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EFFECTS OF OWNERSHIP STRUCTURE ON SIGNAL THEORY[1]

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Abstract

The ownership structure of a company is of paramount importance to shareholders, managers and the board of directors. This multidimensional concept, which encompasses the identity of shareholders, the size of shareholdings and the governance structure, is subject to a variety of variables. The dividend distribution decision process conveys information to investors regarding the amount of dividends to be paid and future cash flows. The study further postulates that the signalling theory employed by companies is influenced by the aforementioned ownership structure. To address this postulation, a research study was conducted with the objective of investigating the impact of ownership structure on the signalling theory. The study employs a comprehensive data set, encompassing the manufacturing sector and the BIST 100 index between 2017 and 2021, to analyse the impact of the free float ratio on dividend changes. Additionally, it undertakes a detailed panel data regression analysis for companies that pay dividends and have a free float rate above a specified threshold. The findings indicate that ownership structure exerts a negative influence on dividend fluctuations. Conversely, fluctuations in market capitalisation and net profit have been observed to exert a substantial influence on the alteration in the dividend.

Keywords *: Ownership structure, Signalling theory, Dividend changes*

JEL Classification *: G30, G32*

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SAHİPLİK YAPISININ SİNYAL TEORİSİ ÜZERİNE ETKİLERİ

Öz

Bir şirketin sahiplik yapısı hissedarlar, yöneticiler aynı zamanda yönetim kurulu için büyük önem taşır. Hissedarların kimliğini, hissedarlık büyüklüğünü ve yönetişim yapısını belirleyen sahiplik yapısı, birçok değişkeni olan çok boyutlu bir kavramdır. Kâr dağıtım kararları, yatırımcılara ödenecek temettü miktarı ve gelecekteki nakit akışları hakkında bilgi sağlamakta ve sahiplik yapısı değişkenlerinden biri olan halka açıklık, şirketlerin kontrol yapısını ve temettü kararlarını etkilemektedir. Ayrıca, şirketlerin sinyal verme teorisinin söz konusu sahiplik yapısından etkilendiği varsayılmaktadır. Bu çalışma, sahiplik yapısının sinyal teorisi üzerindeki etkilerini incelemek amacıyla yapılmıştır. Çalışma, 2017-2021 yılları arasında imalat sektöründe faaliyet gösteren ve BIST 100'de işlem gören şirketler için halka açıklık oranının temettü değişimleri üzerindeki etkisini analiz etmektedir. Çalışmada ayrıca, temettü ödeyen ve halka açıklık oranı belirli bir seviyenin üzerinde olan şirketler için panel veri kullanılarak bir regresyon analizi gerçekleştirilmektedir. Panel veri regresyon modelinde halka açıklık oranı bağımsız değişken, temettü değişimi ise bağımlı değişkendir Elde edilen bulgular, sahiplik yapısının temettü değişimi üzerinde azaltıcı bir etkisi olduğunu göstermektedir. Öte yandan, piyasa değerindeki ve net kârdaki değişimler temettüdeki değişim üzerinde önemli bir etkiye sahiptir. Buna ek olarak, temettü değişimleri özkaynak karlılığı ve toplam borcun toplam varlıklara oranı ile negatif ilişkilidir.

Anahtar Kelimeler ***:*** *Sahiplik Yapısı, Sinyal Teorisi, Temettü Değişimi.*

JEL Sınıflandırılması ***:*** *G30, G32*

INTRODUCTION

The term 'ownership structure' is employed to denote the fiscal and financial configuration of a company, which establishes the relationships among shareholders, their rights and obligations, and the distribution of dividends. As stated, the variables show the proportion of shares owned by the main shareholder, secondary shareholders and free float. Ownership concentration varies according to the shares owned by shareholders, determining the management style of the enterprise. The aforementioned variables encompass the proportion of shares owned by the main shareholder, secondary shareholders and free float. Concentration of ownership is subject to variation according to the proportion of shares owned by shareholders. This, in turn, determines the management style of the enterprise.

The organisational structure of a business affects its dividend policy, which in turn affects the distribution of profits among shareholders. The distribution of profits may vary according to the interests of shareholders and business owners. Shareholders may advocate the distribution of profits, while business owners may prefer to retain profits for new investments. Announcements of dividend distributions and changes in dividends serve as signals that provide information about the business to shareholders, investors and financial institutions. Changes in the organisational structure of a business have the potential to influence dividend decisions and provide information on future earnings, thus enabling investors to evaluate these signals.

