

# IMPACT OF OWNERSHIP STRUCTURE AND CASH FLOW ON CORPORATE DIVIDEND POLICY IN PAKISTAN: KSE 30 INDEX

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**Abstract-** This research aims to comprehend the impact of ownership structure and Cash Flow on corporate dividend policy in Pakistan: KSE 30 Index. Data was collected from thirty companies which are listed in the Karachi Stock Exchange from randomly which paid the dividend regularly from the period of 2004 to 2014, in this Study includes variables like Dividend Payout ratios dependent and ownership structure, Quick Acid test Ratios, Price Earnings Ratios, Financial Leverage Ratios, Debt to Equity Ratios, Net Profit Margin, Return on Assets, and Cash Flow these are independent. The result of the study proved that ownership structure is dummy variables, Quick Acid test Ratios, Price Earnings Ratios, Financial Leverage Ratios are strongly relation among the dividend payout Ratios. Debt to Equity Ratios, Net Profit Margin, Return on Assets, and Cash Flow is also related positive relationship. This research offers imminent guidelines to the policy and decision makers in any type of firms to take good decision to set their firms hierarchy system.

**Index Terms-** Dividend, Pakistan Stock Exchange thirteen Firms'

## I. INTRODUCTION

Dividend policy may be a few of the loosely self-addressed subjects in up to date financial literature. Many researchers try to discover the matter concerning the dividend conduct or dynamics and determinants of dividend policy however we tend to still don't have an applicable reason behind the determined dividend conduct of companies (Black, 1976; Allen and Michaely, 2003 and Brealey and Myers 2005). one in every of the wide famed motives of dividend behavior is that the smoothing of firm's dividends vis-a-vis financial gain and increase. In his seminal studies, Lintner (1956) discover that corporations within the u. s. of america alter their dividends swimmingly to keep up a target long run payout quantitative relation. various analysis appear once this paintings and proof endorse that the dividend policy of the organizations varies from U.S. of a to country thanks to varied establishments and capital marketplace variations.

Dividend alternative is crucial for each the investors and businesses. it's miles the selection of business enterprise's management that what proportion of the earnings have to be compelled to be endowed and what share need to be disbursed to shareholders as dividends. Whereas creating this alternative the management considers accessible funding prospects that may increase destiny financial gain and if such opportunities are not to be had the management ought to distribute the earnings to shareholders. (Miller & sculpturer, 1961)

The conventional read of the dividend choice states that at a selected time the number of coins paid of late as dividend is larger precious than the maintained coins. the traditional read argues that paying early dividends might not alternate the corporate threat degree but it will alternate the notion of the capitalist concerning the enterprise's likelihood stage for this reason dividends area unit bigger precious than maintained financial gain.

In imperfect marketplace consumers elect businesses with a dividend sample almost like their intake sample is often| the explanation several teams follow a continuing dividend coverage and their management bear in mind discount in dividend as a weakness signal and consequently a better dividend would handiest be introduced if the corporate can maintain it in future.

Traders have incomplete records in imperfect market. less quantity of knowledge is offered thus one thing is offered is taken into thought as essential one by suggests that of the investors. Assertion of dividend is taken as sign of destiny boom of the business. Most of those factors show the importance of dividend and its relevancy.

The Pakistan's capital marketplace and also the national economy have many important functions for analyzing the dynamics of dividend policy. 1st of all, Pakistan is moving toward the event and enhancing the national economy position within the world for the explanation that 1980.1 The capital markets of Pakistan area unit an honest deal develops as before2. several studies end that companies area unit altogether probability to pay solid dividend at some stage within the high growth length and it's attention-grabbing to find that however dynamic dividend policy is set in developing economy like Pakistan. Secondly, thanks to vulnerable company governance the possession structure of Pakistani corporations is often characterized by manner of the dominance of one primary owner United Nations agency manages an oversized kind of connected corporations with simply atiny low amount of stocks

or funding that lead to the organization battle among the shareholders and also the man of affairs, whereby dominant shareholders confiscate worth from minority shareholders and will influence the dividend policy simply. Thirdly, the tax atmosphere in Pakistan is completely one in every of a form as compare to advanced markets. there is also no financial gain tax on shares in Islamic Republic of Pakistan at a similar time as 100% income tax is charged on dividend earning and it's miles essential to say right here that if the businesses earned the earnings and no longer introduced the dividend that the thirty fifth of the profits tax is charged through the authorities of Pakistan. there's a chance of variations within the legal system might have an impact on the dividend coverage and in addition have an impression on the sheepskin of dividend smoothing in Pakistan after you take into account that this unfavorable tax treatment of dividend profits may be a bigger serious problem than the developed countries like America. Fourthly, inside the Pakistan the payment of dividend is voluntary. In Korea as associate degree example, it's miles obligatory for indexed organizations to pay the once a year dividend divided through its face price at a degree same to the interest worth of 300 and sixty 5 days certificate of deposit. In truth, in Pakistan the many major traders area unit still disagreed with dividends and do not forget inventory charges appreciation as a result of the first issue of inventory returns consequently, it's miles assumed that capitalist mind-set toward dividends is anticipated to own an impact on the way whereby companies set their dividend policy in Pakistan.

Earnings area unit thought of a souvenir for fairness holders. but, the charge of dividends isn't obligatory. In observe, the dividend choice agency costs (Jensen's, 1986; Easterbrook, 1984) area unit related to (lease ET al., 2000), the firm's funding opportunities, leverage and finance choices accessible (Smith and Warner, 1979; Rozeff, 1982) fashionable, earnings and private tax (Brennan 1970), the preferences of assorted businesses of investors effects (John and Williams, 1985), internal and external to the relative energy (la orifice and al ET al., 2000), and also the charge of dividends and destiny clientele (Lintner, 1956; Brav ET al., 2005). a large amount of studies during this location, in spite of the theoretical and realistic researchers profits (Black, 1976) become a puzzle. in a very resistance international, dividend payments created investors returns domestic (Miller and Modigliani, 1958, 1963) is also generated from the worth of a firm is inappropriate. however, abundant less-than-perfect markets, a most dividend payout quantitative relation is further than the value of the firm. as associate degree instance, various theoretical and wise take a glance at facts spatiality among managers and external shareholders whereas earnings is also used as a signal tool show. (Bhattacharya...1979..Miller & Rock., 1985& Ambarish ET al.,1987) were boom or lower within the earnings of a company's destiny profits argued that send alerts. However, latest tests for signal model is found to be weak empirical aid this is often indicated (DeAngelo ET al., 1996. Benartzi ET al., 1997.)

Relatively less economical markets, dividend payment policy, the agency model within the context of a additional powerful rationalization has emerged. In place of work framework, monetary economists outline 2 opposite for dividend payment supply. Hart and Moore (1974), Jensen's (1986), Fluck (1998, 1999), Zwiebel (1996), Myers (1998), Easterbrook (1984) and Gomes (2000) studies, the income edges managers I counsel to facilitate the famine of prudence and / or external force managers to look at the markets during which they're subject, to induce outside finance. The agency perspective, there's a powerful preference for associate degree out-profits would expect. Agency Model Extension, (1982) Rozeff dividend payments to the firm's agency prices and dealing prices is that the results of a trade-off between the conjectured. The dividend price reduction model (DCM) because the model is named. The dividend payment are going to be subject to external finance firm belief that top dealing prices if the agency problems to beat the minority shareholders can demand additional profit, however, for the good thing about their shareholders i'll be forced to lower their demands. However, La Porta's ET al. (2000) returns voluntarily and isn't paid by the management of a legal system; the rights of minority shareholders set the dividend payout quantitative relation that argument. The rights of minority shareholders, if, through varied ways will force management to pay dividends. The thirty three countries through a sample of four1,000 corporations found support for his or her hypothesis. La orifice a powerful explanation for the ET al area unit of the read that there's. significantly developing economies, wherever company governance indices area unit lower and also the rights of minority shareholders (2000) argument don't seem to be well protected. Agency models profit squeeze out minority shareholders and corporations will cut back agency prices relies on the idea that. However, this assumption legal and governance systems in developing economies, given the imperfections could appear irrational. Agency theory Fish celebrated throughout the capital structure as a plausible rationalization for the variation is advanced. Johannes Vilhelm Jensen and Meckling (1976), a manager of the company's capital structure to reduce their impact on the worth of the equity price of agency debt agency counsel that the value is adequate the balance.

It should be actually powerful for vulnerable external shareholders to pressure nicely-entrenched managers or a giant inside-block holder to pay dividends in a very vulnerable criminal contraption. the explanation of this have a glance at is to through empirical observation examine the on top of hypotheses employing a sample of Pakistani listed corporations. In Pakistan, the possession form of corporations is totally different from those of the Anglo Saxon international locations a bit like the United country and also the Great Britain wherever spread shareholdings area unit omnipresent. Pakistan lacks extensively control organizations. The possession of the corporations is targeted in some hands, with massive shareholders having enough incentives and capability to manage. those settings is also accustomed check the validity of l. a. orifice et al. (2000) speculation in assessment to the dividend fee reduction hypothesis. the overall material of this paper is extensively in line with that of l. a. orifice et al. (2000). but, our paper is totally different from theirs on cash owed. First, we tend to use a within-u . s . a . sample and distinguish between one in every of a form lessons of shareholders on the thought in their relative powers to force corporations to disgorge coins. for example, we tend to reckon that outside character shareholders area unit incapable of forcing entrenched managers to pay dividends. therefore dividend payout quantitative relation may well be negatively related to the possession proportion of individual shareholders. In distinction, the dividend price reduction model of Rozeff (1982) implies a positive relationship among the 2. additionally, we tend to proxy the traders powers with the possession % of

institutional consumers, United Nations agency have the comparative benefit of good thing concerning } information and being vocal about their rights. Being bigger powerful than man or girl investors, they will force corporations to pay dividends.

The study makes many contributions to the literature. First, this paper considerably examines the association among possession variables and dividend coverage in Pakistan. This location has attracted very little interest of empirical researchers in Pakistan for the plain reason behind non-availability of possession form statistics in associate degree ready kind. The few gift analysis during this material in Pakistan lack rigor no longer handiest in terms of facts set and short amount of possession variables, however in addition in terms of right economics modeling. Secondly, this take a glance at extends the worth reduction version of Rozeff (1982) by suggests that of cacophonous the statistics attack the idea of fiftieth score of possession variables. we tend to speculate and check that the results of dealing prices and leader fees on dividend payout quantitative relation don't seem to be instantly-ahead; as another the presence of one moderates the impact of the choice on dividend coverage. This conjecture permits U.S. to separate the records into subsamples victimization the fiftieth %iles of the possession variables like percent of possession control by victimization institutional traders, out of doors individual investors, directors (insiders) and connected corporations.

Jensen and Meckling by victimization shareholders on the value of the corporate conception managers enhance their own well-being is perhaps to lead to suboptimal alternative, the pastimes of shareholders and executives of a firm, there is also a seasoner war posits . Among proprietors and managers perceive the impact of those conflicts, the market is impartial such prices and expected worth of the shares reduces the firm. This lack of equity price of the firm has agency.

Agency many ways in which to unravel issues and are urged to scale back the attendant prices. These practices encourage external management devices or mechanisms either constitute 2 classes. Within the latter cluster, the house owners and managers to align the interests of managers how to bring the firm (Jensen and Meckling, 1976) to extend their possession is due. Johannes Vilhelm Jensen associate degreed Meckling projected by neutralizing an equity investment in in our own way, is to extend the utilization of debt finance. The management of the equity possession rates increase, the equity base shrinks. the utilization of credit not solely to align the interests of managers and house owners of works, however bankruptcy and job loss will increase the possibilities. Manag- ers will encourage additional risk edges embody reduced their consumption and performance (Grossman and Hart, 1982) to extend. Another advantage of victimisation the loan takings (Jensen's, 1986) may be a answer to the matter of maintaining additional.

The study of those corporations within the dividend policies of the corporate official report views. within the world of taxation and dealing prices, the payment of dividends needs some rationalization, before June 2010, no capital gains tax in Pakistan to the shareholders of such profits area unit less theoretical blessings, particularly wherever the re-investigation of the matter a very appropriate context, provided, was there.

