Middle-East Journal of Scientific Research 17 (9): 1316-1326, 2013
ISSN 1990-9233

DOI: 10.5829/idosi.mejsr.2013.17.09.12304

Role of Insider and Individual Ownership Structure in Dividend Payout Policy: Evidence from Pakistan

Sadaf Ehsan, Naila Tabassum, Zainab Akram and Rizwan Nasir

Department of Management Sciences,
COMSATS Institute of Information Technology,
Defence Road off Raiwind Road, Lahore Pakistan

Abstract: Corporate dividend policy has received a generous amount of attention by financial researchers since the last five decades. Researchers found dividends to be one of the important factors defining the firm's value. There are various cognitive factors of the dividend policy in the firms and among these, the ownership structure is found to be the most influential in devising the dividend policy in Pakistan. An agency theory plays a crucial role in explaining the relationship of dividend policy and ownership structure. This study articulates the relation of insider ownership and individual ownership with dividend payout policy of the firm. For this purpose data has been collected from 100 non-financial firms listed at Karachi Stock Exchange (KSE 100 index) for the period of 2007 to 2011.Ordinary Least Square regression technique has been used to reveal empirical results. The results of current study revealed that insider ownership and individual ownership both have a significant negative influence on dividend payments. Profitability is significant and positively related with dividend payouts. Moreover, size and leverage are negatively related to corporate dividend policy.

Key words: Ownership structure · Dividend policy · Agency cost and Pakistan

INTRODUCTION

Dividends are normally specified as distribution of firm's earnings in real assets among equity holders of the firm according to the fraction of their holdings in the corporation. Dividend payout policy persisted as one of the most significant and addressed topics in the field of corporate finance. There are widely held arguments among researchers that dividend announcements and payments are conceived good news to financial growth and acclaimed by investors and analysts whereas step down and quits in dividends are seemed as a bad news and financial downtrends. [1] started this debate and argue that in the perfect capital market the value of the firms remain unaffected by the corporate dividend decisions. In contrast [2] and Gordon (1963) indicated that in the world of imperfect capital market, regular dividend payments increase the firm's value because most managers think reduction in dividends gives negative signal about the firm in the market. So in the light of diverging views of theorists about dividend policy, the dividend seems like a "Puzzle" with the pieces that just don't fit together [3].

Researchers explained dividend policy in many aspects along various firm's key factors that influence dividend decisions of the firm. For example, corporate and personal taxation, investment, liquidity, profitability, cash flows and regulatory rules etc. Furthermore, dividend policy is related to the size of the firm. The bigger the size of the firm the more it is accessible to the capital market and thus be able to pay more dividend. Paying dividends from retained earnings also leads to increase external financing and because in large firms the ownership and control is separated so dividend indirectly helps in monitoring the firm's performance and its central activities.

In addition to the above stated factors the ownership structure plays a crucial role in directing the dividend policy of the firm. The ownership structure in its association with dividend payout policy is backed by agency theory which is commonly known as agency conflict. Agency relationship is a contract in which the

Corresponding Author: Sadaf Ehsan, Department of Management Sciences, COMSATS Institute of Information Technology, Defence Road off Raiwind Road, Lahore Pakistan.

principal engage another person the agent to work and perform on the behalf of former. The conflict of interest arises normally when the agent does not perform accordingly to the principal. The relation of shareholders and managers of the firm confirms with the definition of agency relationship. We know that mangers' duty is to increase the wealth of its shareholder but with the separation of control and ownership many problems arises due to conflict of interests of both the parties leading to the issue of agency problem. The ownership structure with the higher concentration of insider shareholdings is one of the tools to curtail and impede the rising agency cost by aligning the interest of both the parties but it effects the dividend payout policy in a sense that it raises the new conflict of interest by reducing dividends or maintaining payouts at lower level to minority shareholders and using cash for their own benefits [6]. On the other hand dividend policy also works as a controlling and monitoring instrument to overcome agency cost. When the firm is not fully controlled and owners cannot actively manage the firms operations then high dividend payments shrink the funds and resources under managerial control and avoid them to invest these funds in unhealthy investment projects leading to lower agency cost [7]. Thus association of ownership structure and dividend decision can be derived in two different aspects from the above discussion. First the dividend as a solution of the contention among controlling managers and outsider shareholders, second if managers are the owners they will try to accumulate more funds by lower dividend payments and thus expropriate wealth from outsiders (minority shareholders).

