Ownership structure and dividend policy

Zeeshan Arshad
Department Of Banking and Finance
Faculty school of business University Of Gujrat, Pakistan

Yasir Akram
MS Scholar
Department Of Banking and Finance
University Of Gujrat, Pakistan

Maryam Amjad
MS Scholar
Department Of Banking and Finance
University Of Gujrat, Pakistan

Muhammad Usman
MS Scholar
Department Of Banking and Finance
University Of Gujrat, Pakistan

Acknowledgement
Thanks to Almighty ALLAH, Omniscient, The most Beneficent, The most Merciful who bestowed upon us the potential and ability to complete this task. We would like to pay our gratitude and we owe all our debts to our honorable teacher (Mr. Zeshan) who has been a motivating factor for us and has helped us in the completion of this project through his comprehensive lectures. His keen interest in the subject coupled with the amalgamation of practical and theoretical aspect of the industry, to have a very clear reflection of the real scenario has helped us a lot in this regard. We are also thankful to our parents who supported us at each stage of our education. At last we hope that this work will prove to be conducive for us in the times to come.

Abstract
This paper investigates the potential alliance between ownership structures, dividend payout policy. It is also one of the very first examples, which struggles to notice any potential relationship in ownership structure, and well established dividend decision and dividend payout models in circumstance of an rising market .The present study examines the payout behavior of dividends and the association of ownership structure form Karachi Stock Exchange firms (information, communication & transportation) over the period 2007-2011. The results consistently not purely support the potential association between ownership structure and dividend payout policy and dividend decision. We use the descriptive analysis and correlation analysis for statistical result.

Key words: DIVIDEND DECISION, DIVIDEND PAYOUT, PAKISTAN, DESCRIPTIVE ANALYSIS, CORRELATION ANALYSIS.
1. Introduction

Research into dividend policy has shown not only that a general theory of dividend policy leftovers indescribable, but also that corporate dividend practice varies over time, among firms and also across the board (Amidu, 2007).

Why do firms pay dividends? The question is habitually arising. Since very long time, it has been the question of contemplation and the focal point of research. Dividend policy is one of the companies’ decisions that are originated to be influence by corporate ownership structure. Probably the function of dividends is to be used to mitigate agency problems (control vehicle to shrink the conflicting interests of the shareholders and managers) in a company up to some extent. Jensen (1986) because shareholder his interest to get divided and manager prefer to retain earnings. The purpose behind to retain earnings, is just for sustaining higher control over the resources. According to Jensen (1986) and Rozeff (1982) the managers will start using these possessions for their personal use, if they are not paid dividends to the shareholders. Dividend policy will not only give a hand in reducing the agency costs but it will be a big source to give information about the firm’s assessment to the shareholders. The dividend payout can be influenced by the firm ownership structures. Ownership structure is paying a vital role to determining the competence of the market by giving information about two momentous things. First it will help for shareholders to the extent of risk diversification and the second is that, it will use as an informational tool for the management about the possible agency problem. Dividend of the firm can also be utilized by controlling shareholders to compensate the minority shareholders’ concern in an environment where expropriation by controlling shareholders prevails (Faccio et al. 2001). The benefits of large shareholders in a dissimilar context are recommended in recent works (Laporta et al. 1999). In realism, the capital market is not just right, making the dividend policy appropriate and largely affected by the presence of market frictions. Jensen and Meckling (1976); Rozeff (1982).

To minimize the agency problem, at least reducing its costs and impact on the value of firm, dividend is not single instrument that is suggested by literature. The occurrence of large institutional shareholders and managerial ownership anticipated to support the interest of both shareholders and managers. Hence, one could expect that the ownership structure would affect the corporate dividend resolutions. Bebchuk (1999) and Gomes (2000) argue that when the authorized and institutional frameworks do not offer adequate safe haven for outside investors, concentrated ownership can mitigate the shareholder conflicts in the countries. Maury and Pajuste (2002) inspect that the affiliation between controlling shareholders and dividend policy for Finnish listed firms. They report that dividend payout ratio is pessimistically related to the control venture of the controlling shareholder. On the other side, theoretical bases and experimental researches’ findings show that there exists a meaningful relationship between ownership structure and agency costs. The main focus of this study is to investigate the effect of the largest shareholder on the corporate dividend policy by examining Pakistan listed companies from 2007 to 2011 and check the effect of ownership structure on dividend policy.
1.1 Role of dividend policy

“The best test of good governance is to pay good dividends.”

(– Lim Hua Min, 2004, Chairman of Phillip Securities –)

Model of LaPorta et al’s (2000) guide that a quality of governance has a positive relationship with dividend. They convey their confirmation of higher dividends in well-governed firms as a consequence of valuable strain by minority shareholders on insiders to release cash. This is in contrast to their alternate view, where a negative relationship is expected: poor governance enlarges the need to payout cash as dividends in order to overcome agency problems.

Laporta also suggest about the dividend policy and ownership structure it provide an perceptive and fascinating discussion of the legal protection of corporate governance, shareholder, investors as well as a convincing argument for why a legal view yields a better understanding of corporate governance than market dissimilarity.

