The Impact of Ownership Structure on Dividend Policy Evidence from Emerging Markets KSE-100 Index Pakistan

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Abstract

This study focus on one of important corporate decision that can have a great impact on the sentiments of the investor's i.e. corporate dividend policy. This study investigates the determinants of the corporate dividend policy in the context of agency relation. The analysis of the study has based on the random sample of seventy firms from Karachi Stock Exchange KSE-100 index for the period of eight years ranging from 2003 to 2010. Stepwise multiple regression has used to investigate for the relationship of ownership variables with the dividend payouts. The empirical results suggested that there has a negative relationship between the dividend payouts and managerial share ownership and thus these are alternative tools that can be used to minimize the agency problem. Where there has positive relationship between the institutional and foreign share ownership suggested that the higher has their shareholdings the higher will be the firm dividend payouts that will leads to less availability of the cash flows with the opportunities managers to expropriate the shareholders wealth. Further more managerial share ownership has explanatory power of 18%. While the institutional ownership has explanatory power of 23.3% there for it can be concluded that the incremental effect of the institutional ownership in the model has about to 5% while that of the foreign ownership contribute about 1.9% with the total model explanatory power of 25.2%.

Key words: Dividend Policy, Institutional shareholders, Managerial Share Ownership, Foreign Share Ownership, Agency Problem

1. Introduction

The question mostly arises that why firms pay Dividend. It has been the question of consideration and the focus of research since long time. Dividend payout policy has considered the more important policy in the corporate policies. Dividend policy is an influential control vehicle to reduce the conflicting interests of the shareholders and managers because shareholders are interested in getting dividends, but managers prefer to retain earnings. Mangers want to retain earnings for maintaining higher control over the resources. Corporate governance received huge attention as it deals with the agency problems.

Jensen (1986) and Rozeff (1982) argued that the firms to alleviate the agency problems could use dividend payout policy. According to them, if dividends are not paid to the shareholders, the managers will start using these resources for their private benefits. Dividend policy helps the firms to know that how they can control the agency costs by handling the Dividend policy. Jensen (1986) argued that by paying dividends to the shareholders, the managerial control over the resources would reduce. Stouraitis and Wu (2004) suggested that the dividend could be used to squeeze the overinvestment problems of corporations.

Dividend policy will not only assist in reducing the agency costs but will also act as a signal to give information to the shareholders about the firm's valuation. The dividend payout can be influenced by the firm ownership structures. The focus of our study is to investigate the impact of ownership structure on the dividend policy. Carvalhal-da-Silva and Leal (2004) argued that ownership structure is very important and influential factor in determining the efficiency of the market by giving information about two significant things.

First, it will show the extent of risk diversification of shareholders. Second, it will give information about the possible agency problems in the management of the corporation. They further found that a strong association exists between the dividend policy, governance structure and market valuation. Maury and Pajuste (2002) observed that the firm's control structure influences the dividend payout policy and that large and leading shareholders in a control structure may generate private benefits that they do not prefer to share these benefits with the minority shareholders. There are different shareholder types, but the institutional shareholders and the managerial shareholders have a greater control over the firm's policies as compare to other types.

Our research will link the firm's dividend payout policies with ownership structure of the firms in Pakistan by providing statistical evidence. The purpose of our paper is to investigate the relationship of the dividend policy with the institutional ownership, managerial ownership and the concentrated institutional ownership from emerging markets KSE-100 Index Pakistan. Our study will prove to be different because many researches have been conducted in developed countries to find out the relationship between the ownership structures and dividend policy but Pakistan is emerging economy having different cultural values, traits, norms, beliefs, religion, and life style etc.

The paper has divided in to different sections. First section includes a brief introduction of the topic with significance of the study. Second section provides a framework based on past literature. Different hypothesis has developed based on the different theories and empirical researches. Third section explains the methodological design of the study explaining the sample size, data collection methodology, models and variables definition. The fourth section shows the analysis portion of the research where descriptive statistics, correlation and stepwise multiple regression has used. In fifth section a conclusion has provided and at the end in sixth section references has been given.