Significance of Study: In case of Pakistan family ownership is an important element of ownership structure, where family members hold the majority of shares as well as key managerial positions in the organization. This situation leads to advantages of controlling and managing the firms by families themselves [8].The main agency problem exists between controlling family owners (insiders) and minority shareholders. Pakistan's code of corporate governance is not much strong enough to protect rights of minority shareholders and their issues with management so providing sufficient environment for controlling managers to manage earnings of the firms for their own benefits [9]. In Pakistan management of the firms is not strongly supervised by corporate authorities and legal bodies. According to Companies ordinance 1984, shareholders representing the ten percent of company's shares can apply to SECP for investigating and monitoring the management activities and shareholders representing the twenty percent of company's shares can take actions by applying in the court against any mismanagement (Companies ordinance 1984 section 263 and section 290). Its mean that there is no provision of rights exists for minority shareholders with less than 10 percent of holdings.

Furthermore, there is a contradiction between the legal system and ownership structure in Pakistan. The legal system of corporate governance is based on foreign capital markets where majority of firms operating with separation of ownership and control but in Pakistan the ownership structure is based on concentrated family ownership which is totally different from dispersed ownership in developed countries like America, Japan and U.K etc. Corporate governance tools are set up for dispersed ownership structures to control agency conflicts and are found to be difficult for the governing issues caused by family ownership structure in Pakistan. [10].Thus it is important to study the influence of insiders on corporate dividend payout policy in case of Pakistan.

The next part of this research will focus on review of related studies which is important to reveal some findings of researchers. Third part of this research will be based on methodology used for this research including variables of study and models development. Fourth part will be focusing on the empirical analysis, results and discussions. At the end of the study conclusion and some recommendations will be given.

Literature Review: Bundles of research articles are available on the ownership structure and dividend policy and the study is continued up to now since last 4 to 5 decades. Researchers provided a rich literature broadly explaining the relation between ownership structure and dividend policy but very few of them explained the relation of ownership structure with growth strategy of the firm and some of them are found to be contrary to one another with various firms' specific factors on the issue of dividend payout policy relating to different ownership structures. This debate on dividend and ownership structure starts from the agency theory.

Agency Theory: Agency theory describe the relation of one or more persons who engage the other person by making a contract to full fill the duty on the behalf of the former. This definition of agency theory best regards with agent principle relation in which the agent works on the behalf of the principle. When the flow of information decreases from agent to principle then monitoring and control becomes necessary and its causes some costs to the principle. The inefficiency of agency relationship thus results in agency cost [11]. Similarly[5] investigated the concept of agency cost and its relationship with the issue of separation of ownership and control. They explained agency cost as the monitoring expenditures by the owner and the adhering expenditures by the agent. They used the theory of agency cost to explain the theory of ownership structure of the firm. They illustrated that consistent payments to owners put the managers under control and avoidance of over investment thus giving some relaxation to owner's responsibility to monitor the managers, which depends upon firm's ownership structure.

[12] tested the relation between agency cost, ownership structure and firms diversification strategies. They found that equity ownership structure affects the extent of agency problem because the ownership structure of the firm plays an important role in devising firm's diversification strategies which they found to be one of the types of an agency conflict as these strategies represents corporate decisions of the firm in which basic conflict of interest arises between management and owner. In contrast [23] by using different sub samples of 511 US firms during period of 1976-1980 empirically studied that ownership structure varies accordingly with the firm facing different situations regarding environmental stability, economic conditions and regulations. They observed, if these ownership structures (diffuse or concentrated) were the results of perfect market for control then the relation between firm's performance and ownership structure would be eliminated. Their findings shows consistency with the idea that the board members representing large outside investors do not have common interest with the pure professional management and diffuse ownership may certainly increase agency problems.

Dividend Policy and Ownership Structure: First time [14] provided the broad view on the managers' perceptions about dividend policy. His study was based on the survey interviews of 600 large industrial company's managers who were involved in dividend decisions of the firm. His observations and behavioral model was based on the assumption that increase in divided arises when the managers are assured about the future sufficient growth in earnings. Later [15] reassessed the Linters' results and also provided some motives of managers regarding dividend paying policy. They surveyed 562 firms in determining the factors influencing dividend policy. Their results were consistent with Linters' findings, supporting that the future earnings as one of the important determinants inducing the dividend policy. Gordon (1963), believed that if there is situation prevails where asymmetry of information exists between managers and owners the dividend payout affects the stock prices and hence the value of the firm thus supporting the signaling theory of dividend, which states that managers believe that dividend policy works as signaling instruments for companies future outlook and these dividend announcements used by investors as an information for analyzing security value which is contradictory with the idea of [1] stating that the dividend policy of the firms doesn't effects the value of the firm.

[16] used multiple regression methodology studied 75 KSE listed firms for the time period of six years from 2005-2010 and found significant relation between dividend policy and share price. The results shows that shareholders wealth increase when company pays higher dividends as compared to non-paying companies.

[17] investigated the relationship between ownership structure and dividend policy based on Linters model by analyzing the cross sectional data of 100 Malaysian listed firms for the year 2010. Most importantly their study revealed that high dividend payments could be used as a substitute for shareholders monitoring for mitigating agency conflict. Their findings revealed negative relation of managerial ownership, institutional ownership and dispersed ownership with dividend policy and only high concentrated ownership found to be significant andpositively related with dividend policy.

