Does Ownership Structure Influence Financial Decisions: Evidence from Pakistan

Muhammad Sadiq Shahid[1] Shazia Nawaz[2] Liaqat Ali[3]

Abstract

The financial decision making is a crucial area of corporate finance. It has always received high attention from academics as well from policy makers. It is assumed that the companies with higher shareholding by its owners distribute more dividends. Even it is also assumed that the companies with higher institutional shareholding distribute more dividends to please them. This contradiction encouraged researcher to undergo the study. This study attempts to explore the impact of ownership structure on dividend payout, investment and financing policy of listed firms. By employing the data of 239 listed firms as sample for the time period 2010-2017, this study inclines towards finding whether owners and institutional shareholding make a significant difference in financial decisions (dividend payouts, capital structure & investment) or not. The findings reveal that the companies with higher owner's shareholding tend to pay better dividends as well as invest more capital. Moreover, firms with higher profitability make better investment and dividend policies.

Keywords*:* Ownership structure, Dividend Payout Ratio, capital structure, OLS

Introduction

The significance of good corporate governance goes far beyond the interests of the shareholders in an individual company. The corporate governance deals with the responsibilities of management and the same time protect the interest of stakeholders. Overall, it has a profound impact on financial decisions of the firm because financial decisions are core and critical decisions for the corporate finance manager. It is always a challenge for the finance manager to satisfy the expectations of shareholders through good dividend and capital structure decision. Therefore, good corporate governance is necessary to make sound dividend payout and financing decisions which, in turn, help firms to prosperity in the domestic as well as in the global market.

The existing finance literature indicates that the perfect stock markets are non-existent in this world, and the financial factors, therefore, make some influence on financial decisions of a firm. In opposition to Modigliani and Miller (1958) assumptions, the ownership impact on financial decisions making can be expounded generally from the knowledge of inefficient markets. This deficiency is not only correlated with the financial decisions of listed firms, but also firm's ability to finance investment opportunities by retained earnings. Thus far, arguable question of cash flow sensitivity is still unanswered (Hovakimian, 2009). Morgado and Pindado (2003) argue that the only optimal level of investment creates maximum value of firms. There are a number of factors that impact the financial decision making. The ownership structure can be used as a mechanism to moderate the conflicts between owners and managers. Ownership is believed to have the

[1] BahauddinZakariya University, Multan E-mail: sshahidmalik@bzu.edu.pk
[2] M.Phil Scholar BahauddinZakariya University, Multan
[3] Independent Research Scholar

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capability to affect the future course of business operations that could influence the financial decisions. Owners may have different motivations in the monitoring and management of firms; they can play an important role in the survival and development of firms. They invest capital to get a higher return, both in form dividend payments and capital gains. Naturally, they instinctively tend to make financial decisions for the betterment of business enterprises. M&M (1958) point out that financial decisions are totally independent of capital structure in the ideal capital market situations. Corporate investment issues are the outcome of maltreatment of the capital structure by managers. Although, capital structure has become a hot topic in recent literature, only a few researchers have examined whether the ownership structure affects the financial policies of listed firms. Regardless of the existence of a few recent researches (Frank & Goyal, 2009; Denis & Osobov, 2008) in existing finance literature investigating the factors that affect financial policies, the impact of ownership structure on financial decisions such as dividend payout and financing policies particularly in emerging markets is scarce.

According to Walter and Gordon (1963) the dividend decision is relevant to the market price of the share and market value of the firm. On the other hand, there is one school of thought (MM approach) which says that dividend decision is irrelevant to the firms' valuation. In practice, it's not return on investment opportunities and cost of equity only that makes manager comfortable to decide upon dividend decision, but there are several other factors that also have significant impact on this decision. In recent times, when corporate governance has got every one's attention, the factors that lead finance manager to take dividend decision are also being much emphasized upon.

High-quality corporate governance is the foundation of spirited and the well-built corporate sector, mainly in emerging stock markets. Various researchers examine the association between corporate governance practices and dividend payout policy and capital structure policy, the majority of studies evidence that firms can reduce agency cost through higher cash dividends by following a steady dividend payout. The same as, Rozeff (1982) and Jensen (1986) identify, if companies do not distribute dividends, then managers are likely to use resources for their own benefits. The existing empirical findings suggest that ownership structure has a significant impact on financial decision making because it eliminates agency costs.

