Research

IMPACT OF FAMILY OWNERSHIP ON FINANCING DECISIONS: A COMPARATIVE ANALYSIS OF COMPANIES LISTED AT THE KSE

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Abstract

The current study attempts to investigate debt and dividend policies under the umbrella of capital structure's theories in both organizational types i.e. family owned business (FOB) and non-family owned business (NFOB). Two threshold points of ownership structure (25% & 50%) were used to distinguishing FOB from NFOB. A sample of 280 listed firms at the KSE was collected for the period 2002-13.Generalized Method of Moments (GMM) was applied on panel data to estimate the coefficients of variables. The empirical results indicated the weak application of pecking order theory and higher payout ratio in family firms comparatively. The study provided explanation regarding speedier rebalancing the target capital structure of family firms due to easier access to debt and long term presence of the family in the firm. However, FOBs smooth dividends to lesser extent than their counterpart NFOBs indicate lower agency and information asymmetry problems in them. SECP as well as stock exchanges are advised to bring required changes in corporate laws to ensure lucid and verifiable disclosure regarding dividend policy in their reports, prospectus and websites etc.

Keywords: Family business, financing decisions, GMM, KSE, panel data, SECP

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Introduction:

The capital structure is the topic which has been a source of great attraction to the research scholars since the early work of Modigliani and Miller (1958), but only a few studies have analyzed whether family ownership and control impact the financial policies of corporations. In spite of the recent studies in finance literature that explore the factors having impact on debt and dividend policies (e.g. see Frank and Goyal, 2009 and Denis and Osobov, 2008), the relation between ownership structure and financial policies especially in case of FOBs and NFOBs is yet scarce. A series of financial models and theoretical framework has been developed to explore the determinants of dividend policy along with debt policy that ultimately affect the corporate value of firms. Among them the most important are pecking order and trade-off theories (Myers and Majluf, 1984) which provide explanations regarding determining the target capital structure and dividend policy of firms. The main objective of both capital structure theories is to explain the factors that contribute to the financial decisions of a firm. Lintner's outcome model (1956) provided the explanations for the reasons behind stable[4] dividend policy (constant dividend per share); and argued that managers are reluctant to cut dividend payments as it might have adverse effect of stock price; consequently, the company's dividend remain stable over time.

In order to achieve the objective of study, the analysis is divided into two parts. In the first part, the capital structure decision is focused that investigate the role of ownership in FOBs to finalize the shape financing policy. In the second part, agency problem regarding dividend policy is analyzed to investigate the impact of family ownership and on dividend decisions. Taking into account the dynamic nature of these decisions, this study explore the determinants of stable dividend policy.

4-A number of companies follow the policy of paying a fixed amount per share as dividend every year, irrespective

Objectives of study

1. To test the role of ownership structure in financing policy of family owned and non-family owned firms.
2. To examine the agency problem with respect to ownership structure of family owned and non-family owned firms.
3. To investigate the impact of ownership in term of family and non-family business on dividend policy.
4. To make policy recommendations to both the above said organizational types.

Review of Literature

Previous family literatures that analyzed the debt policy reveal that debt level depends upon whether owner families make use of control-enhancing mechanisms. Ownership control weakens the asymmetric information problem as well as agency problem linked with corporate financial policy. It facilitates the FOBs to access external sources of debt financing. As family ownership reduces the agency problem the exist between creditors and shareholders, a weaker negative relation between current debt level and internal fund is expected. This type of negative relation is reported in many previous studies such as Miguel et al. 2004, and González & González, 2008. Family owned businesses (FOBs) create long-term relationships with financial institutions such as banks and others debt providers for better financing terms. That is why they are less dependent on internal sources and having fewer constraints to access external finance-debt and equity. Therefore, weaker negative relation is expected in FOBs as compared to NFOBs.