By applying common effect model using panel data of Pakistani firms during period of four years from 2002-2006. [18], found substantial relation between dividend payout and ownership structure. They explained this relation as one of the element of corporate governance issue in which the minority shareholders do not have necessary power to excel the controlling shareholders for dividend payments. Their results are contradictory with[7] and revealed that higher (insider) managerial ownership with the board results in more cash dividends as they have more power and control in management. This idea is supported by the earlier work of [19] who empirically examined and analyzed the influence of different ownership types on dividend policy through regression analysis on the panel of 29 Tunisian companies during period from1995 to 2001. Their findings conclude that the firm with highly concentrated ownership is more likely to pay high dividends and there is a significant negative relation of institutional ownership with paid dividend levels. According to Adiba and Jan (2009) [20] highly concentrated ownership arises in a firm when the ownership stake of owners is more than 15 percent and it is natural that large owners are more encouraged to monitor their managers performance then small because they borne high risk Visny and Shleifer (1997) this idea is evidenced from Tunisian firms. The rational that negative relation of institutional ownership and dividend policy arises from the fact that institutional investors are also debt holders and they prefer to pay fixed interest profit themselves then paying dividend to all shareholders causing risk to their stable interest earnings.

[21] studied the factors of dividend payout policy. In their study of 320 non-financial firms during period of 2001-2006 listed at KSE they found in Pakistan the ownership structure derive dividend policy, where investor protection is low, ownership concentration appears to be more important tool to resolve agency conflict between controlling and minority shareholders. They observed in Pakistan the firms with high inside ownership pay more dividends. Their findings also showed that large growth oriented firms prefer to invest more in capital expenditures then paying high dividends to shareholders. Furthermore they found that dividend paying firms are dependent on both current earnings per share and previous dividend per share this finding is similar to the previous study of [22] based on US firms. By using static and penal data regression their results followed that because of large free cash flows and stable profits the firm pays high dividends.[23] collected the data of 42 listed firms at KSE for 4 years period from 2005-2009 and applied regression technique with Logit and Probit model. They empirically tested that the board size is significantly positively related to dividend policy. Large insider ownership and minority individual ownership found to have negative relation with dividend policy which is contradictory with the study of [21]. They observed the firms with high profitability pays regular dividend. they also revealed that in an uncertain capital market individual investors prefer to gain high dividend payments when firms declare dividends. Their results are similar to Linter's (1961) and Gordon's (1963) Birds in the hand theory [3].

[24] in their study of ownership structure and firms performance on sixty KSE listed firms during 2000-2007, found that if managerial ownership increased beyond 25 % then it leads to have negative impact on the firm performance as supported by entrenchment theory. Their results also revealed negative and significant relation of dividend payouts and managerial ownership. [6] investigated the impact of firms specific characteristics on dividend behavior in Pakistan's economy. Their study was based on three years data of 100 KSE listed companies and they analyzed this data with OLS ordinary least square regression methodology. They used managerial ownership to proxy insider ownership. Their results showed that managerial ownership has negative relation with dividend payout in Pakistan where insiders try to mount up more funds under their control. They also revealed that investor's rights are weakly protected in Pakistan which is the main reason of declining in dividend payments in Pakistan. They found that individual investors give more priority to capital gains on dividends and tax exemption on capital gain is one of the reasons. According to Ayub and [25]. Individual investors in Pakistan are divided into two groups, one group comprising of job holders and traders interested in buying and selling shares on regular basis for capital gains. The second group belongs to businessmen, corporate employees and professional officers who invest for savings and long-term purpose because they cannot afford risk of speculations.

[7] researched on growth, beta and agency cost by taking the sample from 64 different industries for the period 1974-1980 and argued that agency cost and cost of external financing both are associated with dividend payout policy. High dividends reduce the agency cost but increase the cost of external financing because. They stated that optimal dividend policy could minimize the sum of these two costs. Their empirical findings are consistent with views of Jensen and Mackling) to some extent stating future growth, investment and (managerial) insider ownership have significantly negative relation with dividend payouts. [26] statistically examined the influence of financial leverage on dividend payout decisions of 400 KSE listed firms during 2002-2008. They found significance negative relation of debt and dividend policy. They showed that low financial leveraged firms pay more dividends as there is no high cost of external financing is involved.

Hypotheses Development: Based on the arguments and previous research findings of different researchers the following hypotheses have been concluded.

H 1: Firms with high insider ownership pay fewer cash dividends.

H 2: Individual investors demand instant earnings in terms of capital gain.

H3: The firm with more profit tends to pay high cash dividend.