The level of dividend and payment strategies (cash or shares) the selection of a way to discovered the businesses, the paper adopts a behavioural approach, and also the u. s. hold the first task of Lintner (1956) builds on. Lintner methodology conjointly works within the same manner within the context of education relies on the results of a series of (; Baker and Powell, 1999; Baker ET al., 1985 Brav ET al., 2005), Great Britain (Dhanani, 2005) and eire (McCluskey withdraws ET in al., 2007). little analysis of the structure of taxation, despite the fast development and uncharacteristic Pakistan is that specialize in rising markets; exceptions to the present generalization liveliness and Bilgrami (1994), Kanwar (2002), Naeem and Nasr (2007) and Ahmed and Javed (2009) area unit enclosed. However, none of these interviewed already use study examined the behavioral aspects of dividend policy; instead, they combination victimization multivariate analysis examined the company's dividend payments. this paper is thus comprehensive that the primary arrange to build a contribution within the space in these firms' dividend decision-making method concerning the impact of a series of interviews with executives of the corporate reports results.

Dividend policy behavior in finance literature and also the most debate able issue each in developed and rising markets is that the distinguished place Dividend policy behavior in finance literature and also the most debatable issue each in developed and rising markets is that the distinguished place. Several researchers dividend and dividend policy determinants of behavior or the dynamics of the matter, however we tend to still try and uncover "t corporations (Black, 1976 a suitable rationalization for the discovered dividend behavior, 2005 Allen and Michaely, 2003 and Brealey and Myers). dividend describe the behavior of leading a firm "s revenue and profit growth vis power tool than A-. u. s. corporations within the long-run target payout quantitative relation to keep up their profits simply accommodate these basic analysis, Lintner (1956) realize. This work demonstrates the companies' dividend policy and capital market establishments vary from country to country attributable to variations counsel that once many studies showed. Pakistan dividend policy and capital market economic dynamics to research many vital options. First, Pakistan area unit moving towards the event of the capital markets since 1980.1 positions within the world economy is up before2 as several area unit prepared. several studies corporations stable throughout the amount of high growth is anticipated to pay a dividend and the way it complete that dynamic dividend policy in growing the economy of Pakistan is decided to seek out attention-grabbing. Secondly, due to a results of weak company governance structure of the corporations closely-held by the shareholders as a result of the conflict between the agency that solely a tiny low quantity of shares or investment related to variety of corporations Management is characterized by the dominance of a primary owner dominant shareholders and minority shareholders holding the worth will simply have an effect on dividend policy, wherever the third than in developed markets, Pakistan The tax atmosphere is totally different. There the ten income tax on dividend financial gain has suspect the Pakistan financial gain on stocks and corporations tax3 profit and not tax by thirty fifth charged the dividend is said, it's vital to say here that the govt of Pakistan. have an effect on dividend policy and dividend financial gain once the adverse tax treatment of dividend in Pakistan will have an effect on the degree of smoothing the variations within the tax systems of developed countries just like the u. s. than probably a additional major problem. Fourth, the dividend payment is voluntary

in Pakistan. the businesses collect a year's time, interest rates at tier comparable to the annual dividend divided by the worth, for instance, in Korea, it's obligatory. In fact, several major capitalist in Pakistan area unit still variations of profits and thus stock costs of stock as a part of the come back on the definition, by its profits on the investment behavior of corporations is anticipated to own an impression is assumed that the dividend policy in Pakistan.

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Hypothetical and reasonable evidence dividend and dividend indication performance plays a very important role in explaining the agency's prices associated with the governance of the firm counsel that bound factors area unit gift. Pakistan's primary focus is to through empirical observation study the market behavior of the dividend smoothing "the firm will make a case for cross-sectional variations area unit to look at factors. whistle profit primarily attributable to scrutinize the recital of companies that dividend influences the capital structure. The concentration of the possession of such corporations, profitability, liquidity, size, leverage and investment opportunities, as is that the role of different determinants of Karachi Stock Exchange 320 non-financial companies within the sample by victimization the payment behavior The dividend for the amount from 2001 to 2006.

This contributes to the restricted literature and Lintner (1956), Fama and Blahnik (1968) and al Belanes ET He enlarged the standard framework. this study evaluated the policies of the dividend in Pakistan conjointly highlights the factors concerned in. we tend to controlled corporations future revenue and profit growth signals , firm size, money balance are often accustomed try and realize that out, revenues, capitalization maintained. In Pakistan area unit perpetually paying dividends area unit many corporations. we tend to metropolis exchange (KSE) The profits of those corporations don't seem to be able to swish dividend policy to subvert or area unit in Pakistan, what area unit the factors why try and realize the solution.

Dividend policy wide in fashionable economic literature is one in every of the topics self-addressed. the worth of the firm's perceived importance in determinative dividend policy theories indefiniteness of the researchers, one in every of the foremost contentious problems is created. This discussion sculpturer and Miller (1961) has roots back to the most task, that inflated the firm's dividend payment valuable and ideal capital market price of a firm's dividend call doesn't have an effect on that The common belief is challenged. On the opposite hand, Lintner (1962) and Gordon (1963) were argued in the bird hand theory that high-dividend paying high worth is related to the firm. The on top of discussion has currently was the monetary literature, however the difficulty (1976) with black items doesn't work as a "puzzle" is that the purpose wherever a similar is stagnating. No single issue alone dividend behavior (Anil and Sujata, 2008) will make a case for that there's associate degree rising accord. monetary researchers dividend, together with possession structure area unit vital choose that firm-specific factors, has known a kind.

Its shareholders by actively managing a firm's dividend control where supervision is absent provides indirect benefits, arguing that the current corporate ideology of "agency problem" (Jensen's, 1986 Easterbrook, 1984) affiliation among dividend behavior and ownership structure support (Rozef, 1982). Jensen and (1976) Meckling the managers, but the ultimate owners of the company have made will align the interests of managers and shareholders, the internal growth in the ownership of the firm that may have reduced the price Agency will provide increase to new conflicts of attention among. Furthermore, "customer impact model", investors pay a dividend policy best investors and capital gains tax treatment on the face and the securities trade because the cost of their investment objectives of the Company are attracted that argument. Therefore, the preference dividend and capital gain, their dividend policy, which associated with their investment strategy is forced to choose a company which created clientele. Capital gain is exempt from tax altogether, while in the context of the tax system, dividend tax is deducted at source. Therefore, these investors, especially those from small holdings to achieve profits more investors prefer to note that is not surprising.

In addition to the ownership structure, the company's financial and liquidity position to determine the level of dividend plays an important role. If a company is facing liquidity problems of the stock dividend instead of cash dividends may like to choose. Jensen's (1986) hypothesis of free cash flow, companies already investing in profitable projects prefer to use cash resources and profits are paid out of balance. For the first time introduced the concept of the separation of ownership and management means that Berle (1932), (Afza and Slahudin, 2009 cited in), Administration for profitable investment opportunities in excess of cash resources Use of passive causes, argued that the conflict between ownership and management interest. Dividend and interest payments due in less profitable projects or managers' requirements to reduce the likelihood of its use, free cash flow for management reduces available. From the point of view of companies, operations generated cash payment plays an important role in deciding, higher cash flow from operations generated negative operating cash flow of the company instead of cash dividends paid to companies is expected to be in a better position. Earnings in cash, keep the greater part of the report for future investments in profitable projects (Khurana and. al., 2006). Almeida et. Al. (2004) firms facing financial difficulties to fund future investment opportunities that will save cash over the pointed out. Intuitively, the firm's payment ratio will be less profitable projects because of financial constraints and will indicate the availability of cash out of free cash flow and increasing efficiency, a certain level of access to external finance firms provided that it is limited.

This argument formed where these firms can get debt market availability of debt assumed. internally generated funds to try to raise the level. Not only the size but also the firm's capital structure affects the dividend decision. (1957) Darling firms with high debt ratios to meet possible claims for compensation for allowing argued that more liquidity is needed. Levering the manufacturer's gains plus curiosity for non-cost of debts due to put the manufacturer in danger of bankruptcy and a negative affect on the company's liquid role. To be had for a feasible dividend cost of interest payment of the enterprise's money glide, excessive debt ratio, which reduces gains profit (Rozef, 1982) of the organizations. Meanwhile, the profit of the dividend payment is considered among the determinants. In his classic study, Lintner (1956) and DeAngelo et changes in a firm's net income margin found that the main factor. (1992), except during periods of the current income managers are reluctant to reduce the dividend payment because earnings are very poor when the dividend is an important element of the decision argued that (Mayers & Frank., 2008). Fama and French (2002) also reported that more profitable firms pay more dividends.

Since Pakistan's corporate ownership structure and the economic scenario seems important to highlight some of the features that affect corporate dividend behavior is taken as a key variable. Pakistan Pakistan's majority shareholders of the corporations maintain control of the company, not only (Ibrahim, 2005) are engaged in the management of the Anglo-American dispersed ownership structure is the focus of the family-owned, dominate Is. Generally, companies mainly because of limited access to external capital markets are small in size. This potentially could reduce the company's property management In addition, management is reluctant to use equity financing. have been. If less than 20% but 10% of the shares of the company shareholders for the appointment of inspectors to investigate the affairs of the Security and Exchange Commission of Pakistan (SECP) can apply. Less than 10 percent of the shareholders or SECP (Ibrahim, 2005) can not apply. Furthermore, the corporate tax rate from 10% to negative profits are taxed at the source and companies, which makes them subject double taxation of dividend income are taxed at the rate of 35% from the profit of small investors prefer affects. Result of capital gains dividends more attractive for investors as it seems, while capital gains are exempt from tax.

Furthermore, Pakistan Pakistan's economy, gross domestic product (GDP) and increased equity market indices recorded in the last 6 years, according to the Economic Survey of Pakistan 2007-08 to 2007. The best performers in the South Asian region were among economies. Year 2007, GDP grew 6.9 percent but 5.8 percent in 2008. The US refused again broke a series of records and calendar year 2007 (the Economic Survey of Pakistan in emerging markets become the sixth best performer has been in the 2007- 08). KSE-100 index stood at 1,366.44 at 2001 and the period under study (2005 to 2007) General term for companies in the high growth opportunities that can be concluded on 14 December 2007., at 075.83.

Dividend empirical results on the effects on behavior are the result of firm-specific characteristics. The present study developed economies like the US and UK companies have focused on the conduct of the dividend, but the evidence is very limited form of emerging economies. Pakistan recently Job (2005) and Ahmad and donation (2009) studied the determinants of dividend policy in the context of the dividend policy of the two studies as a possible factor is argued by many researchers in the Cash flow side, did not consider (see DeAngelo and DeAngelo, 2006;), for example Lawson, for 1996. Moreover, the ownership structure of the companies paying the evidence is very limited effects. Therefore, the present study the effects of corporate payment cash flow and ownership structure by examining the literature trying to expand.

The present study used as determinants of dividend payments for the last variable is different from the study. Dividend payments on the impact of ownership structure behavior management and individual ownership, to be further analyzed and behavioral determinants of cash flow sensitivity and dividend payments as long as the operating cash flow in the context of the study are to be. Therefore, this study dividend of companies in the emerging economies of Pakistan and their behavior is an attempt to explore the impact of corporate characteristics. The results of this study trends and determinants of dividend policy and will provide an insight into the dynamics that are expected..

## 1.1 Background

In Pakistani taxation structure dividend is withheld from the capital benefit. Ownership formation, monetary corporations and liquidity situation play an imperative position to conclude the position of dividend. Jensen's (1986) concluded that company invest first worthwhile undertaking and makes use of their assets and paid the dividend out of residual. In step with firms point of view that cash generated from the operation of companies, operation play vital function to determine the quantity payment, firm have greater cash go with the flow from the operation and expected better position to pay dividend rather than firms had negative operation cash drift. prior observe suggested that high cash waft or financially firm lower back the excessive cash earning at some stage in the duration, when organization cant no longer raise funds from the outside market , which means that liquidity is most essential and liquid resources to investing in destiny profitable tasks.

## 1.2 Research Objective

This study examines to Identify different factors that are affecting dividend policy of any corporation and check their impact on dividend policy. Check impact of specific factors like cash flow ownership capital on best 30 companies of Pakistan that are listed in Karachi Stock Exchange (KSE 30 Index).