2. Literature Review

2.1 Agency theory

Jensen and Meckling (1976) argued that agency relationship takes place when the principles engage the agents to perform some of their duties on their behalf. Agency cost arises because of conflicting interests of the managers and owners. Short et al(2002) argue that Dividend policy perform crucial role in reducing agency costs which have arisen from the conflicting interests of both the parties. According to Rozeff (1982) dividend payment is a device to reduce agency cost.

Jensen (1986) suggested that dividend payment could create conflicts among the managers and shareholders because managers are more willing to retain resources instead of paying dividends. Managers are interested to follow the growth strategies for their firms because the growth of a firm will give them more power to control these resources. On the other hand, shareholders prefer dividends to retained earnings. If profits are not paid to the shareholders in form of dividend, the managers might change their intentions towards the benefits of the management or they can engage the resources into unprofitable projects. Consequently, the interest conflict arises among them, which can be solved through dividend payout policy. Therefore, Rozeff (1982) called dividend payment as a device to reduce agency costs. Many studies have argued on a point that institutional investors positively impact the agency problems by reducing agency costs and by influencing dividend policies (Han et al., 1999) . Han et al. (1999) empirically showed a positive relationship between dividend payout and institutional ownership. Carvalhal-da-Silva and Leal(2004) argued that agency problems between the managers and the shareholders can take place due to the fact that managers may not are maximizing the shareholder's value. By observing Japanese firms, Stouraitis and Wu (2004) found that the dividend payout policy can be used to manage the overinvestment problems of the firm and observed that the conflicting interests between the managers and shareholders about the dividend policy vary according to the growth opportunities.

2.2 Signaling theory

Signaling theory refers to the idea that the agents send information to the principal in order to create credible relationship. Managers have more firsthand information about the firm than firm's investors do but they are always reluctant to provide transparent information to the shareholders. So, the dividend policy can be used for information purpose and it also act as a signal for the firm's future projection proficiently. Miller and Rock (1985) and Li and Zhao (2008) argued that dividend policy plays a leading role because it can be used to convey information to the shareholders about the firm's value.

Along with dividend, institutional shareholders can also be viewed as more powerful signaling because they are more influential in monitoring the firm performance readily (Zeckhauser and Pound 1990).

Short et al.,(2002) after using four dividend models founded a positive relationship between dividend policy and institutional ownership. Mehrani, Moradi and Eskandar (2011) found the evidence of negative association between dividend payment policy and institutional shareholders. Consequently, we found that if different results take place from the relationship of institutional shareholders and dividend payout policy in different circumstances, then what can be the relationship result from the Pakistan perspective. Therefore, we hypothesize that;

H1: *There is a positive association between the institutional ownership and the dividend payout.*

2.3 Managerial ownership and Dividend policy

We have discussed about the institutional ownership influence over the Dividend policy under the established literature. Now our consideration is focusing on the relationship of managerial ownership and dividend policy. Jensen (1986) argued that managers prefer to retain earning instead of giving it to shareholders as a dividend. Managers want to use the resources the growth of the firm as well as for the personal benefits.

Eckbo and Verma,(1994) empirically showed that dividend decreases with the increasing power of managerial ownership and also argued that in the managers controlled firms where they have absolute voting power , the cash dividend is zero.The analysis of Chen et al., (2005) also showed a negative relationship between the managerial ownership and dividend policy and it was further argued that the managerial ownership is negatively associated with the firm performance in the context of Hong Kong.

Short et al.,(2002) found that there is a negative relationship between managerial ownership and dividend payout policy. Wen and Jia (2010) found that both managerial ownership and institutional ownership are negatively associated with dividend policy in the bank holding companies.Jensen et al.,(1992) argued that the managerial ownership has a negative impact on the dividend payout policy and the firm's debt.