H4: High leveraged firm with fixed payment obligation intended to pay lower dividends.

H5: Larger size firms pay high cash dividends due to large cash flows.

Research Methodology: OLS (Ordinary Least Square) regression technique has been adopted to see the variability among dependent and independent variables, see [6], [27]. Methodology consists of three sections, first is sample size and data collection sources, second is description of variables and formation of hypotheses and third section consists of different models developed for study.

Sample Size and Data Collection for Research: To find out the impact of determinants (insider ownership, individual ownership, growth, leverage, profitability and size) on dividend payouts under the context of Pakistan, the sample of KSE-100 index has been used during the period from 2007 to 2011. The audited annual financial reports of the companies are the main source of secondary data which include statement of financial position, pattern of shareholdings and statement of comprehensive income. Companies' ordinance 1984 has also considered for the regulation regarding shareholders in Pakistan. KSE annual reports have been considered to study the trends in dividends by listed companies and economic survey of Pakistan 2011 is taken under study to check the influence of macroeconomic indicators.

Defining Variables in Study

Dependent Variables

Dividend Payout: Many researchers used dividend payouts as a mean of corporate dividend policy. In this study the dividend payout is used as a dependent variable to proxy the firm's dividend policy. Dividend payout is calculated as cash dividend per share divided by earning per share.

Independent Variables: Insider ownership: Insider ownership is an independent variable. The sum of proportion of shares held by managers, board of directors, executives and their spouse and minor children to the total number of shares held has taken as a measure of this independent variable. In review of studies we found researchers have different point of view regarding relation between dividend policy and insider ownership. Many researchers see [23, 6, 24] that there is negative relation because when managers become shareholders the conflict of interest decreases. Some argue see BaqirHussain and SaleemUllah (2011) insider owners have more control and power in the board so they tend to pay more dividends.

Individual Ownership: Individual ownership is taken as independent variable and is measure by taking the percentage of shares held by individuals or general public to total number of shares held. Shares held by executives in the category of individuals are excluded.

Control Variables

Profitability: Profitability has been used as a control variable by many researchers in their articles of ownership structure and dividend policy see for example [9, 6]. We also use it as a control variable. Return on equity ROE used as proxy for profitability which is calculated by dividing net income to total shareholder's equity.

Table 1: variables of study

Variables	Calculation base	Proxy
Dividend payout	DPS / Earning per share	DPO
Insider ownership	% of shares held by managers, directors, executives and their spouse and minor children	INSD
Individual ownership	% held by individuals (excluding executives) and general public	INDV
Profitability	Net income/total shareholders' equity	ROE
Leverage	Long term debt/ total assets	LEVR
Size	Log of total assets	SIZE

Leverage: Leverage is used as a control variable and calculated by ratio of long term debt to total assets. Shareholders wealth can be increased by using long term debt but more use of it leads to financial risk in which firm's dividend policy may affect due to fixed interest charges which reduces free cash flows available to managers.

Size of Thefirm: Large sized firms acquire more assets and are able to pay more dividends. The size has taken as a control variable and measured in terms of assets by taking the log of total assets. Mostly In large firm the cash flows are stable due to diversified strategy of these firms so its connection with dividend payout policy should be positive as these large size firms are able to pay more dividends [9].

Models Development: Three models developed to analyses the impact of independent variables on dependent variable by using OLS (Ordinary Least square) regression. Model 1 is developed to describe the impact of insider (individual) ownership on dividend policy with other control variables such as size (SIZE), leverage (LEVR) and profitability (ROE). DPO (dividend payout) is used as a proxy for dividend policy of the firm and INSD as a proxy for insider ownership. Similarly model 2developed to determine the relation between individual ownership as an independent variable and dividend payout with other control variables. INDV is used as proxy for individual ownership in model 2. Model 3 has been developed to check the combined effect of insider and individual ownership on dividend policy with same controlling variables used in model 1 and model 2.

Model 1 when insider ownership as an independent variable:

$$DPO_{it} = \beta_0+\beta_1 INSD_{it}+\beta_2 ROE_{it}+\beta_3 LEVR_{it}+\beta_4 SIZE_{it}\,\varepsilon_{it} \quad (1)$$

Model 2 when individual ownership as an independent variable:

$$DPO_{it} = \beta_0+\beta_1 INDV_{it}+\beta_2 ROE_{it}+\beta_3 LEVR_{it}+\beta_4 SIZE_{it}\,\varepsilon_{it} \quad (2)$$

Model 3 combined model of insider ownership and individual ownership to check the robustness of insiders and individual in first two models.

$$DPO_{it} = \beta_0+\beta_1 INSD_{it}+\beta_2 INDV_{it}+\beta_3 ROE_{it}+\beta_4 LEVR_{it}+\beta_5 SIZE_{it}\,\varepsilon_{it} \quad (3)$$