## 1.3 Purpose of the Study

The purpose of study to examine the dynamic and determinant policy of 30 companies which are listed in Karachi Stock Exchange (KSE) from the year 2004 to 2014, The reason of observe to take a look at the dynamic and determinant coverage of 30 organizations which indexed in KSE from the period of 2004 to 2014, in this study we use linter dividend modal 1956, we also use (OLS) Ordinary least square regression , wherein we discuss on ,managerial, individual ownership , coins drift sensitivity, length and leverage , to look at on effect of cash glide and possession shape on corporate payout, we additionally discover the possession structure , coins float sensitivity and running cash flow on dividend payout conduct of organization in emerging economic system of Pakistan, impacts unmistakable decision In Pakistan , no matter the importance of the marketplace in segment and the states non slandered tax machine, this have a look at targets to make available detail evidence regarding this problem through examining the perspectives of those stimulating with choice in observe.

## 1.4 Justifications/Significance of Research work

Dividend payout policy is one of the most imperative factors for corporate sector and their regulating authorities to sustain investment in any country. In Pakistan there are few firms that are properly facilitating investors through their dividend policy; here corporate sector is not aware of importance of dividend policy in long term. So, there is immense need of research in this area, to explore factors effecting dividend policy and also managerial views about current set up.

## 2.1 Literature Review

In the company finance debates dispute troubles are mainly usually within the dividend coverage in developed and gifted market. Several student / scholars try to determine hassle about concert of the determinant & energetic of dividend coverage, but we immobile accomplish no longer complete nice rationalization designed for the sensible dividend performance of businesses. One of the sparkling identified illuminations of dividend concert is the extent of employer's dividend among observe to increase and earning. In this studies linter (1956) find out those firms inside the United state (US) adjusts their dividend proficiently to maintain a goal prolonged tear payout ratio. Many research end up seen at the back of this attempt and authentication dispute to assist the dividend coverage corporations deviate beginning state to us of a unpaid quite number companies and principal market variation. In middle 1950s linter tiled a numeral of dividend guidelines, which were the result of his interviews through business manger. Initial of them, companies are mainly disturbed with the immovability of dividends, pursued with earnings which were pleased as the majority significant determinant of several adjust in dividends. Third, in the entire the monetary pronouncement result are in use in pursuance of dividend policy. Lintner's examination of empirical model of dividend policy came into viewed comparatively high-quality illumination 85 % percentage of the dividend modified in the taster of firms.

In company finance debate issues most frequently within dividend exposure developed and talented market. Several pupil / Scholars try to determine problem regarding overall recital of the determinant and energetic of dividend insurance, but we nonetheless accomplish now not complete first-class explanation sensible dividend overall routine of organizations. In sparkling identified amplifications of dividend concert extent agency's dividend through observe to enlargement and producing. Linter's (1956) discover that businesses in united state (US) modify their dividend properly to sustain try extensive hasten payout ratio. Severa study emerge as noticeable after this attempt & authentication argued to assist dividend coverage corporations deviate beginning state to state amateur to quite number agencies and principal promote divergence. Lintner (1956) was earliest to examine the incomplete modification model of dividends. Model advice that revolutionize dividend is an occupation intention payment payout a reduced amount of the last episode dividend payout multiply through the rapidity of an alteration aspect. The objective dividend payout is a small part of the near era income. Lintner originate mainstream imperative determinant of company's dividend pronouncement was a most important revolutionize in paycheck "absent stripe" through accessible payment charges. Since a lot of mangers consider with the purpose of shareholders have a preference a stable tributary of dividends, companies be inclined to formulate episodic incomplete alteration towards an objective payment ratios quite than spectacular modify in payout. Consequently, mangers level dividends within the little sprint to keep away from numerous changes. Lintner experienced his intention and originate that the partial adjustment model predicated dividend payments additional precisely than "inexperienced" models. Within actuality, he originate with the intention of the model make clear 85% of revolutionize in dividends for his illustration of firms.

Miller and Modigliani (1961) measured the same as the pioneer during playing field. Their irrelevance theorem declared with the intention of the company's dividend policy is disparate to its present market assessment. Figures of researchers on the other hand do not have the same opinion with them due to their statement of ideal capital market.

Fama & Babiak (1968) and Fama (1974) discovered numerous in addition models for amplification dividend overall performance, their outcome preserve lintner's exam with the purpose of the managers have a desire a regular dividend coverage, and are unenthusiastic to augment dividends to a top with the reason of can not be endured. for this reason, those researchers done that modifies in for each proportion dividends are mainly a meeting of a goal dividend payout supported on profits and the closing generation dividend coverage. A complete examination of the significant performance of Lintner model was prepared through fama and babiak (1968) and the lintner's model was hardened, empirically, among their own Numbers or data and method. The outcome acquired through Fama and Babiak (1968) discover that Lintner Model was performing reasonable except declared to facilitate the model obtainable through lintner might be enhanced additional through establishing a further variables; the earning preserve from the procedure of last year, except lacking steady term, which they consideration, would improve its efficiency.

Black (1976) elevates the question "Why do firms pay dividends" extra he increase a 2d query "Why do investor pay attention to dividend" whilst the reply would possibly come into examination comprehensible, other than the black convey to a near with the aim of they are now not. due to the fact we try to explain the reality, the additional it gives the impressions harking back to puzzles, via part of a set that at once do now not wholesome together. a diffusion of elements be capable of be painstaking for the reason that determinant of price payout coverage in addition to a parent of judgment for dividend payout policy encompass be confirmed inside the literature; even though the researchers are not agreed on a solitary factor.

Melding and Jensen et al.,(1976) had been paying attention at enterprise outlay and suggested in their reports that dividend contain price range underneath control power, therefore situate beneath brutal principal market examination, further more decrease owner duty address prevalence of hypothesis to maneuver the costs on manger fundamentals. In addition they had been recommended that the supervisor's interest had been bringing greater stranger shareholder employer which used as device for scheming the difficulty of the firm. It will increase the association among the executives of the possession and dividend payout ratios. David and Jensen (1976) had been argued that the directorial shareholder ought to minimize the problem of the organization.

According to Jensen and Mechling (1976), and Jensen (1986) & Stulz (1988), economic leverage has a good sized duty in scrutinizing managers therefore plummeting organization cost happening starting off the investor mangers disagreement. active, deterministic variables, dynamic of dividend payout coverage further to practices of 320 non economic agencies, which were listed in Karachi inventory trade (KSE) at some stage in the age 2001 to 2006, those had been scrutinized via Hafeez and Attiya (2009) with concern the comprehensive Lintner (1956) model. The effect of exploration via Hafeez and Attaya (2009) scrutinized that non economic businesses scheduled via Karachi stock exchange (KSE), receive the guideline of depending not merely upon present income according to share apart from as properly beforehand pas dividend according to percentage fees. Hafeez and Attiya (2009) extra descript the result of the board regression executed to scrutinize the dividend payout manner that dividends be willing to be supplementary involved to give earrings subsequently preceding profits. a number of supplementary company practices, experiential and renowned via Hafeez and Attiya (2009) were that corporation amongst steady stream float of coins and performance pay extra and advanced dividends further to that possession arrangement plus market liquidity demonstrates having optimistic impact mendacity on dividend payout policy further to perform, although the available speculation opportunities as well as leverage have the other impacts on dividend payout ratios.

Rozeff similarly counseled that the ratio of optimum dividend had been decided elements, outside proportion holder financing transaction of fee and loose coins float cost of agency, Managers Self serving gadget have been manipulate the cash go with the flow and decreasing the fee of dividend also lowering business enterprise fee. The payment of dividend ought to theme supervisor's take a look at of out of doors capital presents and supervisor provide the monitoring device. Further he become recommended to facilitate the outdoor investor had been force to control remunerated the dividend to outside shareholder might require payout ratio decrease the operation and fee of the organization.

Rozef (1982) argued dividend have enough money approximately gain arrange wherein energetic monitoring agency management using its investor is omitted. Dividend is capable of probably improve this complexity restrictive the price range underneath executives manage and energy management the principal market extra commonly for ahead of budget, consequently placing them under the excessive examination of finances contractor inside outside capital marketplace.

The unenthusiastic involvement of dividend & leverage was furthermore maintained through Rozeff (1982) who theorized to facilitate condition a company has advanced working furthermore monetary leverage, extra belongings reserved equivalent, the company will decide subordinate dividend payout procedure to subordinate its expenditure of outside financing. his discoveries were supported on his suggestion with the intention of the dividend payout is a drastically unenthusiastic purpose of companies precedent and predictable future enlargement rate of sales, a appreciably unenthusiastic purpose of its beta coefficient through the manipulates of monetary leverage, a momentous negative purpose of the entitlement of stock held by insiders, and appreciably positive purpose of the company's numeral of ordinary stock holders.

Rozeff (1982) & Easter Brook (1984) have been counseled that the organizational buyers could be lessen the fee and shareholder have been affected the employer, their dating is terrible that's associated with the payout ratios of the dividend. Meckling., (1976) and Gensen(1976) has suggested organization cost power possibly concerted if external increase their rights in the organization, power bring into line the consideration of the collectively investor and manager thru congress the mangers, very last holder of organization / company besides additional hand, this ultimate rights from side to side administration will give enlargement to narrative conflict of

Reba (interest) a few of the Internal and externals, as executives dedication try accumulate supplementary price range underneath manipulate moreover via reducing the dividend charge before thru perpetuation price close to ground extent. Moreover patron's impact version recommended that the investor are worried at the direction of the firm whose fee coverage most super matching set their hypothesis, goals as investor countenance assorted tax behavior at the price and resources boom and convey upon yourself charge at the same time as they exchange securities.

Easterbrook's (1984) were arguing that repayment of dividend stay behind the corporations in principal marketplace anyplace looking at is much less expensive and is likewise decreasing the peak of hazard to invest according to their insist. Mayer (1984) suggested element organization pursue the series in consumption of belongings for speculation, in particular preserved profits are worn which generally is a smaller amount steeply-priced beginning vicinity of money pursued thru debt and fairness as the assets of budget..

Myers (1984) suggested supervisor used to be pecking orders which have retained incomes, debt financing and fairness, and that they have terrible dating amongst profitability and debt ratio. Haugen and Senbet (1986) recommended an group have a excessive tax liabilities are anticipated to perform the giant amount of debt take improvement of deducted interest of expenditures. Zimmerman (1983) prompt Taxes ratio is paid as pre-tax sales through hiring as a tax charge alternative. DeAngelo and Masulis (1980) informed non debt, taxes are deducted from substitutes which might be look after acquire of debt. Titan and Wessels (1988) instructed the ratios of depreciation, funding tax credit and tax loss bring onward to the total property. Capital structure evaluation takes concerned with monetary credit score score is the hazard of chapter. The debt ratio is the characteristic of the organization's vigorous performance at some point of time.

Jensen (1986) grew to be prompt that Manger did not pay the dividend at the same time the external shareholder might now not force. Many reviews had been completed, nonetheless however effect may be very prone main issue. Organizational investor's forecasting is to scale down the free rider troubles as a case of person / single possession Pound & Zekhouser (1990) had been recommended huge shareholder along side an organizational percent holder didn't tracking the supervisor right away but instead force them for paid the dividend.

