European Online Journal of Natural and Social Sciences 2019; www.european-science.com
Vol.8, No 4 pp. 679-686
ISSN 1805-3602

Impact of Ownership Structure on Dividend Payout Policy in Cement Industry of Pakistan

Misbah Jabeen*, Muhammad Ahmad
University of Central Punjab, Lahore, Pakistan
*E-mail: misbahjabeen254@gmail.com

Received for publication: 02 April 2019.
Accepted for publication: 27 September 2019.

Abstract

The purpose of this study is to analyze the impact of ownership structure on dividend payout policy in Pakistan. In this study, ownership structure was used as an independent variable which is measured by Managerial ownership structure, institutional ownership structure and individual ownership structure and dividend payout policy was used as a dependent variable which is measured by dividend payout ratio. A sample of 15 companies listed in Pakistan stock exchange from 2013-2017 were selected from the cement industry in Pakistan. For the purpose of analysis descriptive statistics, Pearson's correlation and multiple regression are used. The results reveal that institutional ownership and individual ownership have significant impact on dividend payout policy. Firm size and managerial ownership structure have insignificant impact on dividend payout.

Keywords: Managerial ownership structure, Institutional ownership structure, Individual ownership structure, Firm size, dividend payout policy.

Introduction

In corporate policies dividend policy considered as the most important policy. The dividend policy is concerned with regarding how much pay the cash to shareholders out of firm profit. Dividend policy is the process of deciding between retaining profits and distributing profits to shareholders (Ho, 2003). It is a major issue in corporate finance about making the decision on the payment of dividend and its amount, because the amount of money that must be paid to investors and the amount of money that must be retained for reinvestment is determined (Pourebrahimi & Khosroshahi, 2013). Therefore, the dividend policy is a sensitive subject, and its balance can be defiantly influenced on company ownership structure. Similarly, dividends can be used to mitigate the agency problem that could appear in the company between managers and shareholders, as they are considered the control mechanisms of the directive (Rozeff, 1982; Easterbrook, 1984; Jensen M. C., 1986).

Dividend payout policy is used to prevent shareholders with power from diverting retain earning for their own benefits (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). In Pakistan, companies prefer to retain income for additional investment in business and only 23% of profit after tax is converted into dividend (Mehar, 2005). On the other hand, 10% Withholding tax is imposed on the dividend income (Afzal & Sehrish, 2011). In Pakistan the dividend payout ratio is low so according to shareholder point of view if the amount of dividend is not paid to the shareholders, probably it might be use manager for personal use instead of investing in profitable projects (Tahir, Aslam, & Akhtar, 2014).

Several studies have been conducted in the relationship between ownership structure and dividend policy which showed mixed results (Gharaibeh, Zurigat, & Al-Harahsheh, 2013; Tahir, Aslam, & Akhtar, 2014; Miko & Kamardin, 2015; Sindhu, Hashmi, & Haq, 2016; Balagobei &

Thiruchchenthurnathan, 2016). Different study results showed that managerial ownership structures have negative relationship with dividend Payout and Institutional ownership have positive relationship with dividend payout (Al-Gharaibeh, Zurigat & Al-Harahsheh, 2013; Sindhu, Hashmi, & Haq, 2016). However other study found that Institutional ownership has negative relationship with dividend payout and individual ownership has positive relationship with dividend payout (Tahir, Aslam, & Akhtar, 2014). On the other hand, individual ownership has insignificant relationship with dividend payout (Miko & Kamardin, 2015; Balagobei & Thiruchchenthurnathan, 2016). So, there is inconsistency in literature; therefore, further research is to be needed. This recent study is helps the companies about what type of ownership structure should be which is suitable for the companies.

The main objective of this study is to examine the impact of ownership structure on dividend policy of listed companies in Pakistan stock exchange. The primary objective is to identifying the relationship of ownership structure and dividend policy. The secondary objective of this study is established the relationship between ownership structure and dividend policy.

Literature Review

The purpose of this study is to identify the effect of ownership structure on dividend payment policy. Therefore comprehensive literature has been conducted in order to understand the critical factors that affect the dividend policy. Dividend policy plays an important role to control the possible conflicts between big and small shareholders, because it is possible to limit the extraction of wealth of big shareholder through the payment of dividend (Jensen M. C., 1986). Some authors indicate that big shareholders are dominates so that dividend can also be used to controlling shareholders to compensate the minority shareholders (Faccio, Lang, & Young, 2001).