Claessens in 2000 and LaPorta in1999 pointed out in his paper that many countries face the real divergence among the outside investor and controlling share holder (which is control by the manager).

1.2 Factor influence the dividend policy

Different factors manipulate the payment of dividends that was identified by the numerous surveys of US managers (Baker et al., 2007). According to the Pruitt and Gitman (1991) factor that influencing the payment of dividend policy are as fellow.

- Most Important influences on the amount of current dividends are current and past years’ profits.
- The year-to-year unpredictability of earnings, the growth in earnings
- And prior years’ dividends.

The companies that is listed in New York Stock Exchange (NYSE) is influence by these factor

- The level of current and expected future earnings and the pattern or continuity of earlier period dividend.

According to the firms listed on the Ghana Stock Exchange (GSE), influencing factors are

- Level of earning
- And profitability.
1.3 Theories (why firm pay dividend)

These are some theories that support the argument why firm pay dividend. Theories are as fellow
1.3.1 Bird-in-the-hand theory
1.3.2 Signaling Theory
1.3.3 Agency theory

Bird-in-the-hand theory

Gordon (1962) in Bird-in-the-hand theory argued that outside shareholder prefer the large amount of dividend policy. They prefer today higher uncertain capital gain from a questionable future investment

Signaling Theory

Short et al. (2002) suggested in his study that there is a negative relationship between managerial ownership and dividend payout policy. Wen and Jia (2010) are also found that both managerial ownership and institutional ownership are negatively allied with dividend policy in the bank holding companies

Agency theory

The concept of agency theory is that dividend payment become the reason of creating conflicts among the managers and shareholders of the firms because the motive of managers are to retain resources instead of paying dividends to the shareholder and on the other side share holder prefer dividend instead of retain earning. According to the point of view of shareholder if amount of dividend is not provided to the shareholder, probably it might be use manager for personal use instead of investing in profitable projects.

2. Objective of paper

The purpose of this paper was to inspect the effect of ownership structure and dividend policy in Pakistan, after controlling the influence of other variables likely to impact on dividend policy.

2.1 Primary objective

To identified the relationship of ownership structure and dividend policy.

2.2 Secondary objectives

1) To establish the relationship between ownership structure and dividend policy
2) To establish the relationship between the firms’ profitability and dividend policy
3) To establish the relationship between the firms’ growth and dividend policy
4) To establish the relationship between the firms’ leverage and dividend policy
5) To establish the relationship between the firms’ size and dividend policy
Therefore the research questions to be answered are;
1) What is the consequence of ownership structure on dividend policy?
2) What is the consequence of firms’ profitability on dividend policy?
3) What is the consequence of firms’ growth on dividend policy?
4) What is the consequence of firms’ leverage on dividend policy?
5) What is the consequence of firms’ size on dividend policy?

3. Review of Previous Study

AL-Shubiri et al (2010) present a study “The Relationship between Ownership Structure and Dividend Policy: An Empirical Investigation”. The study is conduct in Jordan. The studies examine the relationship capital structure and dividend policy of the jordanian industrial firms for the year of 2005-2009. The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. The results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment (AL-Shubiri et al, 2010)

Ramli (2010) conduct a study of “Ownership Structure and Dividend Policy: Evidence from Malaysian Companies”. The main focus of their study is to investigate the effect of the largest shareholder on the corporate dividend policy by examining Malaysian listed companies from 2002 to 2006. The study finds that the largest shareholder or a shareholder group owns around 40 percent of the company paid-up capital. Analysis has been carried out with the view that companies’ dividend policy may be used to expropriate wealth from minority shareholders. Tobit regression results suggest if there is control of shareholder it influence the dividend policy of Malysian companies. If the shareholding higher the dividend is also high. But if the second ownership of shareholder is high it is also effect a positive impact on dividend payout policy (Ramli, 2010)

Fida et al. (2012) conduct a study “The Impact of Ownership Structure on Dividend Policy Evidence from Emerging Markets KSE-100 Index Pakistan” to study investigates the determinants of the corporate dividend policy in the context of agency relation. Stepwise multiple regressions used to check the different variables of ownership with relation to the dividend payout policy. The study tells us that there is negative relationship between the managerial ownership and the dividend payout policy that cause the agency problem. Where there has positive relationship between the institutional and foreign share ownership suggested that the higher has their shareholdings the higher will be the firm dividend payouts. Thus, the ownership structure play important role in the corporate dividend policy while minimizing the agency cost associated with the agency issue (Fida et al, 2012).

