THE OWNERSHIP STRUCTURE AND DIVIDEND PAYOUT POLICY IN PAKISTAN: EVIDENCE FROM KSE-100 INDEX NON-FINANCIAL FIRMS

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Abstract

This paper examines the possible association between firm's ownership structure and dividend payouts. It is also one of the very first examples which endeavours to identify any potential association in ownership structure and corporate governance by using well established dividend models in context of emerging market like Pakistan. The results consistently support the potential association between ownership structure and dividend payout of non-financial sector Pakistani listed firms of Karachi Stock Exchange 100 index, though the association differs across different shareholders. Furthermore, we suggest a more generalized model to explain the dividend intensity, incorporating firm's financial structure and investment opportunities along with the dividends, earning trend, and ownership structure. We also find the evidence of dividend dependence on past dividends after controlling unobserved firms. We find evidence in support of hypothesis that a negative relationship exists between dividends and earning trends. Debt equity found negative and insignificant whereas Financial Institution investor, director's ownership is unrelated, however, corporate investor's ownership is positive and highly significant in the dividend growth. It is important to mention here that we do not find any evidence in support of foreign ownership, dividend growth and dividend payouts. It, thus, depicts that foreign ownership cannot influence the dividend payout policy in Pakistan.

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Corporate Structure of Pakistan

The corporate governance in Pakistan is different from the developed countries like United States and United Kingdom. In Pakistan the corporate governance is not homogenous. The large shareholders (Financial institutions, directors, foreign and corporate) have sufficient incentives and ability to control. Many researches on the corporate governance, dividend payout policy and the ownership structure have been conducting in the United States and United Kingdome due to well regulated and well administered, leave prominent agency problem between the directors and shareholders.

Methodology

This study examined whether differences in the ownership structure and the identity of the owner, across firms explain their dividends payout differences in a context of an emerging economy like Pakistan. By using the dividend payout and the ownership structure of 50 Pakistani listed firms in Karachi Stock Exchange non financial sector for the period of 2001 to 2006, this study attempted to unearth some of the questions raised herewith. The study intended to find out the relationship between the ownership structure and dividend payout policy in Pakistan. For this purpose we have randomly selected a sample of 50 listed firms of Karachi Stock Exchange from non financial sector. For this research audited annual reports of the 50 non financial firms of six years for the period of 2001 to 2006 was used. The audited annual report has been collected from the Karachi Stock Exchange (KSE) and Securities Exchange Commission of Pakistan (SECP).

In SECP formulated mandatory rules for submitting on the ***form A*** the shareholding pattern every year. It depicts vital information such as, how much the shareholder identity matter, which ownership is more important: foreign, corporate, directors and financial institutions? What is relationship between ownership structure and dividend payout of listed firms of non financial sector of Pakistan? In Pakistan shares of many listed companies hold by the financial Institutions, corporate, foreign and directors as for as individual investors hold a little part of the shares. When the shareholdings come in the hand of block shareholders, then they can easily influence dividend payout policy.

The Corporate Governance in Pakistan is very important issue now a days because Pakistan is entering into the emerging markets and to cop with such problems the SECP has taken strong measures. Because good corporate governance is important as it reduces the agency cost and conflicts between shareholders and the management. According to the State Bank of Pakistan

(2006), "the efforts to perk up life in entirety, quality of output, efficiency in delivery of products of an organization, and ensuring the best value for money. To administer means run, rule and dominate with authority in policies and procedures of an organization. It is synonymous to influencing and determining the course of action, while specifying the method of controlling the events and activities so that outputs are optimized in terms of quantity, quality and time lines". (Handbook of corporate governance SBP 2006)

According to Organization Economic Corporation Development (2001), corporate governance establishes relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently. "A set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently." (OECD) "It is a system by which companies are directed and controlled." (Cadbury Committee, 2001)

According to Black (1976), the dividends are the primary puzzle in the economics of finance. However, Kumar (2003) believes the fictions of the dividends have primarily relied on the hypothesis of signaling and the agency cost. The purpose of dividends are giving the incentives to the finance provider of a firm in the fiction as without paying any dividend the shares of the firms would not have any value. The huge amounts of earnings that are being spread to the shareholders in the form of dividends problem researchers, according to the MM theory, their distribution has no effect on the value of the firm, in condition of the perfect capital markets (Miller and Modigliani, 1961).