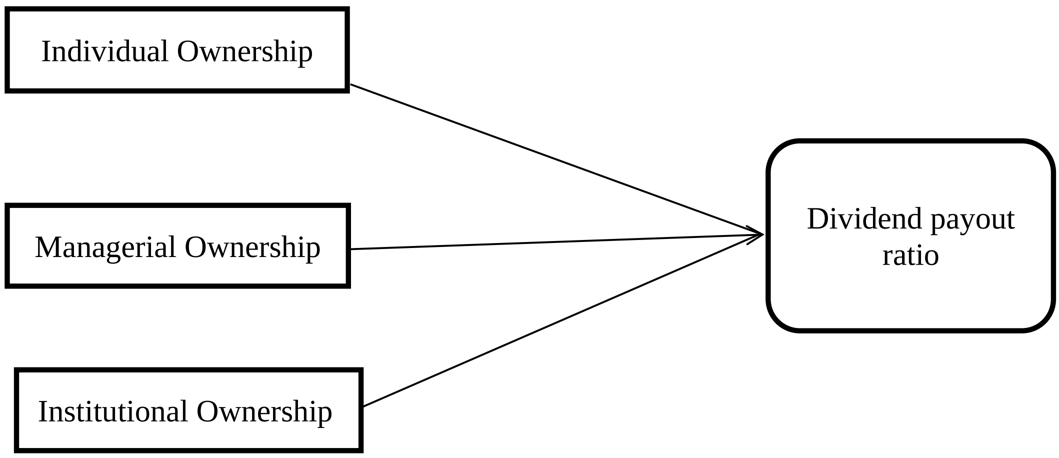
In corporate governance ownership structure is an important internal mechanism (Cvelbar & Mihalič, 2008). It is defined by the distribution of equity with regard to votes and capital as well as identify of equity owners, these structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of corporation they manage (Jensen & Meckling, 1976). Therefore, ownership structure is very important and influential factor in determining the efficiency of the market by giving information about two significant things. First, it shows the extent of risk diversification of shareholders. Second, it gives information about the possible agency problems in the management of corporation (Leal & Carvalhal-da-Silva, 2004).

The relationship between Managerial ownership and dividend policies have been strongly discussed and documented in many studies (Jensen & Meckling, 1976). Similarly, Institutional investors are corporate investors who are different corporate entities like financial institution, bank, insurance, pension funds and other corporate institutions (Koh, 2003). Through different studies it is find that managerial ownership has significant negative relation with dividend payout therefor manager will prefer to retain earning because they will attain more benefits from investing in project and will purchase further assets for that organization. On the other hand institutional ownership has significant positive relation with dividend payout so that if the firm have institutional that will lead to distribute more and more dividend to its shareholders (Gharaibeh, Zurigat, & Al-Harahsheh, 2013; Miko & Kamardin, 2015; Sindhu, Hashmi, & Haq, 2016).

Corporate culture and its performance have supposed to be positively effect through foreign ownership. So that having foreigner as the largest shareholder of a firm is a signal that a firm has a batter governance environment (Aguenaou, Farooq, & Di, 2013). Different researcher conducted a research and found that there is no significant relationship between dividend payout and individual and institutional ownership structure, in respect to foreign ownership, the results indicate that there is a significant positive relationship between foreign ownership structure and dividend payout and individual ownership have no significant relationship with dividend payout (Mossadak, Fontaine, & Khemakhem, 2016; Balagobei & Thiruchchenthurnathan, 2016). On the other hand, it is found that there is a positive and significant relationship between individual ownership and dividend payout and insignificant relationship between institutional ownership dividend payout (Tahir, Aslam, & Akhtar, 2014). However, Foreign ownership have significant negative relationship with dividend payout, increase in foreign ownership cause a reduction in dividend payout, foreign shareholders not to prefer distribute company profit to their shareholders or distribute only low amount and use retained earnings for investment (Sakinc & Gungor, 2015; Ibrahim, 2016).

Block-holders are the holders of 5% and the above of the equity stock (Mitton, 2004). Block ownership have more monitoring power to safeguard their investment. Block holder positively affect the firm's level regardless of whether they are state block holder or non-state one, therefore block holders are more interested in dividend rather than capital gain (Zandi & Shahabi, 2014). On the other hand, block holder and managerial shareholder have strongly negatively related to dividend payout ratio, while, Institutional shareholders have positive strong and significant influenced on dividend payout (Dandgo, 2015). Dividend payout reports the agency problems in between top level internal ownership and external shareholders. Managerial owner prefer to retain for usage of personal benefits and favorable NPV projects instead of distribution to shareholders, Moreover institutional owner has a greater influence on the dividend payout of the firms because of their majority ownership in the firms and voting rights in the management (Short, Zhang, & Keasey, 2002). The agency theory explains that the absence of proper evaluation of management activities by shareholders of a firm leads to provide indirect benefits to its managers. When company pays high dividends it will reduce the available free cash flow for investment and force managers to seek external financing. The external market that they wish to access will monitor the utilization of funds and evaluate the company engagements. Based on these implications, the agency model predicts that dividends are systematically related to the kind of monitoring by the firm's shareholders (Khan T. , 2006).