Al- Gharaibeh et al. (2013) conduct a study to find out that how the ownership structure of a company affects its dividend policy. In their research paper named “The Effect of Ownership Structure on Dividends Policy in Jordanian Companies” they make a sample of 35 Jordanian corporations listed on the Amman Stock Exchange over the period 2005-2010. In methodology they used two models one is full adjustment and other is partial adjustment model. They said full adjustment model is superior because it explain 61.5% of the variation in dividend as compared to partial which is 20.65%. The finding of their study is that
the institutional ownership of a company is more it make the shareholder more in power and it increase the value of the firm because the shareholder use their influence and did not allow a company to invest in low return projects. Moreover, managerial ownership has a negative coefficient in the Partial Adjustment (Al- Gharibeh et al, 2013)

Al-Nawaiseh et al. (2013) studied “Dividend Policy and Ownership Structure: An Applied Study on Industrial Companies in Amman Stock Exchange” This study aims to determine whether ownership structure is linked to the dividend policy on industrial companies are listed in ASE. The study sample consisted of sixty two industrial firms listed in ASE from (2000-2006).In order to achieve the objective of the study, Tobit Model or censored regression model is used to test the study hypotheses for the level of dividend. the independent variable used in the study is Leverage Ratio, profitability. Firm Size:, Family, Multi, Institution, stock, Insider, Foreigner. The fraction held by insiders (INSD), has negative impact on the level of dividends paid. The other ownership, family is negatively but not significantly, and institution is positively and significant influence on the dividend policy. The multiple ownership is negative and insignificant, the finally variable for ownership is foreigner positive and insignificant. More than half of the firm observation is zero dividend (Al-Nawaiseh et al.2013)

Rubin and R. Smith(2007) studied” Institutional Ownership, Volatility and Dividends” their study effect the firm’s dividend policy on the relation between the levels of institutional ownership and stock return volatility. 2000 largest firms for the period 1998 to 2003 are selected in USA stock market. The independent variables are ownership and control variables and dependent variables are volatility and dividend policy. In methodogly the descriptive statistic, multivariate regression are used to find that institutional ownership and volatility depends on the firm’s dividend policy: institutional ownership is negatively (positively) related to volatility among non-dividend (dividend) paying stocks and they find that there is negative correlation between volatility and institutional ownership, while a positive correlation obtains among dividend paying firms (Rubin and R. Smith(2007)

Azfa & Mirza (2010) present a study which is investigated “Ownership Structure and Cash Flows As Determinants of Corporate Dividend Policy in Pakistan” Three years data (2005-2007) of 100 companies listed at Karachi Stock Exchange (KSE) has been analyzed. And they used Ordinary Least Square (OLS). These two variables are selected dependent variables Dividend payout and dividend intensity and managerial ownership, individual ownership and control variables are used as independent variables. And they find by using OLS regression model managerial and individual ownership, cash flow sensitivity, size and leverage are negative effect and operating cash-flow and profitability are positively related to cash dividend (Azfa & Mirza,2010)

Warred ET all (2012) present the “the effect of ownership structures on dividend payout policy: evidence from Jordanian context”. The study period covers of 2005-2007.the main focus of this research paper are to determine the value of ownership structure on dividend payout policy. Many businesses are family owned but it s not hard and fast rule that every family own business is success. The researcher focuses on return on equity. It is dependant variable. There are some independent variable i.e. private ownership, government ownership, foreign ownership and family ownership structure. The result of hypothesis independent variable is not according to perception. There is positive relationship between ownership structure and dividend payout policy (Warred ET all 2012)

Mirzaei (2012) it is analyze that this research paper focus on ownership structure and dividend policy. The data collected from 2004-2009. Tehran stock exchange is the main
respondent point where the sample is chooses. The previous research data is also including in the paper. Ownership and dividend are basic things for the investor point of view. Manager should be focus on profit sector that how much distribute to the owners. The researcher takes company dividend policy as a dependant variable and takes some independent variables. These are stock holders composition and ownership concentration. SPSS and excel software’s are used. The independent variable had not shows their positivity (Mirzaei,2012).

Wei, zhang and Xiao (2003) the research paper is “dividend policy and ownership structure in china. The collection time is from 1995 to 2001.the researcher focus to the validity on ownership structure and dividend process. All the data is complete with the help of 6 years annual reports. The purpose of this paper is very clear to analyze the inside manager position, outside shareholders and role of dividends. It is non linear relationship between dividend policy and ownership structure. The cash dividend and stock dividend are dependant variables. There are some independent variables. These are state ownership and public ownership. Regression, OLS regression models are used in this paper. China is much concentrated country as compare to to USA Wei, (zhang and Xiao,2003).

Kumar (2003) has investigated the relationship between ownership structure and dividend payout policy in India. The sample data used in this study is all manufacturing firms listed on the Bombay stock exchange (BSE) covering the period 1994 to 2000. The independent variables are shares face value (div),managerial shareholding (dir), institutional investors shareholding(i), foreign investors shareholding(fore), and corporate shareholding (corp.), earnings growth, debt equity and growth in sales and dependent variable is dividend to asset ratio. The methodology used is Full Adjustment Model (FAM), the Partial Adjustment Model (PAM), the Waud Model (WM), the Earning Trend Model and the Modified model of firm. The result indicates that ownership structure does not influence dividend payout policy uniformly (Kumar, 2003).