Another important attribute that comes into the financial decision making process regarding dividend payout policy is the clash of interests between directors and shareholders, due to the allotment of ownership and control that exists in firms now a days (Jensen and Meckling, (1976); Myers and Majluf, (1984);

Jensen, (1986); Easterbrook, (1984). According to the agency cost model of dividends, dividend policy can constitute either a means of control of the directors by the shareholders or a vehicle, through which the former can make the most of their own interests. The final outcome depends on the concentration of the clash of interests and the power of each interested festivity.

As regards the responsibility of director ownership, the pragmatic studies that have been carried out so far show that there is inter relationship between directors ownership and the alliance of interests of the directors with those of the shareholders is not linear and the conclusion is the negative ownership have positive effect on the incentives highly shareholding. (Morck et al, 1988) A very important contribution is in accumulation, there has been reported not only the impact of directors ownership on the decisions regarding dividend payout policy, (Fenn and Liang, 2001), but also the biased in the responsibility run by dividend payout policy depending on the intensity of directors ownership.

Relationship between the Ownership Structure and Dividend

The variable used in this study are change in dividend (Div_{it} - $div_{i(t-1)}$), change in earnings(ear_{it}-$ear_{i(t-1)}$) , corporate holding, financial holdings, Financial Institution holding, director's holding and foreign holding. We also take the squares of above variables $(corp)^2$, $(Fii)^2$, $(Dir)^2$, $(fore)^2$ for explaining the ownership effect in present situation after a certain doorstep. The control variables in this study are earning growth, debt to equity ratio, growth in sales. In order to explaining the dividend models dividends are calculated as the total amount of dividend as given in the balance sheet analysis relating to the accounting years. The earning variable is also taken from the balance sheet analysis as earning before interest and taxes and the dividend to assets ratio.

The study adopted the modified models used by Kumar (2003) in context of Pakistani Capital Market. Kumar (2003) modified Linter (1956) Full Adjustment Model, Partial Adjustment Model by linter (1956), the earning trend model Fama and Babiak (1968) and modified model of firms level characteristics proposed by Aivazian (2003), but we also used modified models to examine the relationship between the ownership structure and the dividend payout policy in Pakistani listed non financial firms of Karachi Stock Exchange.

Hypothesis

H_{01}: There is no relationship between ownership structure and dividend payout policy.

H_{a1}: There is relationship between ownership structure and dividend payout policy.

H_{02}: Identity of the shareholder does not matter.

H_{a2}: Identity of the shareholder matter.

H_{o3}: Ownership structure does not influence the dividend payouts in Pakistan.

H_{a3}: Ownership structure can influence the dividend payouts in Pakistan.

Analysis of Data

We examined the possible relationship between changes in earnings (ear) and change in dividends (Div) for the firms at time't' is given by:

$$Div_{it} - Div_{i(t-1)} = \alpha + \beta\,(ear_{it} - ear_{i(t-1)}) + \mu_{it}$$

We assumed that the firms significantly having the block holding may have different β, then our models comes in this shape.

$$\mathbf{div_{it}\text{-}div_{i(t-1)}} = \alpha + \beta\,(ear_{it} - ear_{i(t-1)}) + \beta_f(ear_{it} - ear_{i(t-1)})*fore + \beta_i(ear_{it} - ear_{i(t1)})*fii + \beta_d(ear_{it} - ear_{i(t1)})*dir + \beta_c(ear_{it} - ear_{i(t-1)})*corp + \mu_{it}$$

The coefficients β_f, β_i, β_d and β_c denote the respective effect of foreign ownership or holding, Financial Institution holding, directors holding and corporate holding in relationship between dividend payout ratios of the firms. The empirical model is expressed as:

$$Div_{it} / A_{it} = \alpha + \sum_{j=i}^{n} \beta j\, X_{ijt} + \varepsilon_{it}$$

In the model Xijt is the explanatory variable j for firm I at the time t and div_{it}/A_{it} is the dividend to asset ratio subscripted for firm I at time t, whereas ε_{it} is error term α is the intercept.