Where;
β_0 = is an intercept point.
t = time period (2007 to 2011).
i = i^{th} sample of 45 non-financial firms.
($\beta 1$, β_2, β_3, β_4, $\beta 5$)= slope of coefficients

RESULTS AND DISCUSSIONS

OLS Regression Analysis: Table 1 shows the regression results of model 1 in which DPO (dividend payouts) taken as dependent and INSD (insider ownership) as an independent variable with other control variables such as profitability, leverage and size represented by proxies ROE, LEVR and SIZE respectively. Results from table 1 show the negative and significant relationship between insider ownership and dividend payouts. Results represent the negative coefficient (-0.730) between insider ownership and dividend payouts which is significant at ($P < 0.001$) justifying the negative relationship of insider ownership and dividend payouts. It demonstrates that insider ownership which includes managers, executives and directors as firm owners are reluctant to pay high cash dividends. Control variable such as profitability (ROE) shows positive (0.412) and significant ($P < 0.001$) relation with dividend payouts, which indicates that firms with high profitability tends to pay high cash dividends. Leverage (LEVR) is significant at level ($P < 0.010$) and negatively (-0.376) related to dividend payouts. When the firms are obligated to pay fixed interest amount on their loans then they retain more cash for this purpose and decide to pay fewer dividends. Size of the firm shows insignificant and negative relationship (-3.646) with payouts. The Insignificant relation indicates that size is not a good measure of dividend payout policy of the firm in Pakistan. In model 1 the relationship power $R^2$of dependent and independent variable is 44 % approximately which shows independent variables causing 44 % change in dependent variable. F value in this model is 43.081 significant at level ($P < 0.001$) which is satisfactory.

In table 2, regression result of Model 2 expresses the relationship of individual ownership and dividend payouts with the same control variables taken under model 1. Table 2 presents highly significant ($P < 0.001$) negative relation (-0.862) of individual ownership with dividend payouts which show that individual investors

Tables 1: Dependent Variable: DPOModel 1

		Independent variable		Control variables	
Coefficients	Constant	INSD	ROE	LEVR	SIZE
	89.136	-0.730	0.412	-0.376	-3.646
T- statistics	(2.286)*	(-7.660)***	(4.703)***	(-2.675)**	(-0.956)

$R^2 = 44$ %

F = 43.081*** (P < 0.001)

*** Significant at level (P < 0.001) ** significant at level (P < 0.010) * significant at level (P < 0.05)

Table 2: Dependent Variable: DPOModel 2

		Independent variable		Control variables	
Coefficients	Constant	INDV	ROE	LEVR	SIZE
	110.781	-0.862	0.531	-0.578	-5.646
T- statistics	(1.856)*	(-5.099)***	(5.899)***	(-4.031)***	(-1.219)

$R^2 = 36$ % F = 30.85*** (P < 0.001)

*** Significant at level (P < 0.001) ** significant at level (P < 0.010) * significant at level (P < 0.05)

Table 3: Dependent Variable: DPOModel 3

		Independent variable		Control variables		
Coefficients	Constant	INSD	INDV	ROE	LEVR	SIZE
	142.187	-0.638	-0.619	0.373	-0.290	-7.943
T- statistics	(3.540)***	(-6.695)***	(-3.900)***	(4.360)***	(-2.103)*	(-2.060)

$R^2 = 47.7$ %

F = 39.743*** (P < 0.001)

*** Significant at level (P < 0.001) ** significant at level (P < 0.010) * significant at level (P < 0.05)

prefer instant earnings and do not prefer long-term investment. The control variables in model 2 give the same results shown in the model 1 except the leverage shows strong negative (P < 0.001) relation with dividend payouts in model 2. The power of relationship R^2 between dependent and independent variable is 35.9 %. F- Test is significant at level (P < 0.001) with the value of 30.85.

In Table 3, model 3 empirically analyzed to show the combine relationship of individual and insider ownership with dividend payout policy. Both insider and individual ownership play significant role in describing dividend payout policy. Insider ownership remained negative (-0.638) and strongly significant (P< 0.001) in describing dividend payout policy while individual ownership also significantly (P < 0.001) and negatively (-0.619) related to payouts of the firm. Controlling variables ROE is significant (P < 0.001) and show positive (0.373) relation with cash dividend payouts. Leverage show negative relation significant at level (P < 0.05) as compared to previous two models and the size remained insignificant and shows negative (-7.943) impact on dividend payouts policy of the firm.R^2 shows that 47.7 % change in dependent variable has been explained by the independent variable and F-test is significant (P < 0.001).

