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The Role of Multiple Large Shareholders in Dividend Payouts: Evidence from India

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ABSTRACT

This study examines the impact of multiple large shareholders (MLS) on a firm's dividend payouts in a low-investor protection regime, India, where minority shareholders' expropriation concerns are severe and firms have an incentive to build a capital market reputation. Therefore, we purport for the prevalence of the substitution hypothesis, whereby MLS cooperate in paying larger dividends to assuage expropriation concerns for reputation-building. The empirical analysis using non-financial firms with MLS listed on NIFTY 500 from 2009 to 2019 yields that both the controlling owner and MLS positively influence dividend payout intensity. Additional analyses also demonstrate that the positive effect of MLS is prominent in growing firms that undertake equity issuances and firms with lower board independence. We also find that firms make relatively lower payouts when an institutional investor is the second largest shareholder. Further, it is shown that MLS engage in greater dividend smoothing. Lastly, it is observed that dividends are more valuable for firms with higher MLS ownership. Altogether, these findings support the substitution hypothesis.

KEYWORDS

Multiple Large Shareholders, Dividends, Reputation-Building, Concentrated Ownership

INTRODUCTION

The recognition that concentrated ownership structures are a norm rather than an exception has steered corporate governance literature to expand their purview to principal-principal conflicts arising from possible abuse of power by the large shareholders (La Porta et al., 1999; Cheng et al., 2020). Recently, literature has also shifted focus to investigate the dynamics between the controlling shareholder and additional large owners in a company as there is a growing consensus that multiple large shareholders (MLS) are not homogeneous in their actions (Cao et al., 2019; Chen et al., 2019).

Non-controlling MLS can primarily assume two contrasting roles in a firm. They can perform a governance role by monitoring the controlling owner's actions, leading to value accretion (Attig et al., 2009; Pombo and Taborda, 2017). Alternatively, they can collude and cooperate with the controlling owner. The collusion can act negatively for extracting private gains (Bennedsen and Wolfenzon, 2000; Cai et al., 2016) or positively for enhancing a firm's valuation (Bennedsen and Wolfenzon, 2000; Basu et al., 2017). Jiang et al. (2019) also evince that MLS may cooperate to achieve a shared objective that may not be detrimental to the small owners' interests.

This study attempts to disentangle the role of MLS in determining dividend payouts. Besides being critical to firm valuation, dividends also act as a governance device in minimizing the agency problem (Anwar et al., 2017; Chen et al., 2017). Dividend payouts reduce the free cash flow that could have been otherwise misused by the corporate insiders (controlling owner and manager) to extract private gains

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(Jensen, 1986). Further, these payouts increase a company's reliance on capital markets for raising funds. Consequently, the corporate insiders subject themselves to the scrutiny of various capital market participants (Easterbrook, 1984).

Prior literature studying the association between MLS and dividend payouts is sparse and produces inconclusive results (Jiang et al., 2019). This is because the association depends on the type of role MLS assumes and whether the outcome or substitution hypothesis of dividends is applicable. The outcome hypothesis states that superior corporate governance practices stimulate dividend payouts. Contrastingly, the substitution hypothesis purports that weakly-governed corporations make more dividend payments to compensate for poor governance in order to establish a capital market reputation (La Porta et al., 2000).

Motivated by the sparse and inconclusive evidence, this study attempts to reconcile the linkage between MLS and dividends in India, where ownership concentration is a pervasive characteristic of corporations (Chakraborty, 2018; Singla and Singh, 2019). Sarkar and Sarkar (2012) report that about 93 percent of publicly traded companies in India have a minimum of one large owner holding at least 5 percent stake in a company. Further, the average concentrated ownership by the multiple blockholders in the top listed 200 entities is about 46 percent (Suman and Singh, 2020). The dominance of large owners in India is accompanied by the presence of inadequate and ineffective regulatory mechanisms for protecting minority shareholders' interests (Lodh et al., 2014; Chauhan et al., 2018).

In light of the severe risk of expropriation of minority shareholders arising from large owners' dominance and low investor protection, we examine the relationship between MLS and dividends by purporting for the prevalence of the substitution hypothesis in India. The expropriation risk is further accentuated as MLS, in many cases, are insiders and related to one other in a complex and inextricable manner (Kali and Sarkar, 2011; Balasubramanian and Anand, 2013). Despite this, small individual investors actively participate in the Indian equity market, which is valued at over USD 2 trillion (Shirodkar and Haigh, 2019). They supply, on average, 20 percent of the ownership capital of Indian firms (Gupta and Bedi, 2020). Considering the reliance on capital markets, we argue that the controlling owner secures other blockholders' cooperation for paying higher dividends to allay investors' concerns and build a reputation in the capital markets.

The empirical investigation analyzes Indian listed non-financial firms from FY 2009 to 2019 and yields results consistent with our prediction. It shows that both the controlling owner and MLS (beyond the controlling owner) positively impact dividend payout intensity. This finding is robust to the alternate measures of dividend payouts and MLS and endogeneity concerns. Further, the additional analyses suggest that the positive association between MLS and dividend payouts is more prominent in growing firms that implement equity issuances and firms with lower board independence. We also report that firms pay relatively lower dividends if an institutional investor is the second largest shareholder. Moreover, it is also demonstrated that MLS pursue a stable dividend policy as they positively influence the dividend smoothing coefficient. Lastly, we also observe that dividend payouts by a firm with a higher percentage of MLS ownership are value-enhancing. Together, these findings conform to the substitution hypothesis.

The study adds to the limited literature on the link between MLS and dividends by examining it in a different institutional context. It also extends the literature on MLS by enriching our understanding of the role of MLS. The study highlights that MLS can collude to payout more dividends to engage in reputation-building. This observation contrasts with prior empirical literature that majorly supports either an entrenchment role of MLS, whereby they collude to lower dividend payouts, or a monitoring role of MLS, resulting in enhanced dividend payments. It also attempts to minimize the 'dividend puzzle' by focusing on the dynamics between the controlling owner and MLS. Lastly, it also underlines how MLS can affect a company's valuation.

The remaining paper is organized as follows. Section two undertakes the literature review and

hypotheses formulation. Section three presents the research design. Section four discusses the findings of the empirical investigation. Finally, Section five gives concluding remarks.

LITERATURE REVIEW AND HYPOTHESES FORMULATION

ROLE OF MLS

Concentrated ownership structures are usually characterized by a controlling owner at the helm having a considerable say in a corporation's various business decisions (Jiang et al., 2018). Consequently, the controlling owner may be tempted to undertake decisions and engage in tunneling activities detrimental to the minority shareholders' interests (La Porta et al., 1999; Boateng and Huang, 2017).

In the backdrop of possible expropriation by the controlling owner, MLS can assume two alternate competing roles. Under the governance role, they can discipline the controlling shareholder to minimize its rent extraction behavior (Attig et al., 2013; Hope et al., 2017). In this regard, Maury and Pajuste (2005), Attig et al. (2009), and Pombo and Taborda (2017) report a value accretion role of MLS. Conversely, under the collusive role, additional blockholders collude with the controlling owner for engaging in value-destroying activities for furthering personal wealth at the expense of minority shareholders (Zwiebel, 1995; Bennedsen and Wolfenzon, 2000). Cai et al. (2016) and Jiang et al. (2020) report value deterioration owing to the negative coalition of MLS.

A strand of literature also recognizes that MLS may cooperate and collude in a positive manner. Bennedsen and Wolfenzon (2000) and Basu et al. (2017) demonstrate value increment when additional blockholders form a coalition with the largest shareholder. These findings espouse the alignment effect under which higher cash flow rights of the controlling coalition are tantamount to bearing higher costs of its expropriation activities. Additionally, Jiang et al. (2018) also report a favorable outcome of blockholder collusion by indicating that they enhance a firm's investment efficiency. Jiang et al. (2019) also state that MLS may act in concert to attain a desired objective which may not be necessarily prejudicial to minority shareholders' interests.

AGENCY EXPOSITION OF DIVIDENDS

Dividends reduce the free cash flow available at the disposal of corporate insiders that could otherwise have been misused to pursue personal goals at small shareholders' expense (Rozeff, 1982; Jensen, 1986). Further, dividend payouts force companies to resort to capital markets and subject themselves to the scrutiny of various capital market participants (Easterbrook, 1984).

In this regard, La Porta et al. (2000) purport two major hypotheses that underline the association between agency conflicts and dividends. The outcome hypothesis asserts that dividends are a consequence of superior corporate governance mechanisms. Hence, firms with severe agency problems are likely to make lower payouts under the outcome hypothesis. Contrastingly, the substitution hypothesis states that weakly-governed firms pay more dividends to compensate for poor governance and build a positive reputation in the capital markets. Essentially, in this case, corporate insiders are using dividend payouts as a commitment that they will not exploit the minority shareholders (Gomes, 2000; Gonzalez et al., 2017). The voluntary adoption of this bonding mechanism enables entrenched firms to establish credibility amongst the external investors, thereby mitigating the adverse impact of agency costs on acquiring external financing (Gan and Wang, 2014; Brockman et al., 2014). Consequently, controlling insiders have better access to financial markets for funding the firm's future growth opportunities on reasonable terms (Sawicki, 2009; Kuo, 2017). Additionally, they

may also be guided to diversify the firm's idiosyncratic risk by selling shares at a higher price which otherwise would have been discounted for expropriation (Gomes, 2000).

MLS AND DIVIDENDS

The association between MLS and dividends is contingent upon whether the MLS assume a monitoring role or act in concertion with the controlling owner and whether the outcome or substitution hypothesis is applicable. When multiple blockholders undertake a monitoring role, they should positively impact dividend payouts if the outcome hypothesis is applicable (Renneboog and Szilagyi, 2020). In comparison, under the assumptions of the substitution hypothesis, MLS are expected to negatively influence the payout intensity (Gonzalez et al., 2017). The relations are likely to be reversed under both the hypotheses when MLS form a negative coalition.