Miller and Modigliani (1961) argued that dividend policy does not have an impact on a firm's market value. However, later empirical research suggests that dividend changes can impact firm value, with investors reacting positively to dividend increases and negatively to cuts (Miller and Modigliani, 1961: 413). One theoretical approach proposed to explain this is that dividends are based on a signalling role. This theoretical framework posits that managers possess privileged information regarding the firm's earnings and future performance, and that dividends serve as a medium to communicate changes in the firm's future prospects (Shapiro, et al., 2015: 5).

According to signaling theory, companies use dividend announcements to convey expectations and information about future earnings because investors interpret higher dividends as a positive financial signal. However, for the signalling mechanism to be effective, firms with diminished expected cash flows should be unable to replicate the signal, thereby enabling external observers to rely on the signal for effective discrimination between firms. Consequently, firms opt for signalling actions that exhibit systematic variation in accordance with the level of cash flow (Koch and Shenoy, 1999: 17).

The signalling theory suggests that when a company reports an increase in dividend payments, this determines favourable calculations for the future. A company's long history of increasing dividends each year is a sign to the market and its management, including the board, that it is observing profits in the future. Nevertheless, increased dividends are not certain unless the board confirms that the cost can be sustained (Roy and Das, 2019: 25).

The present study analyses the impact of dividend announcements on the share prices of companies operating in the listed manufacturing sector and included in the BIST 100 index, which regularly pay dividends between 2017 and 2021. Concurrently, the impact of these listed entities on dividend fluctuations was appraised. The findings of the study suggest that the independent variable, free float ratio, exerts a negative influence on the dependent variable, dividend change. Conversely, positive and significant effects on dividend change were identified for the control variables of market capitalisation and change in net profit.

I. LITERATUR REVIEW

Author	Sample	Time Range	Method	Result
Abdullah et al. (2012)	Malaysia	2009 - 2010	Regression Analysis	A positive and statistically significant relationship has been found between the payment of dividends and the concentration of ownership.
Arshad et al. (2013)	Pakistan	2007 - 2011	Descriptive Statistics and Correlation Analysis	In the present study, there is no correlation between ownership structure and dividend payouts.
Setiawan et al. (2016)	Indonesia	2006 - 2012	Panel Data Analysis	Research has indicated that the organisational structure of a company has a significant influence on its dividend policy.
Özvar and Ersoy (2017)	Türkiye	2009 - 2014	Panel Tobit and Random Effects	A positive relationship is found between ownership concentration and dividend distribution ratio.
Jung et al. (2017)	China	2003 - 2012	Panel Data Analysis	Companies with high information asymmetry are less likely to pay dividends. Companies with high state control are found to pay higher dividends.
Obaidat (2018)	Jordan	2014 - 2016	Multiple Regression Analysis	The study revealed a negative correlation between ownership concentration and dividend payouts.
Anh and Tuan (2019)	Vietnam	2009 - 2015	Panel Data Analysis	A positive and statistically significant relationship between share ownership and dividend payouts is found in this study.
Doğan, et al (2020)	Türkiye	2011 - 2018	Panel Data Analysis	The findings indicate an absence of a substantial correlation between the concentration of ownership and dividend payments.

Akusta and Salur (2020)	Türkiye	2015-2017	Panel Data Analysis	A negative relationship has been identified between owner concentration and profit distribution.
Arora et al (2021)	India	2010 - 2017	Panel Data Analysis	The present study finds positive correlation between ownership concentration and dividend payments..
Khan (2022)	Türkiye	2013 - 2019	Panel Data Analysis	This study definitively demonstrates a positive and significant relationship between ownership concentration and dividend yield.
Aleknevičienė and Vilimaitė (2023)	Scandinavian and Baltic Countries	2013 - 2020	Logit and Tobit Panel Regression Analysis	We find that ownership structure has no effect on the probability or amount of dividend payments in Baltic companies, while it positively affects the probability and amount of dividend payments in Scandinavian listed companies.
Gupta and Kaur (2024)	Indian	2010 - 2021	Multiple Regression Analysis	It has been demonstrated that ownership has a significant impact on the determination of dividends.