The study examined the influence of firms' level characteristics (debt to equity ratio) past dividend and earning trend and ownership structure on the dividend payout decision of a firm. Their empirical model for a firm i at time t is given by:

$$\mathbf{div\_int_{it}} = \alpha_i + \beta_0(ear\_int)_{it} + \beta_1(ear\_int)_{i(t1)} + \beta_2(div\_int)_{i(t1)} + \beta 3(debt\_equity)_{it} + \beta 4(salei\_gr)_{it} + \beta i1(f\ ii) + \beta i2(fii)^2 + \beta f1(fore) + \beta f2(f\ ore)^2 + \beta\ c1corp + \beta c2(corp)^2 + \beta d1(dir) + \beta d2(dir)^2 + \mu it$$

In the model div_int_{it} is the dividend to assets ratio subscripted for firm I at time t , μit is the error term and a is intercept. We used specification of this function in terms of ownership structure and firm characteristics.

The descriptive statistics of dependent variable and explanatory variables by using EVIEWS 3.1 from the period of 2002 to 2006 *(see table 1-5 given as Annexure)* separately and as well as combined. After the descriptive statistics we found that mean level (Average) of corporate ownership is 17.20 in 2002, 18.41 in 2003, 19.20 in 2004, 18.98 in 2005 and 1392.92 in 2006 which conclude that the corporate ownership is increasing year by year. The minimum and the maximum values of Corporate ownership are 0 to 67.6%, 0 to 68%, 0 to 75.11% & to 75.27% and in 2006 0 to 38708 and combined 0 to 59.02% with the standard deviation of 13.018% and positively skewed. Its shows trend of the corporate investor to get the more and more ownership of the listed firms of non financial sector of Pakistan which intends to easily influence the dividend payout policy.

Descriptive statistics of Directors ownership in sample of listed non financial firms the mean value in 2002 is 17.2%, 2003 18.06, in 2004 is 19.19%, in 2005 is 18.97 and in 2006 is 18.94% and in full from 2002 to 2006 the mean value is 14.63% with the minimum value of 0 and the maximum value is 95% with the standard deviation of 26.886% and also positively skewed. Its shows that percentage of director's ownership increases year by year and it can create the conflict between shareholders and management. It can also cause of increases the agency cost. Dividend paid is one of the very important variables in this study and the mean value of dividend paid in 2002 is Rs. (million) 153, in 2003 is 83.9, in 2004 is 104.66 in 2005 is 85.29 and in 2006 is 21.96 with the minimum and maximum value of -746.42 to 1998.90 in 2002, in 2003 is -2200 to 1276.70, in 2004 is -902 to 873.40, in 2005 is -1636.28% to 873.51% and in 2006 is -90 to 95.5 as well as combined from 2002 to 2006 the mean value of the dividend is 306.34 and minimum and maximum value in combined is -28791.30 to 64767.56 with the standard deviation of 5722.197 and positively skewed. We have seen that the mean level of dividend payment decline in 2003 from 153% to 83.95%, but again increase in the financial year 2004 and 2005 and again decline in 2006 but positively skewed and from the period of 2002 to 2006 it increase from 153 to 306.34

Dividend growth or change in dividend is the dependent variable in this study and descriptive statistics is as follows. The mean value of dividend growth is in 2002 is 0.0322, in 2003 is 0.0299, in 2004 is 0.0286, in 2005 is 0.0286 and in 2006 is 83.585 and the minimum and maximum value in 2002 is 0 to 0.220% , in 2003 is 0 to 0.169%, in 2004 is 0 to 0.179, in 2005 is 0 to 0.225 and in 2006 is -194.11% to 2287.5% and as combined from 2002 to 2006 mean value of the dividend growth is 1332.48% with the standard deviation of 11156.03 and positively skewed with 7.46% and the net earnings increase by the mean value of

426.50 to 1036 that shows the positive relationship between the earning and dividend payments in Pakistan .

The mean value of dividend to assets ratio in 2002 is 0.032% in 2003 is 15.055%, in 2004 is 14.953%, in 2005 is 14.430% and in 2006 is 50.204% the minimum and maximum values are in 2002 is 0 to 94.7% , in 2003 is 0 to 94.7%, in 2004 is 0 to 94.7, in 2005 is 0 to 95% and in 2006 is -100 to 2042.685 and as combined from the period of 2002 to 2006 the mean value is 730.918 with the standard deviation of 4256.78 and positively skewed as 8.01%.

The mean value of earning growth in 2002 is 3.564% , in 2003 is -1.716%, in 2004 is -6.61%, in 2005 is 3.843% and in 2006 is 0.077% and as combined the mean value of earning growth is 9.13% with the 140.41% and positively skewed.