Vishy (1986) had been advised that the block holder and dividend or some other type of the supervising. Supervisor activities had been reducing the fee of agency. Vishy & Shleifer (1986) were urged that the dividend and block holder are the 2d form of the monitoring. Rozeff (1982) have been suggested a variation, model had been implemented and get the effect that the dividend did no longer minimize the transaction cost. In Pakistan there are few gigantic households have a commercial organization. These giant households trade is cognizance on the company field, it is observed that these enterprise is define as block holder , block holder business company have their own directors, which lessen the rate of the company additionally cut back the effort through relationship between manipulate and block holder. Baker and farrelly (1988) assertion identical effect for dividend success, which they identify as businesses having an uninterrupted documentation of at the least ten successive years of dividend augments, farelly and Baker (1989) also carried out an examination of institutional traders. Their outcome exhibit that these tricky buyers consider with the intention of the person coverage influences the inventory costs and to facilitate, in procession through lintner's behavioral model, dividend reliability is totally giant. Titman and Wessels (1988) have been suggested that giant organizations are better shifted and lessen the preceding financial experience. Petit and Singer (1985) had been recommended the forecasting the fee of a chapter as percent to fee the company and talents created maximum facts roughly the themselves as review to the small businesses these announcements facilitate to the external shareholder as compare to the small organization / company. As compare to the growing companies and none establishing organizations, a develop companies had want additional outside monetary shareholders. Pecking order thought is described that a growing companies need to have first off generated the price range and secondly is debit financing. In accordance the rate minimizing variation, upward firms will advantage supplementary stranger financing. Hamada (1972) have been recommended that the leverage had been improved the cash glide potential of the organization external shock. Rozeff (1982) had been recommended that the company have a extra explosive cash waft normally need of outsider financing. Ozkan & Ozkan (2004) had been told increased leverage and cash cut down the cost.Parsouraits (1989) scrutinized the experimental data of the Greek business enterprise's dividend insurance policies & efficiency by way of be correct the covariance which used to be supported on the examiner effort by means of Britain (1964) duvet 25 organizations throughout the technology of 1974 to 1983. Afterward, Joannos and Filippas (1997) appraised the dividend fee performs of 34 trade businesses chronicled by way of Athens stock alternate (ASE) for the era 1972 to 1988, the effects of which facilitated to demonstrate usual finale with the intention of the dividend coverage of the Greek companies reproduced the Lintner's model. The dividend fee perform opening the gift 12 months earnings incorporate probably the most associated and large variables which motives the changes in the dividend although dividend fee perform and guidelines of the firms are also manipulates through the prior dividend paying technology. Bond and Mougoue (1991) scrutinized whether the rapidity of modification and objective dividend payout rates oblique within the partial adjustment model are a precise classification of company dividend policy. They support their empirical examinations on 430 Unite State (US) industrialized companies coverage positive incomes and having remunerated dividends each year in excess of the 1968 to 1987 era. They originate that two possible troubles subsist while using the partial adjustment model to differentiated the dividend policy of the entity company. The earliest of these is that soaring quantity of association among the independent variables of the incomplete adjustment model may possibly have an effect on the experiential outcome of such models. The second possible trouble is that auto connected incomes of companies manufacture numerous mixtures of target rates and alacrity of adjustment that will fabricate the identical tributary of cash dividend in excess of time. Bond and Mougoue bring to a close that the partial adjustment model does not produce exclusive measures of the dividend policy of the single company. Numerous examinations afford impending interested in what aspects monetary mangers well thought-out most significant in determinant their companies dividend policy. Baker, farrelly, and Edelman (1985) and in 1986, studied 562



(NYSE) New York Stock Exchange companies among ordinary types of dividend policies in 1983. Supported on their examination of 318 answers from manufacturing, utility, and retail / wholesale companies, they originate that the main determinants of dividend costs were the expected the stage future income and prototype of precedent dividends. They accomplished that these issues demonstrated small modify from individuals indentifies through lintner (1956) in his behavioral model of dividends. The evidence also shows that the mangers were highly dividend continuity and believed that the dividend policy affects shares value. Furthermore, the result suggests that utilities have a somewhat different view towards dividend policy than manufacturing and wholesale/ retail companies.

Pruitt and Gitman (1991) inspected monetary managers of the one thousand (1000) major United State (US) companies regarding the relationship among the asset, financing and payment decisions in their companies. Their verification recommend to facilitate significant manipulates on the quantity of dividend remunerated are present year and previous year's profits, the year to year unpredictability of earning, and the increase in earnings. Pruitt and Gitman also originate with the intention of prior year's dividends are significant manipulates on present dividends. This result is entirely reliable among lintner's (1956) Behavioral model and the study effort of baker, farrelly, and Edelman (1985), above same scholar in 1986 in use jointly, these result argue that the respondents effort to preserve a elevated extent of reliability in the height of their companies dividends. In accumulation, Pruitt and Gitman originate managers build the dividend result offensively of the company's reserves and financing pronouncement. Mookerjee (1992) renowned that dividend announcement is well thought-out so significant that several corporations are listening carefully through rule to disburse dividends, still although from side to side outside finances. Nakamura (1985) observed that the Indian companies have the carry out of paying dividend through borrowing commencing banks; at support financially rate, than on or after their own profit.

Rajan and Zingales (1995) discover comparable altitudes of influence transversely the countries together through members of G7 association, prominence the thought that countries through depository sloping economies are supplementary leveraged than individuals within the market leaning ones. But, they documented with the intention of this difference is beneficial in investigated the assortment of foundation of financing. They discover that combined leverage is approximately indistinguishable transversely these counties. A little segment of Chinese companies was, empirically examined ahead through Huang & Song (2005) to prove the occurrence with the intention of the monetary leverage was associated through conservative variables, influential the capital arrangement of the firms. Their assessment confirmed the preceding consequence on or after the an assortment of researchers that leverage was positively associated among the amount of the company and the predetermined corporeal assets to the company and moderately interrelated among possibility along with non debt tax shelters, practical through the companies though the consequences examination of the Chinese firms furthermore revealed a optimistic association in the midst of the leverage and the unpredictability of the reserve. It was originate with the intention of replacement Chinese companies had, considerably, subordinate extended term debt. Huang and Song (2005) as a final point, mentioned to facilitate stagnant do business trade-off model afforded a sensible description of the capital configuration of substitute Chinese firms as evaluated to the pecking arrange suggestion in addition to that whereas the ownership organization is present to influence the capital arrangement, as renowned through the Jensen and Meckling (1976) the insignificant shareholding in china cannot be predictable to have a large amount consequence.

Vasiliou and Eriotis (2003) examined the involvement of the dividend policy among debt quotient. The examination was executed through consider a model with the intention of acquaintances the business dividend per share. The regression outcomes recommend with the aim of there is a positive connection among the dividend policy and the explored variables for the preponderance of companies scheduled on the (ASE) Athens Stock Exchange for the era 1996 to 2001. Vasiliou and Eriotis (2003) examined the involvement of the dividend policy among debt quotient. The examination was executed through consider a model with the intention of acquaintances the business dividend per share. The regression outcomes recommend with the aim of there is a positive connection among the dividend policy and the explored variables for the preponderance of companies scheduled on the (ASE) Athens Stock Exchange for the era 1996 to 2001. DeAngelo et al. (2004) pragmatic considerable relationship among the dividend payment pronouncement and the ratios of received capital to whole scheming assets, size of the company, leverage & cash in hand & preceding dividend payment olden times. The dividend payment has a concealed management viewpoint as through the conservation of the profits, augments the money mangers manage leading the preserve income which may be practical for improved speculation prospects except may possibly be also be expend exclusive of any appropriate monitoring performance of firms, afford the height of the influence is towering, which way that the speculation in the company is negative collision of influence leading the dividend payment recognized through Higgins (1972) and McCabe (1979) who discovered that firms who have a precedent elevated leverage usually disburse subordinate dividend to evade the advanced cost of heaving outside capital for the firm.

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McCabe (1979) who discovered that firms who have a precedent elevated leverage usually disburse subordinate dividend to evade the advanced cost of heaving outside capital for the firm.

courageous et.al (2005) take 384 govt interview from public to private groups, he took survey and gave the thought that each one government of the firms observe the Lintner 1956 modal and paid the dividend, in line with Lintner shareholder are greater interested in the dividend according to share of organisation overall performance, while, Ayub (2005) studied on dividend payout in economic system of Pakistan, he took one hundred eighty executive interview from more than one companies, which can be indexed in KSE from the 1981 to 2002 and were given result that there are simplest 23% earnings shifted within the dividend, last income company invested for corporation increase, there are many shares preserve organization director for high dividend and stand-in low finances. Ahmed & Attiya (2009) worked on the dividend policy of growing financial system like Pakistan, they took 320 corporations in pattern, which might be listed in KSE from 2001 to 2009, to start with they work on the Lintner, Fama, and Babiak models, and adjusted as partial adjustment modal and extensively utilized the regression evaluation, deliver the end result that in general Pakistani firms restore their past dividend charge believe on present day earning, 2d they say that most companies unchanging fine par incomes and analyses motive of dividend payout, additionally that marketplace liquidity and possession are truly connected with dividend payout ratio, but no longer impact on effect on size of company, dividend fee and to located depressingly related to payout.

In the establishing of the twenty first century courageous at Al (2005) converted into finished a experiences on the dividend payout policy. The study receives the 384 non-public interviews from the private and public govt of the fiscal enterprises. He went to the sphere, takes survey and argued that the lots of the govt of the corporations had been fallow the linter's (1956) variant at the same time they may be determined the dividend payments. McCluskey et al (2007) were recommended that the investor could see the dividends and incomes of the manufacturer, nevertheless the predominant wide variety is incomes of the company. Inside the postal survey of the unites country (US) 562 businesses Baker at el (1985) had been located that the 86% Parentage of the respondent of the enterprise determinant on future earning, and sixty six% percentage have been say the past incomes of the organization dividend, however the genuine story is incomes of the company and dividend is the marginal sign.

Fama and French (2002) had been validated the Pecking Order concept and alternate Off notion, they have been concluded that greater gainful corporations have sophisticated dividend payouts, organizations thru additional funding have inferior payouts and the connection amongst leverage and cost in dangerous. Gordon and Walter (1985) was once furnished the chook in Hand concept and steered that shareholder need money in hand than manageable capacity predictable income.

Rao and Lukose (2003) deliberated the capital arrangement determinants of non monetary (Financial) corporations of India earlier than as well as throughout the liberalization of monetary markets during 1997 & cross sectional assessment of the market & book significance leverage were considered ahead on behalf of the era preceding 1990 to 1992 furthermore placement 1997 to 1999 relaxation era among the facilitate of predictable illustrative unpredictable's, such as physical assets model, size, growth rate and profitability. The major objectives were familial multinationals, overseas corporations were, inversely, interrelated among the leverage except the manufacturing imitation variables were not demonstrate noteworthy.

Dhanani (2005) have been done a survey and used certain methodologies within the reports, he took secondary files from economic and non fiscal organizations. The documents were amassed from pinnacle 800 corporations which had been listed inside the London stock trade (LSE). The survey outcomes opted to scrutinize empirically the value and importance of a ramification of hypothesis of dividend in Unite nation (uk) corporations and to check the diploma to which these theories are influences through manufacturer characteristics of length and enterprise sectors. The effect suggests that the united kingdom (uk) firms Mangers guide the total dividend significance inspiration; corporations commonly disprove the wonderful dividend for hypothesis selections. And additionally don't forget with the aim of the dividend pronouncement tolerate incomplete flexibility amongst which to manipulates capital structure pronouncement that's within streak signaling concept.

Supplementary not too long ago in Pakistan historic past, Attiya and Ahmed (2009) had been take a appear at determining limitation of dividend process in promising fiscal approach of Pakistan mendacity on a instance of 320 businesses which had been listed in the Karachi inventory trade (KSE) from 2001 to 2006. To start with, they realize Fama, Lintner and Babiak projected variant. Which had been the conservatory of incomplete change mannequin using board regression and establish that Pakistani companies rely larger on present gains and precedent dividend participate in restore their dividend imbursement, Secondly, they verified the determinants of cost expenditure and originate that businesses by way of unwavering confident internet incomes pay larger dividends. Furthermore, the possession attentiveness and market liquidity are absolutely related by way of dividend disbursement ratio apart from boom movements had no bang on dividend imbursement and size of the organizations installed to be unenthusiastic and significantly related via payouts.

Study of the Ayub (2005) and the studies of the Attiya and Ahmed (2009) were examined the baseline of the appear at. Ayub (2005) were listening cautiously at the duty of business ascendancy associated factors is conniving dividend policy, while, Attiya and Ahmed (2009) had been examined the collision of now not wonderful industrial typescript on dividend payout. Although, money pursue which is comparatively additional good sized than supplementary profitability became no longer measured thru together study. Ayub (2005) have been advised that amplified possession by means of managers broaden the enterprise dividend payouts, although, in Pakistan someplace preponderance of companies have concertinaed own family possession constitution and enterprise perform are usually not powerfully supervised, executive, to tour around the force of possession structure, money observe compassion and in cost money movement on dividend payout performance of businesses in rising fiscal device (monetary process) of Pakistani.