Target capital structure another important feature for every organization, the speed of adjustment toward the target capital depends upon financing decisions of the company. The previous literature of

finance showed a few studies that are available to explain how financial characteristics of firms that have impact the adjustment of speed toward target capital structure. Furthermore, information regarding speed toward target debt level helps the firms to rebalance their capital structure adequately. The current study aims to fill the gap in family literature by analyzing the impact of ownership control on the adjustment of speed toward target capital structure. Öztekin & Flannery (2009) showed through empirical evidences that the firms with better governance and lesser agency problems rapidly approach toward target capital structure. In family firms, due to lesser agency problem and lower level of information asymmetric problem leads to higher speed toward their target capital structure.

Agency theory highlights the relations between different stakeholders as well as major and minor shareholders. Rozeff (1982) exhibited with empirical evidence that the dividend policy of a firm is the result of application of Trade-Off theory. He provided the arguments that capital structure is based on the trade-off between tax savings (benefits) and distress costs of debt. The Pecking Order Theory states that firms prefer to issue external debt financing rather than equity financing after exhausting internal fund. The two main reasons for expecting higher dividend payout ratio in family firms are the following. First, dividend payment can be applied as an instrument of control mechanism in them which ultimately reduce agency conflict. Respecting the aforesaid arguments, the family business likely to pay more percentage of their net earnings as dividend to shareholders which enhance the control mechanism-one of the key desires of family owners. Secondly, family owned business can be used dividends to reduce expropriations of large shareholders and for better corporate governance practices. Taking into account the above arguments, a higher dividend payout ratio is expected in family owned businesses (FOBs) than non-family ones (NFOBs).

Firms that undergo severe agency conflicts may try to smooth dividends payout to alleviate such concerns of different types of

shareholders. On the contrary, in those firms where exist less severe conflicts of interest and asymmetric information (family owned firms) tend to smooth the amount of dividend payments to lesser extent. Michaely, R., and Roberts, M.R. (2006) opined that the firms with the least severe information and agency conflicts are less likely to alter their dividend policy and therefore, less likely to smooth dividends. As the family firms being fewer constraints than the non-family firms, hence, they are less likely to change their dividend policy.

Methodology

The main sources of our information are the annual reports, financial statements. Basic balance sheet analyses issued by State Bank of Pakistan (SBP) from the period spanning[5] of 2002 to 2013 are also used. The sample of study consists of 280 non-financial companies listed at Karachi Stock Exchange (KSE) Pakistan. As the current study is conducted regarding ownership structure in connection with financial policies, unobservable problems in the form of heterogeneity as well as endogeneity emerged out during the estimation process. Panel data methodology deals with heterogeneity while Generalized Method of Moments (GMM) help to control the endogeneity. The multi collinearity problem is the hallmarks of this type of study, t-statistics the coefficients for the individual variables might be insignificant. To deal with this problem Wald tests (w_1 and w_2) are applied to test the joint significance of coefficients and time dummy variables respectively. Finally, the potential misspecification of the models is checked by two ways called Hansen J-statistic and m_2 statistic.

Definition of Family owned business (FOB)

5-Previously this type of study was conducted on 7 years time span (D. I. R. Puerto, Julio P. García and D. Chabela de la T. O, 2010). For more validity the time span of current is increased up to 12 years.

A firm is said to of family owned business (FOBs[1]), if family directors have managerial ownership or voting rights 25% and 50% in the firm. 25% cut off point is proposed in the official definition of GEEF[2] by its French name. It is also in line with the definition adopted by the Board of Family Business Network in April 7, 2008. 50%[3] cut off point is used because ownership at this level confers the unequivocal control rights (Doidge et al., 2005). Also, particularly in Pakistan, owners of family companies hold more than 50% shareholdings (Attiya and Robina, 2010).

Hypotheses Formation and Specification of Models

H_1: There is weaker negative relation between internal fund and debt in FOBs as compared to their counterpart NFOBs.

