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Effect of State Ownership on Firm Performance and Dividend Payout Policy

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Abstract
This study aims to investigate impact of state ownership on firm performance and dividend policy in context of Iran. An analysis has been made as evidence taking sample of listed non-financing firms from the Tehran Stock Exchange (TSE). Our sample consists of non-financial firms listed on Tehran stock exchange between 2009 and 2011. Our results direct that state ownership has a positive and significant relationship with firm's performance and dividend payout.

Keyword: state ownership, firm return and dividend payout.

1. Introduction

The objective of this study is to discover the state ownership relation with stock return and dividend policy in Iran Stock Exchange. Provisional countries around the world have transformed their economies towards market-based systems (Djankov & Murrell, 2002; Megginson & Netter, 2001; Estrin et al 2007), containing the privatization of public part companies (Brada, 1996; Megginson & Netter, 2001). As a consequence, a variety of ownership structures have emerged in privatized firms (Djankov & Murrell, 2002). To understand the influence of privatization, researchers used agency theory to investigate the relationship between ownership structure and firm performance as well as firm value (Djankov & Murrell, 2002; Dharwadkar, George & Brandes, 2000). Though, results from this constituent of studies have been rather mixed and at times, questionable (Hanousek et al, 2004; Megginson & Netter, 2001). Several researchers propose that other topics such as competition (e.g. Shirley & Walsh, 2000) or the legal environment (e.g. Frydman et al, 1999) should be part of the equation in studying the association between ownership and performance/value in particular, and privatization in general.
Present businesses surface the problem of departure of ownership and control. It is required to monitor management to guarantee it performances in investors' interests. While the major stockholder and block shareholders have the resources and incentives to supervise the effort of board, a dispersed shareholding structure suffers from the "free-rider" problem. In general, the corporate governance literature has identified block ownership as an influential mechanism that mitigates the agency problem between managers and shareholders (Shleifer and Vishny, 1997;

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Claessens and Djankov, 1999). Large shareholders provide at least a partial solution to the free-rider problem of small investors, but blockholder ownership above a certain level may lead to the entrenchment of owner–managers that expropriate the wealth of minority shareholders (Fama and Jensen, 1983; Morck et al., 1989; Shleifer and Vishny, 1997).

La Porta, Lopez-De-Silanes and Shleifer (1999) found that families or the state typically controls most large corporations in 27 wealthy economies, in 1995. Additionally, the power of the controlling shareholder exceeds his cash-flow rights, and dispersed ownership is more of an exception in countries with poor shareholder protection, which tend to have civil law tradition. Demsetz and Villalonga (2001) find no statistically significant relation between ownership structure and firm performance. Their finding is consistent with the view that diffuses ownership, while it may exacerbate some agency problems, also yields compensating advantages that generally offset such problems. Some researches investigate whether management ownership structures and large non-management blockholders are related to firm value, the result of them refer that large non-management control rights blockholdings (having more control rights) are positively related to firm value (Karl V. Lins 2002). Christoph and Benjamin (2005) address the question whether there is any empirical relationship between corporate performance and insider ownership. His findings shows that a positive and significant relationship between corporate performance.Imam and Malik (2007**)** use all firms in Bangladesh to examines how corporate governance is practiced through ownership structure and how firm's performance as well as its dividend payout policy is influenced by different ownership pattern. They find the foreign holding has positive and significant relationship with firm performance as measured by firm's holding period returns and Tobin's Q, and the relationship is a monotonic one.They also finds that firms with high institutional ownership and firms with concentrated ownership pay high and less dividend payout respectively. Leif and Nico (2009) they analyzed the relation between the ownership structure and the performance of the 70 largest companies on the German stock exchange. They used a limited sample but a long period of 16 years and ownership data collected in an elaborate procedure. Their results showed strong support for the argument that ownership structures are chosen in response to the characteristics of the firm and its environment. They found only partial support for a systematic relation between ownership structure and performance.

Le and Chizema (2011) show that state ownership is positively associated with firm performance. In addition, state ownership has a moderating effect on the association between firm performance and firm value. At low levels of state ownership, firm performance is negatively associated with firm value. However, at high levels of state ownership, the association becomes positive.
Yu (2013) indicates that state ownership has a U-shaped relationship with firm performance. The Split Share Structure Reform in 2005–2006 played a positive role in enhancing the relationship between state ownership and firm profitability ratios. Although state ownership decreased significantly after 2006, it remains high in strategically important industry sectors such as the oil, natural gas and mining sector and the publishing, broadcasting and media sector. The findings reveal that a higher level of state ownership is superior to a dispersed
Ownership structure due to the benefits of government support and political connections. The Split Share Structure Reform made previously non tradable shares legally tradable, improving corporate governance and reducing the negative effect of non-tradable state shares.

Al-Gharaibeh et al (2013) show that institutional ownership provides incentives for controlling shareholders to use their influence for maximizing the value of firms by reducing the use of funds in low return projects, thus implying that more cash flows can be distributed as dividends**.** Moreover, managerial ownership has a negative coefficient in the Partial Adjustment Model, and the critical values are significant, whereas the Full Adjustment Model does not produce only the unexpected sign, but also it is significant. The unexpected sign for managerial ownership implies that Jordanian firms do not use dividends as a mechanism to reduce the agency problem between managers and shareholders.

3. Methodology

3.1. Sample selection

In this study the Statistical population is all listed firms which are in Tehran Stock Exchange during the period of 2009 to 2011 (three-year period).