Mehrani, Moradi and Eskandar (2011) found the evidence in support of negative association between the managerial ownership and dividend payment policy. Consequently, we found that many prior studies have found negative association between managerial ownership and dividend payout policy in different circumstances. So in order to find the relationship from the Pakistan perspective, we hypothesize as;

H2: *There is a positive association between the managerial ownership and the dividend payout*

2.4 Institutional Ownership and Dividend Policy

Dividend has deemed to be a reward to the shareholder for their contribution in raising fund for a company and for bearing the relevant risks. In this regard, management of a company formulates a dividend policy to divide and distribute earnings among the shareholders for their investments. The dividend policy is having a crucial influence on the value of firm because it has to maintain a state of equilibrium between the firm's growth policies and the dividend payout policies. A minor mistake can leads to shareholders dissatisfaction as well as can shake the firm's growth.

The dividend payout policy can be influenced by the ownership structure. This relationship between the ownership structure and dividend policy is acknowledged from the literature of Jensen and Meckling (1976). Many prior studies showed a relationship between the dividend policy and management ownership (Rozeff, 1982; Jensen and Meckling 1976) but still there was space to consider the institutional ownership into consideration. Waud (1966), Fama and Babiak (1968) and Short, Zhang and Keasey (2002) suggested that there is significant relationship between the dividend policy and institutional ownership. The relationship is also clearly recognized in the work of Short et al.,(2002) who on the one hand showed the positive alliance between institutional ownership and dividend policy and on the other hand showed negative alliance between the management ownership and dividend policy. Institutional investors are the large investors such as banks, investments firms, insurance companies and other financial institutions etc, who having huge sum of money are capable of investing money in different corporations. Therefore, they are very influential in performing their corporate governance roles. Corporate governance is specifically concerned to reduce the agency cost. Many theories are considered important for the relationship between institutional ownership and dividend policy. Among them Agency theory and signaling theory are commonly consulted.

2.5 Concentrated Institutional Ownership and Dividend Policy:

Concentrated ownership plays a significant role in corporate policies, especially concerning the dividend payment policy. Concentrated ownership refers to the structure where large shareholders own the huge amount of a firm stock. These concentrated ownership or block-holders (the investors who hold at least 5 % of the firm stock) are more concerned about the monitoring of the management decisions with the purpose of protecting their investments. The management will also give preference to the large shareholders because of their influential impact on the firm's important decisions. Recently, the concentrated ownership of large shareholders or block holder is replaced by concentrated institutional ownership such as banks or insurance firms etc because these institutions nowadays are large block-holders.

Kouki and Guizani(2009) argued that Tunisian companies having concentrated ownership distribute more dividends and show positive relationship between the concentrated ownership and dividend payout. Claessens and Djankov(1999) has empirically found in the context of Czech Republic that more concentrated the owners, higher will be the firm profitability and the level of labor productivity. He further argued that concentrated ownership will allow the owners to monitor the managers in a better way by using their powerful seat in the board of director. The greater the concentrated ownership structure , greater will be the need for monitoring. According to Mitton(2005), there exist the positive association between the corporate governance and the dividend Payout in emerging market and it is further argued that the countries having strong investor legal protection are capable to pay more dividend payment.

Ramli(2010) empirically found in the study of Malaysian listed companies where ownership structure is more concentrated that as the shares of the large shareholders increases, the firms will handle to make higher dividend payout because controlling shareholders have greater influence over the dividend payout policy. According to La Porta et al.,(2000) observation, the controlling shareholders can effectively influence the decisions of the firm. They can implement policies which will be beneficial for them at the cost of minority shareholders. Carvalhal-da-Silva and Leal (2004) observed that when the ownership structure is concentrated, the less risk diversification by the shareholders exists. Some prior studies also showed negative relationship between the concentrated institutional ownership and dividend policy. Gugler and Yutoglu (2003) showed that firms with high ownership concentration tend to pay lower dividends. Maury and Pajuste (2002) argued that the existence of concentrated large shareholder negatively affects the dividend payout and they found the negative relation between the ownership concentration of control and the dividend payout. Renneboog and Trojanowski (2005) observed that the existence of strong block-holders or the concentration of large shareholders weakens the bond between the firm's earnings and the dividend payout ratio.