Summary of the Findings: The regression results show negative and significant impact of insider ownership on dividend payouts and support the first hypothesis. The current findings are consistent with the study of.There are various aspects of this negative relationship. In Pakistan the company ordinance 1984 provides little protection to minority shareholders and management practices are not strongly supervised. When insiders increase their ownership in the firm they try to expropriate the wealth under their control and by using discretionary power they pay fewer dividends to minority shareholders. In case of Pakistan the majority of the firms are family owned where element of favoritism is common and mainly followed when appointing directors and executives. Handsome amounts of perks and pays are given to them which shrink the earnings of the firms and then it becomes difficult to pay large cash dividends (Hui Yuan, Nousheen Zafar 2010) and [18]. Moreover high cash dividends and insider ownership both have substitute effect in minimizing the agency conflict. Increase in insider ownership decreases the asymmetry of information and align the interest of shareholders and management (Hamid, Asma, Fida and ullah2012). On the other hand high dividend payouts also reduce the agency cost because these payments limit the availability of earnings to the management of the firm that may otherwise be violated in personal benefits of the mangers. Thus high insider ownership reduces the conflict of interest by aligning the interest of both parties (managers and shareholders)and decreases the effectiveness of dividend payout policy as a controlling device to reduce agency cost see [24].The negative relation of insider ownership and dividend policy is also due to our study period 2007-2011. After enjoying a boom in 2007 the country remained in dire state till 2011 due to political reasons and world economic recession in 2008. High inflation, cuts in GDP and high government borrowings forced the state bank of Pakistan to enter into IMF agreements, demanded high policy rate environment due to high inflation. The corporate environment of the country effected by these measures and large family owned firms of Pakistan forced to invest either from high cost financing or from retained earnings which reduced their attentions towards high cash dividends.

The regression results of model 2 and 3 supports second hypothesis as table 3 and 4 show negative coefficients of individual ownership with dividend payout in each model. The significant negative impact of individual ownership on dividend payouts is may be due to fact that for some individual investors the dividend is not the instant source of fund. In Pakistan investors (general public) including job holders and traders are interested in instant capital gains and much of the trading in KSE Karachi stock exchange is dominated by these speculative investors [25].On the other hand most of the firms in Pakistan are also unwilling to pay high cash dividends because they pursue the investors' interest on instant earnings and in such scenario the payments of dividends become less important which is also a leading issue of declining dividend trends in Pakistan in recent years. However not all individual investors such as businessmen and professionals, as discussed earlier in literature, are involved in daily speculative activities because either they are not specialized on such speculation techniques or they don't want to take an extra risk and rely on dividend earnings from long term savings. In such case high retention of earnings and less dividends by the management of the firms encroaches the rights of such shareholders. This shows that the wealth of outsiders (general public) is being expropriated by the management.

There are three control variables and the first control variable in each model is profitability which shows significant positive relation with payouts that supports the third hypothesis. This result is consistent with the studies of [22, 4]. It has seen normally the higher you earn the more you will distribute. It means the profitable Pakistani firms are more inclined to pay dividend to shareholders regularly and dependent on higher earnings for high cash dividend payments.

The results reveal significant and negative impact of leverage on dividend payouts in each model thus supports the fourth hypothesis. These results are consistent with the study of [6, 28,] and contradictory to Ahmed, Hafiz and Atiya 2012.In Pakistan the firm with high debt is reluctant to pay cash dividends because of financial risk and obligation to pay fixed interest payments [26]. Moreover the Pakistani debt market is not so mature and firms seeking external financing for future growth are not easily accessible to debt market unless having a good credit rating records and socio-political relations. In such circumstances the large firms with high debt decide to pay less or no dividends and accumulate more cash trying to maintain credit rating position and good socio-political relations with financial institutions to extend further future financing at low cost.

The results show that in Pakistan the size of the firm is insignificant and negatively related to the firm's payout ratio. These results neglect the hypothesis five. There are different arguments of the researchers for example [26] and (Al-Malkawi, 2007) found positive significant relation which is contradictory to our results. The negative relation is may be for the reason that large size firms in Pakistan with high liabilities tried to accumulate more funds to figure up their cash reserves after the great depression of 2008 in expectations of further deteriorations in the future. The negative impact of size on dividend payout policy clearly shows that the firms prefer to invest in their assets rather than pay dividends to its shareholders this idea is consistent with [21]. Since there is insignificant relation of size and dividends which show that size of the firm is not a good predictor of dividend payout in Pakistan. The reason may be because due to large cash flows when large size firms declare dividends the amount may be large [9].