The conflict of interest arises between managers and owner create agency problem, Agency theory argued that shareholder and manager conflict reduce through the payment of dividend and it performs a controlling function where monitoring of firm's management by its shareholders is inactive (Rozeff, 1982; Easterbrook, 1984; Jensen, 1986). Jensen (1986) argued that by paying dividend the discretionary resources under managerial control can be decreased and in this way the overinvestment problem can be resolved. In this study the variables are taken from the prior studies.



In this study firm size used as control variable, because through literature it is found that when the size of the firm increased they paid more dividend (Azeem & Mehsud, 2016).

Large firms are matured for raising loans and easily access the capita market as compared to small firms that's why they did not depend on retained earnings, there is less dependency of large firm on retained earnings so it ultimately allowed large firms to pay high dividend (Azeem & Khurshid, 2013).

Methodology

This study measures the impact of ownership structure on dividend payout in Pakistan. For this purpose data is collected from the secondary sources. The data is collected from Pakistan stock exchange financial analysis reports, balance sheet analysis reports of State bank of Pakistan and annual report of firms. The annual report is obtained from firm official websites and Pakistan stock exchange website. The data is taken from Cement sector of listed in Pakistan stock exchange 2013-2017. Cement sector is the most vibrant and growing sector in Pakistan (Khan, Sohail, & Ali, 2016).

In this study dividend payout as a dependent variable, this is measured by cash dividend per share/ Earning after Tax per shares (Balagobei & Thiruchchenthurnathan, 2016). The dividend payout ratio is the percentage of earning which is paid to the shareholders in form of dividend. Managerial ownership is an independent variable which is by proportion of shares owned by executive directors and their families (Miko & Kamardin, 2015).

Institutional ownership is an independent variable, which is measured by proportion of shares owned by banks, insurance companies, investment firms and other large financial institutions (Sindhu, Hashmi, & Haq, 2016). Individual ownership is an independent variable, which is measured by number of shares held by individual/ total number of shares (Tahir, Aslam, & Akhtar, 2014). Firm size is used as control variable which is measured by natural log of total assets (Gharaibeh, Zurigat, & Al-Harahsheh, 2013).

This study constructs regression analysis for carrying out empirical analysis. The following regression model has been developed to analyze the relationship between ownership structure and dividend payout policy.

$$\text{DIV PAYOUT} = ß_0 + ß_1 \text{ INSTI OW} + ß_2 \text{ MANG OW} + ß_3 \text{ INDIVI OW} + ß_4 \text{ FIRM SIZE} + \varepsilon$$

Where, $ß_0, ß_1, ß_2, ß_3, ß_4$ are regression coefficient

DIV PAYOUT= Dividend payout

INSTI OW= Institutional ownership

MANG OW= Managerial ownership

INDIVI OW = Individual ownership

FIRM SIZE = Firm Size

Results

Data analysis

The descriptive statistics describe the characteristics of ownership structure and dividend policy prevalent among cement industries listed in Pakistan stock exchange.

Table 1 presents the descriptive statistics about the variables of study. Result show that DIV PAYOUT in cement Industry in Pakistan is mean value is .43430. The minimum value is .050 and maximum value is 1.350 with standard deviation is .35807. Furthermore the value of skewness and kurtosis indicating that data used about dividend policy in this research is showing normal behavior. Institutional ownership (INSTI OW), managerial ownership (MANG OW) and individual ownership (INDIVI OW) are types of ownership structure. INSTI OW holds 14.173% shares of companies, maximum hold shares is 36.5% and minimum value is 0% with standard deviation is .097325, MANG OW holds 10.535% shares of companies, their maximum value is 62.5% and minimum value is %000 with standard deviation is .18782. INDIVI OW holds 20.01346% shares of companies, Maximum hold shares is 54.3% and minimum is 1.17% with standard deviation is .14223847. The value of skewness and kurtosis of ownership structure indicating that data used about ownership structure in this study is showing normal behavior.

Table 1: The descriptive statistics used is this study consist of minimum, maximum, mean, standard deviation, skewness and kurtosis.