All these prior studies have observed that firm's concentrated institutional shareholders can influence the dividend policy, therefore we hypothesize as;

H3: *There is a positive association between the concentrated institutional ownership and the dividend payout*

3. Methodology

The methodology section consists of the sample size and data collection sources, different model used and the definition of the different variables used in the study.

3.1 Data Collection Sources and Sample Size

Data for this study has collected from the Karachi Stock Exchange (KSE) analysis reports, balance sheet analysis report of the state bank of Pakistan and from the individual firm websites. The sample of the study includes seventy firms randomly selected from the KSE-100 index listed firm and annually data were collected for the period of eight years from 1993 to 2010. The initial sample consists of 560 observations after removing the abnormalities from the data we left with 461 observations that have been used in the analysis. The sample mainly consists of non-financial firms from different industries such as textile, cement, telecommunication, transpiration, durable goods, steel industry, oil companies, refinery industry etc due to the reason that Financial structure of the financial firms such as banks, assets management companies, insurance companies, power generation, Engineering etc is different from those of non-financial firms. All those firms has selected in the sample for which the data has available for the same duration.

3.2 Specification of Econometric Models

In this study step wise regression has used. In the first model, managerial share ownership with control variables has used as explanatory variable for the dividend payout ratio. Then in the second model, institutional ownership has included with the managerial share ownership and control variables. While in the third model, foreign ownership has included with the managerial and institutional ownership and control variables. The purpose of the stepwise regression is to check for the explanatory of each of the ownership type on the dividend.

Model 1: Dividend Payouts and Managerial share ownership

$$DIV_i = \alpha_0 + \alpha_1 MSO_i + \alpha_2 VOLT_i + \alpha_3 F.V_i + \alpha_4 LEV_i + \alpha_5 FCF_i$$
$$+ \alpha_6 F.S_i + \varepsilon_i$$

Model 2: Dividend Payouts Managerial share ownership and Institutional share ownership.

$$DIV = \beta_0 + \beta_1 MSO_i + \beta_2 INST_I + \beta_3 VOLT_i + \beta_4 F.V_i + \beta_5 LEV_i$$
$$+ \beta_6 FCF_i + \beta_7 F.S_i + \upsilon_i$$

Model 3: Dividend Payouts, Managerial share ownership, Institutional share ownership and Foreign ownership.

$$DIV_i = \gamma_0 + \gamma_1 MSO_i + \gamma_2 INST + \gamma_3 VOLT_i + \gamma_4 F.V_i + \gamma_5 LEV_i$$
$$+ \gamma_6 FCF_i + \gamma_7 F.S_i + \xi_i$$

3.3 Definition of Variables in the Context of literature

3.3.1. Managerial Share Ownership

In our concerned study, the managerial ownership is meant to be the sum of proportion of managers, executives, directors and their families divided by the total capital shares of the firm. Different studies have shown different results of manager's role in ownership. Many researchers have observed that managerial ownership may adequately advocate the interests of management and shareholders as it will minimize the conflict among the interests. According to Crutchley and Hansen (1989), managerial ownership and dividend policy is relevant because it may help to reduce the conflict of interests between the management and shareholders. While on the other hand, Mahadwartha (2003) observed the negative relationship of the dividend policy and leverage policy to the managerial ownership in his study.