II. DATA SET AND METHODOLOGY

The present study examines the impact of ownership structure on signalling theory, with the free float ratio, a component of the ownership structure, being initially incorporated into the study. The study is constrained to companies operating in the manufacturing sector within the BIST 100. The period of analysis encompasses enterprises operating within the manufacturing sector of the BIST 100 between 2017 and 2021, with a focus on those that consistently distribute dividends over a five-year period.

This study uses panel data analysis to examine the impact of the free float ratio, a component of the ownership structure, on dividend changes. The variables used in the analysis are; change in dividend as the dependent variable, change in free float as the independent variable, change in market cap as the dependent variable, change in debt/total assets as the independent variable, change in net profit for the period (DNKD) as the control variable, return on equity (ROE), total debt/total assets (TB/TA), change in net profit for the period (DNKD). Dividend paying firms were identified according to the free float ratio. Panel data regression analyses were conducted for dividend paying firms and firms with a free float ratio above a certain level.

In econometric analyses, data are defined as horizontal cross-section data, time series and panel data. Panel data refers to the collection of observations on cross-sections of households, countries, firms, etc. in various time periods (Baltagi, 2005: 16). The utilisation of panel data sets for economic research is advantageous in comparison to traditional cross-sectional or time series data sets. Panel data sets generally provide researchers with a substantial number of data points, thereby increasing degrees of freedom and reducing collinearity between explanatory variables. This, in turn, enhances the efficiency of econometric estimation (Hsiao, 2003: 3).

Panel data can control the effects arising from the individual differences of individuals, firms and countries. These effects may give biased results with cross-sectional data and time series. The utilisation of panel data has been demonstrated to offer several advantages over other data collection methods.

Firstly, it provides a more informative dataset, with greater variability, reduced linearity between variables, and enhanced efficiency. In panel data analyses, problems usually arise in questionnaire design and data collection methods. In data collection and questionnaire design while preparing panel data, issues such as not fully understanding the content of the questionnaire, giving misleading answers, and interview duration cause measurement errors (Baltagi, 2005: 7).

The distinction between panel data, horizontal cross-section and time series lies in the methodology of data collection. The construction of an economic model is achieved through the synthesis of both horizontal cross-section and time series data. Panel data are divided into two types, balanced and unbalanced panel data. In panel data, if the number of units and observations are equal, it is defined as balanced panel, if not, it is defined as unbalanced panel (Kutlar, 2017: 11-12; Wooldridge, 2001: 250). When the number of horizontal cross-section units N is greater than the number of time-section units T, N>T is defined as short panel and N<T is defined as long panel (Kutlar, 2017: 12).

Panel data analysis consists of two different dimensions with N number of units and T number of observations corresponding to each unit (Hsiao, 2003: 7). It is usually encountered when the number of cross-sectional units (N) is more than the number of periods (T) (N>T).

$$\gamma_{i,t} = \alpha_{i,t} + \beta_{i,t} X_{i,t} + u_{i,t} \quad i = 1, \dots\dots, N \; ; t = 1, \dots\dots, T$$

In the model, Y is the dependent variable, X is the independent variable, α is the fixed parameter, β is the slope parameters and u is the error term. i sub-index denotes cross-sectional units (individual, firm, city, country, etc.) and t sub-index denotes time period (day, month, year, etc.). It is evident that the variables, parameters and error term are designated with the sub-index i and t, thereby signifying their classification as a panel data set. Within the framework of this model, the constant and slope parameters are assigned values that are contingent on both units and time (Tatoğlu, 2016: 4-5).

Various models are used in panel data analysis. These models consist of Pooled Least Squares, Fixed Effects Model and Random Effects Model (Yaffe, 2003: 4). The pooled least squares method is used when unit and time effects do not exist and the constant and slope parameters are constant. If there are no unit or time effects in the error term, pooled least squares produces accurate estimates (Tatoğlu, 2016: 40 - 42).

$$\hat{\beta} = (\sum i^{N}_{=1} \sum t^{T}_{=1})^{-1} (\sum i^{N}_{=1} \sum t^{T}_{=1} X_{it}' Y_{it})$$

