Impact of Ownership Structure On Corporate Dividend Policy and Performance

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Abstract

Ownership structure and dividend policy have been the debatable financial issue for the firms over the last few decades. This study aims to inspect the impact of ownership structure plus corporate dividend policy on the firm performance of oil and gas companies listed at KSE 100 Index in Pakistan. The Panel data was composed from the annual reports of oil and gas firms for 10 years from 2004 to 2014 on the annual basis. The Hausmen Test was implemented to examine the random or fixed affects, therefore the fixed affects were deployed to examine the impact of ownership structure as well as dividend policy on the firm performance. The results indicate that director`s ownership and institutional ownership does not have positive influence over the firm performance while individual shareholder`s ownership have positive influence over the firm performance. The results also indicate that ownership structure; Director Ownership, Institutional shareholder Ownership and Individual shareholders does not have positive influence over the corporate dividend policy.

Keywords: dividend policies, dividend compensation, cross-investing bind, managerial ownership, concentrated ownership, private benefits and family legacy

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Introduction

Overview & Background:

Dividend policies have constantly is mainly contentious monetary subject for every unit. By exploring various papers and researches on monetary issues indicates that numerous financial scholars have different thoughts regarding dividend. The shareholders have much interest in getting the yearly revenue at the same time as directors thinks the easy approach to present their monetary capital cannot pay the dividend; consequently, importance divergence have to be conquering rationally as well as correctly. Investors are ultimately the last holder of entity as well as have outstanding power on the capital, income along with loss. Dividend compensation is a machine to move the capital from firm to investors; thus, the investors make best to confirm of having an appropriate strategy for dividend that promise the utmost entity capital.

The big shareholders like extra authority and reason for the utmost share as well as impose organization because shareholders spend monetarily as well as non-monetarily. In a lot of economies, family trade contributes considerably to financial feat. There are big public organizations in the world which are controlled by family group as well as the organizations are belong to family groups which uses stocked pyramid, double-group share as well as cross-investing bind to combine business power. Sulong and Ahmed (2008) explain the importance of having control over managerial activities by shareholders is highlighted in the agency theory. Shareholders represent their ownership by way of individual, managerial, institutional and foreign. The different types of ownership may have a variety of influence over firms' decisions. Many scholars studied the impact of ownership structure to dividend policy in developed countries but very few in the emerging countries. A study on the relationship between ownership structure and dividends in Malaysia shows a low explanatory power between ownership structure and dividend policy.

Problem Statement:

To investigate the impact of ownership structure on dividend policy and performance.

Background, Objectives and Significance of the Study:

Kararti (2014) explains that business governance is a method in which the providers of to investigate the impact of ownership structure on dividend policy and performance finance assurance their yield on funds. The outsiders who give the main portion of finance to the organization should guarantee their profit on investments. The object of business governance mechanism is to reduce the conflict of interests among principal as well as broker. The core objective is to examine the impact of ownership structure on corporate dividend policy and performance. This study completely signifies the dividend policy of companies and performance of oil and gas companies listed at KSE - 100 Index.

Outline of the Study:

Outline of the study consist of five segments in the section of outline of the study the first segment outlines the opening of the study; Overview, problem statement, background, objectives and importance of the study and important definitions of key words of study. The second segment is literature review which explains the previous studies conducted by the scholars, researchers and authors and also highlights the proposed hypothesis of the study. The third segment is research methods consist of various sub sections; method of data collection, sample size, sampling techniques, validity and reliability test, instrument of data collection, research model developed and statistical techniques. The fourth segment explained the results and finding and interpretation of results along with the hypothesis assessment summary. The fifth and final segment discussed the conclusion, discussions, policy implications and future research.

Definition:

Following are the definitions of the study

Ownership structure is defined by the distribution of equity with regard to votes and capital, but also by the identity of the equity owners.

Dividend policy is a company's approach to distributing profits back to its owners or stockholders.

Firm Performance is measure differently in the research; in this study the firm performance is measure by the Return on Assets.