The related empirical literature is sparse and presents mixed evidence concerning the role of MLS in determining dividend payouts (Jiang et al., 2019). Faccio et al. (2001) extend support to the outcome hypothesis by observing that additional blockholders assume a monitoring role by encouraging higher dividend payouts in Western European firms. However, in East Asian firms, they form a coalition with the controlling owner to derive private gains by reducing dividends. Similar to the observations of Faccio et al. (2001) in respect of Western European firms, Gugler and Yurtoglu (2003) and Renneboog and Szilagyi (2020) also report a positive effect of the second largest owner on dividends for listed German and Dutch entities, respectively. Pindado et al. (2012) report similar findings for a non-family second largest shareholder in their empirical analysis of firms in the Eurozone. All these findings agree with the outcome hypothesis.

Evincing the substitution hypothesis, Zhao (2000) reports that firms with additional blockholders in China pay lower dividends than those with a single large shareholder. Similarly, Gonzalez et al. (2017) demonstrate that the second largest owner negatively impacts dividend payouts of Latin American firms. These studies argue that since MLS monitor the controlling owner, lower amounts of dividends are required to assuage the minority shareholders' concerns.

HYPOTHESES FORMULATION

From the theoretical framework and empirical evidence presented, it can be inferred that literature on MLS-dividend association is limited and inconclusive. The study attempts to supplement the literature by examining the role of MLS in dividend payouts under the assumptions of the substitution hypothesis in a different institutional context, India. Indian corporations are dominated by controlling owners (Sarkar and Sarkar, 2012) and operate in a legal environment that extends weaker protection to the minority shareholders (Lodh et al., 2014; Chakraborty, 2018). Consequently, outside investors' expropriation concerns are expected to be aggravated, resulting in a corporation's discounted valuation and costly financing (Gomes, 2000; La Porta et al., 2000). Thus, controlling owners may be impelled to pay dividends to lower expropriation concerns and establish a reputation in the capital markets (Flavin and O'Connor, 2017).

The need for reputation-building is further strengthened owing to the reliance of Indian companies on capital markets for raising funds (Shirodkar and Haigh, 2019). The average public shareholding in Indian corporations is about 49 percent,[1] with small investors supplying, on average, 20 percent of the ownership capital (Gupta and Bedi, 2020). Hence, controlling owners are expected to distribute higher amounts of dividends for reputation-building.

[1] Source: https://www1.nseindia.com/global/content/investor_rel/nseil_shp_home.htm.

Concerning the role of MLS, we predict that they are likely to cooperate with the controlling owner in reputation-building. This is because additional large shareholders in Indian corporations are predominantly insiders and, in many cases, affiliated with the controlling owner in a complex and inextricable manner (Kali and Sarkar, 2011; Balasubramanian and Anand, 2013). Since this provides for the possibility of collusion between the large shareholders, the presence of MLS may be perceived negatively. Hence, the controlling owner may seek cooperation from other large shareholders in paying out larger dividends for assuaging minority shareholders' concerns. This argument also aligns with the results of Jiang et al. (2019), which evince that MLS cooperate to attain a shared objective. Hence, we formulate the following hypotheses:

Hypothesis 1: Controlling owner has a positive impact on dividend payouts.
Hypothesis 2: MLS have a positive impact on dividend payouts.

METHODOLOGY

SAMPLE

The initial sample of the study comprises of NIFTY 500 companies. The NIFTY 500 firms represent about 96.10 percent of the free-float market capitalization of all the companies listed on the National Stock Exchange in India as of March 29, 2019.[2] Subsequently, 88 financial companies are dropped out of the initial sample since differing regulatory requirements govern them (Cao et al., 2019). Further, since the study focuses on the shareholding of MLS, companies with shareholders owning less than 10 percent stake in the firm's equity are also removed, leaving us with 279 firms. Lastly, companies and firm-year observations with missing data are also omitted from the sample. The final sample consists of 277 firms that are analyzed from FY 2009 to FY 2019, resulting in 1599 firm-year observations.

The corresponding data is collected from different databases. Ownership data is obtained from the Thomson One Corporate Development database. Further, firm-level financial and accounting data are gathered from Datastream and Bloomberg. Winsorization of continuous variables is undertaken at 1 percent to mitigate the effect of extreme observations.

DEPENDENT VARIABLE

The primary dependent variable is the dividend payout intensity. Consistent with the prior literature (Ben-Nasr, 2015; Kuo, 2017; Ye et al., 2019), it is determined as the ratio of cash dividends to total assets (*DIVTA*). The choice of total assets as a scaling variable is preferred over earnings since the former is less susceptible to accounting manipulation (Kuo, 2017). In addition, the ratio of dividend to earnings loses meaning in the presence of negative or zero earnings (Aoki, 2014; Kuo, 2017).

INDEPENDENT VARIABLES

The variables of interest are ownership by large shareholders. The study defines large shareholders or blockholders as those equity owners who hold a minimum of 10 percent of a firm's equity. This definition conforms with the prior studies (Maury and Pajuste, 2005; Jiang et al., 2019) and is also supported by the special rights granted to these shareholders by the Indian company law. For instance, a shareholder with a minimum of 10 percent of the shareholding in an Indian corporation can sue the managers for mismanagement or demand an interim annual meeting (Sarkar and Sarkar, 2012).

[2] Source: https://www1.nseindia.com/products/content/equities/indices/nifty_500.htm.

MEASUREMENT

Table 1. Description of the Variables

Variables	Definition	Source
Dependent Variables		
DIVTA	*Cash dividends/ Total assets*	*Datastream*
Independent Variables		
CO	*Percentage ownership of the largest shareholder*	*Thomson One Corporate Development database*
OWN2	*Percentage ownership of the second largest shareholder*	*Thomson One Corporate Development database*
OWN23	*Aggregate percentage stakeholding of the second and third largest shareholders*	*Thomson One Corporate Development database*
OWN2345	*Aggregate percentage stakeholding of the second to fifth largest shareholders*	*Thomson One Corporate Development database*
Control Variables		
SIZE	*Natural logarithm of total assets*	*Datastream*
PROFIT	*Earnings before interest and tax/Total assets*	*Datastream*
TQ	*Tobin's q*	*Bloomberg*
FAGE	*Number of years since the firm's inception*	*Datastream*
RE	*Retained earnings/Total assets*	*Datastream*
LEV	*Total debt/Total assets*	*Datastream*
CASH	*Cash and cash equivalents/ Total assets*	*Bloomberg; Datastream*
VROA	*Standard deviation of the return of assets over the last five years*	*Datastream*

Notes: This table defines the variables employed in the study. When referring to independent variables, a large shareholder is the one who holds a minimum of 10 percent stake in a firm's equity.

Considering the definition of large shareholders, a controlling owner (*CO*) is the one who has the largest percentage of shareholding in the firm (Kuo, 2017). Thus, the controlling owner's influence is indicated by its percentage of equity ownership (Nguyen et al., 2013; Cao et al., 2019).

For ascertaining the influence of MLS beyond the controlling owner, the study uses their shareholding to construct the relevant variables. First, the ownership percentage of the second largest shareholder (*OWN2*) is used to proxy for multiple blockholders' influence (Attig et al., 2009). Second, following prior literature (Attig et al.,2009; Boateng and Huang, 2017), the study also accounts for the role of other blockholders beyond the second largest owner. This is done by taking the sum of ownership percentage of the second and third largest shareholders (*OWN23*). Alternatively, the aggregate stakeholding of the second, third, fourth, and fifth largest shareholders (*OWN2345*) is also used.

CONTROL VARIABLES

In conformance with previous research, the study also uses various controls that are expected to determine the dividend payout intensity. Due to easier access to capital markets, larger firms are expected to make larger dividend payments (Ben-Nasr, 2015; Shamsabadi et al., 2016). Thus, we include firm size (*SIZE*) as the natural log of total assets. Further, profitable firms are able to distribute more dividends and may use them to signal their performance to the market (Fairchild et al., 2014). Hence, we control for profitability (*PROFIT*) by dividing earnings before interest and tax with the total assets. We also take into account growth opportunities (*TQ*) by using Tobin's q ratio. High-growth firms may retain profits to finance their expansion plans (Aoki, 2014). However, there is also the possibility that they make payouts for building a capital market reputation (La Porta et al., 2000; Flavin and O'Connor, 2017). Corollary to our hypotheses, we expect growth opportunities to affect dividend payments positively.

Additionally, the lifecycle stage's effect is incorporated into the empirical model by proxying it with both firm age (*FAGE*) and the ratio of retained earnings to total assets (*RE*). *FAGE* is the number of years since the firm's inception. A positive association between a firm's lifecycle stage and dividend payouts is expected as mature firms have a higher amount of accumulated earnings (DeAngelo et al., 2006). Further, we control for leverage (*LEV*) since the accompanying interest and principal payments constrain the firm from paying dividends (McGuinness et al., 2015). It is computed by dividing total debt with total assets. We also consider that a higher level of cash reserves facilitates dividend distribution (Ben-Nasr, 2015). Hence, cash holdings (*CASH*), computed by dividing cash and cash equivalents with the total assets, are included in the empirical specification.

Lastly, we include firm risk (*VROA*) as a higher uncertainty about earnings results in lower payouts (Amidu and Abor, 2006). It is proxied by the standard deviation of the return of assets over the last five years in consonance with Kuo (2017). Industry and year effects are also considered in the empirical specification. We use the Global Industry Classification standard to account for industry effects. Table 1 summarizes the variables of the study.

EMPIRICAL MODEL

The empirical testing of the hypotheses is done by estimating the model given below:

$$DIVTA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 MLS_{it} + \sum_{j=3}^{N} \beta j \, CONTROLS_{it} + \gamma_i + \mu_t + \varepsilon_{it} \quad (1)$$

where *DIVTA* is the ratio of cash dividends to total assets, *CO* is the ownership percentage of the largest shareholder. *MLS* represents variables (*OWN2, OWN23,* and *OWN2345)* proxying the influence of other large shareholders, and *CONTROLS* represents control variables. γ_i and μ_t denote industry and year effects, respectively.