In developed markets, it is found that all the category of investors always looks for companies that pay higher dividends. This tendency of investors induces finance manager to become investors responsive by gratifying their expectation in terms of dividend. In turn, finance manager deviates from the theory and instead of making decisions based upon available investment opportunity, they become keen to make their stock hot in the market. It is needless to say that any market functions upon demand and supply paradigm. The higher demand generated by this stock, results in higher liquidity, in turn, this contributes in generating better returns. Subsequently, stock becomes traders' favourite. With this background a question always comes into light that what makes finance manager paying higher dividend? Many studies conducted (Kajola *et al*., 2015; Zhang & Fu, 2014) for addressing this issue, conclude that one of the key variables while deciding dividend policy is ownership structure. However, the researchers find mix

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results between the dividend policy and the ownership structure in emerging markets (Aivazian *et al*., 2003).

In the existing literature, there are few empirical researches regarding the impact of ownership formation on dividend payout and financing decisions. Mehrani *et al*. (2011) explore the possible impact of ownership structure on dividend payout policy of firms listed at TSE and also reported that institutional ownership negatively effects dividend payout policy and concentrated institutional ownership positively affects dividend payout policy.

Similarly, Shleifer and Vishny (2000) and Jiraporn *et al*. (2011) emphasize that agency cost is less in large managerial ownership firms as a result of the improved alliance interests between shareholders and managers and firms with more concentrated ownership are able to manage managerial functions in a better way. With the purpose to achieve the objectives of the study, the main analysis of financial decisions has been divided into two parts. First, the dividend decision is examined in terms of ownership structure. Second, the attempt is made to analyze the role of ownership structure on debt policy as well as dividend policy of firms. Furthermore, in view of dynamism of financial decisions, this paper examines the ownership, dividend payout and capital financing policies.

Specifically, investment decisions of well governed firms are substantially more sensitive to their investment opportunities and less sensitive to cash flows than investments made by poorly governed firms. This governance-driven quality improvement in real investments seems to occur through a reduced tendency for well governed firms to under invest. Moreover, governance quality affects investment efficiency both through mitigating financial constraints as well as independence of the extent to which the firm is financially constrained.

Literature Review

Corporate Governance received a lot of consideration in the last decade among policy makers and academicians. These researchers have taken a keen interest in identifying the ownership structure impact on financial decisions (dividend payout and working capital policies of the firm's world over. There is no dearth of quality literature on the topic. Black (1996) very rightly cited the phenomenon as: "The harder we observe the dividend picture, more it look likes puzzle, with pieces that just don't fit together." This seems to be very appropriate while studying all literatures on the ownership structure impact dividend payout and financing decision. The cause for the dividend puzzle can be characterized as a wide range of factors like, psychological/behavioural economic issues, tax related matters and asymmetric information (Fullana., & Toscano, 2014). Shleifer and Vishny (1986) have discussed that higher institutional ownership can create the incentives to monitor the management of the firm. Following the active participation of shareholders in decision making, managers will always be more inclined towards to pay higher dividends. Kinkki (2001) highlighted traditional contradiction that dividend policy of a firm is viewed by considering firm as a single unit while the maximizing overall value of the firm is the actual aim of any management. On the other

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hand, the agency cost approach recognizes firm with conflict of interest where groups that manage firms and owned firms are different and both have self-interest motives.

Dividend policy is influenced by conflict between management and shareholder vis-à-vis ratio of equity holding by board (Jensen & Meckling, 1976). In contrast Crutchely and Hansen (1989) put forward a strong argument of agency cost influenced by equity ownership of board, the proportion of debt, and dividend payments. This makes it clear that leverage and ownership structure play a vital role in determining dividend policy of firms. In the backdrop of UK firms, Short *et al*. (2002) examine a positive and significant association between institutional ownership and dividend payout ratios. Kumar (2006) has attempted to examine the impact of ownership structure on dividend payout and findings reveal a positive association between earnings and dividends; inverse effect of institutional ownership on dividend policy while could not find any association between foreign ownership and dividend payout growth. Harada and Nguyen (2011) find a positive association between firms with high ownership concentration and lower dividends in Japan. Mirzaei (2012) documented a positive association of ownership concentration with dividend payout policy. Warrad *et al*. (2012) observe a positive relationship of foreign ownership with dividend payout. Ullah *et al*. (2012) document the factors that influence corporate dividend payout in the context of agency problem by employing institutional ownership, managerial ownership and foreign ownership as proxies for ownership concentration. They find negative association of managerial ownership and dividend payout policy while positive association with institutional and foreign ownership.