Taleb 2012 present the “measurement of impact agency costs level of firms on dividend and leverage policy: an empirical study” this study covers the area of 2007 to 2011.when we talk about finance the dividend is one of the important area. The main focus of this research paper is to establish the agency cost, leverage and discussed about dividend. There are choosing 60 listed companies of Amman stock exchange .free cash flow means that how much cash in hand for ongoing activities. Some researcher explained that when the company has higher free cash flows so they should be give more dividends and decrease free cash flow agency cost. Here regression model is use for the check the data. Dividend is the dependant variable and free cash flow, leverage, growth, profit; size and risk are the independent variables. The free cash flow has negative influence but profitability and leverage have positive impact on dividend (Taleb,2012).

Kowalewski et al (2007) has investigated the relationship between corporate governance and dividend policy in Poland” the data is collected from 1998 to 2004.this data is present the combination of corporate governance and dividend policy. Warsaw stock exchange provides the annual report of 110 listed companies. Return on asset is the main variable for calculate the dividend policy and it is our dependant variable and corporate governance is our independent variable. Regression model is use for check the significance of the model. There are two main things in this research paper. One is check the dividend policy in Poland and 2nd is the check the dividend policy in the non-financial companies which are listed on the Warsaw stock exchange. The main result of this research paper is the more profitable companies give the more dividend and risky &less profitable companies give less dividend to our shareholders (Kowalewski et al ,2007).
AFZAL ET all presents the “ownership structure, board composition and dividend policy in Pakistan “this research paper shows the relationship between corporate governance practices and corporate dividend policy. The data is collected from 2005 – 2009.the sample size is choosing from the 42 Karachi stock exchanges listed non financial firms in the Pakistan. Different methods are use for analysis the data i.e. OLS regression, logit and probity models. Corporate dividend is used as a dependant variable and ownership structure is used as a dependant variable. The basic purpose of corporate governance is to provide the good quality corporate culture in the society. The main benefits of good corporate governance are protecting the basic rights of our stakeholders. There are some companies which are highly stable. They give the proper dividend to our shareholders. Highly leverage firms have negative relationship with the dividend. Profitable firms have positive relation with dividend because these firms are very stable so they can give easily dividend to our shareholders (AFZAL et al.)

Porta et all consider the “agency problem and dividend policies around the world “the main objective of this research paper is to present the relationship of agency problem and dividend policies. The paper has two main portions. first is present that if company give dividend so it is impose positive result to the minority shareholders and 2nd present that if company prefer to the dividend so it is helpful to increase the reputation of the firm. The data is collected from the 4000 companies and these companies are working in the 33 countries. The research present that when we give more dividend so retained earnings are less. This is a big task for the every listed firm because retained earnings can play an important role in any condition but dividend is more important for the reputation of the firm. The data does not consider the relation between taxes and dividend. The conclusion shows that the safety of shareholders is very important because without dividend policy shareholders do not satisfied (Porta et).

4. Methodology

4.1 Research Data

A sample of firms of Information, Comm. and Transport Services that have been listed on the Karachi stock exchange over a five year period (2007 - 2011) was considered. Thirteen companies were listed on Karachi stock exchange. However, twelve companies were taken as a sampled for the study, ignore only one listed company due to unavailability of data. The sample cover only the categories of Information, Comm. and Transport Services (non financial) industries listed on the Karachi stock Exchange. The data was derived from the financial reports of the sampled firms available in the Karachi Stock Exchange for the period of 2007 to 2011. The KSE data consist of Balance Sheet, Income Statements, Financial ratios and other relevant information for all publicly quoted companies.

4.2 sample

- Pakistan international container Ltd.
- Pakistan international Airlines Co Ltd.
- Pak national shipping Co.
- Pak telecommunication Co. Ltd
- Southern Networks Ltd.
4.3 Theoretical model

In this study descriptive and correlation analysis is used for statistical test for the intention of empirical analysis. The purpose of descriptive analysis is just to obtain the characteristic of sample data. The correlation analysis is performed on the dependant variables (DIVdecision, DIVpayout) to generalize the relationship between independent variables with firm performance.

The general form of the panel data ordinary least square (OLS) regression model is defined by the following equation:

\[ Y_{it} = \alpha + \beta X_{it} + \varepsilon \]  

\[ DIV\text{decision} = \alpha + \alpha \text{Growth} + \alpha \text{Dual} + \alpha \text{Roa} + \alpha \text{board size} + \alpha \text{Fsize} + \alpha \text{Lev} + \alpha \text{Roe} + \varepsilon \]  

\[ DIV\text{payout} = \alpha + \alpha \text{Growth} + \alpha \text{Dual} + \alpha \text{Roa} + \alpha \text{board size} + \alpha \text{Fsize} + \alpha \text{Lev} + \alpha \text{Roe} + \varepsilon \]

4.4 Research Variable Definition

The dividend policy is taken as dependent variable which is represented by two variables. First one is dividend decision (DIVDECISION) of companies. It is considered as a dummy variable, if company pay the dividend or not (yes=1, No=0). Second variable is the amount of dividend paid (DIVPAYOUT) which is calculated as the ratio of total dividends to total earnings. The ownership structure is calculated by two explanatory variables. First one is Board size (BOARDSIZE) secondly CEO dual role (DUALROLE). Board size is deliberate as the total number of directors sitting on the Board. Dual role is a dummy variable so it is set to one if the CEO doubles as the Board chair or zero if otherwise (yes=1, No=0). Size, Profitability (ROA, ROE), leverage and firm’s growth is used as control variables for this study.
Conceptual framework