The fixed effects model posits that each cross-sectional unit may contain different values, with the differences between units being represented by the differences in the constant term. The constant coefficient functions as a fixed variable. Within the model, the independent variables may be uncorrelated with the error term or the unit effect, or they may be correlated (Tatoğlu, 2016: 80). The fixed effects model is illustrated below.

$$Y_{it}=\beta_{0it}+\beta_{1it}X_{1it}+\beta_{2it}X_{2it}+\mu_{it}$$

$$\beta_{1it}= \beta_1$$

In the random effects model, units are selected randomly and there are differences between units. Since the unit effect is not fixed but random, it is included in the margin of error. μit represents residual errors, while μi represents unit differences and the variation between units over time, i.e. the unit error. The random effects model is shown below (Tatoğlu, 2016: 102).

$$Y_{it}=\beta_{0it}+\beta_{1it}X_{1it}+\beta_{2it}X_{2it}+\mu_i+\mu_{it}$$

The F test, the Breusch-Pagan Lagrange multiplier (LM) test and the Hausman test are used to determine which of the pooled ECT, fixed effects and random effects models should be employed. The F-test tests the H0 hypothesis that the unit effects are equal to zero; if this is not rejected, the pooled ECM model is selected. The Hausman test chooses between fixed and random effects. The LM test evaluates the H0 hypothesis that the variances of the unit effects are equal to zero, thereby facilitating the assessment of the suitability of the pooled ECM or random effects model (Greene, 2008: 206).

Tests were conducted for the purpose of determining the presence of variance and autocorrelation in the model. The modified Wald test was utilised in order to examine the hypothesis concerning the existence of a changing variance. Robust (correction of standard errors) was implemented due to the presence of varying variance problems.

Variable variance or different variances of error terms is a common problem in panel data analysis. This is to be expected since panel data involves the inclusion of different quantities in the same data set (Muratoğlu, 2020:16). The null hypothesis in the Wald test is H0 = σi2 = σ2 (There is no variance). The Wald test is tested as follows (Greene, 2007: 502).

$$W = \sum_{i=1}^{N} \frac{(\sigma_i^2 - \sigma^2)^2}{V_i}$$

Robust (correction of standard errors) was applied due to the presence of varying variance problems as a result of the Wald test. Robust builds a model that fits the majority of the data. This approach ensures that even in the presence of outlying values, the overall dataset can be reliably analysed, providing robust insights (Koç and Akdeniz, 2008: 2).

A number of issues have been identified that have the potential to compromise the integrity of panel data models. Notable among these is the issue of outliers, which have been demonstrated to exert a significant degree of influence upon the regression slopes of such panels in circumstances where they possess weak leverage. The weight of these outliers can often be reduced by using estimators in the model. Variance problems are caused by group differences and often group averaging eliminates these problems (Yafee, 2003: 10).

Wooldridge's test (2002) was developed for the purpose of ascertaining the presence of autocorrelation in models, and it was utilised in this investigation. In addressing the issue of autocorrelation, it was necessary to incorporate the lag of the dependent variable into the model. The residuals obtained from the first differences model were employed in this test. Taking the first difference removes the fixed parameter and time invariant variables from the model along with unit effects. First differences in the panel data model are written as follows.

$(Y_{it} - Y_{it}\text{-}1) = (X_{it} - X_{it}\text{ -}1)\beta + (u_{it} - u_{it\text{-}1})$

$\Delta Y_{it} = \Delta X_{it}\beta + \Delta u_{it} \qquad \Delta u_{it} = e_{it}$

Firstly, the first differences model is constructed and then the residuals (eit) are found. Secondly, the regression of the estimated residuals with the lagged values of the regression is obtained (Tatoğlu, 2016: 218).

The Regression Model to be estimated in our study is shown below;

MODEL = $Dividend\ Change\ (TD)_{i,t} = \alpha_0 + \beta_1 HAO_{i,t} + \beta_2 TD_{it\text{-}1}\ \beta_3 LogPD_{i,t} + \beta_4 DNKD_{i,t} + \beta_5 ROE_{i\,t} + \beta_6 TB\_TA_{it} + \varepsilon i_{,t}$

The lag of the dividend change (TDi,t-1), which is our dependent variable, is added to our model due to the presence of autocorrelation. Control variables are added to reduce the margin of error and increase the reliability of the data. The first control variable is market capitalisation (LogPD), which is logarithmised to linearise it since it has high values. The second one is the change in net profit for the period (DNKD) and the other control variables are return on equity (ROE) ratio and total debt to total assets (TB/TA).