In financial institutions (FII) ownership, the mean value is 11.37% in 2002, in 2003 is 10.113%, in 2004 is 10.786% in 2005 is 10.007% and in 2006 is 13.595% and as combine from the period of 2002 to 2006 mean value is 1430.2 with the standard deviation of 6363 and positively skewed.

The mean value of foreign ownership (fore) in 2002 is 37.88%, in 2003 is 37.68%, in 2004 is 37.11% in 2005 is 36.96% and in 2006 is 38.03% and as combine from the period of 2002 to 2006 is 37.13% with the standard deviation of 30.53% and positively skewed. The mean value of foreign ownership is constant from the period of 2002 to 2006 and don't effect dividend payout policy in Pakistani firms.

The mean value of net earnings in 2002 is 426.50, in 2003 are 525.30, in 2004 is 1036.49, in 2005 is 823.226 and in 2006 is 9.0566 and in combine from the period of 2002 to 2006 is 663.854 with the standard deviation of 14817 and also positively skewed. It means when net earnings of the listed non financial firms of Pakistan increases then there is an increase in dividend payments.

The mean value of sales growth is in 2002 is -25.84%, in 2003 is 70.60%, in 2004 is 57.22%, in 2005 is 22.42% and in 2006 is 18.95% and as combine sales growth from the period of 2002 to 2006 is 654.72 with the standard deviation of 14814 and also positively skewed (0.92).

We also use the debt equity ratio as control variable mean value of debt equity in 2002 is 27.33%, in 2003 is 52.19% , in 2004 is 52.27 in 2005 is 11.69% and in 2006 is 154.57 and as combine for the period 2002 to 2006 is 742.90 with the standard deviation of 402.63% and positively skewed. It shows that debt equity ratio of the sampled listed firms of non financial sector increases year by year and in improving position met their debt targets with equity that they have.

Table – 7
Correlation Matrix

	CORP	DEBT EQUITY	DIR	DIVIDEND	DIVIDEND GROWTH	DIVIDEND TOASSET	EARNING GROWTH	FII	FORE	NET EARNINGS	SALES GROWTH
CORP	1										
DEBTEQUITY	-0.05	1									
DIR	0.18	0.217	1								
DIVIDEND	0.02	0.402	0.001	1							
DIVIDENDGROWTH	0.00	0.44	0.102	0.4883	1						
DIVIDENDTOASSET	-0.12	0.013	-0.16	0.0346	0.0739	1					
EARNINGGROWTH	-0.06	-0.02	-0.07	0.089	0.0136	0.031	1				
FII	-0.29	-0.011	-0.347	-0.022	-0.061	0.232	-0.10	1			
FORE	-0.19	-0.05	-0.35	-0.010	-0.004	-0.007	0.212	-0.43	1		
NETEARNINGS	-0.08	0.035	-0.12	0.0449	0.2447	0.0158	0.090	-0.14	0.338	1	
SALESGROWTH	0.002	0.446	0.102	0.4891	0.9999	0.074	0.023	-0.06	-0.002	0.245	1

Correlation Matrix

The correlation matrix explain variables and results of correlation matrix as association between the corporate ownership and D/E is negatively significant which shows that if the corporate share holding increases then the D/E of the firms decreases. The relationship between the D/E ratio and Directors Ownership is positives, which favours that if director's ownership increases, the firms debt ratio also increases. If the managers of the firm hold large shares of their firm, then, firm's external sources of financing would decrease. The correlation matrix shows that there is a positive but insignificant relationship between Director Ownership and dividend (0.00115).

The relationship between the dividend and corporate (0.020) is positive significant. In the same way, dividend is negative significant with the financial institution (-0.0613) and foreign ownership (-0.0047) which determines the dividend cannot effect by the financial and foreign ownership. The dividend is positive significant association with the earning growths.

Which support if earning growth increases the dividend also increase. In same way dividend high positive significant with sale growth (0.489). Which shows if the sales increase the dividend also increase.