3.3.2. Financial Institutional Share Ownership

Financial Institutional ownership refers to the sum of percentage of the banks, insurance companies, investment firms, pension funds and other large scale financial institutions out of total capital shares of the firm. Financial institutional ownership is deemed to be playing the important role in the monitoring of the firm's management on account of their huge investments and expert financial knowledge. Han, Lee and Suk (1999) argued that dividend payout policy is positively associated with the institutional ownership while considering their tax based hypothesis of study.

3.3.3. Foreign Share Ownership

Foreign ownership refers to the percentage of foreign owners out of the total capital shares. According to Chai(2010), foreign ownership has important impact on the dividend policy of the concerned firm. Baba (2009) observed the influence of foreign investor's ownership on the dividend payout policy of the firms of Japan and the study further showed that higher foreign investor's ownership is related with the higher dividend policy of firm.

3.3.4. Firm size

Redding(1997) observed in his study that large corporations are more probable to pay dividend to their shareholders. According to Titman and Wessels(1988), large firms are more probable to be diversified and less probable to be bankrupt. Thus, these factors can assist the firms in paying higher dividend to their concerned shareholders. In our research, the firm size is meant to be the log of total assets of firm.

3.3.5. Firm Volatility

In our research, the volatility is meant to calculate the variation in the earnings before interest, taxes and depreciation. Bradley, Jarrell and Kim (1984) observed in their study that volatility in the earnings of the firm is important and strong determining factor of the firm's debt. Thus volatility in earning can influence the decisions of capital structure of the firm and also the dividend policy.

4. *Empirical Analysis*

The analysis section consists of the descriptive statistics of the different variables used in study, the correlation analysis of the ownership and control variables and the last section includes the three different multiple regression.

Table 4.1 Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Panel A Ownership					
MSO	460	0.000	.7900	0.1713	0.2117
INST	460	0.000	0.688	0.2171	0.1680
FORGE	460	0.000	0.703	0.0690	0.1638
Panel B Control					
F.S	460	1.810	9.780	3.720	1.035
LEV	460	0.080	1.000	0.582	0.185
DIV	460	0.670	1.970	1.148	0.194
F.V	460	0.000	601.3	49.47	91.46

Table 4.1 shows the descriptive statistics of variables used in the study. Panel A shows the ownership variables such as MSO stands for the managerial share ownership, INTS represents institutional ownership, FORGS is for the foreign ownership while the panel B shows the descriptive statistics of financial variables such as DIV stands for dividend VOLT stands for volatility in the earning, FCF is free cash flows, LEV is leverage, F.S is used for the firm size, while F.V stands for the firm value and has calculated through Tobin's Q.

Table 4.2 Correlation

	DIV	MSO	INST	FORG	VOLT	F.S	FCF	LEV	F.V
DIV	1.000								
MSO	-0.176	1.000							
INST	0.253	-0.166	1.000						
FORG	0.088	-0.007	0.044	1.000					
VOLT	-0.184	-0.135	-0.047	-0.168	1.000				
F.S	-0.005	-0.170	0.073	0.013	-0.048	1.000			
FCF	-0.031	-0.141	-0.123	0.057	-0.089	0.416	1.000		
LEV	-0.082	-0.085	-0.061	-0.039	0.074	0.182	-0.091	1.000	
F.V	0.285	-0.041	0.097	0.250	-0.104	0.213	0.162	-0.074	1.000

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Table 4.3 Stepwise Multiple Regression Models

	Model 1	Model2	Model 3
Indp.Variable	**Coefficient**	**Coefficient**	**Coefficient**
Const	1.324*** (0.079)	1.244*** (0.076)	1.244*** (0.078)
MOS	-0.152** (0.063)	-0.101*** (0.0060)	-0.884*** (0.061)
INTS		0.289*** (0.085)	0.292** (0.082)
FORGS			0.132 *** (0.0090)
VOLT	-0.027 (2.50e-05)***	-0.026 (0.0076)***	-0.024 (0.0073)***
F.V	0.009*** (0.0005)	0.007*** (0.0003)	0.008*** (0.0002)
LEV	-0.167*** (0.061)	-0.148*** (0.047)	-0.136** (0.053)
FCF	-3.784e-08*** (5.27e-09)	-2.69e-08*** (5.584e-09)	-2.486e-08*** (5.148e-09)
F.S	-0.223** (0.015)	-0.542*** (0.013)	-0.234** (0.013)
R-square	0.182	0.233	0.252
F-value	20.350	23.049	19.045
P-value	0.000	0.000	0.000