In a couple of approaches we are competent to outline leverage, Rajan and Zingales (1995) told that goal analysis depend on the leverage, in the research of the capital structure organization main issue described as debit to company's value ratios. Debt is split in

multiple components, numerator and denominator. Debt defines as debt to normal property, debt to net belongings, debt to capitalization. Debt to capital is degree in empirical reports of leverage. In the founded variables we use 3 measure of leverage, very long time debt to complete belongings, quick term debt to overall property, basic debt to whole property ratio. Titman and Wessels (1988), Pandey (2000) and Chung (1993) also use unusual measure of leverage.

Jensen, Solberg, and Zorn (1992) recommended that dividend rate and debt act both are shrink the company value, and that they've inverse relationship. Myers (1977) identified the growth prospects within the determinant of capital structure. Several revise and suggested debt coverage will also be plagued by the scale of the manufacturer, and that they have constructive relationship between organisation's size and debt ratio.

The times assortment goes sectional methods (TSCS) is engaged to investigation the information and have a look at the collision of trade organization cost at the debt insurance policy of company. TSCS embody the mechanism compact each and every the international lively and the distinctiveness of agency being investigated, go sectional regression makes use of the common worth of every variables. Smith and Watts (1992) steered throughout the industries stage grouping notably founded on two digits SIC codes is employed to scale back the dimensions error of variable. Hsiao (1986) counseled organization version pleasurable the hypothesis of ordinary intercept and to permit intercept method represent personality enterprise have an impact on, on the grounds that numerous corporation organization have a blended outcome in prior study. Tailed t-verify are used to test the foremost regression coefficient for every one variables. at some point of the previous fifty years the several empirical and theoretical research are finished most important to the in general 3 conclusions, the increase (diminish) is dividend payout influence the marketplace ethics of the organisation or the dividend coverage of the corporation does no longer have an effect on the company morals at every single one. even though, we field articulate with the purpose of the empirical confirmation resting at the determinant of the price (dividend) policy is regrettably extremely assorted. Modigliani & Miller (1961) were argued that in ideal market, dividend could not have an effect on the corporation's performance. Shareholder of the firm now not afflicted their coins flow

Due to the fact dividend is the shape of the important grows, so the employer could not alternate their funding policy. on this kind of the circumstances business enterprise dividend payout ratio impacts their ultimate complimentary coins flow and the consequence is after the coins glide is constructive (high-quality) agency's come to a decision to pay dividend & if unenthusiastic (bad) business enterprise's come to a choice to trouble the stocks. they're also concluding that the misrepresented inside the dividend is probably transmission them in series to promote regarding organisation's capability take-home pay. chicken in hand concept had been gift by means of the Walter and Gordon in (1983), the theory say that shareholder forever like higher the cash in dispense (hand) relatively than a expectations (destiny) undertake of most important benefit fantastic to reduce the risk. Meckling and Jensen (1976) had been present the corporation theory, the principle supported at the divergence a number of the investor and manager and the entitlement of impartiality managed by means of the internal ownership be supposed to control dividend coverage. Easterbrook argued about the business enterprise price troubles at hand there are two outward appearance of the corporation value; first is fee tracking and 2d one is the fee of the threat which can be given through the managers or directors of the corporation. Baker and Wurgler (2004) have been given the catering principle, the writer argued that managers in set up to offer inducement to the investor with paying level dividend at the same time as the investor situate inventory charge payment on payers with not paying after buyers have a preference non payers.

Linter (1956), Fama and Blasiak (1968), D Souza (1999) have been discovered the negative organization a few of the corporation rate and effective (residual) chance in the midst of dividend payout. Although, the result accomplish not preserve the unenthusiastic organization among the funding occasion similarly to dividend payout guiding principle. DeAngelo et al (2004) were documented extremely important involvement most of the finish to disburse dividend and the ratios of be paid impartiality to normal equity scheming for the dimensions of business enterprise, success, augmentation, leverage, coins equilibrium and olden occasions of dividend. Additional, the dividend imbursement hold faraway from central company crisis in view of the truth that the upkeep of the incomes offers the manager's control further than yet another admittance to developed speculation occasion and without some tracking. Eriotis (2005) had been stated that the Greek businesses distribute their dividend every year agreement their intention payout ratios, which is determinant thru dispersed incomes wide variety of these manufacturer. Redy (2006) were performed study inside the India, he showcase that the dividend paying enterprise are further high-first-rate in length, rewarding and growing. In Indian context enterprise tax or tax wish thought does no longer carried out inside the Indian corporations. Megginson & Eje (2006) had been completed researched and found out that dividend paying propensity of 15 ecu businesses flip down tremendously bigger than their era 1989 to 2003. If the setting up of safeguard incomes to complete fairness executes now not augment, besides the organization age does. In addition they discover that the end result of food education the dividend methodically which isn't decisive affirmation of continent and big junction in dividend method. Reward is an awareness in appear into the dividend overall efficiency of the trade company in the back of the foreword of code of corporation ascendancy be SECP 2002 in Pakistan besides a whole lot of trouble this neighborhood are uncovered. In scrupulous, the crisis engages for determinant for / of dividend polices in Pakistan, that's center subject of the location standards in deepness reviews.

Li et al. (2006) pragmatic with the intention of the capital formation and the superiority of the monetary businesses depend main the capital vendors. With be appropriating the chinese statistical firms database of seven-hundred scheduled and 260,095 unlisted businesses li, Yue and Zhou (2006) scrutinized the affiliation among the assorted structures of leverage & the specific forte, such like, capital structure, organizational administration, macro and micro economics facet, with the intention of the chinese language organisations are totally managed via quick term debt, despite the fact that it was once moreover uncommon that ownership and organizational features economic records for concerning a third of the entirety dissimilarity in leverage ratios.

Mahagaonkar and Narayanan (2007) of their booklet used correctly possible least square approaches to broaden a variation of capital constitution for the manufacturing region of India which included the control mechanism for the trade company dimension, tax charge, money in hand, curiosity coverage, and profitability. Their evaluation moreover included the have an effect on of tenure of the organization on leverage with the support of interacting with each of the unbiased variables with dummy variables for the age and size as well. Size and the profitability had been proved to be most central determinant factors for the capital constitution for brand new agencies; size grew to become obviously whilst because the profitability was once inversely involving leverage.

Naeem and Nasr (2007) argued that the liquidity of the organisation flowers a downbeat impact taking place the company's dividend payout end result. The stock market liquidity as well as dividend is alternated inside the view of buyers, consequently the agency's dividend policy is related to the liquidity of its common stock, for the reason that effect companies among extra liquidity common stock distribute less cash dividend. From literature above, its miles clear that there may be no look at that used each qualitative and quantitative approach in this subject. There are few researchers that explore this area in Pakistan. Our examine is not best awareness on regression analysis but additionally on specialists evaluate about dividend policy.

## 2.1 The Capital Market of Pakistan

Pakistan presently has three operational inventory markets, all of that have experienced high increase stages in cutting-edge years. The present seem at concentrates on the Karachi inventory alternate (KSE) as it is a ways the main change inside the U . S . A .. At the discontinue of 2010, there were 644 listed firms with a marketplace capitalization of Rs. Three, 269.Zero billion (\$38.17 billion)[3]. The KSE is without doubt one of the principal sources of information about listed businesses for Pakistani buyers and performs a key operate in preserving market discipline; as an example, it notifies the general public roughly defaulting corporations, which in flip effects in shares being de-indexed from the KSE. Every other cause for de-list – and probably the most methods wherein the Pakistan market affords an idiosyncratic environment for dividend-related research – is the failure of a moneymaking organization to assert a dividend (coins or percent) over a interval of 5 years from its last statement date. Similarly to this statutory requirement, the KSE problems an annual ranking of companies on the inspiration of “properly” performance. Each year, the trade identifies a record of the head 25 corporations on the foundation of their efficiency in exclusive regions, with the announcement of “colossal” dividends for shareholders representing probably the most carefully weighted determinant of the analysis. However, KSE documents indicate that a lot lower than 50 in step with cent of indexed corporations paid dividends in every of the years 2005-2009.

If you wish to offer some context for the interviewees' responses about the determinants of dividend insurance policy, the applicable statutory requisites about dividend disbursements in Pakistan (as outlined in the employer Ordinance 1984) had been clarified. In keeping with part 249 of the ordinance, “No dividend shall be paid by using a manufacturer in any other case than out of the revenue of the company.” section 248 states that “The manufacturer traditionally assembly might also claim dividends; but no dividend shall exceed the variety recommended through the directors.” regarding the cost of dividends, part 251 of the agency Ordinance notes that “[. . .] the chief govt of the enterprise can be dependable to make the cost [. . .] inside of forty-five days from the date of assertion of the dividend.” In observe, dividend insurance policy is decided upon at a board of directors (BoD) meeting main issue to the approval of the annual general meeting (AGM. The BoD makes a determination upon the dividend constant with share (DPS) (not the entire variety of dividend) as directed by the use of law.

Quantities of earlier research have investigated the dividend regulations of Pakistani companies (Nishat and Bilgrami, 1994; Naeem and Nasr, 2007; Ahmed and Javaid, 2009; Nishat and Irfan, 2001; Nishat, 1992; Kanwer, 2002; Kaleem and Salahuddin, 2006; Zaman, 2007; Mubarik, 2008). But, the empirical work contained therein employs various methodologies and arrives at designated conclusions. For example, Nishat and Bilgrami's (1994, p. 339) proof supported Lintner's variation, suggesting that “in Pakistan, ultimate 12 months's dividend cost and web profit after tax play a giant function within the gift dividend choice.” The authors used regression evaluation taking DPS as the based variable for a sample of 225 corporations indexed on the KSE over the size 1980-1986 and documented the existence of a partial adjustment approach as agencies moved to a brand new dividend payout stage. However, the compare concluded that there was obviously a broad form of identifiable impacts on payouts; as an example: “[. . .] large dimension firms, corporations with overseas possession and private quarter organizations declare bigger dividend payouts” (p. 344). A more current evaluate by way of Ahmed and Javaid (2009) documented that Pakistani firms most often found Lintner's version, using a regression variant with current dividend yield as the structured variable. Their penalties highlighted goal payout ratios opening from 25 to 39 per cent with enterprises taking from between 1.57 and a few.36 years to get to this target level. Nonetheless, the authors also commented that throughout Pakistan: “listed firms depend greater on current income than beyond dividends to restoration their dividend fees. In a similar fashion, Khalid (2010) mentioned revenue as being the important dividend determinant for KSE companies from 1988 to 2008, although previous payout ranges, firm size, reserve degrees and gearing ratios all had an influence, as did monetary liberalization (in encouraging organizations to hire equity financing).

In contrast to these study, Naeem and Nasr (2007) encouraged that trendy profitability grew to be not an predominant factor throughout the decision of Pakistani corporations' dividend ideas. The usage of a regression variant with payout ratio as the headquartered variable, they determined that excellent year's dividend became the highest influential thing on a group's latest-day dividend coverage. Furthermore, the authors documented a fine deal of variability and instability within the dividend repayments for the sample of 108 corporations indexed on the KSE over the period 1999-2004. Bigger not too long ago, Afza and Mirza (2010) analysed statistics for KSE companies from 2005 to 2007 and mentioned that, while gains does play a role, the primary factor determinants of dividends are possession form, coins glide and corporation size. What all the prior stories have in now not unique, but, is the aggregation of tremendous samples of numerical expertise; given the unique nature of a quantity of the foundations surrounding disbursements to shareholders in Pakistan and the contradictory nature of the findings, it's unexpected that little or no strive has been

made to talk about the dividend selection-making approach with those worried in observe; the gift take a look at is meant to care for this omission

**3. Methodology:** The current chapter exhibits the methodology adopted for the current study. It also briefly discussed the research design of the current study, the techniques used for sampling the date, procedure adopted for data collection and analysis of data.

### 3.1 Research Design

The current study is depended on secondary information. So, for investigation of proposed objectives study collected the information from the reports of companies which were published in the shape of audited financial statements like documentary, websites of companies and other secondary sources, etc. The study used ordinary least square (OLS) or regression to analysis or interpret the results.