Board size
Firm size
Return on Assets
Return on Equity
Leverage
Growth
CEO duality

DIVDECISION & DIVPAYOUT
## Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>Growth</td>
<td>Is measured by the percentage change in the value of the asset</td>
</tr>
<tr>
<td>Dual</td>
<td>CEO duality</td>
<td>(1=Yes, 0=No)</td>
</tr>
<tr>
<td>DIVDECISION</td>
<td>Dividend decision</td>
<td>(1=Yes, 0=No)</td>
</tr>
<tr>
<td>DIVPAYOUT</td>
<td>Dividend payout</td>
<td>ratio of total dividends to total earnings</td>
</tr>
<tr>
<td>Fsize</td>
<td>Firm size</td>
<td>Natural log of total assets as reported in annual report</td>
</tr>
<tr>
<td>Lev</td>
<td>Leverage</td>
<td>Total Debt/Total Equity</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on equity</td>
<td>Net income + Interest expense (1-Tax rate) / total equity</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on assets</td>
<td>Net income + Interest expense (1-Tax rate) / total assets</td>
</tr>
<tr>
<td>Bsize</td>
<td>Board size</td>
<td>Number of directors on the board</td>
</tr>
</tbody>
</table>
5. ANALYSIS, FINDINGS AND DISCUSSION OF DATA

5.1 Descriptive Statistics

Table 1: Summary of descriptive statistics

<table>
<thead>
<tr>
<th>Column</th>
<th>DIVDECISION</th>
<th>DIVIDEND</th>
<th>DUAL</th>
<th>GROWTH</th>
<th>LEVERAGE</th>
<th>ROA</th>
<th>ROE</th>
<th>SIZE</th>
<th>BOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.416667</td>
<td>0.092135</td>
<td>0.516667</td>
<td>0.36442</td>
<td>-0.21353</td>
<td>0.594945</td>
<td>0.434044</td>
<td>3.487326</td>
<td>7</td>
</tr>
<tr>
<td>Median</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>102.0713</td>
<td>0.085221</td>
<td>0.19105</td>
<td>0.201</td>
<td>5.357527</td>
<td>7</td>
</tr>
<tr>
<td>Maximum</td>
<td>1</td>
<td>0.677</td>
<td>1</td>
<td>29729.79</td>
<td>13.15511</td>
<td>20.11</td>
<td>12.27</td>
<td>8.33272</td>
<td>11</td>
</tr>
<tr>
<td>Minimum</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>-11.60745</td>
<td>-0.5924</td>
<td>-2.394</td>
<td>-0.78701</td>
<td>5</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.497167</td>
<td>0.157114</td>
<td>0.503939</td>
<td>3823.91</td>
<td>2.793972</td>
<td>8.732766</td>
<td>1.697318</td>
<td>3.503633</td>
<td>1.484382</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.338062</td>
<td>1.789155</td>
<td>-0.0667</td>
<td>7.532499</td>
<td>-0.006908</td>
<td>1.152872</td>
<td>5.926858</td>
<td>-0.11004</td>
<td>0.501686</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>1.114286</td>
<td>5.546268</td>
<td>1.004449</td>
<td>57.83346</td>
<td>16.14335</td>
<td>2.331943</td>
<td>41.4227</td>
<td>1.233232</td>
<td>2.76213</td>
</tr>
</tbody>
</table>

In Table 1 descriptive statistics shows a summary of the variables that was taken from the financial statements and the annual reports of sampled firms on the Karachi Stock Exchange. By the table mean percentage of dividend decision was 0.41667 which shows almost 42%. This result that all the selected firm under consideration for the period of five year (2007-2011), there had been a 42% decision to pay dividend to shareholder. Having taken decision to pay, almost 9.21% from the earning was paid to the shareholder as a dividend. The result shows that approximately 90% companies’ earning retained for further investment in new projects due to enhance the business in future. The profitability variable, Return on Equity (ROE) showed an average of 5%. This percentage computed the involvement of net income per cedi (local currency) which is invested by the firms’ shareholders; a measure of the efficiency of the owners’ invested capital. Average value of leverage variable (LEV) was -0.21353 suggesting that Pakistan firms listed on the KSE were financially highly geared. The mean growth rate in asset was 36.4%. Using asset growth as proxy for future investment opportunities, it could be deduced that there was 36% average growth in investment of the firms during the period understudy.
5.2 Correlation Analysis