The table 4.3 shows stepwise regression of the dividends with ownership structure variables such as managerial ownership, institutional ownership and foreign ownership with control variables. Dividend is represented by Div and MSO stands for the managerial share ownership, INTS represents institutional ownership, FORGS is for the foreign ownership while control variables such as VOLT stands for volatility in the earning, *FCF is free cash flows, LEV is leverage, F.S is used for the firm size, while F.V stands for the firm value and has calculated through Tobin's Q. R-square shows the explanatory power of the model while F-value is for the overall significance of the model. Coefficients of each variables with their stander error in brackets and level of significance are shown through the * . one * shows significance at 10%, ** shows significances at 5% while *** shows significance at 1%.*

4.1 Model 1

The first model show the relationship between the corporate dividend policy and the managerial share ownership while controlling for the firm other factors such as leverage free cash flows firm value and firm size. The empirical results suggested that negative relationship between the dividend payout ratio and the managerial share ownership and the coefficient is significant at 1% confidence interval. Thus, the higher is the percentage of the managerial share ownership in the firm the lower will be the dividend payout ratio. The negative relationship between the dividend payouts and managerial share ownership is because of increases in the managerial share ownership as used as internal governance mechanism in decipling the opportunistic behavior of the firm manager and to align the interest of the shareholders with that of the managers.

In the same way dividend, payout can also used as for the controlling the opportunistic behavior of the manager. Therefore, when the firm pay dividend out of their profits then the manager would left with the less amount of cash to be used for the unproductive projects or expropriate the shareholders wealth. Therefore, the managerial share ownership and dividend payout ratio has negative relationship due to their substitute effect. Moreover, the control variables such as volatility leverage and free cash flows have negative significant relationship with the dividend and the coefficients of these variables are significant at 1%. These variables and coefficients sign are consistent with the hypothesis based on literature. When the firm leverage increases that would leads to increases in the firm sensitivity of the free cash flows to the external finance shocks (Hamada, 1972). Moreover if the firm cash flows volatility increases that would leads to the need for the external funds. (Rozeff, 1982). Similarly, when the firm pays dividends then less free cash will be available with the opportunistic managers. Therefore, the dividend has negative relationship with the firm free cash flows, earning volatility and the leverage with the dividend payouts. Firm size has also negative relationship with the dividend payout ratio as the firm pay more dividend than less money will be available with the firm manager to invest in different projects and increase the firm size so therefore negative relationship exist with the dividend payout ratio. While the firm value has positive relationship with the dividend, payouts due to the fact that the investors in emerging economy preferred to have more dividends because of the environmental uncertainty. The firm that pays more dividends the investor will invest more in it and thus the market value of the firm will be higher than the firm that has not offered any dividend. The overall model is statistically significant due to high f-value than the critical value. The R-square of the model suggested that 18% of variation the dividend payout have explained by the managerial share ownership and other control variables.