CONCLUSION

The dividend payout policy gives insight about the payment strategy of organizations which they disburse to investors as profit on their investment. Unfortunately, in Pakistan, the dividend paying practices are imperfect. In 2011, the dividend paying companies in Pakistan reduced by 4 % and even profit making dividend paying firms reduced by 2.5 % (KSE Annual Report 2011). Most of the companies with family ownership structure maintain company's wealth under their control and pay fewer dividends to minority shareholders. The presence of high insider ownership, where directors, CEO's and managers are owners, makes the practical implications of corporate governance tools very little. This study is conducted to find out the dividend paying trends by corporations and to focus on the reasons of lower payouts in emerging economies like Pakistan. The results showed a substantial impact of ownership structure on dividend policy. Negative impact of managerial and individual ownership on dividend payouts has also been revealed. If dividend policy is being used to control agency conflict, when insider ownership is high, there is no need to pay high dividend because increased insiders ownership helps to align the interest and reduces the cost of conflict among managers and shareholders. Further in Pakistan the investor protection is low. Insiders use funds for their own benefits and for the growth of their firm. They keep high cash reserves and force their discretionary power on the wealth of individual owners, in which majority of them are the minority shareholders in the case of Pakistan. Besides individual owners including traders, jobholders and professionals are interested in long buying and short selling for instant earnings and prefer capital gains instead of dividends. Leverage and size illustrated a negative impact on dividend payouts. Profitable firms pay high dividend which is the evidence of more reliance of dividend policy on the higher earnings of the firm. The optimal dividend payout policy is essential to attract new investors because many of them are unfamiliar about the firm's performance. The dividend policy is mutually beneficial for the firm and for the investors since growth in dividends increases the value of the stock over time and hence value of the firm. The dividend policy also helps a firm to manage its earnings more carefully.

Some policy implications are suggested on the basis of the results of this study. In order to discourage the trend of higher retention there should be imposition of minimum payout ratio by regulatory authority. Minority shareholders must be given representation in the corporate decisions by appointment of independent director who represent them on the board. There is a need of fiscal financial assistance for listed companies to distribute dividends for shareholders regularly. The tax rate on the profit for the companies not paying dividends or paying irregular dividends should be higher than the normal tax rate on listed companies paying dividends regularly. This will give some motives to managers to pay more dividends because distribution of dividends would be an incentive for companies to avail reduced tax rates. SECP code of corporate governance demands at least one independent non-executive director. Majority of the firms don't follow such guideline. SECP should strictly penalize those firms who are not following such guidelines of code of corporate governance. In order to discourage high insider and family ownership SECP should manage the shareholding patterns of the listed firms and make necessary the appointment of outside directors within the board. Dividend payout decision must not be made exclusively by insiders and corporate law authorities must evaluate such decisions through independent audits. To encourage long term investment there is need to develop confidence among investors. Optimal dividend reinvestment plans must be disclosed to investors so they can properly manage their investment portfolios. Reduced tax rate on dividends and imposition of capital gain tax would help to discourage speculative activities.

Limitations: The current study is based on KSE 100 index which consist of 100 firms for the period 2007-2011. More firms can be included to increase the sample size of the study. Moreover, other forms of ownership structure like institutional ownership and foreign share ownership can be used to further analyze the dividend payout behavior of the listed firms in Pakistan.

REFERENCES

1. Miller, M.H. and F. Modigliani, 1961. Dividend policy, growth and the valuation of shares. Journal of business, pp: 411-433.
2. Lintner, J., 1962. Dividends, earnings, leverage, stock prices and the supply of capital to corporations. The Review of Economics and Statistics, 44(3): 243-269.
3. Frankfurter, G., X. Javid, B.G. and J. Wansley, 2003. Dividend policy: Theory and practice: Academic Press.