The empirical model is estimated using Tobit regression. Tobit regression is appropriate when the dependent variable is either left or right censored and non-negative (Benjamin et al., 2016; Adel et al., 2019). It also overcomes the bias that arises using ordinary least square regression when the dependent variable is censored (Shamsabadi et al., 2016). Since the dependent variable of the study is truncated at zero, we use Tobit regression. Further, results are reported using robust standard errors clustered at the firm-level to minimize the heteroskedasticity and within-firm serial correlation problem (Petersen, 2009).

RESULTS

Table 2. Descriptive Statistics

Variables	Minimum	Mean	Median	Std. Dev	Maximum
DIVTA	*0.00*	*0.02*	*0.01*	*0.03*	*0.24*
CO	*10.66*	*30.56*	*27.00*	*15.28*	*82.88*
OWN2	*10.00*	*16.13*	*14.49*	*5.32*	*42.23*
OWN23	*10.00*	*20.19*	*19.33*	*8.31*	*48.14*
OWN2345	*10.00*	*21.24*	*19.33*	*10.01*	*59.75*
SIZE	*16.86*	*20.22*	*20.06*	*1.51*	*24.31*
PROFIT	*-0.11*	*0.11*	*0.10*	*0.08*	*0.40*
TQ	*0.66*	*2.55*	*1.74*	*2.21*	*13.78*
FAGE	*0.86*	*36.73*	*28.57*	*24.88*	*155.00*
RE	*-0.49*	*0.35*	*0.33*	*0.23*	*0.85*
LEV	*0.00*	*0.24*	*0.23*	*0.18*	*0.73*
CASH	*0.00*	*0.06*	*0.03*	*0.08*	*0.60*
VROA	*0.00*	*0.04*	*0.03*	*0.04*	*0.28*

Notes: This table presents the summary statistics of the variables used in the study. The definition of all the variables is as per Table 1.

Table 2 depicts the summary statistics of all the variables that are employed in the empirical analysis. The average (median) payout intensity, as symbolized by *DIVTA*, is 0.02 (0.01). The mean (median) shareholding by the controlling owner *(CO)* is about 30.56 percent (27 percent) and assumes a maximum value of 82.88 percent, thereby indicating a considerable influence of the controlling owner. The average (median) shareholding by the second largest shareholder is 16.13 percent (14.49 percent). Thus, the second largest owner's relative power in the sample is one-half of that of the controlling owner.[3] When the collective shareholdings of other large shareholders are considered, the mean *OWN23 (OWN2345)* is 20.19 (21.24) percent. Thus, the relative power of MLS increases when the role of all other large shareholders is taken into account.

Table 3 presents the correlation matrix. The *CO* and variables proxying multiple blockholders' influence are significantly positively correlated with the dividends to total assets ratio (*DIVTA*), thereby providing preliminary support to the purported hypotheses. The use of various firm-level control variables is also validated as they are significantly correlated with *DIVTA*. Further, the correlation coefficients between independent and control variables are within the acceptable limit of 0.80 suggested by Hair et al. (1998). Lastly, the VIF of all the variables is also less than 10. Thus, multicollinearity is not an issue in the empirical investigation.

Table 4 summarizes the results from the Tobit estimation of Equation 1, which represents the relationship between controlling owner, MLS, and dividend payout intensity. Model 1 runs a basic regression that considers the effect of the controlling owner *(CO)* only. Models 2, 3, and 4 include alternate MLS proxies to test their influence on dividend payout intensity.

Models 1 and 2 show that the shareholding by the controlling owner (*CO*) has a positive but insignificant link with the dividend payout intensity (*DIVTA*). However, when we take into account the effect of the collective shareholdings of the second largest owner and other large shareholders

[3] The observation is based on the second largest owner's relative power which is computed by dividing their average shareholding with the average stakeholding of the controlling owner.

Table 3. Correlation Matrix

Variables	DIVTA	CO	OWN2	OWN23	OWN2345	SIZE	PROFIT	TQ	FAGE	RE	LEV	CASH	VROA
DIVTA	*1.00*												
CO	*0.14 ****	*1.00*											
OWN2	*0.17 ****	*0.17 ****	*1.00*										
OWN23	*0.10 ****	*-0.12 ****	*0.66 ****	*1.00*									
OWN2345	*0.09 ****	*-0.19 ****	*0.51 ****	*0.92 ****	*1.00*								
SIZE	*-0.07 ****	*0.18 ****	*-0.08 ****	*-0.21 ****	*-0.20 ****	*1.00*							
PROFIT	*0.57 ****	*0.01*	*0.08 ****	*0.09 ****	*0.09 ****	*-0.20 ****	*1.00*						
TQ	*0.50 ****	*0.10 ****	*0.05 ***	*0.07 ****	*0.08 ****	*-0.26 ****	*0.50 ****	*1.00*					
FAGE	*0.09 ****	*0.05 ***	*-0.01*	*-0.08 ****	*-0.11 ****	*0.19 ****	*0.01*	*0.00*	*1.00*				
RE	*0.31 ****	*0.06 ****	*0.06 ***	*-0.02*	*-0.04 **	*-0.07 ****	*0.53 ****	*0.26 ****	*0.15 ****	*1.00*			
LEV	*-0.39 ****	*-0.17 ****	*-0.10 ****	*-0.03*	*-0.03*	*0.26 ****	*-0.43 ****	*-0.42 ****	*-0.09 ****	*-0.61 ****	*1.00*		
CASH	*0.24 ****	*0.28 ****	*0.00*	*-0.06 ***	*-0.06 ***	*-0.02*	*0.18 ****	*0.19 ****	*0.01*	*0.21 ****	*-0.35 ****	*1.00*	
VROA	*0.10 ****	*0.04 ****	*0.03*	*-0.01*	*-0.01*	*-0.21 ****	*0.14 ****	*0.16 ****	*-0.11 ****	*-0.02*	*-0.12 ****	*0.09 ****	*1.00*

Notes: This table reports the correlation between the variables of the study. ***, **, and * signal significance at 1,5, and 10 percent, respectively. The definition of all the variables is as per Table 1.

(*OWN23* and *OWN2345*) in Models 3 and 4, *CO* becomes positively significant. This result provides reasonable support for Hypothesis 1, which argues that a controlling owner encourages higher dividend payouts to alleviate investors' expropriation concerns for engaging in reputation-building (La Porta et al., 2000).

Considering the effect of MLS beyond the controlling owner, Models 2, 3, and 4 demonstrate that they encourage a higher amount of cash dividends. Model 2 reports that the percentage shareholding of the second largest owner (*OWN2*) has a positive and significant association with *DIVTA*. Similarly, the coalition of the second and third largest shareholders (*OWN23*) and the aggregate stakeholding of the second to fifth largest shareholders (*OWN2345*) have a significantly positive link with dividends (Model 3 and 4). These findings support Hypothesis 2. Further, the positive coefficients of both *CO* and MLS variables bolster the underlying justification behind Hypothesis 2 that additional blockholders cooperate with the controlling owner to allay investors' expropriation concerns. These concerns are likely to arise because other large shareholders in Indian corporations are often insiders and related to each other in a complex manner (Kali and Sarkar, 2011; Balasubramanian and Anand, 2013). Thus, they cooperate with the controlling owner to make larger dividend payments for establishing a reputation in the capital markets. The result also aligns with the findings of Jiang et al. (2019), which indicate that MLS coordinate with the controlling owner to attain a shared objective.

With regards to the control variables, the results are consistent with the findings of previous studies. Larger, profitable, and older firms pay a higher amount of dividends (DeAngelo et al., 2006; Fairchild et al., 2014; Ben-Nasr, 2015). Further, leverage (*LEV*) constrains a firm's ability to make dividend payouts, as indicated by its negative coefficient (McGuinness et al., 2015). Lastly, growth

opportunities (*TQ*) positively influence *DIVTA*. The result supports the reasoning that high-growth companies make dividend payments for building a capital market reputation (La Porta et al., 2000; Flavin and O'Connor, 2017).

In summary, our findings indicate that the controlling owner seeks the cooperation of additional blockholders to distribute more dividends in the pursuit of reputation-building.

Table 4. Multiple Large Shareholders (MLS) and Dividend Payouts: Main Regression Results

DIVTA	CO	OWN2	OWN23	OWN2345
Variables	**(1)**	**(2)**	**(3)**	**(4)**
CO	0.000145	7.85e-05	0.000152*	0.000165*
	(8.88e-05)	(8.13e-05)	(8.65e-05)	(8.77e-05)
MLS		0.000827***	0.000391***	0.000257**
		(0.000256)	(0.000145)	(0.000113)
SIZE	0.00267***	0.00301***	0.00309***	0.00295***
	(0.000972)	(0.000906)	(0.000932)	(0.000943)
PROFIT	0.183***	0.179***	0.179***	0.180***
	(0.0340)	(0.0318)	(0.0331)	(0.0334)
TQ	0.00358***	0.00359***	0.00359***	0.00357***
	(0.00123)	(0.00119)	(0.00118)	(0.00120)
FAGE	0.000115*	0.000120**	0.000126**	0.000127**
	(6.20e-05)	(5.92e-05)	(6.18e-05)	(6.28e-05)
RE	0.00258	0.00295	0.00412	0.00391
	(0.00990)	(0.00923)	(0.00969)	(0.00978)
LEV	-0.0314***	-0.0299***	-0.0309***	-0.0308***
	(0.00964)	(0.00909)	(0.00938)	(0.00948)
CASH	0.0209	0.0241	0.0231	0.0222
	(0.0161)	(0.0151)	(0.0150)	(0.0153)
VROA	-0.0499	-0.0478	-0.0446	-0.0450
	(0.0375)	(0.0384)	(0.0375)	(0.0372)
Constant	-0.0608***	-0.0793***	-0.0784***	-0.0744***
	(0.0206)	(0.0192)	(0.0201)	(0.0204)
Industry and Year FE	Yes	Yes	Yes	Yes
Observations	1,599	1,599	1,599	1,599
Psuedo R^2	-0.175	-0.181	-0.178	-0.177

Notes: This table presents the results of the Tobit estimation of Equation 1. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1,5, and 10 percent levels, respectively.