In order to test the hypothesis H_1, the following model is framed as under:

$$DR_{it} = \alpha_0 + \beta_0 DR_{it-1} + (\beta_1 + \gamma_0 FOB) IF_{it} + \mu X_{it-1} + E_{it} \text{ ———————————————————}$$
$$(1)$$

In line with Pecking order theory, the weaker negative relation in family firms is expected. Therefore, the estimated coefficients for family firms and for non-family firms are expected in the form as $(\beta_1{}^\wedge + \gamma_o{}^\wedge) < \beta_1{}^\wedge < 0$.

H_2: FOBs adjust more speedily toward target capital structure than their counterpart NFOBs

To test the hypothesis-2, in line with (Fama and French, 2002), the model is specified in the following way.

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[1] FOB is defined on both criterion i.e. (25% & 50%).
[2]The official definition of family business was adopted on March 27, 2008 by the GEEF and on April 7, 2008 by the Board of the Family Business Network [3] More than 50 percent stake has been assumed to imply enough control on decision-making.

$DR^*_{it} = a + b\, IF_{it} + cX_{it-1} + E_{it}$ ————————————————(a)

The speed is capture by the following model. $DRit - DRit-1 = d$

$(DR^*it - DRit-1)$ ———————————————— (b)

Where $0 < d > 1$ is the speed of firms toward target capital structure over time.

By rearranging Eq. (b) we get the Eq. (c) as under:

$DR_{it} = d\, DR^*_{it} + (1-d)\, DR_{it-1}$ ————————————————(c)

By putting the value of DR^*_{it} from Eq. (a) in Eq. (c)

$DR_{it} = d\,a + (1-d)\, DR_{it-1} + bd\, IF_{it} + cd\, X_{it-1} + d\, E_{it}$ ——————   (d)

By Putting $da = \alpha_0$, $\beta_o = (1-d)$, $bd = \beta_1$

$DR_{it} = \alpha_0 + \beta_o\, DR_{it-1} + \beta_1\, IF_{it} + \mu\, X_{it-1} + E_{it}$ ———————————————
                                        (e)

Adjusting dummy variable FOB = 1 for family firms and FOB = 0 for non-family firms, the final shape of the model is as under.

$$DR_{it} = \alpha_0 + \beta_1\, IF_{it} + (\beta_0 + \gamma_1\, FOB)\, DR_{it-1} + \mu\, X_{it-1} + \text{€}_{itit}$$ ————————(2)

For family firms the impact is captured $(\hat{\beta}_0 + \hat{\gamma}_1)$ and for non-family firms $(\hat{\beta}_0)$. The speed of adjustment is $1 - (\hat{\beta}_0 + \hat{\gamma}_1)$ and $1 - \hat{\beta}_0$ for family firms and for non-family firms respectively. According to hypothesis-2, it is expected $(\hat{\beta}_0 + \hat{\gamma}_1) < (\hat{\beta}_0$

H_3: *There is higher dividend payout ratio in FOBs as compared to NFOBs.*

In order to test the hypothesis H_3, the model is designed as under:

$$DIV_{it} = \alpha_0 + \beta_2\, DIV_{it-1} + (\beta_3 + \gamma_2\, FOB)\, NE_{it} + \mu\, X_{it-1} + E_{it}$$ ——(3)

For family firms the impact is captured $(\hat{\beta}_3 + \hat{\gamma}_2)$ and for non-family firms $\hat{\beta}_3$. It is expected $(\hat{\beta}_3 + \hat{\gamma}_2) > \hat{\beta}_3$ as per hypothesis-3.

H_4: FOBs have stable dividend policy than their counterpart NFOBs

In order to test the hypothesis H_4, the following model is developed.