Literature Review

Kulathunga and Azeez (2016) investigate the relationship among ownership structure kinds as well as dividend approach of traded firms in the Colombo Stock Exchange. The study deployed panel statistics which were composed from the yearly reports of 77 firms for the time period from 2006 to 2014. The findings of regression show that ownership identity is important while explaining the dividends. The results also indicate that institutional and managerial ownership has negative relationship with each other while there is positive relationship among dividend policy with managerial ownership framework. The sizes of company, cash flow, possible development opportunity factors are too important for dividend policy. The leverage is not important factor while in discussing the dividend strategies, the institutional, organization as well as the meditation owners' actions in the CSE are connected with signing, cash flow as well as agency theory descriptions for dividend payment.

Al- Gharaibeh, Zurigat, and Al-Harahsheh (2013) examines the impact of ownership formation on business dividend approach with the use of fifty-five Jordanian firms traded on the Amman Stock Exchange from 2005 to 2010. Total 2 empirical frameworks; complete adjustment framework and fractional adjustment framework were deployed of dividends, to examine the possible association among ownership structure with payment approaches. Institutional ownership as well as executive ownership was explained in contradiction of dividends. Complete adjustment framework was greater as it can clarify the difference in dividend, as compares for fractional modification framework.

The findings recommend that institutional ownership presents inducements for adjusting investors to deploy their effect for exploiting the worth of organizations by decreasing the usage of capitals in small profit plans, therefore suggesting that additional money stream may be allocated as dividend. Furthermore, executive possession has insignificant coefficient in the fractional modification framework, as well as the values are positive, while the complete adjustment framework does not yield just the unpredicted sign. The unpredicted symbol for management ownership suggests that Jordanian organizations didn't employs dividend as an instrument to decrease the organization issue among directors as well as shareholders.

Ullah, Fida, and Khan (2012) concentrate on major business decisions which have a significant effect on the feelings of investors which is the business policy for the dividend. The current study examines the factors of business dividend strategy in the framework of organizational problem. The paper used random simple technique to collect the data of 70 companies which were listed at KSE100 Index from 2003 to 2010. The findings of multiple linear regressions indicate that there is no positive relationship between the dividend payout and managerial ownership as well as consequently the alternate instruments which may be deployed to decrease the organizational issues.

The results also indicated the positive association among the institutional as well as foreign ownership structure which recommends that greater the ratio of shareholders, the greater the dividend payment of companies which leads to lower accessibility of cash flow by means of inventiveness directors to seize the wealth of shareholders. However, managerial ownership structure has 18% power and institutional ownership have 23.3% power, thus it is concluded on that the rising impact of institutional ownership in the framework have 5% at the same time as foreign ownership structure is just 1.9% with the complete model power of 25.2%.

Warrad, Abed, Khriasat, and Al-Sheikh (2012) examine the probable relationship among ownership as well as public manufacturing organizational dividend payment strategy. The current paper investigates the payment methods of dividend for the manufacturing public shareholding firms in Jordan for the time period from 2005 to 2007. The findings indicate the significant relationship among ownership structure plus dividend payment approach with the use of Tobin`s Q. The findings also highlight the positive relationship among ownership structure, size of organization, debt percentage, as well as the dividend approach calculated by the return on assets.

Stouraitis and Wu (2004) discover the suggestions of the money flow theory regarding the penal task of ownership formation in dividend approach. The study found that there is significant relationship among the dividend with cash flow, plus it is high for less developed companies as compares to the developed growth companies. The findings also indicate that effect of managerial ownership as well as the ownership of bank on the dividend profit which is significant mainly for less developed organization. This is not consistent with the outline that the executive ownership as well as institutional ownership decreases the requirement of dividend channel. In last, the results indicate that classification of Keirestsu have an impact on the association among ownership structure as well as dividend policy.

Rezaloie, Zariean, and bjarkenari (2013) examine the effect of ownership structure on the policy of dividend in ISE. The dividend strategy is mainly debatable issue in the context of Finance for each enterprise. The broad assumption indicates that there is association among the concentration as well as dispersal of ownership structure plus dividend strategy of company. The study has collected the data for the time period from 2007-2010 of sixty-six companies. The study was examined and studied with the descriptive; the dispersion of statistics was examined with the use of central as well as discrete variables were evaluated with the normal distribution. The parameters in the model was examined and checked according to the panel statistics. The study too checked the variability, similarity, and the relationship among variables. The findings indicate the significant association among ownership structure and payment as well as the results indicates the insignificant association among the float shares and dividend payout ratio.