### 3.2 Data Collection Method

Knowledge was once accumulated from Audited fiscal Statements and analysis of joint inventory businesses, which are listed on KSE. The period was once selected for this study was once 10 years effected from 2005-2014. The Study designated the thirty companies which are selected randomly. The reasons for selecting this proportion are the availability of time.

#### 3.2.1 Secondary Data

As above mentioned earlier the study is based on secondary information, so all the data was collected through companies, official websites, and documentary, published material of companies and through audited financial statements. Moreover, Study sets the variables and includes it in study. These variables are Net profit margin, Cash ratios, Quick acid test ratios, debt to equity ratios, ownership structure, Return on assets, financial leverage ratios and price earnings ratios. The Study collected all the data and then calculated all the variables according to their companies' formulas.

### 3.3 Sample Design

The random based sampling techniques are used to collect the data. The sample size for the current study is based on thirty companies out of 50 companies of Karachi Stock Exchange.

#### 3.3.1 Target Population

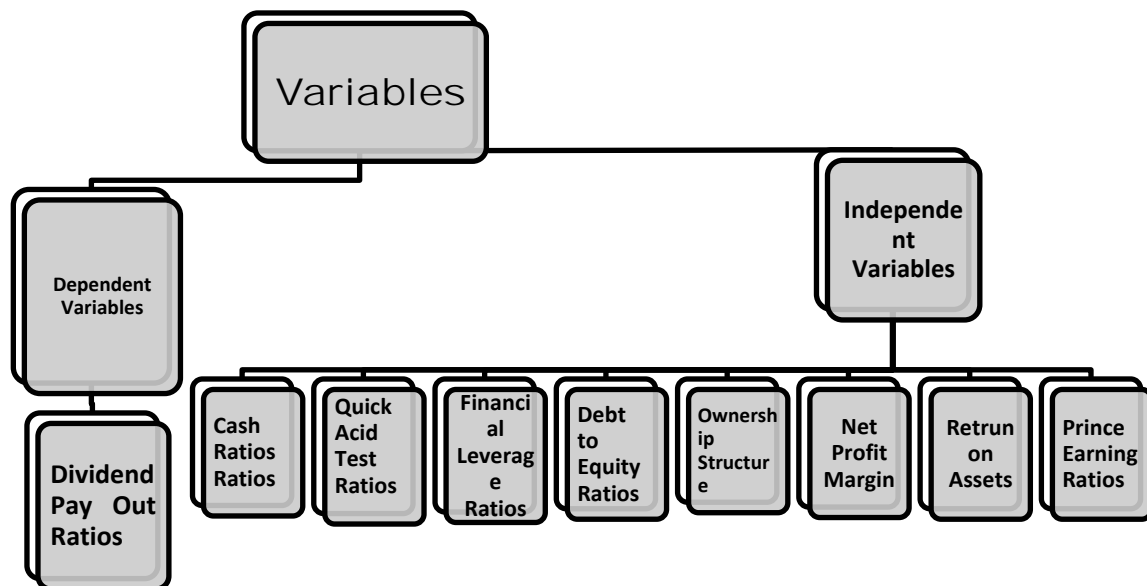
The target population of the study is four sectors. These four sectors are insurance companies, banking, investment banking and sugar industries.

#### 3.3.2 Sampling Size

On the base of four different sectors the sample size of the study is 30 companies. The study randomly selected thirty companies.

### 3.4 Theoretical Frame work

The theoretical framework for the study is shown in figure 3.1. The study measures the impact of corporate governance variables on financial performance of the firm.



## FIGURE NO 3.1

### 3.5.1 Variables

Following are the independent variables of this study;

#### **Dependent Variables:**

**Dividend Payout Ratios:** We are going to behavior a learn regarding dividends and it is miles as a result of essential value that we use the highest vital degree of dividend so that it is going to get an accurate effect. The 2 highest standard measures of dividends are the dividend payout ratio and the dividend yield. Both these methods provide nontoxic measurements, nonetheless they measures dividend expenses in exclusive ways. The dividend payout ratio is described as the proportion of the agency's profits that is disbursed to shareholders. As may also be seen throughout the method beneath, it simplest takes interior factors into problems and the dimension is for this reason impartial to outside causes (Penman, 2009 p.264). In evaluation to the dividend payout ratio, the dividend yield is influenced through outside motives due to the fact that it takes the stock fee into concentration (Warren et.Al 2011 p.685) chapter 3: Theoretical Framework 21 Many scholars have mentioned the diversities among these two measurements and each and every have advantages and drawbacks which may influence the effects of the have a appear at (Fama & French 1988) (Lamont 1998) (pal & Puckett 1964) (McManus et al 2004). Even though dividend payout ratio and dividend yield share the identical numerator in their formulation they take uncommon elements into consideration. Preceding study have found out that dividend yield and dividend payout ratio are extraordinarily specified and it can be a ways consequently predominant to decide on the maximum applicable size considering that it will have a major affect on the outcome. Traditionally McManus et.Al (2004) emphasizes the significance of dividend payout ratio over the dividend yield, as a result of the have an effect on of the previous in explaining the returns over the latter. In addition McManus et.Al have pin-pointed, that the signaling affect of dividend payout ratios is better informative as compared to dividend yields considering it first-rate accommodates inside service provider motives (McManus et.Al, 2004). Fama & French (1988) have on the opposite learned that the dividend yield has an capacity to count on the stock returns and it as a result furnish more records as compared to the dividend payout ratio, (Fama & French, 1988). Further, the dividend yield changes seeing that the inventory fee changes and the dimensions is as a consequence out of the group's manipulate because it takes market elements into attention (Steven & Jose, 1992). It is some distance hard to say which of the 2 measurements that is great considering that they provide an explanation for difference add-ons of dividends. Which size to select out depends thus at the intent of the study and the organization decided on elements blanketed within the study. If we wholly would have blanketed internal or external company determined on explanations it maybe delicate to justify the measurement of dividends. However with a purpose to encompass probably the most valuable measurements, we needed to include each interior and outside measurements. Without doubt now we have chosen to embody 4 inner elements and external which can be suffering from the inventory cost. Established on the supplier chosen factors and the differences between the two measurements now we have got chosen to use the dividend payout ratio within the study. Most men and women of the previous research have commonly utilized the dividend payout ratio (Rozeff 1982) (Lloyd 1985) (Amidu & Abor 2006).

#### **Independent Variables**

**Debt to Equity Ratio:** The debt-to-equity ratio is a economic ratio that suggests the relative percentage of fairness and debt used to finance a corporation's property. This ratio is likewise referred to as threat, gearing or leverage. Pruitt and Gitman recommend that danger influences organizations' dividend insurance plan. Organizations with high increase charges and high dividend payout ratios make use of debt financing and establishments with excessive leverage in assessment to their respective enterprise Dhillon, nevertheless, placed conflicting evidence for the connection among dividend payout ratios and leverage. In a few industries payout and leverage ratios are positively associated at the same time as in other industries the connection is dangerous. Rozeff , Lloyd et al. , and Collins et al .Learned statistically colossal and terrible courting between corporation's hazard and the dividend payout ratios. Their findings propose that companies having a greater stage of hazard will pay out dividends at diminish fee. D'Souza moreover finds statistically giant and bad relationship among threat and dividend payout.

**Cash Flow:** The cash float position of a corporation is an critical determinant of dividend payouts. A poor liquidity function approach much less generous dividend as a result of shortage of coins. Alli et al. Argues that dividend charges depend bigger on cash flows, which replicate the company's capacity to pay dividends, than on state-of-the-art-day profits, which can also be much less heavily influenced by way of accounting practices. They declare that modern day sales do not clearly replicate the firm's ability to pay dividends. Amidu and Abor [1] determined a high quality relationship between money waft and dividend payout ratios. Anil and Kapoor additionally point out that cash float is an foremost determinant of dividend payout ratio. Alli, Khan, Ramirez, & G (1993) explained that cash glide is further crucial determinant of dividend than profitability as cash waft examine the capability of the group to pay dividend. Authors argue that profitability do now not mirror the institution's capability to pay dividend.

Brook, Charlton, & Hendershott (1998) examined the connection of cash glide and dividend payout. Authors defined that growing coins flows are enormous determinants of dividends. The enterprises with developing coins glide have a greater tendency of saying dividends. Mohamed, et al. (2008) located a great relationship amongst dividend payout and dealing cash go with the flow constant with percentage in Malasia. Running cash drift consistent with percentage emerge as a full-dimension determinant of dividend payout of their have a appear at. Gill, Biger, & Tibrewala (2010) in their discover individuals capital market concluded that the relationship amongst money float and dividend payout ratio is bad for each production and supplier organization. Cash waft changed into a mere determinant of dividend payout ratio of their research.

**Current Ratios:** The current ratio is a financial ratio to facilitate measures whether or not otherwise not a organization has good enough capital / assets to pay its debts over the subsequent twelve months or in a single year. It evaluates manufacturer's modern day / gift property to its reward or present liabilities. The add-ons of the modern-day ratios is modern day ratios is same to contemporary belongings dived by the use of cutting-edge-day liabilities. Current ratio of a corporation's market liquidity and capability to satisfy the needs of lenders is a component. Suited cutting-edge ratios variety from industry to enterprise and health company is most likely among 1.5 and three. A company's present ratio is inside the style, it on the whole shows a short-time period economic power. If today's belongings exceed latest liabilities (contemporary ratio is below 1), the company's troubles can meet brief-time period obligations. If the state-of-the-art ratio is just too high, the organization rapid-time interval financing your modern day belongings or the use of the centers could not be effective. It's ready to moreover opt for out troubles in working Capital manage. Current or quick ratio (lower than 1 price) for the low values of a firm can occasionally meet cutting-edge obligations shows. Low values, however, do no longer advise a primary hassle. If the company is a perfect lengthy-time interval prospects, so that it will meet present day duties in opposition to their possibilities may be ready to borrow. A number of varieties of organisations probably operate with a low modern-day-day ratio. Money owed payable, stock a best deal larger fast turns into so much considering that, for illustration, the time could also be less than the modern ratio. A corporation with a low present day ratio can permit to work. Take into account the ratio will fall due within the following 12 months to satisfy its responsibilities. You cycle length of operation and the relationship amongst state-of-the-art ratio must be In finance.

**Acid test or quick ratio:** The acid experiment or fast ratio or liquidity ratio measures the ability of a organization or extinguish its present liabilities instantly to retire the money or assets to use immediately. Rapid property in most cases instantly shut their publication values that can be changed into money, together with present asset. With a speedy ratio of less than 1 time a enterprise's present liabilities should not totally paid, the system of the acid scan ratios is equal to money and cash equivalent plus Marketable securities plus debts receivable divided by means of present liabilities. Be aware that property in share to the amount of stock swiftly deleted, but the current ratio is incorporated. The proportions of corporations are validated for viability, but don't supply a whole image of the well being of the industry. Vital business expenses and bills payable as a result of (say a hundred and twenty days), and out of money. Companies increasingly from suppliers or consumers by way of paying money, and lengthy terms are negotiated in contrast; it's a little speedy ratio and still is healthy. Mainly, the acid test ratio will have to be 1: 1 or more, nevertheless, differ widely through industry. In most cases, the larger the ratio, the corporation's liquidity (i.e., the better equipped the present Use liquid property to meet duties.