According to Linter's model of target dividend, the dividend policy is a factor of net earnings of company.

$$DIV^*_{it} = a + b\,NE_{it} + d\,X_{it-1} + \mathring{A}_{it} \qquad\qquad\qquad\text{(f)}$$

It is the fact that firms tend to fill the gap between target dividend ratio and current level of dividend gradually. The speed can be captured by the following model:

$$DIV_{it} - DIV_{it-1} = e\,(DIV^*_{it} - DR_{it-1}) \qquad\qquad\qquad\text{(g)}$$

Where $0 < e > 1$ is the speed of firms toward target capital structure over time. By solving the equation (f) and (g)

$$DR_{it} = e\,a + (1-e)\,DIV_{it-1} + be\,NE_{it} + de\,X_{it-1} + e\,\mathring{A}_{it} \qquad\qquad\text{(h)}$$

Put $ea = \alpha_0$, $\quad \beta_2 = (1-e)$, $be = \beta_3$ and $de = \mu$

$$DIV_{it} = \alpha_0 + \beta_3\,NE_{it} + \beta_2\,DIV_{it-1} + \mu\,X_{it-1} + \mathring{A}_{it} \qquad\qquad\text{(i)}$$

Adjusting dummy variable FOB = 1 for family firms and FOB = 0 for non-family firms, the final shape of the model is as under:

$$\mathbf{DIV_{it} = \alpha_0 + \beta_3\,NE_{it} + (\beta_2 + \gamma_3\,FOB)\,DIV_{it-1} + \mu\,X_{it-1} + E_{it}} \text{—(4)}$$

The impact of family firms is captured $(\beta_2{}^\wedge + \gamma_3{}^\wedge)$ and for non-family firms $(\beta_2{}^\wedge)$. As proposed in hypothesis-4, it is expected that $(\beta_2{}^\wedge + \gamma_3{}^\wedge) > \beta_2{}^\wedge$. The adjustment speed for non-family firms is $e = 1 - \beta_2{}^\wedge$ and for family firms is $e = 1 - (\beta_2{}^\wedge + \gamma_3{}^\wedge)$.

Empirical Results:

Table-1

Summary Statistics &Correlation Matrix for the full sample of financing decisions

Panel (A): Summary Statistics for the full sample					
Variables	Mean	Median	Standard deviation	Minimum	Maximum
DR_{it}	0.743	0.708	0.361	0.110	0.990
DIV_{it}	0.008	0.002	0.019	0.000	0.202
CF_{it}	0.060	0.053	0.191	-1.213	0.445
$SIZE_{it}$	9.159	7.927	10.120	1.325	12.478
AR_{it}	0.269	0.315	0.139	0.109	0.421
INV_{it}	0.022	0.023	0.052	-0.721	0.046
Q_{it}	0.798	0.679	0.172	0.010	8.649
ROA_{it}	0.192	0.181	0.169	-0.661	0.784

In Table-1 Panel (A) provides the details of means, medians, and standard deviations, minimum and maximum of the variables used in the different types of analyses. The Panel (B) contributes the correlation between the variables used in the study. The sample consist of 280 companies (3360 observations) listed in Karachi Stock Exchange Pakistan. The data sample is collected ranging from the period 2002 to 2013. The DR_{it} and DIV_{it} are the debt ratio and dividend ratio paid for the corresponding year t. CF_{it} stands for cashflow, $SIZE_{it}$ denotes Size is the firm; AR_{it} is the average account receivable, INV_{it} denotes the net investment of firms, Q_{it} denotes as Tobin Q and ROA_{it} means return on total assets.

Panel (B): Correlation Matrix for the full sample								
Variables	DR_{it}	DIV_{it}	CF_{it}	$SIZE_{it}$	AR_{it}	INV_{it}	Q_{it}	ROA_{it}
DR_{it}	1.000							
DIV_{it}	-0.213	1.000						
CF_{it}	-0.251	0.349	1.000					
$SIZE_{it}$	0.198	-0.042	0.098	1.000				
AR_{it}	-0.180	0.061	0.586	-0.163	1.000			
INV_{it}	-0.016	0.001	0.134	-0.002	0.005	1.000		
Q_{it}	-0.320	0.356	0.379	-0.025	0.005	0.082	1.000	
ROA_{it}	-0.213	0.450	0.923	0.088	0.108	0.149	0.368	1.000