Al-Najjar and Kilincarslan (2016) examines the impact of ownership structure on dividend approach of traded companies in Turkey. Specifically, the study tries to discover the impact of family control via ownership as well as board independence, non-family shareholders (overseas investors, national monetary organizations plus government) and lesser investors on dividend choices after 2003 since it observes the main financial plus organizational restructurings. The study used substitute dividend strategy measures, the chance of dividend payment, dividend ratio, as well as dividend profit and then deploys the suitable regression method to examine the hypothesis of the study by concentrating on the current dataset of two hundred sixty-four traded firms for the time period from 2003-2013. The findings indicate that overseas and government ownership are related with the less possibility of giving dividends, whereas additional ownership factors; family participation, national monetary institutions as well as smaller investors are not significant in influencing the chance of giving dividends. Nevertheless, each variables of ownership have insignificant effect on the dividend payment and on the dividend profit.

Shah and Hussain (2012) scrutinize the significant relationship among ownership structure plus organizational performance in Non-Financial firms traded at KSE for the time period from 2008-2010. Ownership structure in this study was comprises of executive ownership along with concentrated ownership. The study deploys the panel statistics to predict the significant association between the factors. The results show the insignificant relationship among executive ownership and organizational performance. The results also indicate that financial leverage has negative association with firm performance whereas there was negative relationship between organizational performance and assets turnover. The results suggested that firm performance highly relies on the executive ownership. The issue of agency occurs due to the increase in the shareholding of managers in the context of Pakistan, which eventually have an impact on the firm performance.

Arshad, Akram, Amjad, and Usman (2013) examine the upcoming alliance among ownership structures, dividend payment method. It is also a good example, which have not succeeded to gain attention in the context of possible relationship among ownership structure as well as dividend choices plus dividend payment frameworks in context of growing market. The paper analyzed the dividend payout behavior plus relation of ownership formation of KSE firms from 2007 to 2011. The findings constantly didn't merely sustain the possible relationship among ownership structure as well as dividend payment strategy as well as dividend choices.

Bako (2015) examines the effect of ownership structure on dividend policy of companies traded in the customer product sector in the Nigeria. The paper used the data which was composed from yearly reports of companies and descriptive statistics and regression was analyzed. The findings indicate that internal ownership as well as external ownership of shareholdings has insignificant effect on DPS, whereas block-holders have significant and negative effect on dividend per share. Moreover, the effect of control factor EPS on Dividend per share was significantly positive. The paper advocate investigation of dividend strategy of organizations in the customer product sector, Nigerian shareholders must give confined focus toward the ownership formation of organization and main factor is the profit does matter as compares to the ownership structure of company. The dividend payment ratio is factor of dividend payment, as it was suggested that dividend customers can be motivated to spend in the goods industry of customers in Nigeria.

Ahmad and Javid (2010) examine the probable connotation among organizational ownership structure as well as dividend payouts. It is major instances which attempt to recognize any possible relationship in ownership structure as well as business power by deploying glowing found dividend replicas in framework of developing market. The outcomes constantly carry the possible relationship among ownership structure plus dividend payment of traded companies of KSE 100 for the non-monetary industry. Additionally, the study commends an additional widespread model to deliberate the dividend amount, integrating firm's monetary framework as well as investment choices with the dividends, grossing tendency, plus ownership structure. The results found the evidence of dividend dependency on historical dividends afterward directing unnoticed companies. The results discover proof in support of suppositions that insignificant relationship is present between the dividend and income trends. The debt equity ratio was found to be insignificant as well as negative. There was no relationship exist between monetary institutional investors and the director ownership. Moreover, the organizational investor`s ownership was significant with the dividend development.

Mossadak, Fontaine, and Khemakhem (2016) investigate the effect of ownership structure on dividend approach in the rising market. On the basis of sample of one hundred fourteen observations, the study examined the association among the ownership structure as well as dividend policy. The findings indicate the significant association among the ownership structure as well as dividend policy, therefore institutional ownership does not have any positive association with dividend strategy.