**Price earnings ratio:** Incomes price progress ratio (the ratio of cost / profits) an evaluation, sales per share (EPS) relative trade-off between the price of a stock to examine the metric, and the organization's expected progress. By and large, P / E ratio of a manufacturer with a high progress cost is supplementary. That is hyped up relative to other high-growth firms will exhibit best the P / E ratio utilizing. The profits progress rate P / E ratio through dividing, leading to a ratio comparing firms with unique growth fee that is assumed to be better. PEG ratio is considered a easy approximation. Wall street after his 1989 work "says Peter Lynch, who, by the popular stock Market. It victorious investment in his 1969 e-book, A newbie's advisor Mario was developed by using Farina reasonable; the development price will probably be equal to the value 1 of the enterprise. The system is PEG is the same as cost dividend by using earnings is divided via Annual EPS progress. The augmentation expense is articulated while a percent incomes cost increase ratio (the ratio of cost / gains) an evaluation, sales per share (EPS) relative alternate-off between the fee of a inventory to come to a decision the metric, and the industry corporation's anticipated growth. In general, P / E ratio of a enterprise with a excessive growth fee is supplementary. That is overrated relative to unique high-boom corporations will exhibit only the P / E ratio the usage of. The profits boom cost P / E ratio via dividing, leading to a ratio evaluating businesses with one-of-a-sort develop rate that is assumed to be better. PEG ratio is viewed a simple approximation. Wall road after his 1989 artwork "says Peter Lynch, who, by way of the noted inventory marketplace. It a success funding in his 1969 e-book, A beginner's guide Mario was once advanced by making use of Farina fair; the broaden rate could be equal to the price 1 of the manufacturer. The approach

is PEG is equal to price dividend with the help of sales is split by way of Annual EPS expand. The augmentation rate is articulated even as a percent divided through 100%, further to have to utilize true expand in basic terms, to correct for inflation. For illustration, if an enterprise is upward at 30% an every year / yr, in genuine conditions, and has a cost incomes of 30, it might have a rate earning increase of 1. A reduce ratio is "elevated" & an increased ratio is "inferior" (highly-priced). The cost income ratio 2nd-hand throughout the computation is regularly predictable or rambling, and the every yr increase cost will also be the predictable development rate for the sooner or later three hundred and sixty five days or the next five years. Tage divided via one hundred%, in addition to should make use of legit development in basic terms, to correct for inflation. For illustration, if a corporation is upward at 30% an yearly / year, in respectable stipulations, and has a fee incomes of 30, it will have a price incomes growth of 1. A lower ratio is "increased" & an improved ratio is "inferior" (luxurious). The price earnings ratio second-hand within the computation might be predictable or rambling, and the once a year development rate will also be the predictable progress price for the subsequently yr or the subsequent 5 years.

**Financial leverage:** Leverage will broaden a corporation's money drift sensitivity to external shocks (Hamada, 1972). A company with bigger risky cash flows may also be normally in want of external financing (Rozeff, 1982). Moreover, a better leverage ratio reduces the probability that the enterprise will accumulate further outside financing with no trouble and cheaply (Ozkan and Ozkan, 2004). Consequently, it is miles hypothesized that each leverage and cash glide volatility are negatively concerning dividend payout ratio. We measure the financial leverage of a corporation by way of dividing normal debts through general property. Cash glide volatility is measured given that the coefficient of variation of internet profits and is represented by means of LEV and CV for that reason.

**Return on assets:** Return on assets (ROA) of an institution's property are in producing earnings that suggests how helpful fee. This quantity is organization, a couple of greenbacks of earnings derived from each buck of belongings they control how they're equipped to do with tells you. That is to compare organizations throughout the same industry competitors is a valuable variety. The form will range generally in great industries. Return on belongings relies on the enterprise in which the organisation offers an illustration of the value of the capital, require enormous preliminary investments by and large have low return on property of businesses. ROAs than 5% is almost always considered detailed.

**Ownership structure:** In his evaluate of organization costs and the dividend paying habits of companies, Rozeff (1982) argues that dividend expenses are a part of the organization's monitoring bonding package, in that businesses are inclined to pay out more in dividends when insiders very possess a cut back percentage of stocks. As in Rozeff, the variable representing inside possession on this model is the share of shares owned by way of insiders as mentioned via rate Line funding Survey. Measures of out of doors shareholder attention are also considered within the possession structure for the tracking role they are going to play. The first is the average log of the range of significant shareholders as urged with the aid of value Line. Rozeff argues that the extra the quantity of shareholders, the larger delicate the possession; due to this fact a poor or insignificant dating should be envisioned between the form of shareholders and the level of debt. The second one proxy represents the makeup of external possession and is protected to examine the Grier and Zychowicz (1994) guiding principle that institutional traders might also alternative for the disciplinary function of debt throughout the capital form. This variable is outlined as the percentage of shares owned via using institutional traders, additionally as mentioned by way of VaEue Line. Dividend fees service provider theorists have drawn a hyperlink between the issuance of debt and the cost of cash dividends (e.G., Jensen, Solberg, and Zorn, 1992). Above all, it's miles urged that dividend payments and debt act as substitutes in decreasing agency prices. Accordingly, dividend payout serves as an explanatory variable with an hypothesized inverse relationship.

**Growth:** A developing corporation is much more likely to require external financing than a non-establishing organization. In step with pecking order concept, developing corporations need to rely first on internally generated budget, debt financing need to be taken into consideration as a 2nd choice and therefore fairness must be mentioned this implies a terrible relationship among the many corporation's growth fee and its dividend payout ratio. Under the price minimization mannequin, developing businesses will preserve cut back dividend payout ratio due to the fact that they are considered riskier than additional mature and robust organizations and face better tran-saction prices of external financing. We have measured growth as geometric suggest of annual percentage develop in complete property and is represented via GROWMyers (1977) identifies expand opportunities as a enormous determinant of capital constitution, for which Rozeff (1982) makes use of rate Line's forecast of five-365 days earnings broaden as proxy. Since this verify represents an ex ante estimate of expand possibilities, it is also used within the version.

**Firm size :** Massive businesses are additional exclusive and far much less likely to ex-perience fiscal distress (Titman and Wessels, 1988), face scale back anticipated charges of economic spoil as a percentage of common organization worth, and generate more information approximately them than small businesses (Pettit and Singer, 1985). These factors facilitate giant firms' get right of entry to to external financing at a lessen price than small businesses. Within the value minimization version, retaining other concerns steady, significant establishments must have a better dividend payout ratio. Our degree of length of the corporation is represented with the support of measurement and is calculated as a log of total belongings.

### 3.5.3 Hypotheses

Following are the hypothesis of the study:

H1: There is positive effect of ownership capital on dividend policy



- H2: There is positive effect of cash flow and size on dividend polic
- H3. Positive impact of the good dividend policy on the share prices of the firm
- H4: Changing dividend policy in terms of investors view will positively effects firm’s performance in long term

**RESULTS AND DISCUSSIONS**

The current section of this chapter analyzes the data on the basis of regression model. This study find the following results of the thirty Two companies of Karachi Stock Exchange Pakistan, including Dividendt as a dependent variables. Independent variables includes board size, audit committee, annual general meetings and chief executive officer.

**Statistical Modal:**

**Simple Ordinary Least Square Modal:** In knowledge, ordinary least squares (OLS) or linear least squares is a process for estimating the unknown parameters in a linear regression variant, with the intention of minimizing the variants between the located responses in some arbitrary dataset and the responses envisioned through the linear approximation of the information (visually that is noticeable because the sum of the vertical distances between every records factor within the set and the corresponding factor on the regression line - the smaller the variations, the higher the mannequin matches the knowledge). The following estimator will also be expressed with the aid of a easy system, primarily in the case of a single regressor on the correct-hand side.

The OLS estimator is normal while the regressors are exogenous and there is also no best multicollinearity, and most advantageous within the class of linear impartial estimators when the mistakes are homoscedastic and serially uncorrelated. Underneath those circumstances, the procedure of OLS affords minimal-variance suggest-impartial estimation when the errors have finite variances. Beneath the extra assumption that the blunders be most commonly dispensed, OLS is the highest probability estimator. OLS is utilized in economics (econometrics), political technological know-how and electrical engineering (manage concept and sign processing), amongst many areas of utility. The Multi-fractional order estimator is an accelerated model of OLS.

**Simple linear regression:** In information, handy linear regression is the least squares estimator of a linear regression mannequin with a single explanatory variable. In different phrases, easy linear regression suits a straight line through the set of n facets in the sort of approach that makes the sum of squared residuals of the version (that is, vertical distances among the motives of the data set and the outfitted line) as small as viable.

The adjective easy refers back to the truth that the ultimate results variable is associated with a single predictor. The slope of the outfitted line is equal to the correlation amongst y and x corrected via the ratio of standard deviations of those variables. The intercept of the prepared line is such that it passes via the center of mass (x, y) of the records facets.

Different regression techniques besides the easy normal least squares (OLS) additionally exist (see linear regression). Specially, while one wants to do regression by means of making use of eye, one almost always has a tendency to attract a barely steeper line; toward the only produced by using using the complete least squares process. This happens for the reason that it's higher common for one's intellect to don't forget the orthogonal distances from the observations to the regression line, in option to the vertical ones as OLS manner does.

**REGRESSION MODEL OF PROFIT MARGIN**

Model 10: OLS, using observations 1-30  
 Dependent variable: Dividend Payout Ratios  
 Heteroskedasticity-robust standard errors, variant HC1

	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-ratio</i>	<i>p-value</i>	
Const	32.0049	23.5666	1.3581	0.1871	
Current ratios	-0.451716	0.16608	-2.7199	0.0119	**
Ownership Structure	53.8353	28.2198	1.9077	0.0685	*
Net Profit Margin	0.959673	0.433763	2.2124	0.0367	**
Return on Assets	1.25506	0.323328	3.8817	0.0007	***
Quick Acid test	0.363064	0.30999	1.1712	0.2530	

ratios

Mean dependent var	56.73743	S.D. dependent var	94.10187
Sum squared resid	75990.67	S.E. of regression	56.26969
R-squared	0.704086	Adjusted R-squared	0.642437
F(5, 24)	3.859054	P-value(F)	0.010443
Log-likelihood	-160.1257	Akaike criterion	332.2514
Schwarz criterion	340.6586	Hannan-Quinn	334.9409

**Table 4.1 Regression of Profit Margin**

#### 4.1 RESULT

##### ***Robust Standard Errors:***

strong general mistakes or white hubber widespread errors is also known as sandwich estimate of inconsistency. this mistake is used for multilevel regression for unremitting variables shows to precise difficulty regarding the normality assumption, because non-regular facts hold cause incorrect preferred mistakes estimates, and, as a result, outcome assessments. the nature of the effect on widespread errors depends on the form of the distribution. There many creator worked on adjustments to the same old mistakes estimation and provide their suggestion like, (Burton, Gurrin, & Sly, 1998; Huber, 1967; Liang & Zeger, 1986; White, 1982). sturdy estimates may execute dominant whilst there are a hundred stage-2 devices (businesses) or more (Cheong, Fotiu, & Raudenbush, 2001; Hox & Maas, 2001; Krauermann & Carroll, 2001). There may be a mere value in power (strong estimates will have a tendency to be slightly large than standard asymptotic estimates), however, with enough variety of companies, the minimum energy loss is probably less of a situation than no normality.

##### ***Coefficient of Determination***

From the above table 4.1 the value of R-squared is 0.70 which shows that the 70 percent variation in Dividend Payout Ratios has been explained by the all independent variables i.e. current ratios, ownership structure, net profit margin, and return on assets. Normally, higher R-square value is representation of significant results.

##### ***Fitness of Model***

Generally, F-test is used for analyzing fitness of the model.

First step of any statistical hypothesis testing is to formulate hypothesis, so hypothesis are as follow:

Null Hypothesis:  $H_0 =$  Model is not fit

Alternate Hypothesis:  $H_A =$  Model is fit

In second step, study has to decide its significance level. The study has 5% significance level. Third step includes decision of test, for fitness of model; study has to use f-test statistics. In last step, there is comparison of calculated value with tabulated value. As study results calculated value is 3.859054 F (5, 24), study has to compare it with tabulated value. Tabulated value of F (5, 24) is 3.19, as calculated value of f-test is greater than tabulated value, in this case study has to reject null hypothesis i.e. Model is not fit. Finally, study has to accept alternate hypothesis, so, our model is fit.

Alternate way of checking value of f-test is to compare p-value with significance level. If significance level is greater than p-value then study has to reject null hypothesis. In the study result, p value is 0.010. Which is showing that significant level (0.05), so study has to reject null hypothesis and accept alternate hypothesis. So, study model is fit.

##### ***Coefficients***

###### ***1. Current ratio***

As study result has coefficient value of -0.45, which means there exist negative relationship between current ratio and dividend payout ratio. Unit change in current ratio is changing dividend payout ratio with -0.45. There are some studies that has shown negative relationship between current ratio and dividend payout ratio like Gillet. Al, (2010) in their study concluded that relationship among the cash flow and dividend payout ratios is negative for both manufacturing and service industry of US (United State) capital market, moreover there are many studies, with consideration(Hameeda,1972; Rozaff,1982; Ozkan,2004) leverage and cash flow volatility are negatively related to dividend payout ratios.

