

Extended Abstract

**An Investigation of Agency Theory and Signaling Theory in
Dividend Policies: The Role of Institutional Investors**

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Introduction

Dividend has a special position among decision makers. Dividend policies depend on several factors. One of these factors is ownership structure. Different stockholders have different interests in relating to dividend. Among stockholders, institutional owners have an influence on companies because of their substantial investments; and can affect companies' policies (including dividend policies). The main goal of this study is the determination of relationship between institutional ownership and dividend policy in Tehran Stock Exchange.

There are two theories about this relationship. Agency theory hypothesizes a positive relationship between institutional ownership and dividend, as institutions demand dividends in order to reduce managerial discretionary funds and agency costs. Under signaling theory, institutional shareholders may be viewed as alternative for dividend to signal good performance. The existence of institutional shareholders may mitigate the use of dividends as a signal of good performance, as these owners themselves can act as a (more) credible signal. With this theory, a negative relation is predicted between dividends and institutional shareholders.

Research Hypotheses

To assess the purpose of this study, two research hypotheses are chosen. These hypotheses are as follow:

1. There is a significant relationship between institutional ownership

and dividend payout.

2. There is a significant relationship between concentrated institutional ownership and dividend payout.

Research Method

On the basis of purpose and method, this study is a practical and descriptive research. Three regression models (The dividend models of Lintner (Full adjustment method and partial adjustment method) and Waud) are used to test the relation between dividend policy and institutional ownership. The sample for this study is comprised of 61 firms listed in Tehran Stock Exchange (TSE) over 8 years.

Results

In this study, two theories (agency theory and signaling theory) about institutional ownership were examined. The results demonstrate the evidence of a negative association between institutional ownership and dividend payout and approve signaling theory. It shows the presence of institutional investors results in lessening usage from dividend as signal for good corporate performance. According to evidences, a positive relationship exists between dividend payout and concentrated institutional ownership that approves agency theory.

Keywords: Institutional ownership, Concentrated Institutional Ownership, Agency Theory, Signaling Theory, Dividend Policy.