Mehrani, Moradi, and Eskandar (2011) discussed that ownership structure is motivated variable in the context of organizational policies; Dividend Policy. Hence, positive association among ownership structure as well as dividend policy was predicted. The paper examines the association among ownership structure and dividend strategy in TSE from 2000 to 2007. The results indicate that there is insignificant association among dividend payment and institutional ownership. The results also show that existence of investor's results in small utilization from dividend as a sign for the better business performance. However, significant association was found among the dividend payout as well as institutional ownership. Moreover, dividend policy as well as managerial ownership was negatively associated with each other.

Miko and Kamardin (2015) argued that the dividend policy is measured an integral strategy in the decisions making of firms that always have great effect on the response of investors. The study analyzed the effect of ownership structure on the business dividend approach in with the framework of organizational problems. The study used the data for the time period from 2001 to 2010 by means of eight multinational companies comprises of total eighty-observations. The statistics was composed from the yearly reports of Multinational organizations. The findings indicate that there is significant relationship among the dividend payout as well as institutional ownership. The findings also explore that greater institutional and family shareholding leads toward the higher dividend payment of companies. The results recommend that dividend approach is deployed by the executive to seize the wealth of shareholders, it was also suggested that multination firms in Nigeria must motivate additional institutional ownership to decrease the resourceful experience via dividend policy.

Baulkaran (2009) investigate the effect of 2 various ownership structures; double class as well as solitary class thoroughly-held, on dividend approach. In these 2 samples, directing shareholders have equivalent opportunity to appropriate capital from external shareholders. The noticeable agency problems of concerted ownership as well as control are examined in this study: the extraction of private advantages and conflict of interest among minority and controlling majority shareholders. Three potential explanations status, private benefits and family legacy are proposed and tested for dividend policy for companies inside a concerted ownership as well as controller setting. The observed findings with the use of Tobit and Fixed effects indicate that double class firms pay out not as much cash dividend as compares to single-class firms. The results indicate that in the America, cash dividends as well as total distribution reduce the deviation of voting as well as cash flow broadens.

Hypotheses

Following hypotheses of the study was developed on the basis of the study:

H1: Director's Ownership has substantial positive influence over the Firm Performance.

H2: Institutional Shareholder's Ownership has substantial positive influence over the Firm Performance.

H3: Individual Shareholder Ownership has substantial positive influence over the Firm Performance.

H4: Director's ownership has substantial positive influence over the corporate dividend policy.

H5: Institutional Shareholder's Ownership has substantial positive influence over the corporate dividend policy.

H6: Individual Shareholder Ownership has substantial positive influence over the corporate dividend policy.

Research Methodology

This element of research methods makes clear concerning the facts which include of data collection measures, the sample size, sampling method, development of research model with the hold up of model equation as well as statistical technique useful for the perceptive of the study. The research method element is very important as distinguish to other fractions of the study, as it explains the technique of the study about the Statistical techniques to be applied.

Method of Data Collection:

The study is totally based on secondary source. The data have been taken for 10 years from 2004 to 2014 of Oil and Gas companies listed at KSE-100 Index from the website of Karachi stock exchange and Annual Reports of Oil and Gas companies listed at KSE-100 index.

Sampling Technique:

Nill

Sample size:

Total 10 years of data of KSE -100 Index of 9 Oil and Gas companies listed at KSE-100 Index were taken on the Annually basis.

Instrument of data collection:

Secondary source of data collection has been implemented. The data was gathered from the website of Karachi stock exchange and Annual Reports of Companies.

Research Model Developed:

DPR= @+ βi LEV + βii GROW + βiii DIRC + βiv IND + βv INST + βvi IND+ βvi ST

ROA= @+ βi LEV + βii GROW + βiii DIRC + βiv IND + βv INST + βvi IND+ βvi ST

Whereas,

DPR= Dividend Payout Ratio

Lev= Leverage

Grow= Growth

DIRC= Director`s Ownership

IND= Individual Ownership

INST= Institutional Ownership

ST= Sales Turnover

ROA= Return on Assets

3.6 Statistical Technique

Hausman Test has been implemented to analyze the data.

Results

Findings and Interpretation of the Results:

Fixed vs. Random effects in Hausman test can be described as the null hypothesis is that the slope coefficients of the two models being contrasted can't be different extensively. If the estimates are dissimilar then we reject random effects as well as have to deployed fixed effects. The null hypotheses are rejected here so fixed affect model have been used in this study. The study used fixed-effects (FE) to analyzing the impact of variables that vary over time.