Yordying Thanatawee (2013) examines the relationship between ownership structure and dividend policy listed firm at Thailand stock exchange from 2002-2010. The findings indicate that firms possibly pay more dividends when they have large institutional shareholders. Moreover, findings indicate that both chances of dividend payment and the value of dividend payouts rise (reduce) with higher institutional (individual) ownership, the findings mostly obsessed by the family ownership investors.

Moreover, Al-Najjar and Kilincarslan (2016) examine the impact of ownership structure on dividend policy of 264 listed firms from 2003-2012 in Turkey. The empirical findings indicate that foreign and state ownership tends to pay less dividends. Hence, the increasing ownership of foreign investors and the state in general reduce the need for paying dividends in the market.

Le and Trang (2017) findings show the association between high foreign ownership and higher dividend payout it their study of foreign and local ownership and cash dividend policy of firms listed on Vietnam stock exchange. Harjito (2009) results revealed the negative effects of directors' ownership on dividend policy. Larkin *et al.* (2016) examined the relationship between dividends and institutional ownership and observed the monitoring capacity of institutional investors impacting better management and smooth running of the firms. Shah, Ullah and Hasnain (2011) studied Pakistani firms and found a higher cash dividend level where the owners' presence in the board of directors is higher. Al- Gharaibeh and Al-Harahsheh (2013) found that institutional

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ownership provides incentives for board to extend their influence to reduce the use of funds in the projects with low returns in turn distributing better dividends.

The existing literature on dividend has mainly based on signalling and agency cost hypotheses. There are a few key questions which researchers are still trying to examine in current corporate finance literature. In this regards, this study examines Pakistan listed firms in order to provide new evidence on how ownership structure effect financial decisions such as dividend payout policy and debt financing in Pakistan. Capital structure of a firm is important because this signifies firm's ability to fulfil stakeholders' needs. Firstly, M&M (1958) introduces capital structure concept and argued that capital structure is irrelevant in determining the firm's value and its future performance. In contrast, recently Aggarwal and Padhan (2017) and Kulati (2014) document that capital structure has a significant relationship with firm value.

Nowadays, the importance of better corporate governance is reinforced by some of the modern trends in the world economy, remarkably the emergent role of the private sector, amplified internationalisation, and speedily changing competitive conditions for investors and firms. Jensen (1986) and Hoskisson and Harrison (1991) show that ownership structure influences strategic financial decisions. Firms' capital structure is also a very important factor, through this firms can maximize wealth of shareholders. In addition, a suitable capital financing policy is very essential because this assists in dealing with the economical business environment where the firm operates. M&M (1963) point out that firm capital financing should consist of debt by reason of tax deductions on interest payments. However, in practice, level of debt increase causes a rise in bankruptcy costs. Thus, M&M point out that the optimal capital structure can only be attained; if the tax sheltering benefits gain with an increase in debt level is equal to the bankruptcy costs. Therefore, financial managers should be able to discover the optimal capital structure and also try to retain it. This can be happened only when the weighted average cost of capital is minimized.

Lina *et al*. (2012) find that the foreign ownership structure has a positive and significant impact on dividends payout. Moreover, they also documented a significant association of firm size and leverage ratio with dividend payout. Khan (2006) findings indicate that ownership concentration negatively effects dividend payout. While Gerald *et al*. (2009) findings indicate that insider ownership varies systematically across the firms. Moreover, they find that a large percentage of insider ownership firms prefer to reduce dividend payout and debt ratio. Their findings of earning, investment expenditure, and growth on dividend payout and leverage policy support a customized hypothesis of "pecking order".

Ramli (2010) findings for the Malaysian stock exchange indicate that firms employ higher dividend payout as the shareholding of the largest shareholder increases. The amount of dividend payout is also larger when there is an existence of the substantial second largest shareholder in the firm. Further, Morellec *et al.* (2012) explore the literature related to financing decisions in three imperative dimensions. (1) A range of capital market deficiency interrelates with structures of firms' incentive to conclude capital structure decisions; (2) they evidence that adjustment costs help elucidate the

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financing patterns effect on debt choices is too small to describe financing decisions; (3) the dynamic trade-off theory with shareholders and managers conflicts of interest constructs a model that can describe why several companies issue small amount of debt regardless of the recognized tax benefits of debt (Fama & French, 2002) and why debt ratios show inertia and robust time-series patterns (Flannery & Rangan, 2006). They also confirm that the deviation in agency costs in companies is considerable.