ROBUSTNESS CHECKS

In this sub-section, we check the sensitivity of our main results using the alternate measures of dividend payout intensity, relative power measures of MLS, and an alternate econometric technique to address the endogeneity concerns.

Panel A of Table 5 uses alternate proxies of dividend payout intensity to test the sensitivity of findings to different scaling variables. Hence, the Tobit estimation of Equation 1 is undertaken using the dividends to sales ratio (*DIVSALES*), the ratio of dividends to the book value of common equity *(DIVCE)*, and dividends to net income ratio *(DIVNI)* as the dependent variable. Since the dividends to net income ratio is not meaningful when the earnings are negative, we follow Adhikari and Agrawal (2018) and Chang et al. (2018) and eliminate negative *DIVNI* observations while undertaking the empirical analysis.

The empirical results presented in Table 5 (Panel A) provide continued support for Hypothesis 1 and Hypothesis 2 in the case of both *DIVSALES* and *DIVCE* measures of payout. Concerning *DIVNI,* we still report a significant positive effect of the controlling shareholder on dividend payments. Additionally, even though a positive linkage between MLS variables and the dividend to net income ratio *(DIVNI)* is observed across all the specifications (Columns 7-9), we find significance only for *OWN23* measure.

Altogether, these results reaffirm our prior findings that the controlling owner and additional large shareholders positively affect dividend payout intensity.

We also re-estimate Equation 1 by taking into account share repurchases. They serve as an additional mechanism of distributing excess cash (Skinner, 2008; Anwar et al., 2016). However, unlike cash dividends that tend to be rigid, stock repurchases occur irregularly and randomly, thereby providing financial flexibility to the firms (Stephens and Weisbach, 1998; Herron, 2017). Hence, repurchases may have limited effectiveness in mitigating agency conflicts (Koo et al., 2017; Chang et al., 2018). Further, despite their emerging popularity, stock repurchases are not a common form of payouts in Indian corporations (Wesson et al., 2018; Flavin et al., 2021). Hence, we consider share repurchases by adding their amount to cash dividends to compute the total payouts (Isakov and Weisskopf, 2015; Attig et al., 2016). In line with our dividend payout intensity measure *(DIVTA)*, total payouts are normalized by the book value of total assets *(TPAYTA)*.

Panel B of Table 5 shows results from the empirical investigation done by employing *TPAYTA* as the dependent variable. We infer that controlling and other large owners encourage a higher level of total payouts, thereby evincing that they coordinate to mitigate minority shareholders' expropriation concerns (La Porta et al., 2000; Flavin and O'Connor, 2017).

Table 5. Robustness Checks to Alternate Measures of Dividend Payouts

Panel A. Alternate Measures of Cash Dividend Payout Intensity

	DIVSALES			DIVCE			DIVNI		
Variables	**OWN2** (1)	**OWN23** (2)	**OWN2345** (3)	**OWN2** (4)	**OWN23** (5)	**OWN2345** (6)	**OWN2** (7)	**OWN23** (8)	**OWN2345** (9)
CO	0.000189	0.000306 *	0.000323 *	0.000186	0.000325 *	0.000352 **	0.00208 **	0.00227 ***	0.00237 ***
	(0.000175)	(0.000184)	(0.000189)	(0.000160)	(0.000168)	(0.000170)	(0.000805)	(0.000819)	(0.000831)
MLS	0.00134 **	0.000585 **	0.000387 *	0.00155 **	0.000859 ***	0.000562 **	0.00209	0.00242 *	0.00177
	(0.000617)	(0.000264)	(0.000202)	(0.000613)	(0.000329)	(0.000247)	(0.00223)	(0.00142)	(0.00114)
SIZE	0.00437 ***	0.00443 ***	0.00418 ***	0.00690 ***	0.00716 ***	0.00678 ***	0.0220 **	0.0237 ***	0.0231 ***
	(0.00142)	(0.00149)	(0.00151)	(0.00191)	(0.00195)	(0.00196)	(0.00878)	(0.00871)	(0.00872)
PROFIT	0.0365	0.0379	0.0393	0.371 ***	0.370 ***	0.372 ***	-0.136	-0.146	-0.147
	(0.0934)	(0.0959)	(0.0962)	(0.0609)	(0.0632)	(0.0642)	(0.282)	(0.283)	(0.284)
TQ	0.00125	0.00121	0.00118	0.00743 ***	0.00738 ***	0.00734 ***	0.0198 **	0.0195 **	0.0195 **
	(0.00128)	(0.00127)	(0.00128)	(0.00270)	(0.00274)	(0.00279)	(0.00837)	(0.00824)	(0.00830)
FAGE	0.000182 **	0.000191 **	0.000195 **	0.000393 ***	0.000405 ***	0.000412 ***	0.00152 **	0.00158 **	0.00160 **
	(8.58e-05)	(8.99e-05)	(9.11e-05)	(0.000134)	(0.000142)	(0.000144)	(0.000725)	(0.000732)	(0.000741)
RE	0.0566 *	0.0581 *	0.0580 *	-0.0423 **	-0.0399 *	-0.0400 *	-0.217 **	-0.208 **	-0.211 **
	(0.0304)	(0.0317)	(0.0318)	(0.0212)	(0.0216)	(0.0219)	(0.0879)	(0.0866)	(0.0873)
LEV	-0.0332 ***	-0.0348 ***	-0.0342 ***	-0.0596 **	-0.0617 ***	-0.0609 **	-0.191 *	-0.192 *	-0.193 *
	(0.0111)	(0.0113)	(0.0114)	(0.0232)	(0.0236)	(0.0237)	(0.109)	(0.108)	(0.109)
CASH	0.0135	0.0130	0.0119	0.0201	0.0201	0.0184	-0.173	-0.167	-0.172
	(0.0210)	(0.0214)	(0.0216)	(0.0270)	(0.0266)	(0.0270)	(0.142)	(0.138)	(0.140)
VROA	-0.0331	-0.0296	-0.0298	-0.133 *	-0.127 *	-0.128 *	0.244	0.266	0.275
	(0.0634)	(0.0626)	(0.0623)	(0.0711)	(0.0699)	(0.0696)	(0.349)	(0.353)	(0.351)
Constant	-0.118 ***	-0.113 ***	-0.106 ***	-0.144 ***	-0.146 ***	-0.135 ***	-0.0869	-0.150	-0.136
	(0.0307)	(0.0336)	(0.0339)	(0.0374)	(0.0397)	(0.0393)	(0.187)	(0.191)	(0.192)
Industry and Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,598	1,598	1,598	1,599	1,599	1,599	1,332	1,332	1,332
Psuedo R^2	-0.104	-0.0986	-0.0967	-0.211	-0.209	-0.206	0.138	0.142	0.141

Panel B. Total Payout Measure

TPAYTA Variables	OWN2 (1)	OWN23 (2)	OWN2345 (3)
CO	*0.000124* *(8.76e-05)*	*0.000193*** *(9.11e-05)*	*0.000206*** *(9.21e-05)*
MLS	*0.000785**** *(0.000265)*	*0.000364*** *(0.000152)*	*0.000231*** *(0.000118)*
SIZE	*0.00280**** *(0.000942)*	*0.00287**** *(0.000969)*	*0.00273**** *(0.000980)*
PROFIT	*0.185**** *(0.0311)*	*0.185**** *(0.0324)*	*0.186**** *(0.0327)*
TQ	*0.00313*** *(0.00124)*	*0.00313*** *(0.00123)*	*0.00311*** *(0.00125)*
FAGE	*0.000132*** *(6.22e-05)*	*0.000137*** *(6.45e-05)*	*0.000138*** *(6.54e-05)*
RE	*0.00992* *(0.00945)*	*0.0110* *(0.00982)*	*0.0108* *(0.00991)*
LEV	*-0.0298**** *(0.00966)*	*-0.0308**** *(0.00998)*	*-0.0306**** *(0.0101)*
CASH	*0.0265** *(0.0158)*	*0.0255* *(0.0158)*	*0.0246* *(0.0161)*
VROA	*-0.0472* *(0.0410)*	*-0.0442* *(0.0401)*	*-0.0447* *(0.0398)*
Constant	*-0.0791**** *(0.0195)*	*-0.0780**** *(0.0205)*	*-0.0739**** *(0.0207)*
Industry and Year FE	*Yes*	*Yes*	*Yes*
Observations	*1,599*	*1,599*	*1,599*
Psuedo R^2	*-0.180*	*-0.177*	*-0.176*

Notes: This table depicts the findings of the Tobit regression of Equation 1 using alternate measures of dividend payouts. Panel A uses the alternate proxies of cash dividend payouts, dividends to sales ratio (*DIVSALES*), dividends to book value of common equity ratio (*DIVCE*), and dividend to net income ratio *(DIVNI)*. Panel B employs the total payout (cash dividends plus stock repurchases) measure, *TPAYTA*. MLS denotes the various proxies that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1,5, and 10 percent levels, respectively.