Table 2 Summary of correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>DIVDECISION</th>
<th>DUAL</th>
<th>GROWTH</th>
<th>LEVERAGE</th>
<th>B size</th>
<th>SIZE</th>
<th>ROE</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVDECISION</td>
<td>1</td>
<td>0.005637</td>
<td>-0.0884</td>
<td>0.075599</td>
<td>0.390435</td>
<td>0.048873</td>
<td>0.123062</td>
<td>-0.40225</td>
</tr>
<tr>
<td>DUAL</td>
<td>0.005637</td>
<td>1</td>
<td>0.129278</td>
<td>-0.159908</td>
<td>0.407846</td>
<td>-0.12698</td>
<td>0.109466</td>
<td>0.013023</td>
</tr>
<tr>
<td>GROWTH</td>
<td>-0.088401</td>
<td>0.129278</td>
<td>1</td>
<td>0.018026</td>
<td>0.097903</td>
<td>-0.09919</td>
<td>-0.03457</td>
<td>-0.08873</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.075599</td>
<td>-0.15991</td>
<td>0.018026</td>
<td>1</td>
<td>-0.01304</td>
<td>0.194964</td>
<td>-0.14111</td>
<td>-0.13343</td>
</tr>
<tr>
<td>B size</td>
<td>0.390435</td>
<td>0.407846</td>
<td>0.097903</td>
<td>-0.013035</td>
<td>1</td>
<td>-0.30777</td>
<td>0.247871</td>
<td>-0.13578</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.048873</td>
<td>-0.12698</td>
<td>-0.09919</td>
<td>0.194964</td>
<td>-0.30777</td>
<td>1</td>
<td>-0.10411</td>
<td>-0.36111</td>
</tr>
<tr>
<td>ROE</td>
<td>0.123062</td>
<td>0.109466</td>
<td>-0.03457</td>
<td>0.141108</td>
<td>0.247871</td>
<td>-0.10411</td>
<td>1</td>
<td>-0.07885</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.402252</td>
<td>0.013023</td>
<td>-0.08873</td>
<td>-0.133431</td>
<td>-0.13578</td>
<td>-0.36111</td>
<td>1</td>
<td>-0.07885</td>
</tr>
</tbody>
</table>

(Dividend decision------dependent variable)

Table 3 Summary of correlation analysis

<table>
<thead>
<tr>
<th></th>
<th>DIVIDEND</th>
<th>DUAL</th>
<th>GROWTH</th>
<th>LEVERAGE</th>
<th>ROE</th>
<th>SIZE</th>
<th>ROE</th>
<th>B size</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVIDEND</td>
<td>1</td>
<td>-0.074112</td>
<td>-0.05057</td>
<td>0.029523</td>
<td>-0.33616</td>
<td>0.187708</td>
<td>0.010259</td>
<td>0.193427</td>
</tr>
<tr>
<td>DUAL</td>
<td>-0.074112</td>
<td>1</td>
<td>0.129278</td>
<td>-0.159908</td>
<td>0.013023</td>
<td>-0.12698</td>
<td>0.109466</td>
<td>0.407846</td>
</tr>
<tr>
<td>GROWTH</td>
<td>-0.050569</td>
<td>0.129278</td>
<td>1</td>
<td>0.018026</td>
<td>-0.08873</td>
<td>-0.09919</td>
<td>-0.03457</td>
<td>0.097903</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.029523</td>
<td>-0.15991</td>
<td>0.018026</td>
<td>1</td>
<td>-0.13343</td>
<td>0.194964</td>
<td>-0.14111</td>
<td>-0.01304</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.33616</td>
<td>0.013023</td>
<td>-0.08873</td>
<td>-0.133431</td>
<td>1</td>
<td>-0.36111</td>
<td>-0.07885</td>
<td>-0.13578</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.187708</td>
<td>-0.12698</td>
<td>-0.09919</td>
<td>0.194964</td>
<td>-0.36111</td>
<td>1</td>
<td>-0.10411</td>
<td>-0.30777</td>
</tr>
<tr>
<td>ROE</td>
<td>0.010259</td>
<td>0.109466</td>
<td>-0.03457</td>
<td>-0.141108</td>
<td>-0.07885</td>
<td>-0.10411</td>
<td>1</td>
<td>0.247871</td>
</tr>
<tr>
<td>B size</td>
<td>0.193427</td>
<td>0.407846</td>
<td>0.097903</td>
<td>-0.013035</td>
<td>-0.13578</td>
<td>-0.30777</td>
<td>0.247871</td>
<td>1</td>
</tr>
</tbody>
</table>

(Dividend payout------dependent variable)

In tables 2 and 3 result shows that the correlation of the covariates. From the tables it can be pragmatic that there was a faintly weak correlation between the dependent variables and the six covariates: The dividend decision had positive correlations with firm size, CEO duality, Roe and leverage but had negative correlations with return on equity and growth.