In Table-1 panel (A) gives the summary statistics of all the variables of full sample used in this study. The mean values of debt ratio (0.743) and dividend (0.008) are ranging from 0.110 to 0.990 and 0.000 to 0.202 respectively. The average value of Tobin Q is 0.798 indicates a notable gap between market and book values of firms. The mean values account receivables and return on assets (0.269 and 0.192) provide insight of good sign regarding business operations. Details of cash flow, size and debt can be seen in Table-1. Similarly, Panel (B) provides summary statistics of all the variables used in the analyses. It is noteworthy that correlation exists between independent variables.

Figure-1 depicts the percentage distribution of family and non-family firms at 25% and 50% threshold points. It also shows the further percentage distribution in different sectors in family firms.

Figure-1
Distribution of family and non-family firms
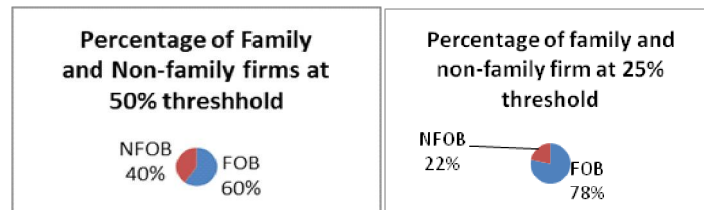
Regression Results

This segment of study depicts the results drawn from empirical models using 25% cut off point for classification of FOBs and NFOBs. The regression results can be seen in Table-3.

The results drawn by estimating the model (1) provides the insight of ownership on financing behavior of corporations. The results reveal that impact of internal fund on debt for NFOBs is ($\beta_1 = -0.140$) and for FOBs ($\beta_1 + \gamma_0 = -0.140 + 0.080 = -0.060$). The estimated coefficients confirm the weak relation between internal fund and debt and support the hypothesis-1 at 1% level of significance.

The estimated coefficients of hypothesis-2 for non-family firms is ($\hat{\beta}_0 = 0.649$) and for family firms is ($\hat{\beta}_0 + \hat{\gamma}_1) = (0.649 - 0.025) = 0.624$. Therefore, adjustment speed for family firms is $1 - 0.624 = 37.6\%$. For nonfamily firms this speed can be captured as $1 - 0.649 = 35.10\%$. The results are also statistically significant at 1% level.

. The estimated coefficients of hypothesis-3 for non-family firms is ($\hat{\beta}_3 = 0.004$) and for family firms is ($\hat{\beta}_3 + \hat{\gamma}_2) = (0.004 + 0.015 = 0.019$) show significantly positive impact of net earnings on dividend payment. The empirical results confirm the hypothesis-3.The results support the arguments of substation effect between ownership structure and dividend policy in terms of reducing agency conflict such like (Goergen, et al., 2005).

The results of hypothesis-4 is supporting our expectation i.e. family firms have stable dividend policy as compared the non-family firms. Conversely, the family firms have slow speed toward target dividend structure or the family firms are less likely tosmooth their dividend policy. The estimated coefficients for non-family firms is ($\hat{\beta}_2 = 0.318$) and for family firms is ($\hat{\beta}_2 + \hat{\gamma}_3) = (0.318 + 0.075 = 0.226$) show significant positive impact of previous level of dividend to current level of dividend payment. The speed of adjustment can be computed

as $(1 - \beta_4 = 1 - 0.318 = 68.20\%)$, $(1 - \beta_4 - \gamma_4 = 1 - 0.0.318 - 0.075 = 60.70\%)$ for non-family firms and family firms respectively. It means that FOBs speed of adjustment lower than their counterparts NFOBs. Our results are in line with previous studies such like (Gugler, K. 2003).