Table 6. Relative Power Measures of MLS

DIVTA Variables	RP2 (1)	RP23 (2)	RP2345 (3)
CO	*0.000539**** *(0.000151)*	*0.000315**** *(0.000112)*	*0.000242*** *(0.000101)*
MLS	*0.0281**** *(0.00794)*	*0.00778*** *(0.00325)*	*0.00365** *(0.00208)*
SIZE	*0.00286**** *(0.000919)*	*0.00291**** *(0.000956)*	*0.00276**** *(0.000963)*
PROFIT	*0.179**** *(0.0321)*	*0.180**** *(0.0336)*	*0.181**** *(0.0338)*
TQ	*0.00366**** *(0.00115)*	*0.00359**** *(0.00117)*	*0.00357**** *(0.00120)*
FAGE	*0.000133*** *(5.97e-05)*	*0.000130*** *(6.25e-05)*	*0.000127*** *(6.28e-05)*
RETA	*0.00205* *(0.00931)*	*0.00362* *(0.00986)*	*0.00332* *(0.00991)*
LEV	*-0.0280**** *(0.00914)*	*-0.0303**** *(0.00961)*	*-0.0306**** *(0.00969)*
CASH	*0.0236** *(0.0141)*	*0.0221* *(0.0150)*	*0.0214* *(0.0155)*
VROA	*-0.0488* *(0.0378)*	*-0.0445* *(0.0372)*	*-0.0462* *(0.0372)*
Constant	*-0.0987**** *(0.0218)*	*-0.0803**** *(0.0218)*	*-0.0716**** *(0.0215)*
Industry and Year FE	*Yes*	*Yes*	*Yes*
Observations	*1,599*	*1,599*	*1,599*
Psuedo R^2	*-0.182*	*-0.177*	*-0.176*

Notes: This table depicts the results of the Tobit estimation of equation 1 using multiple large shareholders' relative power measures. RP2 indicates the relative power of the second largest shareholder compared to the controlling owner. RP23 proxies for the combined relative power of the second and third largest shareholders. RP2345 measures the relative power of the coalition of the second, third, fourth, and fifth largest shareholders compared to the controlling owner. MLS denotes the relative power measures that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1,5, and 10 percent levels, respectively.

The relationship between MLS and dividend payout intensity is also re-examined using relative power measures. The second largest shareholder's relative power (*RP2*) is obtained by taking the ratio of the percentage ownership of the second largest shareholder (*OWN2*) to the controlling owner's percentage of shareholding (*CO*). The combined relative power of the second and third largest shareholders (second to the fifth largest shareholders) is constructed in a similar manner as *RP2* and is denoted as *RP23*(*RP2345*). The results of the Tobit estimation using relative power variables are presented in Table 6. We observe that as the relative power of the second largest shareholder (*RP2*) increases, *DIVTA* also increases (Model 1). Similar results are also reported for the relative power measures of the coalition of other large owners (*RP23* and *RP2345*). Thus, the controlling owner seeks

other large shareholders' cooperation as their relative power increases in the pursuit of reputation-building in the capital markets.

Table 7. System GMM Estimation

DIVTA Variables	OWN2 (1)	OWN23 (2)	OWN2345 (3)
Lag DIVTA	*0.485**** *(0.116)*	*0.464**** *(0.111)*	*0.445**** *(0.0943)*
CO	*4.12e-05* *(4.98e-05)*	*9.27e-05** *(5.53e-05)*	*0.000100** *(6.02e-05)*
MLS	*0.000337** *(0.000181)*	*0.000198*** *(8.77e-05)*	*0.000176*** *(7.12e-05)*
SIZE	*0.000856* *(0.000652)*	*0.000941* *(0.000611)*	*0.000986* *(0.000680)*
PROFIT	*0.107**** *(0.0205)*	*0.105**** *(0.0202)*	*0.102**** *(0.0195)*
TQ	*0.00251** *(0.00129)*	*0.00190** *(0.00114)*	*0.00283*** *(0.00114)*
FAGE	*6.64e-05** *(3.87e-05)*	*5.88e-05* *(4.28e-05)*	*7.25e-05* *(4.54e-05)*
RE	*6.41e-05* *(0.00936)*	*0.00119* *(0.00770)*	*0.00347* *(0.00839)*
LEV	*0.00658* *(0.0108)*	*0.00122* *(0.0107)*	*0.00484* *(0.0113)*
CASH	*0.0360*** *(0.0178)*	*0.0263* *(0.0210)*	*0.0266* *(0.0238)*
VROA	*0.0191* *(0.0327)*	*0.0225* *(0.0199)*	*0.0110* *(0.0383)*
Constant	*-0.0415**** *(0.0132)*	*-0.0402**** *(0.0136)*	*-0.0440**** *(0.0143)*
Industry and Year FE	*Yes*	*Yes*	*Yes*
Observations	*1,285*	*1,285*	*1,285*
AR2 (p-value)	*1.633(0.102)*	*1.593(0.111)*	*1.622(0.105)*
Hansen J (p-value)	*79.12 (0.321)*	*83.03(0.198)*	*91.90(0.213)*

Notes: This table presents the results of two-step System GMM estimation of Equation 1. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is summarized in Table 1. Windmeijer (2005) corrected- robust standard errors are indicated in parentheses. ***, **, and * denote significance at 1,5, and 10 percent levels, respectively.

Two-step System GMM estimator is employed for addressing the endogeneity concerns of the variables of the study. Endogeneity may arise because of the omission of variables, error in the measurement of variables, and reverse causality (Blundell and Bond, 2000; Gupta and Kashiramka, 2020; Dahiya and Singh, 2020). For instance, there could be a possibility that large shareholders are attracted to high dividend-paying companies. In such a case, the observed positive relation between MLS and dividend payout will not be on account of reputation-building. Hence, we use System GMM to mitigate the endogeneity issues. The results reported using Windmeijer (2005) corrected-robust standard errors are summarized in Table 7.

Table 7 shows that the Hansen J statistic is insignificant in all the cases, thereby validating the null hypothesis that the System GMM generated instruments are exogenous. The AR (2) test indicates the absence of second-order autocorrelation since it is not significant. Thus, the use of System GMM is appropriate. In respect of the main results, we continue to find that additional blockholders (*OWN2*, *OWN23*, and *OWN2345)* have a positive link with dividend payout intensity (*DIVTA*). The controlling owner (*CO)* also positively impacts *DIVTA*. Hence, our results are robust to the endogeneity issues and continue to provide support to our hypotheses.

ADDITIONAL ANALYSES: ROLE OF GROWTH OPPORTUNITIES AND EQUITY ISSUES

We observe from the previous empirical analysis that MLS and the controlling owner encourage larger payouts. They forgo their private benefits by distributing surplus free cash flows as dividends for reputation-building under the assumptions of the substitution hypothesis. A capital market reputation facilitates better access to external financing (Kuo, 2017, He et al., 2017). Hence, it is likely to be more critical for growth firms, particularly when they intend to fund their expanding operations through equity issuance. For instance, Gan and Wang (2014) report that the payment of dividends by growing firms in weakly protected regimes enhances their ability to raise more equity financing. Hence, we study the effect of growth opportunities and equity issuance on the linkage between MLS and dividend payouts.

Concerning the role of growth opportunities, growth firms are expected to go to capital markets to meet their greater funding needs (Riahi-Belkaoui, 2001; Gupta et al., 2020). Consequently, reputation-building is likely to be more valuable for high-growing firms so that they can fund their investment opportunities on reasonable terms (Flavin and O'Connor, 2017; Kuo, 2017). Thus, it is expected that the observed linkage between MLS and dividend payout intensity is stronger in growth firms. A dummy variable *HGROW* is generated that assumes a value of 1 when a company's *TQ* is above the sample median for testing the prediction. Tobit regression is then run-on Equation 1 after including the interaction term between *HTQ* and various MLS measures (*HTQxMLS*). The results for the same are presented in Table 8. They demonstrate that the coefficient of *HTQxMLS* is positively significant, indicating that high-growth firms with the same level of MLS ownership make larger dividend payouts. Further, the coefficient on *MLS* turns insignificant across all the specifications, indicating our primary results can be explained after taking into account the interaction with growth opportunities. Thus, the pursuit of reputation-building is prominent in growth firms which aligns with Flavin and O'Connor (2017) and Kuo (2017), who report that growth firms with severe expropriation risk are more likely to make higher dividend payouts to build a capital market reputation.

We also investigate if the positive effect of growth opportunities on the MLS-dividends relationship is pronounced for firms that undertake equity issuance during the sample period. The use of high payouts for reputation-building ensures that the entrenched firms have ease in acquiring external financing (Gan and Wang, 2014). Hence, it is expected that the positive influence of MLS on dividends is more prominent for growth firms that access the equity markets for raising funds. In order to test this prediction, we retain the interaction term *HTQxMLS* in Equation 1. Further, we categorize the firms into two groups based on whether they have issued equity during the sample period or not. Equity issuances are defined in terms of seasoned public offerings made to new investors.[4] Results from the empirical estimation for each of the sub-samples are summarized in Table 9.

[4] Private placements are not considered as they're usually made to large insider owners or financial institutions, which have high monitoring ability (Anshuman et al., 2010; Gan and Wang, 2014). Therefore, consistent with the substitution hypothesis that emphasizes on reducing minority shareholders' expropriation concerns, we do not take into account private placements.

Panel A depicts results for firms that issued equity during the sample period *(ISSUE FIRMS)*. Findings in Panel B correspond to those firms that did not go for a seasoned public offering *(NONISSUE FIRMS)*. Both the panels continue to demonstrate that the positive relationship between the shareholding of MLS and dividend payout intensity is prominent in growing firms *(HTQxMLS)*, irrespective of whether they issue equity or not. However, the coefficient on *HTQxMLS* is higher for corporations that undergo equity issuances than those that do not implement seasoned public offerings. Thus, the results suggest that the positive effect of MLS on dividend payments is stronger in high-growth firms that initiate equity issuances. We also report a significant positive effect of the controlling owner only in such cases. Hence, the incentive for large owners to establish a reputation in the capital markets through dividend payments is higher in growth firms that plan to access it for raising funds. This finding is similar to the observations of He et al. (2017), which indicate that the need for reputation-building is strengthened when firms operating in a weaker institutional regime intend to raise funds. It also corroborates the substitution hypothesis.