Lee (2015) findings reveal that the banks with high percentage of outside shareholders are likely to have larger risk-taking benefits by preferring less capital ratios. Chauvin and Hirschey (1996) document a negative association between institutional holdings and leverage ratio. Boodhoo (2009) presents a brief review of literature and evidence an association between ownership structure and capital structure. The findings also provide theoretical support to the determinants that affects the capital structure.

Ownership concentration can have a non-linear relation with firm value, combining a positive impact as a result of the close monitoring of managers with a negative effect as a consequence of the expropriation effect. The core issue is to predict a relation between wealth expropriation of minority shareholders and growth opportunities. In this essence, opportunistic behaviour is more likely when firms have new projects that can be opportunistically exploited by large dominant shareholders. The above mentioned theoretical framework can be summarized in the following hypotheses:

H_1: There is *a negative relationship between ownership structure and corporate debt*.

H_2: There is *a positive relationship between ownership structure and dividend policy*.

H_3: There is *a positive relationship between ownership structure and corporate investment*.

Methodology

Study objectives are to examine the ownership structure impact on dividend payout, capital structure and investment decision of the Pakistan listed firms. The researchers assume that the companies with higher shareholding by its board (owners) tend to offer better dividends. To test this phenomenon, 239 listed firms are considered as sample in this study and the data are collected from 2010-2017. The reason to take this period is, in 2012 the SECP adopt the Code of Corporate Governance and study want to see the impact of this time period. The required data are sourced through Capitaline database. PSX100 listed firms adequately represent the population and these firms have aptly followed governance standards laid down by various authorities. For the purpose of the study, Dividend Payout (DIV) the most noteworthy variable is taken as dependent variable which represents the portion of total earnings distributed as dividends. To test the manner in which ownership structure influences dividend policy of the firm, Managerial Shareholding (MOWN), and Institutional Shareholding (INST) are taken as independent variables. Dividend distribution is the result of not only shareholding pattern, but it is also influenced by profitability and proportion of the leverage in capital structure of the firm. These two variables are also taken as independent variables for testing impact on dividend Payout Ratio of the firms. The dividend payout ratio (DIV); leverage (LEV) and investment (INV) are taken as the dependent variable one by one, respectively. Study also incorporate the squares of '$INST^2$, and $MOWN^2$' to observe the

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existence of ownership consequence after a certain threshold. In addition, study added age, growth of total assets as control variables. Time dummy is used to control the contemporaneous macroeconomic shocks. In order to investigate the dividend models, study measures the dividend payout as the ratio of total dividends and net operating income. Study employed the following pooled OLS model:

$$DIV_{it} = \alpha + \beta_1 OWN_{it} + \beta_2 INST_{it} + \beta_3 MOWN_{it} + \beta_4 Q_{it} + \beta_5 FCF_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 AGE_{it} + \varepsilon_{it}$$

$$LEV_{it} = \alpha + \beta_1 Q_{it} + \beta_2 INST_{it} + \beta_3 MOWN_{it} + \beta_4 OWN_{it} + \beta_5 FCF_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 AGE_{it} + \varepsilon_{it}$$

$$INV_{it} = \alpha + \beta_1 OWN_{it} + \beta_2 INST_{it} + \beta_3 MOWN_{it} + \beta_4 Q_{it} + \beta_5 FCF_{it} + \beta_6 SIZE_{it} + \beta_7 ROA_{it} + \beta_8 AGE_{it} + \varepsilon_{it}$$

Where, DIV_{it} is the firm's dividend payout ratio; LEV_{it} is debt ratio, and INV_{it} is the investment of firm i in time t. $INST_{it}$; $MOWN_{it}$ and OWN_{it} symbolize institutional shareholding, managerial shareholding and individual ownership, respectively. In addition, Q_{it} and FCF_{it} employed in models to capture the potential consequence of a firm's free cash flow and investment opportunities on dividend payout and financial decisions. Study also adds $SIZE_{it}$ measured as the logarithm of total assets, and AGE_{it} as control variables.