Table – 8
Linter Modified Model

Dependent Variable: DIVIT (Dividend Growth)				
Method: Pooled Least Squares				
Date: 04/26/08 Time: 02:49				
Included observations: 5 after adjusting endpoints				
Number of cross-sections used: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.41E-11	4.23E-11	-0.806364	0.4208
EG*FII	-1.52E-14	1.01E-14	-1.501622	0.1345
EG*FORE	-1.56E-14	8.67E-15	-1.803125	0.0726
EG*DIR	3.83E-15	4.32E-15	0.887438	0.3757
EG*CORP	1.000000	3.00E-13	3.33E+12	0.0000
EAR	-1.000000	3.00E-13	-3.33E+12	0.0000
R-squared	0.72			
F-statistic	27.01			

In analysis of this study we used the dividend growth (div_{it}) as dependent variable. The results we got from the linter modified model mentioned in above table 8, the result for the sample 50 non financial firms for the dividend growth (divit). The coefficient of corporate ownership (corp.) or holding is positive and highly significant *(t-statistics = 3.33)*.While association between the director's ownership and dividend growth is insignificant *(t-statistics = 0.887)*, and dividend growth with the coefficient earning growth is negatively significant *(t-statistics =- 3.32)*. The coefficient of financial institute investor *(t-statistics = - 1.5)* is negatively insignificant with the dividend growth. Its clearly shows that the corporate ownership have positively impact on the dividend payout policy in Pakistan and the directors ownership, foreign ownership and financial institution investor have negatively effect on the dividend payout in Pakistan this evidence is supported by the finding of Sharp et al (2002) while deviate with the findings of Kumar (2003).

Table – 9
Modified Partial Adjustment Model

Dependent Variable: DIVG?				
Method: Pooled Least Squares				
Date: 04/26/08 Time: 11:57				
Sample(adjusted): 1 5				
Included observations: 5 after adjusting endpoints				
Number of cross-sections used: 10				
Total panel (balanced) observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.7611	5.356467	-2.94245	0.005229
EG?	-2.30218	1.161351	-1.87279	0.027906
EGFORE?	0.004109	0.007006	0.58645	0.560639
EGFII?	0.003138	0.00213	1.473533	0.147891
EGDIR?	0.003885	0.002269	1.712181	0.094067
EGCORP?	0.057327	0.176596	1.324624	0.03704
EGCORPDIV?	3.051832	0.176513	2.293644	0.020442
R-squared	27.89556			
F-statistic	19.051			

The results of Partial Adjustment model mentioned in above table 9. The results of sampled 50 non financial firms dividend growth is dependent variable with other explanatory variables. The coefficient of earning growth is significant and negative *(t-statistics is 1.87)*. While interaction terms of earning growth with financial institute investor (fii) *(t-statistics is 1.47)*, foreign (fore) *(t-statistics is 0.58)* and directors ownership is insignificant *(t-statistics is 1.71)*, but interaction between the earning growth and corporate shareholding is positive and significant *(t-statistics is 1.32)*. Further more the dealing between the earning growth and corporate dividend (earcorpdiv) is positive and significant *(t-statistics is 2.29)*. The results are contrast with Kumar 2003 but this evidence is supported by short et al (2002).

The over all regression model explain approximately 28% variation in the dependent variables. The analysis also show that our model is 20% significance *(F-statistics = 19.05)*. While the regression analysis of Kumar (2003) have variation in the dependent variable was .30 (R^2 = .30)

Table – 10
Modified Earning Trend Model

Dependent Variable: DIVG (Dividend Growth)				
Method: Pooled Least Squares				
Date: 04/26/08 Time: 13:14				
Sample(adjusted): 1 5				
Included observations: 5 after adjusting endpoints				
Number of cross-sections used: 10				
Total panel (balanced) observations: 50				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15.6802	5.08817	-3.08169	0.003584
EARR?	-2.3224	0.198391	-3.62506	0.011457
FII?*EEARR	0.003012	0.002289	1.31595	0.195163
FORE?*ERR	0.00384	0.004682	0.820064	0.416702
CORP?*EARR	3.504717	0.007265	4.694677	0.009099
DDIR?*EARR	0.004192	0.002851	1.470115	0.14881
EGCORPDIV	1.000816	0.00593	2.137656	0.031155

R-squared	32.12185
F-statistic	20.99441

The results of the earning trend model (ETM) are mentioned in above table 10, results for the sample of 50 non financial firms of Karachi Stock Exchange. The coefficient of is earning negative and significant *(t-statistics = -3.08)* and interaction with financial institution investor (FII), *(t-statistics =1.33)* Foreign ownership holding *(t-statistics = 0.82)* and director's ownership holing *(t-statistics = 1.47)* is insignificant but the coefficient of earning is highly positive with corporate ownership and past dividend paid to corporate ownership. This means past dividends have highly positive and significant impact. The results suggest that increase in corporate ownership also increase the dividends in Pakistan. This result is in contrast with Kumar (2003) and short et al (2002).