	Minimum	Maximum	Mean	Std. Deviation	Skewness	kurtosis
DIVPAYOUT	.050	1.350	.43430	.358073	1.132	.029
INSTI OW	.000	.365	.14173	.097325	.658	-.072
MANG OW	.000	.625	.10535	.18782	1.643	2.878
INDIVI OW	.0117	.543	.2001346	.14223847	.892	.191
FIRM SIZE	9.526	11.035	10.16404	.446858	.471	-.785

For the purpose of this study Pearson coefficient matrix is used to identify the relationship between ownership structure and dividend payout.

Table 2. Correlation Matrix

	INSTI OW	MANG OW	INDIVI OW	FIRM SIZE	DIV PAYOUT
INSTI OW	1				
MANG OW	.333	1			
INDIVI OW	-.132	-.540	1		
FIRM SIZE	.144	-.170	.325	1	
DIV PAYOUT	.355	.038	.374	.360	1

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

According to Table 2, Correlation coefficient between Institutional Ownership structure and dividend payout is .355 which is not significant at .05 level, represents there is a no significant relationship between institutional ownership structure and dividend payout. At the same time correlation coefficient between managerial ownership structure and dividend payout is .038 which is significant at .05 level, which represent that there is significant relationship between managerial ownership structure and dividend payout. Correlation coefficient between individual ownership structure and dividend payout is .374 which is not significant at .05 level, which represents that there is not significant relationship between individual ownership structure and dividend payout. Correlation coefficient between firm size and dividend payout is .360 which is not significant at .05 level, Which represents that there is no significant relationship between firm size and dividend payout.

Multiple Regression Analysis

Regression analysis is used to know how well the dividend payout policy can explain the ownership structure (Institutional ownership structure, managerial ownership structure and individual ownership structure) and firm size.

Table 3. Coefficient of regression analysis:

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-8.50	1.084		-.784	.437
INSTI OW	1.158	.437	.315	2.445	.018
MANG OW	.537	.383	.222	1.496	.142
INDIVI OW	1.186	.369	.471	3.212	.002
FIRM SIZE	.160	.103	.200	1.559	.126
R^2 = .368 F= 6.563					

According to Table 3 R^2 .368 which shows that 36.8% observed variability of dividend payout is determined by the difference in the ownership structure such as Institutional ownership, managerial ownership and individual ownership and firm size as well as Balance 63.2 of Variability of dividend payout is decided by other factors which are not depicted in this model.

Further table 3 explains the impact of ownership structure on dividend payout policy. For institutional Ownership and dividend payout t value is 2.445 and p value is .018 which is less than .05. So, institutional Ownership has Significant Impact on Dividend Payout. For

Managerial Ownership and dividend payout t value is 1.496 and p value is .142 which is more than .05. So, managerial Ownership has no Significant Impact on Dividend Payout. For individual ownership structure and dividend payout t value is 3.212 and p value is .002 which is less than 0.05. So, individual ownership structure has significant impact on dividend payout. For firm size and dividend payout t value is 1.559 and p value is .126 which is more than .05. So, firm size has no Significant Impact on Dividend Payout. F-statistics showing 6.563 with significant p-value, it mean model is good.

Conclusion

The purpose of this study is to analyze the impact of ownership structure on dividend payout ratio of cement sector listed in Pakistan stock exchange. Descriptive statistics indicate that data of all variables are normal approximately. Correlation matrix indicates the relationship between dependent, independent, and control variables and also explains that problem of multicollinearity does not exist. For regression analysis, linear regression analysis is used. In regression analysis institutional ownership structure and individual ownership structure as components of ownership structure have significant relationship with dividend payout, which indicates that with the rise in institutional ownership and individual ownership shows a favorable indication for dividend payout, which means that if the companies have Institutional ownership as well as individual ownership they will lead to distribute more and more dividend to its shareholders. Further this study also shows that managerial ownership has insignificant relationship with dividend payout which shows that they will prefer to retain profit rather than paying dividend to its shareholders. In this study firm size used as a control variable, the results show that firm size has insignificant relationship with dividend payout. Moreover, this finding corroborated by the finding of recent research work such as (Gharaibeh, Zurigat, & Al-Harahsheh, 2013; Sindhu, Hashmi, & Haq, 2016).

References

Afzal, M., & Sehrish, S. (2011). Ownership structure, board composition and dividend policy in Pakistan. *African Journal of Busines Management*, *7*(11), 811-817.

Aguenaou, S., Farooq, O., & Di, H. (2013, Juy). Dividend policy and ownership structure: Evidence from Casablanca stock exchange. *GSTF Journal on Business Review, 2*(4), 116-121.

Azeem, M. A., & Mehsud, A. (2016, july 1). Impact of firm specific factors on dividend payment decisions evidence. *Pakistan Journal of Business and Policy Research, 1.5*(1), 3-9.