The panel data methodology is used to manage constant and unobservable heterogeneity (Arellano, 2003; Hsiao, 2004). The Panel data estimations rely critically on the fixed-effects term. The fixed-effects term is unobservable, and hence becomes part of the random component in the estimated model. Study should also control for potential endogeneity. As some authors have shown (Himmelberg et al., 1999; Demsetz & Villalonga, 2001), debt ratio, dividend payout and ownership structure can be affected by the value of the firm, so they become endogenous variables. The model is estimated using the generalized method of moments (GMM), since this technique controls both the unobservable heterogeneity and the endogeneity. The GMM estimations validity depends on two conditions: the variables used as instruments and lack of second-order serial correlation among residuals.

Table 1: *Measurement of variables use in this study*

Variables	*Symbol*	*Measurement*
Dividend payout	*DIV*	*Dividends/net income*
Leverage ration	*LEV*	*Total debt to total assets.*
Ownership structure	*OWN*	*%age of shares held by individual shareholders*
Managerial shareholding	*MOWN*	*Percentage of shares held by Management of firm*
Institutional shareholding	*INST*	*The percentage of shares held by institutional investors (banks, financial institutions, etc.,)*
Return on Assets	*ROA*	*Ratio of Net income to total net Assets*
Investment	*INV*	*Sum of capital expenditure, R&D and receipts from the sale of property, plant and equipment minus amortization and depreciation expense.*
Tobin's q	*Q*	*Ratio of market value of a firm's stock with value of a firm's equity book value*

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Free cash flow	*FCF*	*Cash flows from operations/total assets*
Total Assets	*SIZE*	*The natural logarithm of total asset*
Firm Age	*AGE*	*The logarithm of firm age since incorporation*

Analysis and Interpretation

The objectives of the study are to examine the impact of ownership structure on financial decision in term of dividend payout; financial capital structure and Investment decision. The descriptive summary is presented in table 2; the results indicate that in Pakistani companies, Managerial shareholding is tending to be higher. On an average, they are holding more as compared to other shareholders in the sample companies. According to most of the literature reviewed, dividend policy is highly influenced by directors and institutional shareholding that can also see in Pakistani scenario that tends to be on higher side, i.e. 29%.

Table 2: *Descriptive Statistics Summary*

Variables	Mean	Median	StD
DIV	.2468	.1241	.0787
LEV	31.7496	26.4982	2.3156
OWN	32.5642	29.4793	.6423
MOWN	39.7290	35.9063	1.0953
INST	29.4643	41.5926	.7654
ROA	4.1343	3.5691	.5530
INV	18.2680	12.638	1.8907
Q	1.5387	1.2860	.8274
FCF	1.4857	.9460	1.8465
SIZE	16.4319	10.0945	2.1218
AGE	16.3482	13.8537	1.0479

The results provided in table 3 suggest that corporate profitability (ROA) has a higher correlation with dividend payouts. Ownership shareholding positively and Managerial shareholding negatively correlated with dividend payouts. It is a general phenomenon that Managerial shareholding is largely affecting dividend policy of the firm.

Table 3: *Pearson correlation between all variables*

Variables	DIV	LEV	OWN	MOWN	INST	ROA	INV	Q	FCF
LEV	-.382								
OWN	.237	.248							
MOWN	-.362	-.565	.309						
INST	.464	-.642	.360	.408					
ROA	.634	-.490	.353	.278	.453				
INV	.124	.498	.198	.328	.248	.304			
Q	.438	-.479	.094	.368	.484	.318	.208		
FCF	.396	.532	.328	-.178	.387	-.326	.149	.402	
SIZE	.439	.286	.427	.634	.503	.478	.267	.364	.316

*Note: DIV= Dividend payout ratio; LEV= debt ratio and OWN, MOWN and INST use as proxies for ownership structure (corporate governance). ROA is return on assets; FCF is liquidity and SIZEit is firm size. ** *Significant at 1% level, * *significant at 5%level &* significant at 10%level respectively.*

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Moreover, study pooled OLS model to investigate the relationship between ownership structure and financial decision such as dividend and financing decisions. The results in table 4 indicate that institutional shareholding has a considerable impact on dividend payouts. It was also observed that portion of debt in the capital structure and corporate profitability has negative correlation. This may lead a firm to pay lesser dividends to its investors. It concludes that the higher leverage results into less dividend payouts. As indicated in table 4, the individual ownership structure (OWN) negatively significant associated with dividend payout policy, this mean that firms payout ratio are lower when the individual shareholding is higher. This negative relationship of OWN with dividends is consisting with Khan (2006) findings. Moreover, in model 2 addition, ownership structure negatively associated with dividend payouts. These findings are in agreement with Pieloch-Babiarz (2015); Fukuda (2000) and Shleifer and Vishny's (1997) that when individual investors emerge as major shareholders, they come out to extract private benefits not shared by minority shareholders by paying out less dividends.