The overall model presents 32.12 % variation in the dependent variables, the model significance is 20.99 % (F-statistics = 20.99).

Proposed Model

This model is used to analyze the firm's characteristics and results mentioned in table 11. The dividend to total assets as dependent variable and explanatory variables are debt to equity ratio, dividend growth, sales growth, the

coefficient of the dividend growth shows the highly positive and highly significant *(t-statistics = 8.39)*. The coefficient of debt equity ratio is negative and significant *(t-statistics = -3.1)*. The coefficient of earning growth is positive and significant *(t-statistics =2.18)*. The coefficient of ownership of director's, foreign, and financial institution investor's are insignificant but the ownership of corporate *(t-statistics =3.4)* investor is highly positive with the dividend to total assets the square of the corporate ownership *(t-statistics = 4.11)* is also positive and significant. Furthermore the remaining explanatory variable sales growth is negative insignificant *(t-statistics = -1.2)*. This clearly shows that corporate ownership positively affects the dividend to total assets in Pakistani non financial firms. The results supports the finding of Kumar (2003) but in against with the findings of short et al (2002).

The pooled regression of the purposed model show 92% (R^2 = 92%) variation in the dependent variables, while the model significance is 26.82% (F-statistics = 26.82).

Table – 11
Proposed Model

Dependent Variable: DT (Dividend to Total Assets)				
Method: Pooled Least Squares				
Date: 04/26/08 Time: 15:12				
Sample(adjusted): 2 5				
Included observations: 4 after adjusting endpoints				
Number of cross-sections used: 10				
Total panel (balanced) observations: 40				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.015645	0.009295	1.683218856	0.103862419
EG?	6.60E-07	3.57E-06	2.185054896	0.034569064
EG?(-1)	2.43E-05	1.31E-05	1.844580362	0.076096687
DT?(-1)	0.77068	0.091759	8.398939077	5.20E-09
DE?	-2.00E+00	2.65E-06	-3.104262051	0.00917732
SG?	-7.46E-05	5.81E-05	-1.283616949	0.210183544
CORP?	4.001267	0.000365	3.469242159	0.001767758
CORP2?	1.80E-05	4.39E-06	4.115639517	0.000325713
FII?	0.000965	0.000565	1.709405843	0.098847022
FII2?	-2.53E-05	1.27E-05	-1.983307234	0.057588973
FORE?	5.41E-05	0.000378	0.143013322	0.887341622
FORE2?	-3.87E-06	5.65E-06	-0.685831589	0.498666512
DH?	-0.00026	0.000149	-1.7487961	0.091688465
R-squared	0.922613			
F-statistic	26.8245			

Conclusion

The study has empirically examined the relationship between the ownership structure and dividend payout policy by using the panel data from 2001 to 2006. The broad consistency of the results by using the equations form and variable choice is quite consistent with many widely accepted principles in the field of advance corporate finance. We document that unobserved listed firms of Pakistan explain that there is a positive relationship between the corporate investor ownership and dividend payout policy in Pakistan. When corporate ownership increases, the dividend also increases. Furthermore, it is important to mention that this is the first example of using the well established models of dividend payout policies i.e. Full Adjustment Model (FAM), Partial Adjustment Model (PAM), Earning Trend Model (ETM) and Proposed Model (PM) in context of emerging market (Pakistan).

Due to high and positive ownership concentration, the conflict between the large (corporate investor), the controlling owners and small outsider shareholders (Individuals) is one of the very important focal point in the corporate governance literature. We also empirically found that ownership is one of the very important variables which can influence the dividend payout policy. But the relationship is different for different classes of shareholder i.e. director's, foreign, financial institution investors and corporate investor's ownership. It can be concluded from the analysis that the ownership structure in Pakistan can influence the dividend payout policy informally and the identities of shareholders also play important role. However, the results support the alternate hypothesis that there is a relationship between the ownership structure and dividend payout policy in Pakistan.

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