost, traditional capital structure theory is such a fundamental component of finance that most of the fundamental theories were developed more than twenty-five years ago, and there has been a large number of articles on traditional capital structure theory from a long period of time. Because the theory implicitly implies that these owners have well-diversified personal portfolios (Modigliani and Miller), corporate capital structure decisions are made (1958). As a result, many corporate owners exhibit demographic features and personality variances that may be used to better understand their capital structure decisions. (Ang and colleagues, 2010: 2).

2. **Agency theory**: The agency problem that occurs between owners and managers as a result of knowledge imbalance between them is one of the primary motivations of external audits. Because agents want to maximize their own gains, even at the expense of management, external auditors have a responsibility to limit conflict...
between agents and shareholders and to eliminate information asymmetry between them. Auditor efforts are likely to increase in the case of a serious agency problem, as a result (Alhababsah, 2019: 73-74).

3. Signaling theory: According to Modigliani and Miller, investors and company management have the same knowledge about the firm's prospects - this is referred to as symmetric information. Managers, on the other hand, frequently have more up-to-date knowledge than outside investors. This is referred to as asymmetric information, and it has a significant impact on the optimal capital structure of a firm. Consider the following two scenarios: one in which the management of a firm are confident in the company's future (Company A), and the other in which the managers are confident in the company's future (Company B) (EHRHARDT & BRIGHAM 2011: 615).

4. Trade-Off Theory: According to the exchange theory, the structure of ownership is defined by the trade-off between loan interest and debt expenses. From the standpoint of "the exchange that bankruptcy tax," the balance of firms between the tax advantages of debt and the heavy expenses of bankruptcy is referred to as "the exchange that bankruptcy tax." When it comes to debt from the standpoint of the agency, debt both regulates and mitigates agency concerns in terms of free cash flow, because obligations must be serviced and bankruptcy avoided. Despite the fact that debts diminish conflicts between stock managers, they aggravate conflicts between shareholders and debt holders. In Frank and Goyal's (2009) work, they state that It is also said that the results of (Modigliani and Miller) are dependent on the assumption that there are no bankruptcy expenses by (EHRHARDT & BRIGHAM). Nevertheless, bankruptcy may be extremely expensive, and businesses that go bankrupt incur significant legal and accounting expenditures, as well as difficulty in retaining customers, suppliers, and staff. Furthermore, bankruptcy frequently compels a corporation to liquidate assets or sell them for less than they are worth if the company is to continue to operate after bankruptcy (EHRHARDT & BRIGHAM, 2011: 613).

A model of dividend policy developed by Gordon (1962) is one of the models that adheres to the notion of 'importance of dividends.' Known as the "bird in hand" argument, it asserts that current earnings are significant in assessing the worth of a company's stock price. With the dividend policy in place, the Gordon model is one of the most often used mathematical models for assessing the market value of a firm (Panigrahi & Zainuddin, 2015: 48).

Singh and Tandon (2019: 8) conclude that Walter's (1963) model is unable to distinguish between the dividend policy and the investment policy of the corporation. Instead, they are intertwined and interdependent. As a result, the decision to go with the former has an impact on the value of the firm. His theory clearly demonstrates the link between (a) the internal rate of return of enterprises and (b) the cost of capital or the needed rate of return. In other words, the connection between r and k should be used to calculate the best dividend policy. In brief, if the return on investment exceeds the cost of capital, the firm should retain its profits; if the return on investment does
not exceed the cost of capital, the company should divide its earnings to its shareholders.

The distribution of dividends is determined by a series of mathematical formulae. With strict adherence to the policy of residual distribution, the dividends paid in any given year may be represented as follows: If the corporation adheres rigorously to the principle of residual distribution, the dividends paid in any given year can be expressed as follows: (2011) (EHRHARDT & Bragham, 2011: 571)

Distributions = Net income - Retained earnings needed to finance new investments

= Net income – (Target equity ratio) × (Total capital budget) ………………(1)

Dividends: measures the percentage of profits that a company pays out in dividends. A company's dividend ratio indicates the percentage of earnings that are distributed to owners in cash, calculated by dividing the company's cash earnings per share by earnings per share.

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\text{Dividend Payout} = \frac{\text{Dividends per share}}{\text{Earnings per share}} \quad \text{.........(2)}
\]

Dividend Yield: Measures the return that an investor can earn from dividends alone.

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\text{Dividend Yield} = \frac{\text{Dividends}}{\text{Stock Price}} \quad \text{..........(3)}
\]

Dividend Cover: Refers to a weakness or safety margin of dividend payments leading to a decrease in dividends. The dividend coverage ratio is used to assess the company's ability to pay dividends to its ordinary shareholders out of its distributable profits.

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\text{Dividend Cover} = \frac{\text{Earnings per Share}}{\text{Dividends per share}} \quad \text{...............(4)}
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)MIKE, 2017: 20(

**Dividend Policy Theories**

Generally, dividends refer to the portion of a company's net earnings that is delivered to shareholders as a return on their investment in the firm. It is possible to receive dividends on both preference and equity shares of a firm. The dividend on preference shares is paid at a set rate that has been specified. However, the decision on whether to pay a dividend on equity shares is made for each individual year. Instead of making dividend decisions on equity shares on an ad hoc basis each year, a corporation should use a consistent strategy to making dividend decisions on equity shares. Dividend policy refers to a method of paying dividends that has been established through time. As a result, dividend policy refers to the general method that is used to determine how much of a company's net earnings should be given as dividends and how much should be maintained in the firm on an annual basis. As a result, the dividend policy divides net profits or earnings after taxes into two parts: (1) the dividend policy divides net profits or earnings after taxes into two parts; (2) the dividend policy divides net profits or earnings after taxes into two parts. (1) The amount of earnings that will be given as a dividend (2) Profits that are reinvested in the company
The fact that dividends are paid out of profits means that there is an inverse connection between the amount of dividends paid and the amount of retained earnings in the firm. Greater net profits given as dividends would result in a decrease in retained earnings. Conversely, if smaller profits are distributed as dividends, the amount of retained earnings would increase.