Table-3

Dividend and debt policies of family and non-family companies (25% cut off point)

Variables	Co	Model-1		Model-2		Model-3		Model-3	
		Value	SE	Value	SE	Value	SE	Value	SE
constant	α_0	-0.046*	0.006	-0.055*	0.006	0.005*	0.001	0.004*	0.001
DR_{it-1}	β_0	0.579*	0.005	0.649*	0.005				
CF_{it}	β_1	-0.140*	0.005	-0.112*	0.005				
DIV_{it-1}	β_2					0.249*	0.002	0.318*	0.001
NE_{it}	β_3					0.004*	0.001	0.022*	0.003
$FOBCF_{it}$	γ_0	0.080*	0.007						
$FOBDR_{it-1}$	γ_1			-0.025*	0.006				
$FOBNE_{it}$	γ_2					0.015*	0.002		
$FOBDIV_{it-1}$	γ_3							0.075*	0.002
$SIZE_{t-1}$	μ_1	0.005	0.001	0.006*	0.000	0.001*	0.000	0.001**	0.000
AR_{it-1}	μ_2	-0.026*	0.001	-0.026*	0.001	0.006*	0.000	0.005*	0.000
INV_{it-1}	μ_3	0.004	0.002	0.003	0.004	0.002	0.002	0.001	0.002
Q_{it-1}	μ_4	-0.014*	0.001	-0.016*	0.001	0.006*	0.000	0.005*	0.000
ROA_{it-1}	μ_5	0.002*	0.001	0.002*	0.001	-0.012*	0.001	-0.013*	0.000
T-statistics	t_1	-14.43							
T-statistics	t_2			164.62					
T-statistics	t_3					24.22			
T-statistics	t_4							124.11	
Wald Test-1	w_1	6284.57 (8)		6334.57 (9)		3331.67 (8)		5381.67 (8)	
Wald Test-2	w_2	227.01 (8)		217.01 (8)		217.01 (8)		111.01 (9)	
Correlation Test-1	c_1	-7.590		-7.898		-7.898		-2.898	
Correlation Test-2	c_2	1.231		1.531		1.531		1.130	
Hansen	h	578.78	182	538.78	162	498.72	162	398.72	162
Speed toward Target capital structure		NFOB = 35.10% and FOB = 37.60%							
Speed toward Target Dividend Ration		NFOB = 68.20% and FOB = 60.70%							

Table-3 shows comprehensive analysis of dividend and debt policies of family and non-family companies at 25% cut off point. Generalized method of moments (GMM) is used to test the hypotheses (1-4). The dummy variable FOB equal 1 for Family business and zero otherwise. DR_{it} and CF_{it} are the debt and cashflow ratios of the company. DIV_{it} and NE_{it} are the dividend and net earnings ratios of the company. $SIZE_{it}$, AR_{it} are the size and average account receivables of the companies. INV_{it} shows net investment of the companies. Q_{it} and ROA_{it} is the Tobin q and return on assets of companies. The

procedure followed to classify FOBs from NFOBs is explained in section 3.1. The sample consists of 3360 observations, 280 non-financial companies listed on Karachi Stock Exchange (KSE) Pakistan for the period ranging from 2002 to 2013. The ***, ** and * denote significance level at 10%, 5% and 1% respectively. T-statistic (t_1) shows the linear restriction under the null hypothesis H_0: $\beta_1 + \gamma_0 = 0$. T-statistic (t_2) indicates the linear restriction under the null hypothesis H_0: $\beta_0 + \gamma_1 = 0$. T-statistic (t_3) provides the linear restriction under the null hypothesis H_0: $\beta_3 + \gamma_2 = 0$. T-statistic (t_4) indicates the linear restriction under the null hypothesis H0: $\beta_2 + \gamma_3 = 0$ w_1 shows the Wald Test-1 for the joint significance of the estimated coefficients under null hypothesis H_0 (asymptotically distributed) and the value under parenthesis denotes the degree of freedom. w_2 is the Wald Test-2 for the joint significance of the times dummies under null hypothesis H_0 (asymptotically distributed) and the value under parenthesis shows the degree of freedom. c_1 is the serial correlation Test-1 of order 1 using residual in first difference under assumption of null hypothesis (no serial correlation) asymptotically distributed. c_2 is the serial correlation Test-2 of order II using residual in second difference under assumption of null hypothesis (no serial correlation) asymptotically distributed. h indicates the Hansen test of over identifying restriction under assumption of null hypothesis as no correlation between instruments and error term and the value in parenthesis is the degree of freedom.