Table 2 present that dividend payout had a positive relationship with size leverage and ROE. But on the other side shows a negative relationship with growth ROA and CEO Duality. The highest correlation among the covariates was the correlation between board size and dividend decision and it was positive. The value was 0.39043 although this is a strong correlation. The lowest correlation among the covariates was between the leverage and the growth. The figure was 0.01811 %, However, there was a usually low scale of the correlation coefficients among the covariates and may point out the absence of multicollinearity. According to the table 3 where dividend payout as considered a dependent variable. Dividend payout has a positive relationship with leverage ROE, size and board of director. And result shows that negative relationship of dividend negatively with ROA and growth. The maximum correlation among the covariates was the correlation between board size and dividend payout and it was positive. The value is 0.193427%, and result shows the minimum correlation between dividend payout and ROE, with 0.010259%.
Significance of paper

Financial Institutions are very important for every economy because they are the most contributing factor to keep economies on the path of economic growth and development. For economic success of a country, market position of all sector in such country have great concern. The purpose of the study is to provide full picture of ownership structure and dividend policy for Information, Comm. and Transport Services sector to investors, management and shareholders for showing that how much ownership structure have influence on dividend policy?


6.1 Overview of findings

Descriptive statistic’s result shows a summary of the variables that was taken from the financial statements and the annual reports of sampled firms on the Karachi Stock Exchange. By the table mean percentage of dividend decision was 0.41667 which shows almost 42. This means companies had been a decision to pay 42% dividend to shareholder. Having taken decision to pay, almost 9.21% from the earning was paid to the shareholder as a dividend. The profitability variable, Return on Equity (ROE) showed an average of 5%. And average value of leverage variable (LEV) was -0.21353 suggesting that Pakistan firms listed on the KSE were financially highly geared. The mean growth rate in asset was 36.4%. Using asset growth as proxy for future investment opportunities, it could be deduced that there was 36% average growth in investment of the firms during the period understudy.

6.1.1 Effect of Board Size on Dividend Payout Dividend Decision

The scrutiny of the empirical data approved out revealed that Board size relate positively with the dividend decision and also with the dividend payout ratio as well. However, in both cases it is statistically insignificant. The scale of the coefficient of the Board size in both model recommend that Board size has a slighter influence on dividend issues compared to other corporate governance variables.

6.1.2 Effect of Leverage, Return on Equity and Growth on Dividend Decision:

The return on equity relates positively (.122306) and statistically significant with the decision to pay dividend. This means that when the firms’ profit increases or their return on equity increases it enhances the decision to pay dividend. The firms leverage in the regression model revealed a positive affiliation with dividend decision payment variable, but it is statistically insignificant and the growth shows the negative relationship with dividend decision.

6.1.3 Effect of Return on Equity, Leverage and Growth on Dividend Payout:

The ROE relates optimistically positive value (0.010259) and statistically significant with the prospective of pay out dividend. This means that when the firm’s return on equity increases it enhances the dividend payout. The firms leverage in the regression model revealed a positive affiliation with dividend payout payment variable, but it is statistically insignificant and here once again the growth shows the negative relationship with dividend decision.
6.2 Conclusion

The study sought to inspect how corporate governance influence dividend policy of firms listed on Karachi stock Exchange. Three key corporate governance variables were considered: Board size, Growth and CEO duality. The findings show that both CEO duality have effect on firms’ dividend policies. The Board size has no significant effect on the dividend policies of firms. In Table 1 descriptive statistics shows a summary of the variables that was taken from the financial statements and the annual reports of sampled firms on the Karachi Stock Exchange. By the table mean percentage of dividend decision was 0.41667 which shows almost 42%. This result that all the selected firm under consideration for the period of five year (2007-2011), there had been a 42% decision to pay dividend to shareholder. Having taken decision to pay, almost 9.21% from the earning was paid to the shareholder as a dividend. The result shows that approximately 90% companies’ earning retained for further investment in new projects due to enhance the business in future. The profitability variable, Return on Equity (ROE) showed an average of 5%. Average value of leverage variable (LEV) was -0.21353 suggesting that Pakistan firms listed on the KSE were financially highly geared. The mean growth rate in asset was 36.4%. Using asset growth as proxy for future investment opportunities, it could be deduced that there was 36% average growth in investment of the firms during the period. Table 2 present that dividend payout had a positive relationship with size leverage and ROE. But on the other side shows a negative relationship with growth ROA and CEO Duality. Table 3 where dividend payout as considered a dependent variable. Dividend payout has a positive relationship with leverage ROE, size and board of director. And result shows that negative relationship of dividend negatively with ROA and growth. The composition of Karachi Boards appears to be consistent with international best practices where the majority of the members are outsiders and the size of the Boards is about eight. Every independent variable has an equal relationship with dependent variable. We conclude our result by keeping two dependent and seven independent variables.