## **2. Ownership Capital**

Possession capital has beta price of 58.Eighty three; value of coefficient is excessive considering the fact that ownership capital is dummy variable. Outcome exhibit that there exists confident relationship between possession capital and dividend payout ratio. There are a lot of reports argued constructive relationship among the many possession structure like link between dividend coverage and institutional coverage evaluate the abilities association between possession structures and dividend coverage. In addition dividend models of Lintner (American financial evaluation, 46 (1956) ninety seven), Waud (Journal of the American Statistical association, 1996) and Fama and Babiak (Journal of the American Statistical association, 63 (1968) 1132] constructive relationship

## **3. Net Profit Margin**

Net profit margin importance cannot be ignored, because almost all the studies has shown positive strong relation between net profit margin and dividend payout ratio. Likewise, our study results are also favorable, because value of coefficient is 0.95; which means there exist strong direct relation between independent variable (current ratio) and dependent variable (dividend payout ratio). Unit change in net profit margin is changing dividend payout ratio with 0.95.

## **4. Return on Asset**

Return on asset is also important one, and most of studies show positive relationship. Same is the case with our study results; there exist strong direct relation between ROA with dividend payout ratio.

### ***T-test Statistics***

#### **1. Current Ratio**

Generally, t-test is used for analyzing coefficients.

First step of any statistical hypothesis testing is to formulate hypothesis, so hypothesis are as follow:

Null Hypothesis:  $H_0 \beta=0$

Alternate Hypothesis:  $H_A \beta \neq 0$

In second step, study has to decide its significance level. Our study has 10% significance level. Third step includes decision of test, for analyzing coefficient; study has to use t-test statistics. In last step, there is comparison of calculated value with tabulated value. As our calculated value is t-test is 2.17, study has to compare it with tabulated value. Tabulated value of t-test (0.10, 29) is 1.31143, as calculated value of t-test is greater than tabulated value, in this case study has to reject null hypothesis i.e. $\beta=0$ . Finally, study has to accept alternate hypothesis, so, $\beta \neq 0$ . So, there is some impact of current ratio on dividend payout ratio.

Alternate way of checking value of t-test is to compare p-value with significance level. If significance level is greater than p-value then we have to reject null hypothesis. In our study result, p value is 0.0119. As significance level (0.10) is greater than p-value (0.0119), so study has to reject null hypothesis and accept alternate hypothesis. So,  $\beta \neq 0$ .

#### **2. Ownership Structure.**

Ownership structure calculated value t-test is 1.9077: study has to compare it with tabulated value. Tabulated value of test (0.10,29) is 1.31143, as calculated value of test is greater than tabulated value, in this case study has to reject null hypothesis i.e.  $B=0$ . Finally, study has to accept alternate hypothesis, so  $B \neq 0$ . So there is some impact of ownership structure on dividend payout ratios.

Alternate way of checking value of t-test is to compare p-value with significance level. If significance level is greater than p-value then we have to reject null hypothesis. In our study, p value is 0.00685. As significance level (0.10) is greater than p-value (0.00685), so study has to reject null hypothesis and accept alternate hypothesis, so,  $B \neq 0$ .

**3. Net profit Margin**

Net Profit Margin calculated value t-test is 2.2124: study has to compare it with tabulated value. Tabulated value of test (0.10,29) is 1.31143, as calculated value of test is greater than tabulated value, in this case study has to reject null hypothesis i.e.  $B=0$ . Finally, study has to accept alternate hypothesis, so  $B \neq 0$ . So there is some impact of ownership structure on dividend payout ratios.

Alternate way of checking value of t-test is to compare p-value with significance level. If significance level is greater than p-value then we have to reject null hypothesis. In our study, p value is 0.0367. As significance level (0.10) is greater than p-value (0.0367), so study has to reject null hypothesis and accept alternate hypothesis, so,  $B \neq 0$ .

**4. Return on Assets.**

Return on Assets calculated value t-test is 3.8817; study has to compare it with tabulated value. Tabulated value of test (0.10,29) is 1.31143, as calculated value of test is greater than tabulated value, in this case study has to reject null hypothesis i.e.  $B=0$ . Finally, study has to accept alternate hypothesis, so  $B \neq 0$ . So there is some impact of ownership structure on dividend payout ratios.

Alternate way of checking value of t-test is to compare p-value with significance level. If significance level is greater than p-value then we have to reject null hypothesis. In our study, p value is 0.007. As significance level (0.10) is greater than p-value (0.007), so study has to reject null hypothesis and accept alternate hypothesis, so,  $B \neq 0$ .

**5. Quick Acid Test Ratios.**

Quick Acid Test value t-test is 1.1712; study has to compare it with tabulated value. Tabulated value of test (0.10,29) is 1.31143, as calculated value of test is less than tabulated value, in this case study has to reject null hypothesis i.e.  $B \neq 0$ . Finally, study has to accept residual are not heteroscedastic , that is homoscedic.

**Normality test**

Frequency distribution for uhat10, obs 1-30  
 number of bins = 7, mean = 8.941e-015, sd = 56.2697

interval	midpt	frequency	rel.	cum.
< -102.25	-120.50	1	3.33%	3.33% *
-102.25 - -65.738	-83.992	2	6.67%	10.00% **
-65.738 - -29.230	-47.484	6	20.00%	30.00% *****
-29.230 - 7.2769	-10.977	6	20.00%	50.00% *****
7.2769 - 43.784	25.531	10	33.33%	83.33% *****
43.784 - 80.292	62.038	4	13.33%	96.67% ****
>= 80.292	98.545	1	3.33%	100.00% *

Test for null hypothesis of normal distribution:  
 Chi-square(2) = 0.449 with p-value 0.79895

**Table 4.2 Normality test Modal**

**Step:1**

Formulation of hypothesis

Null Hypothesis  $H_0$ = Residual are normally distributed

Null Hypothesis= $H_A$ : Residuals are not normally distributed

**Step2**

Significant for this test is 0.05

**Step3**

Calculated value is 0.449, tabulated value of chi-square (2) is 5.99146

**Step4**

**Decision (Condition 1)**

If calculated value is chi-square (2) is greater than critical tabulated value of chi-square (2) then study will reject null hypothesis.

As our results shows that calculated value is not greater than tabulated value so, in this case study is accepting null hypothesis which mention that residual study variables are normally distributed.

**Condition 2**

If P-value is less than significance level then study reject  $H_0$ . But in study results P-value (0.798) is greater than significance level (0.05) so, study is going to accept  $H_0$ .

**Breusch-Pagan test for heteroskedasticity**

OLS, using observations 1-30

Dependent variable: scaled  $\hat{u}^2$

	Coefficient	std. error	t-ratio	p-value
Const	0.585324	0.468797	1.249	0.2239
Current ratios	-0.000535293	0.00290853	-0.1840	0.8555
Ownership Structure~	-0.0303219	0.663037	-0.04573	0.9639
Net Profit Margin	-0.0160198	0.0114325	-1.401	0.1739
Return on Assets	0.0147021	0.00348669	4.217	0.0003 ***
Quick Acid test rat~	0.00313384	0.00597697	0.5243	0.6049

Explained sum of squares = 21.3191

Test statistic: LM = 10.659569,  
 with p-value =  $P(\text{Chi-square}(5) > 10.659569) = 0.058564$

**Table 4.3 Breusch-Pagan test for heteroskedasticity**

### ***BREUSCH-PAGAN TEST***

Normally, In Breusch–Pagan test, developed in 1979 through Trevor Breusch and Adrian Pagan, this test is used for Heteroscedasticity in a linear regression mannequin. It exams whether the estimated variance of the residuals from a regression are based on the values of the impartial initial step of any statistical hypotheses trying out is to formulate speculation, so hypotheses are as beneath:

#### ***Step:1***

Formulation of hypothesis:

Null Hypothesis:  $H_0 =$  constant variance / homoscedasticity

Alternate Hypotheses:  $H_A =$  Heteroscedasticity

#### ***Step: 02***

Significant for this test is  $P < 0.05$

#### ***Step3***

Calculated value is 0.058564, tabulated value of chi-square (2) is \_\_\_\_\_

#### ***Step4***

#### ***Decision (Condition 1)***

If calculated value is chi-square (2) is greater that critical tabulated value of chi-square (2) than study will reject null hypothesis.

As our results shows that calculated value is not grater that tabulated value so, in this case study is accepting null hypothesis which mention that residual study variables are normally distributed.

#### ***Condition 2***

If P-value is less that significance level than study reject  $H_0$ . But in study results P-value is greater that significance level (0.05) so, study is going to accept  $H_0$ .

### **5.1 Summary**

Dividend payout Policy play a very significant part in any compan's financial performance. This stuy find that in pakistan there is only family business , there are few companies are paid dividend which are listed on Karachi Stock Exchange. I am slected 52 companies randamly in which there are 30 compnaies are paid dividend. This study was collected the data through companies official websites and published material. Study included variables like (Dividend Payout Ratios is dependent variables and Current Ratios, Quick Acid Test Ratios, Financial leverage Ratos, Debt to Equity Ratios, Ownership Sructure, Net Profit Margin, return on Assets as an independent variables.

Study used different formullas in microsoft excel application to calculate profit margin and return on equity ratios and calculate independent variables from audit financial statement of firms. Then study created OLS model to apply regression and other different tests. Applying the Heteroskedasticity test study find the coefficient determination 0.70 which shows that dependent variables explain 70% variation in dividend payout ratios.

Study used the F-test for analyzing the fitness of model. Value of F-test of Current Rarios is 3.859054  $F(5,24)$  study compared with tabular value of (5,24) is 3.19. The value of F-test is greater then tabular value which shows that model if fit. Ownerhsip Structre has beta value is 58.83, value of coefficient is high beacuae Ownership capital is dummy variables. Net Profit Margin shown positive straong raelationship among the net profit margin and dividend payout ratios, bacuaese the value of coefficinet is 0.95 . Retur on Assets strong relationship on the dividend Payout Ratios.

Study used the T-test for analyzing coefficients. The value of Current ratios in t-test is 2.17, study compared this value in tabulared value (0.10,29) 1.31143. So the value of t-test is greater then tabulared value, study has rejected null hypotheses. Ownership Structure

t-test value is 1.9077, study compare this value in tabulated value (0.10,29) is 1.31143. So the value of t-test is greater than tabulated value, study has rejected null hypotheses. Net Profit Margin t-test value is 2.2124, study compare this value in tabulated value (0.10,29) is 1.31443. So the value of t-test is greater than tabulated value, study has rejected null hypotheses. Return on Assets t-test value is 3.8817, study compare this value in tabulated value (0.10,29) is 1.31143. So the value of t-test is greater than tabulated value, study has rejected null hypotheses. Quick Acid Test Ratios t-test value is 1.1712, study compare this value in tabulated value (0.10,29) 1.31143. So the value of t-test is less than tabulated value, study has accepted residual are not heteroscedastic, that is homoscedastic.

## 5.2 Conclusion

The main purpose for study was to determine dividend Payout Policy of firms Karachi Stock Exchange between the periods of (2005-2014), in Pakistan there is 70% family business, mostly companies are not give the dividend, but few companies are giving dividend.

Using the data of companies listed on Karachi Stock Exchange; Study finds that the good corporate governance practices on firm's financial performance. The role of this study is important for both academic researchers and business managers. This study boosts the validity of previous studies on relationship between corporate governance and financial performance and makes several significant contributions to the literature. This study finds that the board size, audit committee has the positive relationship with profit margin and return on equity.

## 5.3 Policy Recommendation

Find the impact of corporate governance on financial performance of Karachi Stock Exchange companies, which shows that board size and audit committee has positive relationship with profit margin and return on equity. If the board size members increased the result may be positive on profit margin as well as return on equity and similarly the external audit committee members increased the profit margin and return on equity also increased. This study help the companies managers to use this strategy to get more benefit.

## APPENDIX

Appendices, if needed, appear before the acknowledgment.

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