We selected a sample contain 158 firms according to some conditions such as:

1. End of firm fiscal year should be at end of hegira year which matches with March.
2. The firm should not change on fiscal during years of desire (2009 to 2011).
3. This firm is active during research and its shares are traded and book value of equity is not negative in any year.
4. The financial information required for conducting the research in the period of 2009 to 2011 which is fully provided and by the firm that should not be a financial or investment one and be profitable.

3.2. Methodology and variables

In this study we used the quasi-experimental research method for investigate the effect of state ownership on firm performance and dividend policy. We included 3 groups of independent, dependent and control variables in this study. Independent variables is state ownership, dependent variables which are the firm performance and dividend policy and third group of variables is control variables which are firm size, listing age, leverage, EPS and industry.

3.4. Research models and definition of variable

In order to deliver indication for effects of state ownership on firm performance and dividend payout policy, two regression models according Imam and Malik (2007) have been estimated which as follows:

$$SR_{it} = \alpha + \beta_1 SO_{it} + \delta_1 SIZE_{it} + \delta_2 LEVERAGE_{it} + \sum_{j=1}^{20} \gamma i INDUSTRYijt + \varepsilon_{it}$$

The model investigates connection between state ownership and firm performance and other control variables.

SR: refers to firm performance (which measures by stock return): stock return formula is applied to calculate firm's performance. A proxy for stock return is applied to find out firm's performance. So the formula becomes as follows:

$$Stock\ Return = \frac{stock\ price\ in\ curent\ year + dividends}{stock\ price\ in\ base\ year}$$

SO: state ownership (SO) refers to definition of four article's Iran public accounting act which mentioned as follows: state firm is unit that created by law or by competent court nationalized or more than 50 percent of stock own by government. We use dummy variable to measure state ownership, so when a firm is accord to state firm definition take one and zero otherwise.
SIZE: Firm size is the natural logarithm of total assets of the firm.
LEVERAGE: Leverage is the ratio of long term and short term debt to total asset.
INDUSTRY: type of industry, as a dummy variable which are 20 industries.

We also test relation of state ownership and dividend payout policy by estimated below regression model:

$$DPP_{it} = \alpha + \beta_1 CON_{it} + \delta_1 SIZE_{it} + \delta_2 LEVERAGE_{it} + \delta_3 EPS_{it} + \sum_{j=1}^{20} \gamma i INDUSTRYijt + \varepsilon_{it}$$

DPP: refers to volume of dividend that a firm pays to stockholders. The formula to calculate this ratio is fallows:

$$\text{Dividend payout} = \frac{\text{DPS}}{\text{EPS}}$$

DPS: refers to dividend that firm pays to stockholders for one share.
EPS: refers to dividend that firm report to stockholders for one share.

4. Test of models Significant

4.1. Test of first model significant

According to the perceived values (F = 5/308, Sig=0/365) that the test statistics is not located in rejection the H_0 region. Coefficient of determination (R^2= 0/424) also shows that about 42/4 percent of stock return of changes are described by the regression model. Consequently, the final results are as follows:

Table (1) about the final step for first model

Dependent variable: stock return is proxy of firm performance			
Independent variable	Unstandardized Coefficients	T statistic	Level of Significance
Constant	129/230	2/031	0/046
State Ownership (SO)	0/262	2/098	0/040
Size	-23/768	2/098	0/040

Medicine Industry (MEI)	39/398	3/633	0/001
Cement Industry (CI)	-35/701	-1/685	0/097
letallic Ores Industry(MOI)	48/903	2/279	0/026
R^2= 0/296	Adjusted-R^2= 0/241		F= 5/308
*Level of significance is 0/10			

4.2. Test of second model significant

According to the perceived values (F = 1/086, Sig= 0/398) that the test statistics is not located in rejection the H_0 region. Coefficient of determination (R^2= 0/417) also shows that about 41/7 percent of dividend payout changes are described by the regression model. Consequently, the final results are as follows:

Table (2) about the final step for second model

pendent variable: dividend payout ratio is proxy of dividend payout policy

Independent variable	Unstandardized Coefficients	T statistic	Level of Significance
Constant	0/710	5/695	0/000
State Ownership (SO)	0/003	3/006	0/004
EPS	5/487	1/753	0/085
Leverage	-0/004	-2/075	0/042
Cement Industry (CI)	-0/236	-1/713	0/092
letallic Ores Industry(MOI)	-0/339	-2/282	0/026
R^2= 0/290	Adjusted-R^2= 0/221		F= 4/211
*Level of significance is 0/10			

5. Conclusions

This paper has examined the effect of state ownership on firm performance and dividend payout policy in the context of Iran. Our investigations indicate that the effect of state ownership on stock return is significant and positive. In other word, when a firm has state ownership as well as stock return will high. The reason for this case could be that governments always protect state firm and try to increase its stock return.

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There is significant and positive relationship between state ownership and dividend payout ratio. Thus, Iran governments guard their stockholder and tend to pay them more dividend than other private firms. Other results show that firm size increases its performance decreases too, the relation between leverage and dividend payout ratio also is significant and negative. Other findings of this study point out that an intensive relationship is between the type of industry and firm performance and dividend payout ratio. In first model, it can be seen that if companies operate in the Medicine industry, cement industry and metallic ores industry their value will be increased. In second model it can be seen that if companies operate in the cement or metallic ores industry their dividend payout decreased.

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