Table 8. Role of Growth Opportunities in the MLS-Dividends Association

Variables	OWN2 (1)	OWN23 (2)	OWN2345 (3)
CO	*8.17e-05*	*0.000147**	*0.000163**
	(8.17e-05)	*(8.62e-05)*	*(8.71e-05)*
MLS	*7.90e-05*	*5.59e-05*	*8.02e-07*
	(0.000247)	*(0.000119)*	*(0.000103)*
HGROWxMLS	*0.00127****	*0.000642***	*0.000496***
	(0.000473)	*(0.000313)*	*(0.000233)*
SIZE	*0.00300****	*0.00300****	*0.00288****
	(0.000912)	*(0.000949)*	*(0.000964)*
PROFIT	*0.223****	*0.223****	*0.224****
	(0.0378)	*(0.0368)*	*(0.0376)*
HGROW	*-0.0177***	*-0.0105**	*-0.00802*
	(0.00746)	*(0.00629)*	*(0.00510)*
FAGE	*0.000103**	*0.000117**	*0.000120**
	(6.24e-05)	*(6.45e-05)*	*(6.54e-05)*
RE	*1.21e-05*	*0.000488*	*-0.000436*
	(0.0101)	*(0.0104)*	*(0.0105)*
LEV	*-0.0377****	*-0.0399****	*-0.0402****
	(0.00872)	*(0.00922)*	*(0.00933)*
CASH	*0.0263*	*0.0255*	*0.0244*
	(0.0177)	*(0.0175)*	*(0.0176)*
VROA	*-0.0478*	*-0.0452*	*-0.0441*
	(0.0412)	*(0.0405)*	*(0.0399)*
Constant	*-0.0666****	*-0.0692****	*-0.0667****
	(0.0186)	*(0.0202)*	*(0.0207)*
Industry and Year FE	*Yes*	*Yes*	*Yes*
Observations	*1,599*	*1,599*	*1,599*
Psuedo R^2	*-0.174*	*-0.169*	*-0.167*

Notes: This table presents additional analysis to examine the role of growth opportunities in the MLS-dividends association. *HGROW* is a dummy variable coded 1 when a firm's growth opportunities are greater than the sample median. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and, * denote significance at 1, 5, and 10 percent levels, respectively.

Table 9. Role of Equity Issuances and Growth Opportunities in the MLS-Dividends Association

	ISSUE FIRMS (A)			NONISSUE FIRMS (B)		
DIVTA	**OWN2**	**OWN23**	**OWN2345**	**OWN2**	**OWN23**	**OWN2345**
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
CO	*0.000322**	*0.000485**	*0.000444**	*1.77e-05*	*9.41e-05*	*0.000119*
	(0.000168)	*(0.000192)*	*(0.000189)*	*(9.18e-05)*	*(0.000104)*	*(0.000105)*
MLS	*-8.57e-05*	*-0.000179*	*-0.000432*	*8.68e-05*	*8.42e-05*	*5.82e-05*
	(0.000498)	*(0.000478)*	*(0.000418)*	*(0.000264)*	*(0.000113)*	*(9.82e-05)*
HTQxMLS	*0.00288**	*0.00174**	*0.00136**	*0.00121**	*0.000577**	*0.000443**
	(0.00126)	*(0.000967)*	*(0.000712)*	*(0.000522)*	*(0.000329)*	*(0.000247)*
SIZE	*0.00338*	*0.00232*	*0.00211*	*0.00345****	*0.00358****	*0.00351****
	(0.00264)	*(0.00247)*	*(0.00250)*	*(0.00110)*	*(0.00114)*	*(0.00115)*
PROFIT	*0.295****	*0.295****	*0.294****	*0.211****	*0.210****	*0.211****
	(0.0597)	*(0.0664)*	*(0.0660)*	*(0.0431)*	*(0.0415)*	*(0.0426)*
HGROW	*-0.0459****	*-0.0369***	*-0.0321***	*-0.0150**	*-0.00732*	*-0.00506*
	(0.0171)	*(0.0165)*	*(0.0131)*	*(0.00839)*	*(0.00696)*	*(0.00575)*
FAGE	*-1.13e-05*	*4.46e-05*	*4.54e-05*	*0.000141***	*0.000152***	*0.000158***
	(8.34e-05)	*(7.73e-05)*	*(7.70e-05)*	*(7.08e-05)*	*(7.31e-05)*	*(7.39e-05)*
RE	*0.000318*	*-0.00226*	*-0.00982*	*0.00273*	*0.00297*	*0.00224*
	(0.0228)	*(0.0244)*	*(0.0232)*	*(0.0108)*	*(0.0112)*	*(0.0114)*
LEV	*-0.0418**	*-0.0458**	*-0.0528***	*-0.0350****	*-0.0373****	*-0.0377****
	(0.0251)	*(0.0249)*	*(0.0254)*	*(0.00915)*	*(0.00991)*	*(0.0100)*
CASH	*0.0709***	*0.0557**	*0.0487*	*0.0174*	*0.0184*	*0.0177*
	(0.0311)	*(0.0333)*	*(0.0359)*	*(0.0178)*	*(0.0180)*	*(0.0182)*
VROA	*-0.0829*	*-0.0693*	*-0.0690*	*-0.0544*	*-0.0511*	*-0.0493*
	(0.0642)	*(0.0621)*	*(0.0600)*	*(0.0432)*	*(0.0430)*	*(0.0429)*
Constant	*-0.0892*	*-0.0705*	*-0.0572*	*-0.0740****	*-0.0798****	*-0.0798****
	(0.0605)	*(0.0595)*	*(0.0588)*	*(0.0221)*	*(0.0239)*	*(0.0244)*
Observations	*292*	*292*	*292*	*1,307*	*1,307*	*1,307*
Industry & Year FE	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*
Psuedo R^2	*-0.287*	*-0.269*	*-0.263*	*-0.173*	*-0.168*	*-0.167*

Notes: This table presents the moderating role of growth opportunities in the MLS-dividends association when firms are classified into two categories based on whether they have issued equity during the sample period or not. Panel A presents results for firms that have undertaken equity issuances during the sample period *(ISSUE FIRMS)*. Panel B depicts findings for firms that did not implement seasoned public offerings *(NONISSUE FIRMS)*. *HGROW* is a dummy variable coded 1 when a firm's growth opportunities are greater than the sample median. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1, 5, and 10 percent levels, respectively.

ADDITIONAL ANALYSES: ROLE OF BOARD INDEPENDENCE AND THE IDENTITY OF MLS

In this sub-section, we further examine the reputational effect of MLS by taking into account the moderating role of independent directors and the identity of MLS.

Table 10. Role of Board Independence in the MLS-Dividends Association

DIVTA	OWN2	OWN23	OWN2345
Variables	**(1)**	**(2)**	**(3)**
CO	*7.91e-05*	*0.000180***	*0.000194***
	(8.37e-05)	*(8.88e-05)*	*(9.14e-05)*
MLS	*0.000484**	*0.000200*	*0.000120*
	(0.000259)	*(0.000126)*	*(0.000106)*
LBINDxMLS	*0.00153**	*0.00102***	*0.000651**
	(0.000856)	*(0.000463)*	*(0.000339)*
SIZE	*0.00314****	*0.00323****	*0.00303****
	(0.000908)	*(0.000925)*	*(0.000943)*
PROFIT	*0.184****	*0.183****	*0.185****
	(0.0319)	*(0.0326)*	*(0.0331)*
TQ	*0.00362****	*0.00352****	*0.00351****
	(0.00116)	*(0.00114)*	*(0.00117)*
FAGE	*0.000110**	*0.000124***	*0.000130***
	(5.81e-05)	*(6.15e-05)*	*(6.27e-05)*
RE	*0.00123*	*0.00310*	*0.00273*
	(0.00954)	*(0.00968)*	*(0.00974)*
LEV	*-0.0293****	*-0.0309****	*-0.0307****
	(0.00918)	*(0.00934)*	*(0.00949)*
CASH	*0.0236*	*0.0221*	*0.0214*
	(0.0156)	*(0.0154)*	*(0.0155)*
VROA	*-0.0468*	*-0.0414*	*-0.0425*
	(0.0391)	*(0.0381)*	*(0.0380)*
LBIND	*-0.0230**	*-0.0195***	*-0.0125**
	(0.0125)	*(0.00864)*	*(0.00677)*
Constant	*-0.0763****	*-0.0771****	*-0.0789****
	(0.0180)	*(0.0207)*	*(0.0197)*
Industry and Year FE	*Yes*	*Yes*	*Yes*
Observations	*1,587*	*1,587*	*1,587*
Psuedo R^2	*-0.187*	*-0.183*	*-0.180*

Notes: This table presents additional analysis to examine the role of independent directors in the MLS-dividends association. *LBIND* assumes value 1 when the percentage of independent directors is less than the sample median. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1, 5, and 10 percent levels, respectively.

We first consider the role of board independence in the MLS-dividends association. MLS cooperate in paying out more dividends to allay minority shareholders' expropriation concerns. This role of MLS is likely to be more prominent in those firms which have poorly governed board of directors in accordance with the substitution hypothesis (La Porta et al., 2000). To measure the board of directors' effectiveness, we use the percentage of independent directors on the board. Independent directors are considered since they are an intrinsic component of good governance and bring objectivity to the board-decision making (Singla et al., 2018; Masulis and Zhang, 2019). Hence, a binary variable *LBIND*

that is coded as 1 when the percentage of independent directors is below the sample median (50 percent is the sample median) is created. It is then interacted with various MLS measures *(LBINDxMLS)* and included in Equation 1 along with *LBIND* to determine the impact of MLS conditional on the level of board independence.

The positive and significant coefficient on *LBINDxMLS* in Table 10 shows that the effect of MLS on dividend payout intensity is stronger in the firms with a lower percentage of independent directors. Thus, MLS are more likely to pay larger dividends for pursuing reputation-building when board independence is lower, thereby re-enforcing support for the substitution hypothesis (La Porta et al., 2000; Sanan, 2019).

Further, we also investigate the impact of additional large shareholders' identity on the linkage between MLS and dividends. This is because the ability of large shareholders to cooperate and coordinate is expected to differ according to the identity of MLS (Attig et al., 2009; Basu et al., 2017). In this regard, it is difficult to act in a concerted manner when additional blockholders are outside investors (Basu et al., 2017; He and Kyaw, 2018). The outside blockholders are predominantly institutional investors in Indian firms (Selarka, 2018; Sethiya and Thenmozhi, 2020). Hence, we introduce a binary variable *INST* indicating whether the second largest owner is an institutional investor in Equation 1 and interact it with MLS measures.