Azeem, M., & Khurshid, M. (2013). Dividend paying practices in the non- financal sector of Pakistan: Emperical evidence from Karachi stock exchange. *Journal of Poverty, Investment and Development - An Open Access Internation Journal*, 1-12.

Balagobei, S., & Thiruchchenthurnathan, T. (2016). Impact of owner ship structure on dividend payout policy: An emperical study on listed plantation companies in Sri Lanka. *Research Journal of Finance and Accounting, 7*(14), 93-98.

Cvelbar, L. K., & Mihalič, T. (2008). Ownership structure as a corporate governance mechanism in Slovenian hotels. *Croatian Economic Survey*(10), 67-92.

Easterbrook, F. H. (1984). Two agency-cost explanations of dividends. *The American Economic Review, 74*(4), 650-659.

Faccio, M., Lang, L. H., & Young, L. (2001). Dividends and expropriation. *The American Economic Review, 91*(1), 54-78.

Gharaibeh, M. A., Zurigat, Z., & Al-Harahsheh, K. (2013, January). The effect of ownership structure on dividends policy in Jordanian companies. *Interdisciplinary Journal Of Contemporary Research In Business, 4*(9), 769-796.

Ho, H. (2003, May). Dividend policies in Australia and Japan. *International Advances in Economic Research, 9*(2), 91–100.

Ibrahim, I. (2016, April 17). Ownership structure and dividend policy of listed Deposit money banks in Nigeria: A tobit regression analysis. *International Journal of Accounting and Financial, 6*(1), 1-19.

Jensen, :. M., & Meckling, W. H. (1976, October). Theory of the firm managerial behviour, agency cost and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review, 76*(2), 323-329.

Khan, A., Sohail, M., & Ali, M. (2016). Role of firm specific factors affecting capital structure decisions: Evidence from cement sector of Pakistan. *Journal of Social and Organizational Analysis, 2*(2), 112-127.

Khan, T. (2006). Company dividends and ownership structure: Evidence from UK panel data. *The Economic Journal, 116*(510).

Koh, p.-S. (2003). On the association between institutional ownership and aggressive corporate earnings management in Australia. *The British Accounting Review, 35*(2), 105-128.

Leal, R. P., & Carvalhal-da-Silva, A. L. (2004). Corporate governance, value and dividend payout in Brazil and in Chile. *Inter American Development Bank Woring Paper* .

Mehar, A. (2005). Corporate Governance and dividend policy. *Pakistan Economic and Social Review, XLIII*(1), 115-128.

Miko, N. U., & Kamardin, H. (2015, July). Ownership structure and dividend policy of conglomerate firms in Nigeria. *Academic Journal of Interdisciplinary Studies MCSER Publishing, Rome-Italy, 4*(2), 279-286.

Mitton, T. (2004). Corporate governance and dividend policy in emerging markets. *Emerging Markets Review, 5*(4), 409-426.

Mossadak, A., Fontaine, R., & Khemakhem, H. (2016). The Relationship between ownership structure and dividend policy in an emerging market: A Moroccan study. *Universal Journal of Accounting and Finance, 4*(2), 89-95.

Porta, R. L., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency Problems and Dividend Policies around the World. *The Journal of American Finance Association, 55*(1), 1-33.

Pourebrahimi, M. R., & Khosroshahi, S. A. (2013). The Relationship between Dividend Policy and Trading Volume in Tehran Stock Exchange. *Financial Research Journal, 14*(2), 15-30.

Rozeff, M. S. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. *Journal of Financial Research, 5*(3), 249-259.

Sakinc, I., & Gungor, S. (2015, December). The relationship between ownership structure and dividend: An application in Istanbul Stock exchange. *Journal of Economics and Development Studies, 3*(4), 19-30.

Short, H., Zhang, H., & Keasey, K. (2002). The link between dividend policy and institutional ownership. *Journal of Corporate Finance*, *8*(2), 105-122.

Sindhu, M. I., Hashmi, S. H., & Haq, E. U. (2016, December). Impact of ownership structure on dividend payout in Pakistan non-financial sector. *Accounting, Corporate Governance & Business Ethics, 3,* 1-11.

Tahir, S. H., Aslam, M. A., & Akhtar, M. A. (2014, April). The impact of board composition and ownership structure on dividend policy in Pakistan. *Research Journal of Economics & Business Study, 3*(6), 18-24.

Zandi, G., & Shahabi, A. (2014). The relationship between block holders and firm dividend policy. *Asian Economic and Financial Review, 4*(5), 671-680.