Table 4: *Pooled OLS Regression Results for Dividend Payout*

Variables	Model1	Model2	Model3
Constant	.24680	.12419	.38294
	(1.905)	(.639)	(.375)
OWN	-.30426**	-.34938*	-.29085
	(.108)	(0.268)	(.397)
MOWN	.62903**	.70158**	.65639***
	(.345)	(.375)	(.208)
INST	.42538**	.39867	.2098*
	(.175)	(.379)	(.100)
ROA	.13467	.15693**	.08497
	(.368)	(.072)	(.983)
Q	.53870**	.38605**	.45690
	(.290)	(.082)	(.085)
FCF	-.024891**	-.03856	-.02685
	(.003)	(.616)	(.119)
SIZE	.06197	.09453	.09083
	(.254)	(.001)**	(.593)
AGE	.24896	.25370*	.21264
	(.890)	(.048)	(.307)
$INST^2$	.22674*		
	(.143)		
$MOWN^2$		.20649**	
		(.109)	
Timmy Dummy	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes
R-squared	60.65%	64.70%	67.28%
Sarjan Test	.47259	.36928	.10586

*Note: Dep. Variable is Dividend payout and Independent variables are; LEV is the debt ratio and OWN, MOWN and INST are use as proxies for ownership structure (corporate governance). ROA is return on assets; FCF is liquidity and SIZEit is firm size. ** *Significant at 1% level, * *significant at 5%level &* significant at 10%level respectively.*

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Table 5: *Pooled OLS Regression Results for Leverage*

Variables	Model1	Model2	Model3
Constant	.05619**	.06294	.07869
	(.004)	(.826)	(.021)
DIV	-.01387	-.01967	.31560
	(.066)	(.206)	(.121)
OWN	.29180	.26974**	.24836**
	(.603)	(.091)	(.121)
MOWN	-.06984**	-.05678**	.06539
	(.001)	(.021)	(.081)
INST	-.27480***	-	.29643***
	(.001)	.23698***	(.091)
		(.029)	
ROA	-.14596***	-.13876**	-.15309**
	(.036)	(.069)	(.060)
INV	.04582**	.05386**	.09365***
	(.026)	(.000)	(.031)
Q	-.25690	-.02596	-.32746
	(.085)	(.301)	(.154)
FCF	-.02683	-.01589**	-.02794*
	(.119)	(.000)	(.039)
SIZE	.09187	.08563***	.06189**
	(.593)	(.021)	(.001)
AGE	.21863	.09386	.24790
	(.307)	(.848)	(.303)
$INST^2$		.29463**	
		(.063)	
$MOWN^2$			.19378**
			(.073)
Timmy Dummy	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes
R-squared	64.27%	69.85%	70.18%
Sarjan Test	.196	.304	.274

*Note: Dependent Variable is Leverage and Independent variables are; DIV is the dividend payout ratio and OWN, MOWN and INST is use as proxies for ownership structure (corporate governance). ROA is return on assets; FCF is liquidity and SIZEit is firm size. ** *Significant at 1% level, * *significant at 5% level &* significant at 10%level respectively.*

The statistics in table 4 and 5 of R-Square suggest confidence that can be put on the model and hence the inferences derived in the study are more applicable. The table 5 suggests that institutional shareholding and ROA are the most significant variables of dividend policy. It is also observed that high institutional holding tends to pay high dividends. It is always observed that institutional investors take keen interest in the

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management of the firm to take care of their interest that may result in high dividends pay out.