Robustness checks

The Table-4 is designed to check the robustness of tests that allow us verify the validity of above presented empirical evidences on 50% cut off point. These results are slightly different from the previous. The speeds toward target capital structure and target dividend policy are increased which further strengthens the proposed hypotheses of this study.

Table-4

Dividend and debt policies of family and non-family companies (50% cut off point) (See detail in Table-3)

Variables	Co	Model-1 Value	SE	Model-2 Value	SE	Model-3 Value	SE	Model-3 Value	SE
constant	α_0	0.066*	0.002	0.025*	0.002	-0.015*	0.001	-0.014*	0.001
DR_{it-1}	β_0	0.689*	0.004	0.612*	0.004				
CF_{it}	β_1	-0.131*	0.004	0.871*	0.004				
DIV_{it-1}	β_2					0.242*	0.002	0.261*	0.001
NE_{it}	β_3					0.005*	0.001	0.024*	0.003
$FOBCF_{it}$	γ_0	-0.438*	0.005						
$FOBDR_{it-1}$	γ_1			-0.010*	0.004				
$FOBNE_{it}$	γ_2					0.001*	0.002		
$FOBDIV_{it-1}$	γ_3							0.085*	0.003
$SIZE_{it-1}$	μ_1	0.006	0.001	0.006*	0.000	0.002*	0.000	0.002**	0.001
AR_{it-1}	μ_2	-0.016*	0.002	-0.016*	0.002	0.008*	0.000	0.005*	0.000
INV_{it-1}	μ_3	0.003	0.001	0.002	0.002	0.001	0.002	0.003	0.003
Q_{it-1}	μ_4	-0.015*	0.001	-0.076*	0.001	0.005*	0.000	0.004*	0.000
ROA_{it-1}	μ_5	0.002*	0.001	0.003*	0.001	-0.022*	0.001	-0.023*	0.000
T-statistics	t_1	-2.43							
T-statistics	t_2			25.62					
T-statistics	t_3					24.62			
T-statistics	t_4							1.892	
Wald Test-1	w_1	6277.67 (7)		6634.17 (9)		3341.11 (8)		5482.37 (8)	
Wald Test-2	w_2	212.11 (7)		227.01 (8)		217.01 (8)		161.11 (9)	
Correlation Test-1	c_1	-6.590		-6.898		-7.898		-3.119	
Correlation Test-2	c_2	1.131		1.521		1.531		1.132	
Hansen	h	588.88	182	548.28	162	418.79	162	399.79	162
Speed toward Target capital structure		NFOB = 38.90% and FOB = 43.38%							
Speed toward Target Dividend Ratio		NFOB = 73.90% and FOB = 65.40%							

Conclusion and Discussion

The current study is an attempt to examine the impact of ownership structure on debt and dividend policies, in terms of family owned business (FOB) and non-family owned business (NFOB). The study is designed to explore the family business models and its effect on financial decisions. Two specific issues are focused regarding different organizational types. First, the debt policy with respect to ownership structure is addressed under the shadow of capital structure theories i.e. pecking order and trade-off theories. These theories are the ever hot subject matter in the finance literature. Second, the dividend policy under the umbrella of Lintner's (1950) model of dividend is analyzed. Other capital structure's theories like Agency theory, MM theory, and Signalling and tax clientele theories

also incorporated which offer encyclopedic theoretical background to discussion.