The interaction with various MLS proxies (*INSTxMLS*) yields that given the same shareholding level, institutional investors make lesser payouts than other types of second largest shareholders (Table 11). These findings align with the substitution hypothesis as institutional investors have been observed to play a monitoring role (Al-Najjar and Belghitar, 2014; Alvarez et al., 2018). Consequently, the need for reputation-building is diminished. Hence, lesser payouts are required to compensate for poor governance when the second largest shareholder is an institutional investor.

Table 11. Role of the Identity of Second Largest Shareholder in the MLS-Dividends Association

DIVTA	OWN2	OWN23	OWN2345
Variables	**(1)**	**(2)**	**(3)**
CO	5.12e-05	0.000146	0.000167*
	(8.82e-05)	(9.39e-05)	(9.52e-05)
MLS	0.000990***	0.000464***	0.000292**
	(0.000283)	(0.000161)	(0.000121)
INSTxMLS	-0.00134***	-0.000617**	-0.000461**
	(0.000467)	(0.000256)	(0.000230)
SIZE	0.00275***	0.00301***	0.00289***
	(0.000916)	(0.000944)	(0.000956)
PROFIT	0.180***	0.181***	0.181***
	(0.0315)	(0.0332)	(0.0335)
TQ	0.00352***	0.00357***	0.00355***
	(0.00118)	(0.00117)	(0.00119)
FAGE	0.000110*	0.000123*	0.000127**
	(5.88e-05)	(6.33e-05)	(6.46e-05)
RE	0.00224	0.00367	0.00349
	(0.00930)	(0.00984)	(0.00992)
LEV	-0.0290***	-0.0303***	-0.0304***
	(0.00917)	(0.00958)	(0.00970)
CASH	0.0230	0.0223	0.0216
	(0.0145)	(0.0146)	(0.0150)
VROA	-0.0493	-0.0444	-0.0446
	(0.0385)	(0.0376)	(0.0373)
INST	0.0212***	0.0103*	0.00704
	(0.00767)	(0.00556)	(0.00516)
Constant	-0.0760***	-0.0786***	-0.0745***
	(0.0193)	(0.0203)	(0.0206)
Industry and Year FE	Yes	Yes	Yes
Observations	1,599	1,599	1,599
Psuedo R^2	-0.183	-0.179	-0.177

Notes: This table presents additional analysis to investigate the role of the identity of the second largest shareholder in the MLS-dividend association. *INST* is a dummy variable that takes the value of 1 when the second largest shareholder is an institutional investor. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is as per Table 1. Robust standard errors clustered at the firm-level are given in parentheses. ***, **, and * denote significance at 1, 5, and 10 percent levels, respectively.

IMPACT ON DIVIDEND STABILITY

In this sub-section, we examine whether MLS also bond themselves to stable payouts.

According to Easterbrook (1984), an agency-conflicted firm is kept under the continued scrutiny of capital market participants only when the payouts are regular and consistent. Consequently, for dividends to serve as an appropriate bonding mechanism, the payout policy should be rigid. Any discretionary reduction in dividends is likely to dampen a firm's reputation, particularly when it faces severe agency conflicts (Brav et al., 2005; DeAngelo and DeAngelo, 2007; Kuo, 2017). Hence, companies subjected to higher expropriation risk by the corporate insiders are likely to adopt a stable

dividend policy to substitute for their poor governance under the assumptions of the substitution hypothesis. Essentially, such firms are expected to smooth their dividends more, as evinced in Leary and Michaely (2011), Pindado et al. (2012), and Javakhadze et al. (2014).

In line with the preceding discussion, the empirical investigation is extended to analyze whether the controlling owner and other large shareholders also employ a stable dividend policy as a commitment device for developing a reputation of treating minority shareholders fairly. In other words, we determine the effect of MLS on the extent of dividend smoothing. For this purpose, we adopt the partial adjustment model of Lintner (1956).

Lintner states that a corporation follows a target payout ratio which is applied to the current net income. Correspondingly, the target level of dividends can be expressed as a function of a firm's net earnings. We write this relationship in the mathematical form as follows:

$$D_{it}^{*} = \tau_i E_{it} \tag{2}$$

where D^{*}_{it} is the target amount of dividends of firm *i* in year *t*, τ_i denotes the target payout ratio, and E_{it} refers to the net income. Since each year, companies only partially adjust their payouts towards the target level, the difference between two consecutive annual dividend payments can be written in the following manner:

$$D_{it} - D_{it-1} = \beta_0 + \lambda_i (D_{it}^{*} - D_{it-1}) + \varepsilon_{it} \tag{3}$$

where D_{it} is the actual level of dividends in year *t*, D_{it-1} is the previous year's dividends, λ_i symbolizes the speed of adjustment parameter, and ε_{it} indicates the error term. Inserting Equation 2 into Equation 3 and reworking Equation 3, we obtain the model given below:

$$D_{it} = \beta_0 + \lambda_i \tau_i E_{it} + (1 - \lambda_i) D_{it-1} + \varepsilon_{it} \tag{4}$$

We re-write Equation 4 as illustrated:

$$D_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 D_{it-1} + \varepsilon_{it} \tag{5}$$

where $\beta_1 = \lambda_i \tau_i$ and $\beta_2 = (1 - \lambda_i)$. Additionally, β_2, being an inverse of the speed of adjustment parameter λ_i, denotes the dividend smoothing coefficient.

We now modify Equation 5 to ascertain whether MLS positively affect the stability of dividends. Therefore, the ownership percentage of multiple blockholders, which proxy for their influence *(OWN2, OWN23,* and *OWN2345)*, is included in the model. Further, an interaction term between MLS variables and lagged level of dividends is introduced to determine their effect on dividend smoothing. In addition, we also incorporate the effect of the controlling shareholder *(CO)*. Following Pindado et al. (2012) and Kilincarslan (2019), industry and year effects are also added to the model. Lastly, in consonance with the previous literature (Fama and Babiak, 1968; Brockman et al., 2014; Cheng et al., 2021), we normalize the dividends and net income level with the number of outstanding shares to account for the scale effects. Henceforth, the modified Lintner model is stated as follows:

$$DPS_{it} = \beta_0 + \beta_1 EPS_{it} + \beta_2 DPS_{it-1} + \beta_3 CO_{it} + \beta_4 MLS_{it} + \beta_5 DPS_{it-1} x MLS_{it} + \gamma_i + \mu_t + \varepsilon_{it} \tag{6}$$

where DPS_{it} and EPS_{it} represent dividends per share and earnings per share, respectively, in year *t*. D_{it-1} is lagged dividends per share. *CO* continues to be defined in the manner given in Table 1. *MLS* encompasses variables that have been used to measure the effect of other large owners *(OWN2, OWN23,* and *OWN2345).* Finally, γ_i and μ_t correspond to industry and year effects. Our main variable of interest is the interaction term $DPS_{it-1} xMLS_{it}$, which shows the impact of MLS on dividend smoothing.

Equation 6 is estimated using two-step System GMM technique as it overcomes the limitation of traditional estimators that produce biased coefficients in the case of dynamic panel data models (O'Conner and Rafferty, 2012; Renneboog and Szilagyi, 2020; Bajaj et al., 2021). Hence, we employ System GMM to minimize the concerns of autocorrelation and endogeneity that arise because of the inclusion of the previous year's dividends per share as the independent variable (Koussis and Makrominas, 2019; Kilincarslan, 2019). The results from the empirical analysis are summarized in Table 12.

Columns 1-3 of Table 12 demonstrate support for Lintner's partial adjustment model as the impact of both earnings per share *(EPS)* and the previous year's dividends per share is significantly positive. Concerning the suitability of System GMM, we note a non-significant Hansen J statistic across all the specifications, thereby alluding to the exogeneity of the instruments utilized by the estimator. In addition, the insignificance of the AR (2) test indicates that the second-order autocorrelation is not present. Thus, the appropriateness of System GMM for our dynamic model is validated.

In relation to our main variable of interest, $DPS_{it-1} xMLS_{it}$, it is observed that MLS strengthens the positive linkage between current and past dividends per share at statistically significant levels. Thus, dividend smoothing increases with an increase in the equity shareholding of the multiple blockholders. This result conforms to our prediction that MLS stimulate stable and smoothed dividends for committing that they will not expropriate the minority shareholders. It is also in line with the previous literature, which reports that entrenched firms smooth dividends more to substitute for their weaker governance environment (Leary and Michaely, 2011; Pindado et al., 2012; Javakhadze et al., 2014). Lastly, we continue to find a significantly positive influence of the controlling owner *(CO)* on dividend payouts.

Overall, the results suggest that MLS also cooperate in adopting a stable dividend policy for reputation-building by smoothing dividends more. This finding further substantiates the substitution hypothesis.

IMPACT ON VALUATION

The study argues and provides empirical evidence in support of MLS acting in concert to develop a capital market reputation by way of dividend payments. By paying out more dividends, large shareholders are voluntarily committing not to expropriate minority shareholders, thereby forgoing their private benefits (Flavin and O'Connor, 2017). This bonding mechanism is adopted to access equity markets for raising funds on reasonable terms (Sawicki, 2009; Kuo, 2017). Further, it lowers the likelihood that the shares will be discounted for expropriation when large inside owners sell them for diversifying the firm's idiosyncratic risk (Gomes, 2000). Consequently, the reputation-building efforts of MLS should affect the valuation of the firm affirmatively. This prediction is in line with the findings of the previous literature, which reports that the dividend payments by entrenched controlling managers attract higher valuations (Kalcheva and Lins, 2007; Kuo, 2017; Atanassov and Mandell, 2018).