Table 4.1

Fixed Effect (ROA)

Dependent Variable: ROA Method: Panel Least S				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DIRC	0.004823	0.012628	0.381970	0.7034
GROW	0.002080	0.014371	0.144759	0.8852
IND	-0.535627	0.175127	-3.058502	0.0030
INST	-0.024503	0.031002	-0.790378	0.4315
LEV	-0.008768	0.007720	-1.135727	0.2593
SALES_TR	-0.016388	0.012137	-1.350241	0.1806
C	0.297565	0.033654	8.841868	0.0000
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.759125	Mean dependent var		0.207501
Adjusted R-squared	0.718979	S.D. dependent var		0.142123
S.E. of regression	0.075342	Akaike info criterion		-2.194840
Sum squared resid	0.476815	Schwarz criterion		-1.801640
Log likelihood	123.6446	Hannan-Quinn criter.		-2.035751
F-statistic	18.90916	Durbin-Watson stat		1.481226
Prob(F-statistic)	0.000000			

Table 4.1 highlighted the descriptive output extracted from Eviews by analyzing the data for the explanation of the study. The above table consist of different columns; variables, Coefficient, standard error, t-Statistic and p-values. Firm performance was taken as dependent variable which was measured with the Return on Assets (ROA) while director’s ownership, institutional shareholder`s ownership, individual shareholder ownership, Sales turnover ratio, growth rate and financial leverage was taken as independent variables. To explain the impact of one variable on another, the p-value is the most important to describe. The rule to accept or reject the hypothesis of the study is based on P value or Sig value. If the p-value is less than 0.05, then it can have said as

statistically significant or significantly different, and hypothesis can be accepted if the p-value is less than 0.05 otherwise it must be rejected.

The results above indicate that Directors ownership, institutional ownership, growth rate, Sales turnover ratio, and financial leverage having p values greater than the significant level (0.05) suggesting these variables don't have influence over the firm performance while the p-value of individual shareholder ownership is 0.0030 which is less than 0.05 indicates that individual shareholder ownership does influence the firm performance. The value of Durban Watson stat is 1.481226 which is less than 2 indicating that there is positive serial correlation between ROA and director's ownership, institutional shareholder`s ownership, individual shareholder ownership, Sales turnover ratio, growth rate and financial leverage.

Table 4.2

Fixed Effect (DPR)

Dependent Variable: DPR

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DIRC	0.067532	0.052494	1.286475	0.2018
GROW	0.005325	0.059739	0.089135	0.9292
IND	-0.731895	0.728018	-1.005325	0.3176
INST	-0.080990	0.128877	-0.628425	0.5314
LEV	-0.061549	0.032092	-1.917861	0.0585
SALES_TR	-0.077238	0.050455	-1.530821	0.1296
C	0.787602	0.139903	5.629643	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.230341	Mean dependent var	0.489248
Adjusted R-squared	0.102064	S.D. dependent var	0.330522
S.E. of regression	0.313201	Akaike info criterion	0.654785
Sum squared resid	8.239975	Schwarz criterion	1.047985

Log likelihood	-17.41185	Hannan-Quinn criter.	0.813874
F-statistic	1.795660	Durbin-Watson stat	0.962245
Prob(F-statistic)	0.052531		

Table 4.2 provided the output by using panel least square method to analyze the results for Dividend Payout Ratio. The results based on the above table shows that p-values of director's ownership, institutional shareholder`s ownership, individual shareholder ownership, Sales turnover ratio, growth rate and financial leverage are greater than the significance level (0.05) indicating that there is no effect of director's ownership, institutional shareholder`s ownership, individual shareholder ownership, Sales turnover ratio, growth rate and financial leverage on dividend payout ratio.