Several stylized facts and unique characteristics of corporations that are collected from prior studies to be considered to further categories then specific firm levels. The empirical results drawn contribute to previous finance literature regarding debt structure and dividend decisions by taking new variable as family ownership which provide additional explanations with respect to performance difference between family owned and non-family owned firms. The identification of speed toward target capital structure and speed toward target dividend ratio of family and non-family firms is the hallmark of this study.

Taking into consideration the importance of previous family literature, the capital structure theories are used to discover the determinants of both debt and dividend policies. The dividend choices are analyzed in term of family owned business (FOB) and non-family owned business (NFOB) in relation with their net earnings. Based on the empirical evidences regarding internal fund and leverage, net earnings and dividend policy, two main findings are analyzed. First of all, the significant negative relation between cashflow and debt ratio indicates weak application of pecking order theory in family firms. Furthermore, this result provides explanation that problems due to asymmetric information are less sever in FOBs which allow them easier access to external funds as compared to NFOBs. Also, empirical results show lower agency problem between owners and creditors. As a consequence, lower cost of leverage financing (Anderson, Mansi, and Reeb, 2003).

Second, dividend payout ratio higher in family firms provides interpretations to outcome model of dividend (Chae, Kim, and Lee, 2009). It is argued that owner's large stake in FOBs allow them to pressurize managers to distribute higher proportion of net earnings as

dividend payment to shareholders (Faccio, Lang, and Young, 2001). In line with previous arguments of dividend preference in FOBs, it is argued that a higher level of dividend in family companies is due to better corporate governance structure. Therefore, the dividend policies of family firms are in line with the free cash flow interpretation of dividend models (Jensen, 1986). Other factors regarding the impact of ownership structure on debt and dividend policies are explored by using different capital structure models. These models support the trade-off theory as well as Linter model of dividend (1956) in case of debt and dividend financing.

These models are extended by incorporating the role of ownership structure in terms of family and non-family firms. The results of this study uncover the fact that the adjustment of speed toward debt structure as well as toward dividend payout ratio is different in family firms than their non-family counterparts. Consistent with the hypotheses, it is concluded that family owned businesses (FOBs) rebalance their debt level with higher speed due to easier access to debt and long term presence of the family in the firm. Diametrically opposite to this fact family owned business (FOB) slowly achieve their target dividend policy. In other words, there is more stability regarding dividend policy in family firms as compared to their counterparts. In addition, the reason for this empirical finding is that FOBs consider transaction cost as a factor in devising dividend policy (Rozeff, 1982). These results contribute additional explanations for the difference in corporate performance of FOBs and NFOBs. For example faster speed of adjustment toward target capital structure could have significant positive impact on value. Similarly slower speed toward target dividend policy indicates a positive sign of stability in dividend policy in family owned business (FOB).

Interesting conclusions can be drawn that FOBs in Pakistan, contrary to Asian countries, have found debt inclined rather than liquidation. In this way, distressed borrowers could be important factor which must be incorporated as determinant of dividend policy and

capital structure in Pakistan. The future research should incorporate this factor as a determinant. Similarly the payout ratio is concluded higher contrary to other Asian countries (O. Machek and J. Hnilica, 2014).

Recommendations

1. As it is concluded that there is weak application of pecking order theory in family firms. Conversely, NFOBs are advised to take measures against asymmetric information problem.
2. .It is recommended for the managers of NFOBs not to let the firms create a wide gap between exiting and target capital structure. Thus, do measures in this regards.
3. As being concluded comparatively stable dividend policy in family firms, the investors are advised to prioritize their investments in family owned companies.
4. Being regularity authorities; the Security Exchange Commission of Pakistan (SECP) as well as stocks exchanges are advised to monitor the companies regarding stability in their dividend policy especially non-family business.
5. No disclosures regarding dividend policy are given in company's annual reports and financial statements; in this regard regulators (SECP & stock exchanges) are advised to bring required changes in corporate laws to insure that lucid and verifiable dividend policies which would be disclosed to investors. This study recommends the dividend policy disclosures to be the evaluation criteria for SECP and stock exchanges.

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