The findings in table 5 reveal the association between ownership structure and leverage. The coefficients of Intuitional ownership structure, managerial structure and individual structure are associated with leverage, while ROA is negatively associated with leverage. In general, results signify that ROA, AGE and SIZE variables are associated with leverage ratio. These results reveal that highly profitable, higher growth opportunities and larger firms pay more attention on financing decision. Also a positive impact of ROA and firm size, and inverse affect of leverage on dividend payouts are consistent with existing literature (Thanatawee, 2011; Denis & Osobov, 2008, and among others); however, a positive association of investment opportunities with dividend payouts inconsistent with the findings of Fenn and Liang (2001); Jensen *et al*. (1992) and Fama and French (2002).

Table 6: *Pooled OLS Regression Results for Investment*

Variables	Model1	Model2	Model2
Constant	.052584***	.058263**	.04039**
	(.004)	(.019)	(.006)
OWN	-.01387	-.01967	-.01609
	(.066)	(.206)	(.182)
MOWN	-.34961***	-.29870***	-.20643***
	(.009)	(.065)	(.048)
INST	.04582**	.05386**	.04957**
	(.026)	(.000)	(.009)
ROA	.06284***	.07193***	.06938***
	(.018)	(.002)	(.010)
Q	.07869	.05476**	.04586**
	(.021)	(.020)	(.026)
FCF	.31560	.30384**	.36490**
	(.121)	(.101)	(.098)
SIZE	.31796***	.29683***	.28459***
	(.096)	(.096)	(.101)
AGE	.09365***	.08925***	.07643***
	(.031)	(.024)	(.019)
$MOWN^2$		.08925***	
		(.020)	
$INST^2$			.06039***
			(.016)
Timmy Dummy	Yes	Yes	Yes
Industry Dummy	Yes	Yes	Yes
R-squared	64.27%	65.18%	60.10%
Sarjan Test	.182	.296	.309

*Note: Dependent Variable is Leverage; ** *Significant at 1% level, * *significant at 5% level &* significant at 10%level.*

In table 6, the results indicate the relationship between corporate governance and investment decision. Findings show that investment decision of listed firms is negatively related to the ownership structure and positively associated with ROA and FCF.

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Moreover, size and age of firms positively associated with the investment. These findings support the findings of Bohren *et al. (2006)* who found that good governance mechanisms improve the efficiency of capital allocation within firms and Chang *et al. (2008)* establish the impact of corporate governance mechanisms on firm investment decisions. While Ruiz-Porras and Lopez-Mateo (2011) evidence that the separation of ownership promotes investment decisions and cash flows positively impact on the investment of the firm. Aldrighi *et al.* (2011) who found that ownership and control structures significantly affect the firm's investment decisions.

Conclusion

Ownership structure, dividend policy and capital structure decisions are always a matter to ponder upon. Study examined the ownership structure impact on dividend payout and capital structure policy. By employing the data of a sample of 239 listed firms in Pakistan stock exchange from 2010-2017, study tried to enrich knowledge of financial decisions behaviour. Study used pooled OLS and robust estimators to examine the relationship between variables and found a mixed result supporting different theories regardless of dividend policy and leverage measures used in this study. In general, study's results are consistent with existing literature in emerging and advance stock markets, speciality highlighting the Pakistan stock market.

Study found that dividend payout in Pakistani companies was 24.68%. The institutional shareholding and managerial shareholding were seen making a very high impact on dividend payout of the firm. While on the other hand it was observed that institutional holdings and ROA were making high impact on dividend payout of listed firms in Pakistan. These results are in line with the results of existing literature such as, Shah *et al*. (2011). These inferences are almost in line with the majority of the literature reviewed. Corporates having high shareholding by its board are generally seen paying better dividends and vice versa. Study findings also indicate that firm size has a positive significant influence on dividend payout.

In case of capital structure policy decision, study found evidence that leverage positively influenced by size, providing evidence for the trade off theory, although it is inversely influenced by ROA, which recommends that the pecking order theory is more appropriate. Moreover, results also indicate the relationship between corporate governance and investment decision. Findings show that investment decision of listed firms is negatively related to the ownership structure and positively associated with ROA and FCF. Moreover, size and age of firms positively associated with the investment. Study findings support the findings that good governance mechanisms improve the efficiency of capital allocation within firms.

Relative to advance markets, a little is acknowledged regarding the dividend capital financing and corporate investment policies of firms in emerging markets, especially Pakistan. The stock market is speedily developing in Pakistan and future research might be carried out by adding the following variables, such as, human capital, aggregate investment, macroeconomic shocks, financial reforms and financial crises which have more influence on the financial decision in emerging markets.

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