Purpose (mandatory): This paper empirically examines the link between institutional ownership stability and dividend payout ratio.

Design/methodology/approach (mandatory): First, we estimate the propensity of a firm to pay dividend. Next, we perform panel fixed-effect regressions of dividend payouts on institutional ownership stability variables. We also compare institutional ownership between dividend paying and non-dividend paying investee firms. We analyse the dividend preferences of different types of institutional owners. Finally, we examine the cross-sectional variation in the volatility of dividend payouts.

Findings (mandatory): We find that stable and large institutional owners favour dividend paying companies. There also exists a positive association between ownership persistence and dividend payout. Conversely, firms that change their dividend payout frequently are associated with larger deviations in institutional ownership. Additionally, the presence of pressure-sensitive institutional investors (i.e., investors that also hold business ties with the investee firm) is significantly linked to dividend payout policy. Conversely, pressure-insensitive investors use alternative forms of monitoring instead of requiring investee firms to pay dividends, which serve to reduce agency conflicts.

Originality/value (mandatory): This paper considers the preferences of long-term stable institutional investors in their selection of dividend paying firms.