Suggestions for Further Research

- Sample size should be increased for the same study.
- More variable will be taken to check the influence of ownership structure and dividend policy to generalize the result of study on the whole industry.
- To check the influence of other independent variable on dividend decision and dividend payout.
## Appendix

<table>
<thead>
<tr>
<th>Author/Year</th>
<th>Title</th>
<th>country</th>
<th>Methodology</th>
<th>Result/Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abdullah, Ahmad &amp; Roslan (2012)</td>
<td>The Influence of Ownership Structure on the Firms Dividend Policy Based Lintner Model</td>
<td>Malaysia</td>
<td>The Full Adjustment Model and the Partial Adjustment Model</td>
<td>Ownership concentration variable are found to be positively and statistically significant in influencing dividends in both type of dividend model.</td>
</tr>
<tr>
<td>Chai (2010)</td>
<td>FOREIGN CORPORATE OWNERSHIP AND DIVIDENDS</td>
<td>Korea</td>
<td>Tobit regression, probitS regression, descriptive statistic and correlation matrix</td>
<td>foreign ownership has significant influence on dividend policy, Foreign investors prefer larger and export oriented firms with low leverage and high market-to-book ratio</td>
</tr>
<tr>
<td>Rubin &amp; smith</td>
<td>Institutional Ownership, Volatility and Dividends</td>
<td>U.S</td>
<td>descriptive statistic, multivariate regression</td>
<td>negative correlation between volatility and institutional ownership, while a positive correlation</td>
</tr>
</tbody>
</table>

Managerial and individual ownership, cash flow sensitivity, size and leverage are -ve, operating cash-flow and profitability are +ve related to cash dividend.

González et al. (2012) Family Involvement and Dividend Policy in Listed and Non-Listed Firms in Colombia Family ownership -ve effects on dividend payment, family involvement on the board +ve and significant and the amount of dividend payment, founder -ve the firm’s dividend payment.

from jordanian context.

Mirzaei (2012) a survey on the relationship between ownership structure and dividend policy in tehran stock exchange.

Dubai Multiple linear regression, kolmogorov-smirnov test, spss. variables had not significant effect on dividend.

Wei, Zhang and Xia (2003) dividend policy and ownership structure in China regressions, OLS regressions and logit regressions. positive correlation between state ownership and cash dividend and a negative correlation between the public ownership and stock dividends.

AL-Shubiri et al (2010) The Relationship between Ownership Structure and Dividend Policy Jordan descriptive statistics Results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative
<table>
<thead>
<tr>
<th>Authors</th>
<th>Methodology</th>
<th>Countries</th>
<th>Techniques</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramli (2010)</td>
<td>Ownership Structure and Dividend Policy: Evidence from Malaysian Companies</td>
<td>Malaysia</td>
<td>Tobit regressions</td>
<td>There is control of shareholder influence on the dividend policy of Malaysian companies. If the shareholding is high, the dividend is also high. But if the second shareholder is high, it also affects a positive impact on dividend payout policy.</td>
</tr>
<tr>
<td>Fida et al. (2012)</td>
<td>The Impact of Ownership Structure on Dividend Policy: Evidence from Emerging Markets KSE-Pakistan</td>
<td>Pakistan</td>
<td>Descriptive Statistics, Correlation, Stepwise Multiple Regression Models</td>
<td>There is a negative relationship between the managerial ownership and the dividend payout policy; there is a positive relationship between the institutional and foreign ownership and the dividend payout policy.</td>
</tr>
<tr>
<td>Authors</td>
<td>Title</td>
<td>Location</td>
<td>Model</td>
<td>Ownership Comments</td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------------------------------------</td>
<td>----------</td>
<td>----------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Al-Gharaibeh et al. (2013)</td>
<td>The Effect of Ownership Structure on Dividends Policy in Jordanian Companies</td>
<td>Jordan</td>
<td>Full Adjustment Model (FAM), Partial Adjustment Model (PAM)</td>
<td>Institutional ownership of a company is more influential and makes the shareholder more powerful, which increases the value of the firm because the shareholder uses their influence and does not allow a company to invest in low return projects. Moreover, managerial ownership has a negative coefficient in the Partial Adjustment Model.</td>
</tr>
<tr>
<td>Al-Nawaiseh et al. (2013)</td>
<td>Dividend Policy and Ownership Structure: An Applied Study</td>
<td>Amman</td>
<td>Tobit Model or censored regression</td>
<td>The other ownership, family is negatively but not significantly, and institution is positively correlated.</td>
</tr>
</tbody>
</table>
on Industrial Companies in Amman Stock Exchange and significant influence on the dividend policy, the multiple ownership is negative and insignificant, the finally variable for ownership is foreigner positive and insignificant. More than half of the firm observation is zero dividend.

| Kumar(2003) | Ownership Structure and Dividend Payout Policy in India | Full Adjustment FAM, Partial Adjustment PAM, Waud Model, Earning Trend Model, and the modified model of firm | They found that ownership structure does not influence dividend payout policy uniformly and relationship is different for different class of owners, |
| Nydalen(2012) | Can Ownership Structure in Norwegian Private and Public Firms | Norway | Descriptive statistics | The result of their study is that positive relationship between ownership concentration and dividends. Also find strong evidence that institutional ownership increase dividend payments. |
References


11. Wei, G., Zhang, W., Xiao, J, J, Z.,(2003), Dividends Policy and Ownership Structure in China

12. Kumar, J.,(2003), Ownership Structure and Dividend Payout Policy in India


14. Kowalewski, O., Stetsyuk, I., and Talavera, O., (2007), Corporate Governance and Dividend Policy in Poland

15. Afzal, M., and Sehrish, S.,(2009), Ownership Structure, Board Composition and Dividend Policy in Pakistan