The hypotheses of the research are as follows:

H_o= Free float has an effect on dividend changes.

H_1= Free float rate has no effect on dividend change.

III.FINDINGS

In this study, the effect of free float rate on dividend change is analysed through panel data analysis. The data set of the variables forming the model is given in Table 1 below.

Table 1: Data Set Descriptions

Code	Variables	Defining Variables
TD	**Dividend Change**	Dividends paid in the current period ─ Dividends paid in the previous period) / Dividends paid in the previous period
HAO	**Public Float Ratio**	Public Float Ratio Publicly traded shares / All shares
DNKD	**Change in Net Profit for the Period**	Profit for the period at current prices - Profit for the previous period / Profit for the previous period
ROE	**Return on Equity**	Net Profit/Equity Capital
TB/TA	**Total Debt / Total Assets**	Foreign resources / Ratio to total assets
PD	**Market Value**	Number of Available Shares x Stock Market Price

The descriptive statistics of the study are presented in Table 2 below.

Table 2: Descriptive Statistics

Variables	Number of Observations	Average	Standard Deviation	Minimum	Maximum
Dividend Change	155	0,70414	0,01841	-0,85956	14,55299
Public Float Ratio	155	28,676	0,01097	4,78	83
Change in net profit for the period	155	68,42884	0,00139	-65,17	1223,46
Return on Equity	155	28,72529	0,05796	-9,18	102,38
Total Debt Total Assets	155	43,91019	0,89141	8,44	85,89
Market Value (Logarithmic)	155	21,26158	1,33785	16,94227	25,31393

Looking at the descriptive statistics of 31 companies between 2017 and 2021, the average of the dependent variable dividend change is 0.70 and the average of the independent variable free float ratio is 28.67. When we look at the control variables, it is seen that market capitalisation has the highest average with 21.26, return on equity 28.72, total debt / total assets 43.91 and change in net profit for the period 68.42.

In order to ascertain the direction and strength of the relationships between the variables under scrutiny, correlation matrices were computed. The results of the correlation analyses are demonstrated in Table 3 infra.

Table 3: Correlation Matrix

Variables	Dividend Change	Public Float Ratio	Market Value	Change in Net Profit for the Period	Return on Equity	Total Debt Total Assets
Dividend Change	1					
Public Float Ratio	-0,0377	1				
Market Value	0,1806	-0,0492	1			
Change in net profit	0,2018	0,0660	0,0903	1		
Return on Equity	0,0691	-0,1226	0,1244	0,1970	1	
Total Debt Total Assets	-0,0785	0,0346	0,1121	-0,1432	-0,0470	1

There is a weak negative relationship between dividend change and free float ratio. Dividend change is positively correlated with market capitalisation, change in net profit and negatively correlated with total

debt/total assets. Table 4 includes tests for horizontal cross-section dependence, changing variance and autocorrelation.

Table 4: Test of Deviations of Basic Assumptions

Horizontal Cross Section Dependence Test (Peseran Cd)	Variable Variance Test (Değiştirilmiş Wald Test)	Autocorrelation Test Wooldridge Panel Data Otokorelasyon Test
3,670 (0,0002)	31283,38 (0,0000)	60,134 (0,0000)

In panel data analyses, in order to establish the real model, the presence of correlation between units is calculated with the help of various tests. In order to test the presence of correlation between units in our model, Peseran Cd test was performed. Peseran CD test is applied when the cross-sectional dimension is larger than the time dimension (N>T) or vice versa (T>N). When the Peseran Cd test results are analysed (0.0002<0.05), there is horizontal cross-sectional dependence between units. A modified Wald test was conducted to test for the presence of the variance problem in the model. Wald test hypotheses,

H_0= There is no variance problem.

H_1= There is a varying variance problem.

Subsequent to the analysis of the Wald test results, the null hypothesis was rejected at the 0.000<0.005 level, thereby indicating the presence of a problem of varying variance in the model. Robust standard errors were implemented to address the issue of varying variance and ensure the integrity of the statistical model.

The Wooldridge autocorrelation test was employed in order to ascertain the presence of autocorrelation in the model under consideration. In order to resolve the issue of autocorrelation in the model, the lag of the dependent variable was included in the model.