4.2 Model 2

In the second model, institutional ownership has also included with the managerial ownership in order to check for the impact of the institutional ownership on the firm corporate dividend policy. In Pakistan, major investors in the firm stocks are the financial institution that is why we include this variable in order to see the corporate dividend policy in the presence of the institutional ownership. The empirical results suggested that managerial ownership has negative relation with the form dividend payout ratio as has been consistent with the first model so far the institutional shareholders are concerned, the coefficient has positive value and has statically significant at 1%. So there is a positive relationship between the dividend payouts and institutional shareholder which implies that the higher are the institutional shareholders in the firm shareholdings the higher will be the dividend payout ratio. These results are consistent with the Pound (1990) that suggested that the institutions do not directly monitor the firm operations but they force the opportunists managers to distribute the free cash flows available with the manager's and they do not have any such projects where they would utilized it for the value creation purpose. Moreover, the control variables are also statistically significant such as volatility, leverage, firm size and free cash flows has significant negative coefficients. While the firm value has significant positive relationship with the dividend payouts. The f-value of the model has statistically significant value at 1% significance and thus the overall model is statistically significant.

While R-square of the model shows significant improvements from 18% to 3%so therefore the institutional ownership inclusion have increases the explanatory power of the model and its relevant variable to be included in the model.

4.3 Model 3

In the third model, another variable has included with the managerial share ownership and institutional share ownership that is foreign ownership in the firm shareholdings. According to the agency theory, the foreign investors are away from the firm to monitor the manager activities therefore, they cannot directly monitor the firm managers and thus they will enforce these managers to pay dividends in order to reduce the free cash flows available with the opportunist's manager and thus control their behavior. Our third model empirical results also suggested the significant positive relationship between the dividend payouts and the foreign shareholders' at 1%, so thus the higher is the foreign shareholders in the firm the higher would be the dividend payout ratio of the firm. Moreover, the managerial and institutional share ownership has also significant results and is consistent with the previous model results. The control variables also shows the consistent results as the previous two models volatility in earning, firm size, free cash flows leverage are significant negative relation with the dividend policy however the firm value has positive relationship with the dividend payouts. The f-value of the model suggested that the overall model is statically significant due to the reason that it has higher value than the critical value at 1% level of significance and the R-square of the model has further increased with the inclusion of the foreign ownership in the model which suggested that this variable improved the explanatory power of the model from 23% to 25%.

5. Conclusion

This study focus on the important corporate decision that can have a great impact on the sentiments of the investors that is the corporate dividend policy of the firm. This study investigated the determinants of the corporate dividend policy in the context of agency relation while using the ownership structure variables such as managerial share ownership, institutional ownership and foreign ownership while controlling for the earning volatility, firm size effects, market value of the firm, corporate leverage and free cash flows. The study used the data for seventy from randomly selected form the Karachi stock exchange 100-index for the period of eight years ranging from 2003 to 2010. Stepwise regression has used to check for the individual ownership structure variable explanatory power. The regression results suggested that managerial share ownership has negative relationship with the dividend payout ratio with the explanatory power of 18%. While the institutional ownership has positive relationship with the dividend payout and the explanatory power of the model has 23.3% there for it can be concluded that the incremental effect of the institutional ownership in the model has about to 5% while that of the foreign ownership contribute about 1.9% with the total model explanatory power of 25.2%.

Thus, the ownership structure play important role in the corporate dividend policy while minimizing the agency cost associated with the agency issue. Dividend has used as a disciplining device to control the opportunistic behavior of the manager by reducing the free cash flow available with the managers that can be expropriate or utilized for uneconomic projects. Therefore, increases in the managerial share ownership will reduced this problem and thus dividend payments will be reduced with the increases in the managerial share ownership. Institutional ownership and foreign ownership has positive impact on the dividend payout ratio and increases in these will leads to increases in the dividend. The reason has that the foreigner cannot directly check the performance of the manager so they will use this divided as a tool of disciplining device. So far the institutional investors are concerned they also preferred to have dividend and that will help them to reduced the opportunities behavior of the manager. In emerging economies there has less legal protection given to the investors that leads these institutions failed to directly enforce or control the firm and another reason as that in emerging economies the ownership lies in the hand of families and these institutions have less portion of ownership and thus they will preferred dividend and overall results of the study are aligned with the studies of the emerging economies.

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