Table 12. MLS and Dividend Stability

DPS Variables	OWN2 (1)	OWN23 (2)	OWN2345 (3)
EPS_{it}	0.140*** (0.0422)	0.101*** (0.0352)	0.122*** (0.0236)
DPS_{it-1}	0.288** (0.121)	0.539*** (0.132)	0.492*** (0.121)
CO_{it}	0.000347 (0.000288)	0.000442* (0.000246)	0.000439* (0.000238)
MLS_{it}	0.00195** (0.000952)	0.000967* (0.000548)	0.00113** (0.000542)
DPS_{it-1}x MLS_{it}	0.0328** (0.0147)	0.0221* (0.0117)	0.0201** (0.00979)
Constant	-0.00248 (0.0213)	-0.0173 (0.0209)	-0.0246 (0.0225)
Observations	1,285	1,285	1,285
Industry and Year FE	Yes	Yes	Yes
AR2 (p-value)	0.0855 (0.930)	0.589 (0.555)	0.472 (0.637)
Hansen J (p-value)	34 (0.238)	63.22 (0.117)	66.43(0.161)

Notes: This table shows the results of two-step System GMM estimation of Equation 6. DPS_{it} and EPS_{it} are current dividends per share and earnings per share, respectively. DPS_{t-1} refers to one-year lagged dividends per share. MLS denotes the various variables that are used to measure the effect of multiple large shareholders. The definition of all other variables is summarized in Table 1. Windmeijer (2005) corrected-robust standard errors are indicated in parentheses. ***, **, and * denote significance at 1, 5, and 10 percent levels, respectively.

We employ the valuation model of Fama and French (1998) and make modifications to it to empirically test the purported outcome. The empirical model is given below:

$$VALUE_{it} = \beta_0 + \beta_1 EBIT_{it} + \beta_2 dEBIT_{it} + \beta_3 dEBIT_{it+2} + \beta_4 dTA_{it} + \beta_5 dTA_{it+2} + \beta_6 R\&D_{it} + \beta_7 dR\&D_{it} + \beta_8 dR\&D_{it+2} + \beta_9 INTEREST_{it} + \beta_{10} dINTEREST_{it} + \beta_{11} dINTEREST_{it+2} + \beta_{12} DIVIDEND_{it} + \beta_{13} dDIVIDEND_{it} + \beta_{14} dDIVIDEND_{it+2} + \beta_{15} CO_{it} + \beta_{16} MLS_{it} + \beta_{17} DIVIDENDxMLS + \beta_{18} dVALUE_{it+2} + \gamma_i + \mu_t + \varepsilon_{it} \quad (7)$$

where *VALUE* is the market value of a firm's equity plus book value of total debt, *EBIT* is earnings before interest and tax, *TA* is total assets, *R&D* is research and development expenditure, *INTEREST* is the interest amount, and *DIVIDEND* is dividend payouts. If *X* is used to denote all these financial variables, then X_{it} is the level of the variable *X* of firm *i* in year *t*. dX_{it} is the change in the variable *X* from year *t-2* to *t*. Further, dX_{it+2} is the change in *X* from year *t* to *t+2*. All these variables are scaled by the level of assets. The definition of *CO* is as per Table 1. MLS denotes various proxies (*OWN2*, *OWN23*, and *OWN2345)* to measure the influence of multiple blockholders. Lastly, γ_i and μ_t indicate industry and year effects, respectively.

Table 13. Impact on Valuation

VALUE Variables	OWN2 (1)	OWN23 (2)	OWN2345 (3)
L.VALUE	*0.637**** *(0.0694)*	*0.602**** *(0.0623)*	*0.628**** *(0.0644)*
EBIT$_t$	*4.013** *(2.057)*	*5.033*** *(2.398)*	*4.184*** *(1.887)*
dEBIT$_t$	*0.0233* *(0.894)*	*-0.480* *(1.012)*	*0.240* *(0.896)*
dEBIT$_{it+2}$	*1.288* *(0.919)*	*1.544* *(1.015)*	*1.515** *(0.849)*
dTA$_t$	*-0.146* *(0.180)*	*-0.0462* *(0.162)*	*-0.154* *(0.157)*
dTA$_{t+2}$	*0.187* *(0.182)*	*0.237* *(0.146)*	*0.286** *(0.151)*
R&D$_t$	*-5.297* *(10.61)*	*1.540* *(9.803)*	*-0.636* *(9.454)*
dR&D$_t$	*-5.632* *(10.66)*	*-11.46* *(10.74)*	*-10.80* *(10.63)*
dR&D$_{t+2}$	*2.452* *(7.470)*	*4.495* *(7.005)*	*3.630* *(6.917)*
INTEREST$_t$	*-16.74** *(10.07)*	*-7.387* *(9.363)*	*-13.45* *(8.238)*
dINTEREST$_t$	*13.08** *(6.641)*	*5.938* *(5.911)*	*8.665** *(4.976)*
dINTEREST$_{t+2}$	*-9.479*** *(3.953)*	*-6.437** *(3.647)*	*-7.472*** *(3.356)*
DIVIDEND$_t$	*9.709** *(5.780)*	*12.15*** *(5.421)*	*10.06** *(5.541)*
dDIVIDEND$_t$	*4.468* *(5.436)*	*1.869* *(5.269)*	*2.687* *(5.684)*
dDIVIDEND$_{t+2}$	*0.858* *(2.663)*	*0.536* *(2.321)*	*0.0945* *(2.343)*
CO$_t$	*-0.00316* *(0.00370)*	*-0.00296* *(0.00319)*	*-0.00375* *(0.00314)*
MLS$_t$	*-0.0230* *(0.0211)*	*-0.00623* *(0.00930)*	*-0.00448* *(0.00745)*
DIVIDENDxMLS	*1.380**** *(0.398)*	*0.897*** *(0.408)*	*0.548** *(0.322)*
dVALUE$_{t+2}$	*-0.0736* *(0.0454)*	*-0.112**** *(0.0425)*	*-0.107*** *(0.0426)*
Constant	*0.951** *(0.515)*	*0.635** *(0.377)*	*0.831*** *(0.361)*
Observations	*857*	*857*	*857*
Industry and Year FE	*Yes*	*Yes*	*Yes*
AR2 (p-value)	*1.128 (0.259)*	*1.064 (0.287)*	*1.221 (0.222)*
Hansen J (p-value)	*91.72 (0.217)*	*89.52 (0.138)*	*63.19 (0.298)*

Notes: This table depicts the findings of System GMM estimation of Equation 7. X_{it} is the value of the variable X in year t. dX_{it} (dX_{it+2}) refers to the change in X from year t-2 to t (from year t to t+2). Windmeijer (2005) corrected-robust standard errors are indicated in parentheses. ***, **, and * denote significance at 1, 5, and 10 percent levels, respectively.

We estimate Equation 7 by two-step System GMM to mitigate the endogeneity concerns. The results reported using Windmeijer (2005) corrected-robust standard errors are summarized in Table 13. In respect of the validity of System GMM, Table 13 shows that the Hansen J statistic is statistically insignificant across all the models. Thus, the instruments used are strictly exogenous. Further, there is no second-order autocorrelation since the AR (2) test is non-significant.

The results in all the columns demonstrate that dividend payouts are more valuable for firms with higher MLS ownership as the coefficient of *DIVIDENDxMLS* is positively significant. This indicates that the market considers dividend payments by firms with high expropriation risk from large shareholders a credible signal since it values them more. The finding also reaffirms support for the substitution hypothesis as dividend payouts resulting from the cooperation of MLS enhance a company's valuation. Regarding the control variables, consistent empirical evidence is obtained for current profitability (*EBIT*) and dividend payouts (*DIVIDEND*), indicating that they positively influence a firm's value (*VALUE*). Additionally, the past two-year changes in interest expense (*dINTEREST*) negatively affect a company's market value.

In essence, the dividend payouts by the coalition of large shareholders result in reputational effects, as reflected in enhanced firm value.

CONCLUSION

This study analyzes the role of MLS on dividend payments in the context of India, which is characterized by the presence of concentrated ownership structures and ineffective investor protection laws. MLS in Indian corporations are, in many cases, related to each other in a complex and inextricable manner, thereby raising the specter of possible expropriation from a minority shareholder's perspective. Considering that small investors do supply substantial capital to Indian firms, the study purports that the controlling owner is likely to seek the cooperation of other large shareholders to engage in reputation-building. Hence, MLS are likely to make higher dividend payouts to build the trust of investors. This argument aligns with the substitution hypothesis.

The empirical investigation confirms our prediction by showing that both the controlling owner and MLS positively influence dividend payout intensity. This result is robust to endogeneity and the alternate measures of dividend payout intensity and MLS. The additional analyses further yield that the reputational effect of MLS is stronger in growing entities that undertake equity issuances and firms with lower board independence. We also find that the need for reputation-building is diminished if the second largest shareholder is an institutional investor. Moreover, it is demonstrated that MLS encourage stable dividend payments. Lastly, it is observed that dividends are more valuable for firms with higher MLS ownership. Overall, our findings support the substitution hypothesis.

The study extends the sparse literature on the relationship between MLS and dividend payouts. Further, it enhances our understanding of multiple blockholders' role by highlighting that MLS collude to payout more dividends to engage in reputation-building. Thus, the study also adds to the literature on MLS by emphasizing that they may act in concert to attain a specific objective that may not be detrimental to minority shareholders' interests.

The study has important implications for firms that are susceptible to expropriation by a coalition of large shareholders. It underlines the importance of using dividends to build a reputation as payouts by such firms tend to facilitate better access to equity markets and have an incremental effect on their valuation. Hence, the study also notes the role of capital markets in regulating the actions of MLS. It also provides tacit support to minimum public shareholding regulations by the policymakers in India, which ensures that retail investors also get to participate in the ownership of a corporation.

The study also provides the scope for future research. Considering there is limited empirical evidence and the role of MLS may vary according to the institutional context, future studies should ascertain their effect on payouts in other countries. Further, as our findings reaffirm that the collusion of MLS may not always be value-destroying, it will be interesting to examine the conditions under which a positive coalition of MLS will prevail and its ramifications on various business decisions.

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