Various tests are used to estimate the panel data model to be used in the analysis. These tests are shown in Table 5.

Table 5: Model Identification Tests

Fixed Effects (F test or Wald test)	H_0: The pooled model is valid.
	H_1: The model with fixed effects is valid.
Random Effect (Breusch-Pagan LM test)	H_0: The pooled model is valid.
	H_1: The random effects model is valid.
Hausman Test	H_0: The random effects model is valid.
	H_1: The model with fixed effects is valid.

In panel data analysis, the fixed effects model is determined by the F and Wald tests. If the H_0 hypothesis is rejected, the model is deemed valid; if it is accepted, the pooled model is deemed valid. The random effects model is measured by the LM test. If the H_0 hypothesis is not rejected, the pooled model is valid; if it is rejected, the random effects model is valid. If both models are rejected, the model can be estimated by examining the Hausman test results.The results of the model determination are shown in Table 6 below.

Table 6: Model Selection Estimation Results

	Model
Random Effects **Pooled ECM**	0,00 (1,0000) Result: Pooled
Fixed Effects **Pooled ECM**	21,65 (0,8664) Result: Pooled

Upon examination of the outcomes emanating from the fixed and random effects in the analyses, it becomes evident that the Hausman test is rendered redundant, given the aggregation of results observed in both models. The results of the model-related analyses are delineated in Table 7.

Table 7: Analysis Results Related to the Model

Number of Observations: 124				
Dividend Change	Coefficient	Robust Standard Errors	t Statistic	p (Probability) Value
Public Float Ratio	-0,007	0,010	-0,79	0,432
Log_Market Value	0,304	0,146	**2,08**	**0,037****
Change in Net Profit for the Period	0,008	0,003	**2,45**	**0,014****
Return on Equity	-0,010	0,008	-1,19	0,232
Total Debt / Total Assets	-0,014	0,009	-1,55	0,122
L1.Dividend Change	-0,242	0,082	-2,93	0,003
Fixed	-4,884	2,409	-2,03	0,043
Adjusted R^2	0,2705			

The ensuing analysis, presented in Table 3.8, examines the correlation between fluctuations in dividend distribution and the free float rate. The findings of the study indicate that the independent variable, free float rate, accounts for 27% of the variation in the dependent variable, dividend change. The findings of this study indicate that the free float ratio exerts a negative influence on dividend change. The control variables of market capitalisation and change in net profit have been found to have a positive effect on dividend change. The findings underscore the significance of these variables in driving dividend changes, with the impact being statistically significant at the 5% level. The model's validity and significance have been validated through the implementation of the Wald test, thereby substantiating its reliability.

CONCLUSION AND RECOMMENDATIONS

The structure of ownership is a critical factor in the governance of businesses and the determination of dividend policies. The term 'ownership structure' refers to the distribution of ownership, voting rights and control mechanisms over the company by various stakeholders, including individual investors, institutional investors, insiders such as management, and sometimes government or other companies. The prevailing ownership structure of a company is typically subject to the influence of shareholders, thereby significantly impacting the management and decision-making processes within the company. A review of extant literature on ownership structure reveals a body of research indicating that ownership structure variables exert a significant influence on dividend distribution decisions, dividend changes and stock prices, whether positively or negatively. This study aims to ascertain the impact of the free float ratio, a component of the ownership structure, on the changes in dividend distribution and stock price in manufacturing companies listed on the BIST 100 index.

The findings of the study demonstrate that the independent variable, the free-float ratio, exerts an adverse effect on the dependent variable, the dividend change. The control variables market capitalisation and change in net profit have been found to have positive and significant effects on dividend change. The study concludes that the free-float ratio exerts neither direct influence on dividend distribution decisions. A substantial and favourable correlation is observed between market capitalisation and dividend fluctuations. It has been established that firms with a history of consistent dividend payments tend to be favoured by investors, a factor that has the potential to exert a positive influence on market value.The study has identified a relationship between net profit for the period and the market value of the company, as well as the behaviour of investors. It is hypothesised that investors may demand shares in companies that demonstrate consistent profitability, anticipating a future sustainability of returns.This dynamic has the capacity to exert influence on various financial variables, including stock price, market value, net profit for the period, and dividend distribution policies.

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