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Institutional ownership and dividend policy: Evidence from China

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Abstract: Institutional investors have developed rapidly in China since 2003, during which period Chinese listed companies have increased their dividend payout levels greatly. I empirically examine the interactive relation between institutional investors and listed companies' dividend policies of China in the recent decade, and find that: 1. independent institutions (i.e. mutual funds and QFII) can increase the dividend payout levels of listed companies especially for those that are more likely to suffer from severe agency problems (e.g. state-owned firms and firms with high free cash flow and low investment opportunity), while grey institutions (i.e. banks, insurance companies and security companies) cannot influence companies' dividend policy. 2. Higher levels of dividend payout do not attract independent institutional investors. 3. Independent institutions can reduce companies' agency cost and improve their performance.