Table 4.3

Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	DIRC	.925	1.081
	DPR	.885	1.130
	GROW	.712	1.405
	IND	.759	1.318
	INST	.919	1.088
	LEV	.552	1.811
	SALES_TR	.568	1.759

a. Dependent Variable: ROA

Table 4.3 Coefficients indicates the Multicollinearity between variables. Multicollinearity is a dilemma which arises with regression analysis while there is a higher correlation of as a minimum one independent variable with a combination of the other independent variables. The table has two columns; Tolerance and Variance inflation factors (VIF). Tolerance is an indicator of multicollinearity, normally R- Square explains the variation in dependent variable due to combined all independent variables but tolerance is 1 minus the amount of variance in the independent variable explained by all of the other independent variables. The value of Variation Inflation Factor (VIF) more than 10 indicates the Multicollinearity in the variables while in the above table values of VIF for each variable is less than 10 indicating that there is no Multicollinearity in the variables.

Hypotheses Assessment Summary:

Table 4.4

Hypotheses Assessment Summary Table

o	theses	istic		rical Conclusion
	tor's Ownership has substantial positive influence ov performance	97	4	ted
	utional Shareholder's Ownership has substantial po nce over the Firm Performance	75	5	ted
	idual Shareholder Ownership has substantial po nce over the Firm Performance	850	0	pted
	tor's ownership has substantial positive influence ov rate dividend policy	47	8	ted
	utional Shareholder's Ownership has substantial po nce over the corporate dividend policy	84	4	ted
	idual Shareholder Ownership has substantial po nce over the corporate dividend policy	53	6	ted

Discussions, Conclusion, Policy Implications and Future Research

Discussions

Dividend policy has been the major debatable topic for the researchers from last some years. However, dividend payout policy is one the major policies formulated by firms in their corporate policies. Dividend policy is the motivational medium to decrease the contradictory welfare of shareholders and board of members due to the fact that each shareholder is interested in receiving dividends, however firms like to retain their earnings to maintain some power for their capital. Jenson (1986) found that dividend payout can create conflicts between the shareholders and directors due to the fact that managers always want to retain earning rather than paying dividends to the shareholders. Managers are keen to implement development policies for their companies as the growth of company can be resulted in the extra power to allocate and use the resources. However, shareholders do not prefer retain earning, and each shareholder prefer dividends. If earnings are not given to the shareholders, then directors can change the intent to the advantages of the organization or they may keep the resources into unbeneficial plan. As a result, the interest divergence occurs between them that may be resolve via dividend payout policy. The study aims to concentrates on the major business decisions which have big effect on the feelings and emotions of investors which is the dividend approach of company. The paper examines the impact of ownership structure as well as dividend approach on the organizational productivity while using ownership structure variables; director’s ownership, institutional shareholder`s ownership, and individual shareholder ownership, and to measure the firm performance Return on Assets (ROA) was used as a variable and Dividend payout ratio, sales turnover ratio, growth rate and financial leverage was implemented to examine the study.

Conclusion

Ownership structure and dividend policy both are important factors related to the firm performance. Market value of firm not only depends on investment but on the ownership structure, dividend policy, and governance which is highly value added factors for the organization. The study concluded on the basis of above results that director`s ownership and Institutional shareholder`s ownership doesn’t have positive influence over the firm performance while individual shareholder`s ownership have substantial positive influence over the firm performance. The results also indicate that ownership structure; Director`s ownership, Institutional shareholder`s ownership and Individual shareholder`s ownership have negative influence over the corporate dividend policy. The negative influence of director`s ownership over the dividend policy is a concern, therefore efficient monitoring systems are needed to analyze the actions of directors to be in process with external shareholders. This guide toward the prospect of a company to connect in strong dividend approach is the purpose of the ownership structure. The negative influence of director's ownership with firm performance concludes that enhance in the balanced shares of directors in the entirety shareholding have major insignificant impact on organizational performance. It was concluding that organizational performance significantly relies on director`s Ownership.

Policy Implications

The implication that emerges from the study is that ownership structures have major influence over corporate dividend strategy plus Firm Performance in Pakistan. The ownership structure; Director`s Ownership, Institutional Shareholder`s Ownership and Individual Shareholder`s Ownership have the impact on the dividend payout. The decisions of dividend in firm can have implication from the directors of firm. Therefore, the firms have to formulate corporate dividend policy for the wellbeing of shareholders as well as to enhance the firm performance.

Future Research

Future research can be done by take into account with the capital structure as well as dividend approach through the ownership structure. It can make sure additional effectual prediction of the organizational performance in stock exchange.

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