The retained earnings are the most readily available substantial source of money for the company since they are so quickly accessible. A company that releases greater dividends will be forced to rely on external sources of financing to fund its investment prospects in the future.

A company will be forced to choose between distributing a portion of its revenues as dividends and reinvesting a portion of its profits back into the business. The dividend policy is the decision made, and it will have an impact on both the long-term financing and the wealth of the company's shareholders.

1. **Bird-in-hand theory**: A key argument in favor of dividends is the "bird-in-hand" theory. According to Baker et al. (2018), "dividend payments received today are associated with greater certainty in exchange for retaining dividends for reinvestment in projects with uncertain future earnings," and investors place greater value on cash in hand than on the promise of dividends in future years. Because of the minimal risk, capital is required while making stock selections (Baker & Kapoor, 2015:184). In the face of uncertainty in the business environment, investors always prefer current earnings (a bird in the hand) over capital gains because capital gains are linked to a more risky future than current earnings. As a result, investors will be willing to pay a higher price for companies that make dividend payments, thereby maximizing the value of the company in the long term (Budagaga, 2017: 371).

2. **theory of The Tax Preference** is as follows: According to this idea, investors who are eligible for preferential tax treatment prefer capital gains (stocks with no dividends or modest dividend payments) since bigger dividend payments raise the tax burden on shareholders who obtain preferential tax treatment. (4) (Baker and colleagues, 2017: 4). Dividends and capital gains are treated the same way under this idea, according to (MM); nevertheless, in fact, taxes may have an impact on dividend payments. (MM): It is preferable to pay dividends in order to maximize shareholder value, and this argument is based on the fact that dividends are taxed at a higher rate immediately as compared to capital gains, which are taxed at a lower rate when the stock is sold. The tax benefits of capital gains encourage investors to favor firms that retain their earnings rather than providing dividends to their shareholders. Because of this, the share price will rise as a result of the lower amount of earnings (Priya &Mohanasundari, 2016:66).

3. **Theory Of Tax Effect On Investors**: Each investor uses implied calculations to determine whether to get high or low cash dividends, as well as to determine which dividend policies to employ based on the conditions of his or her tax bracket. As a result of this arrangement, various clients receive both high and low dividend yields,
depending on their respective tax positions. (Baker and colleagues, 2017:4). Dividends, according to tax effects theory, may be used by management to affect which types of investors are attracted to their firms (Kennedy & et al., 2015:4). Investors are frequently subjected to a larger tax on dividends than on capital gains, according to (Tanushev), which is practical in practice. It is also necessary to pay the applicable taxes on dividends; however, the payment of capital gains taxes (if any) is only required once the shares have been sold. This suggests that firms should refrain from paying dividends in order to avoid paying excessive taxes on corporate earnings transferred to shareholders, and instead should engage in share buybacks in order to increase the wealth of their shareholders. As a result, the idea of tax impacts explains why investors and corporations often avoid Cash Dividends. According to this hypothesis, a firm's stock price will rise as a result of low or no dividend payments, which will lower the cost of capital for the company (Tanushev, 2016: 307).

It is theoretically correct to state that the goal of dividend policy should be to maximize the shareholder's return in order to maximize the value of his or her investment. Dividends and capital gains are the two components of a shareholder's return on investment. When it comes to these two components of return, dividend policy has a direct influence on them. When we talk about dividend policy, we are talking about two ratios: the payout ratio and the retention ratio. When total profits are Rs. 1,00,000 and the firm distributes or pays 20% of its earnings to the shareholders, the Payout ratio is 20%. The Retention ratio is determined as 100 percent minus the payout ratio, i.e. in the preceding example, the Retention ratio is 80 percent. A company's payout policy might be either high or low, depending on its financial situation. A high payout strategy results in more current dividends and lesser retained earnings, which may result in slower growth and a lower market price per share as a result of the increased current dividends. The absence of current dividends and the accumulation of retained earnings may result in better growth, more capital gains, and a higher market price per share if the payment policy is strict. Dividends represent current profits, whereas capital gains represent future earnings. The payment of dividends results in a monetary outflow. The firm's investment and financing decisions have an impact on the amount of cash available for dividend payments. If a corporation decides to invest significant capital expenditure, the amount of cash available for dividend payments would be reduced significantly. As a result, the investment selection has an impact on the dividend decision.

**Conclusions and Discussion**

Since its inception, the issue of corporate dividend policy has captured the attention of economists, resulting in extensive theoretical modeling and empirical investigation. Current attempts to explain the perplexing reality of corporate dividend behavior are characterized by a slew of contradictory theoretical theories that lack substantial empirical evidence to back them up. The goal of this article is to examine whether or not a change in ownership structure has an impact on the dividend policy of a company. It appears that the data reported here are consistent with the assertion that no dividend model, whether considered independently or in
combination with other models, is consistently sustained. There were a number of results made by the research, and one of them was that the ownership structure should be more stable since it leads to an increase in the distribution of profits, and as a result, it leads to the investor being more interested in investing in the stock market. It is the goal of the Ministry of International Affairs to ensure that these businesses may enhance their revenues in the future by providing security and a safe environment in order to attract foreign investors. Accordingly, in order to maintain investor trust in these facilities, dividends are paid to shareholders on a yearly basis.

References