4. AL-Shubiri, F.N., 2009. Determinants Of Changes Dividend Behavior Policy: Evidence From The Amman Stock Exchange. Far East Journal of Marketing and Management, 2(1): 1-13.
5. Jensen, M.C. and W.H. Meckling, 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. journal of financial economics, 3(4): 305-360.
6. Mirza, H. and T. Afza, 2010. Ownership structure and cash flows as determinants of corporate dividend policy in Pakistan. International Business Research, 3(3): 210-221.
7. Rozeff, M., 1982. Growth, beta and agency costs as determinants of dividend payout ratios. Journal of financial Research, 5(3): 249-259.
8. Javid, A.Y. and R. Iqbal, 2010. Corporate governance in Pakistan: Corporate valuation, ownership and financing. pakistan: Pakistan Institute of Development Economics.
9. Shah, S.Z.A., W. Ullah and B. Hasnain, 2010. Impact of ownership sturcture on dividend policy of firm. International Conference on E-business, Management and Economics, 3: 22-26.
10. Ibrahim, A.A., 2006. Corporate Governance in Pakistan: Analysis Of Current Challenges And Recommendations For Future Reforms. Wash. U. Global Stud. L. Rev., 5: 323.
11. Alchian, A.A. and H. Demsetz, 1972. Production, information costs and economic organization the American Economic Review, 62(5): 777-795.
12. Denis, D.J., D.K. Denis and A. Sarin, 1999. Research notes and communications: Agency theory and the influence of equity ownership structure on corporate diversification strategies. Strategic Management Journal, 20: 1071-1076.
13. Demsetz, H. and B. Villalonga, 2001. Ownership structure and corporate performance. Journal of Corporate Finance, 7(3): 209-233.
14. Lintner, J., 1956. Distribution of incomes of corporations among dividends, retained earnings and taxes. the American Economic Review, pp: 97-113.
15. Baker, H.K., G.E. Farrelly and R.B. Edelman, 1985. A survey of management views on dividend policy. Financial management, pp: 78-84.
16. Gul, S., M. Sajid, N. Razzaq, M.F. Iqbal and M.B. Khan, 2011. The Relationship between Dividend Policy and Shareholder's Wealth. Economics and Finance Review, 2(2): 55-59.
17. Zuraidah Ahmad, N.M.H.A., 2012. Influence of ownership structure on dividend policy based on Linter model International Review of Business Research Papers, 8(6): 71-88.
18. Shah, S., H. Yuan and N. Zafar, 2010. Earnings management and dividend policy: An empirical comparison between Pakistani listed companies and Chinese listed companies. International Research Journal of Finance and Economics, 35: 51-60.
19. Kouki, M. and M. Guizani, 2009. Ownership structure and dividend policy evidence from the Tunisian stock market. European Journal of Scientific Research, 25(1): 42-53.
20. Adiba Kholmurodova, J.B., 2009. family owneship and firms perfomance [theses]. financial and international business, december, pp: 1-60.
21. Ahmed, H. and A.Y. Javid, 2008. Dynamics and determinants of dividend policy in Pakistan (evidence from Karachi stock exchange non-financial listed firms). Munich Personal RePEc Archive, pp: 15.
22. Aivazian, V., L. Booth and S. Cleary, 2003. Dividend policy and the organization of capital markets. Journal of Multinational Financial Management, 13(2): 101-121.
23. Afzal, A.S.S., 2011. Ownership Structure, Board Composition and Dividend Policy in Pakistan, pp: 1-24.
24. Din, S. and A.Y. Javid, 2011. Impact of managerial ownership on financial policies and the firm's performance: evidence Pakistani manufacturing firms. International Research Journal of Finance and Economics, pp: 81.
25. Mehar, A., 2005. Corporate governance and dividend policy. Pakistan Economic and Social Review, pp: 93-106.
26. Asif, A., W. Rasool and Y. Kamal, 2011. Impact of financial leverage on dividend policy: Empirical evidence from Karachi Stock Exchange-listed companies. Afr. J. Bus. Manage, 5(4): 1312-1324.
27. Khan, A.A. and K.I. Khan, 2011. Dividend Policy and Stock Prices–A Case of KSE-100 Index Companies. Cell, 321: 4028246.
28. Ullah, H., A. Fida and S. Khan, 2012. The Impact of Ownership Structure on Dividend Policy Evidence from Emerging Markets KSE-100 Index Pakistan. International Journal of Business and Social Science, pp: 3(9).

29. Décamps, J.P. and S. Villeneuve, 2007. Optimal dividend policy and growth option. Finance and Stochastics, 11(1): 3-27.
30. Denis, D.J., D.K. Denis and A. Sarin, 1999. Research notes and communications: Agency theory and the influence of equity ownership structure on corporate diversification strategies. Strategic Management Journal, 20: 1071-1076.
31. J.S.P., 1978. A review of factors effecting dividend policy of the firm (August). Retrieved from http://www.iassa.co.za/articles.
32. Kapoor, S., 2009. Impact of dividend policy on shareholders' value: a study of indian firms. Sujata Kapoor, JBS, JIIT, pp: 39.
33. Leech, D. and J. Leahy, 1991. Ownership structure, control type classifications and the performance of large British companies. The Economic Journal, pp: 1418-1437.
34. Paligorova, T., 2010. Corporate risk taking and ownership structure. Working Paper/Document de travail.
35. Roomi, M.A., N.I. Chaudhry and M. Azeem, 2011. Dividend payment practices in the non-financial sector of Pakistan: empirical evidence from the Karachi Stock Exchange. World Academy of Science, Engineering and Technology, pp: 59.
36. Stouraitis, A. and L. Wu, 2004. The Impact of Ownership Structure on the Dividend Policy of Japanese Firms with Free Cash Flow Problem. Paper presented at the AFFI December meeting.
37. Kabiru Jinjiri Ringim, 2013. Understanding of Account Holder in Conventional Bank Toward Islamic Banking Products, Middle-East Journal of Scientific Research, 15(2): 176-183.
38. Muhammad Azam, Sallahuddin Hassan and Khairuzzaman, 2013. Corruption, Workers Remittances, Fdi and Economic Growth in Five South and South East Asian Countries: A Panel Data Approach Middle-East Journal of Scientific Research, 15(2): 184-190.