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THE IMPACT OF MANAGERIAL OWNERSHIP AND DIVIDEND POLICY ON FIRM'S PERFORMANCE

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ABSTRACT

Managerial ownership dividend policy and firm performance are the three important factors that are inter-related with each others. This study evaluates the impact of managerial ownership on the firm's performance in the framework of 8 listed firms in Pakistan are selected for examination. Data selected these 8 firms from the period 2009-2012. The data is derived from annual reports of 8 companies. The techniques or model used in this study are correlation, fixed effect model and random effect model. The result determines of managerial ownership is positive and insignificant with the performance in the corporate culture of Pakistan, where main firms are the family oriented. Dividend shows positive and significant result on firm performance. All the variables are positive correlated with each other except GROWTH that is negative correlated.

Keywords: Managerial Ownership, Leverage, Dividend, Firm Performance, Pakistan.

JEL Classification: G35, G32, L25

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1. Introduction

1.1 Significance of the Study

Ownership structure as a tool in managerial governance facilitates increased efficiency of a company, it was believed that the force of the strong performance of many years. For example, (Smith, 1776) indicates that Public Ltd companies less capable than private copartner companies because the directors would not observe over other people's money with the same concerned attention as their own.

Ronald Coase set out his transaction cost theory of the firm in 1937. Transaction cost theory (TCT) considers the company a contracts where the inside activities are cheaper than outside. However, within the company, there are divergences between diverse parties. The main theoretical recalls-a conflict between shareholders and management. The disagreement led by different tables for shareholders and managers and, more specifically, the divergence between the right and the right to organize cash flow.

In the last decade, there has been no shortage of managerial indignity as a result of inefficient governance structures and plans innovative perverted. So, the question of what may be the most well-organized ownership structure and relevant than ever. Shareholders and managers are making attempt to combine their interests to decrease costs. Structure-conduct-performance, a set of situations and identifies the ownership structure of the company, and then indicates the administrative behavior and performance.

If managerial ownership is the solution to a contracting problem between management and shareholders and there are no adjustment costs, firm value would always be maximized given the constraints faced by shareholders. Hence, everything else constant, firm value could not be increased by changing managerial ownership and any relation between ownership and firm value discovered in a cross-section of firms is potentially arising because the firm's environment is inadequately captured.

1.1.1 Family Ownership

Family ownership is very ordinary all over the world. Family owned businesses are the most general type of economic organization among listed companies in 27 countries approximately the world. A few studies find a positive effect of the Family ownership at performance. Here the position argument is applied an incentive to demonstrate the positive impact mostly while family members also act as managers.

1.1.2 Government Ownership

Between the 1930 to1970, financial shock of 1929 and the great misery follows created a trend to ' socialization ' throughout the world.

However, during the 1970s and 1980s, most government-owned companies have gone through the process of privatization of reducing government involvement in market mechanisms. Nowadays it is often found in government ownership in the former socialist countries such as Russia, China, and Eastern Europe. Formed as changing economic/political systems and the restructuring of ownership over time, discussion of Government impact on the performance of companies has emerged normally with arguments, as well as against the government ownership.

1.2 Aim of the Study

The major purpose of this study was to investigate the association between Managerial Ownership and performance of firm.

The other objectives are minor

- To locate determinants of managerial firms success.
- To examine the causes that how firm performance is influence by the managerial ownership.
- To locate out the task of managerial firms in the development of economy.

1.3 Research Questions

There are following Questions to be solved:

- Does managerial ownership influence the performance of the company?
- Is the association between managerial ownership absorption and performance variables considerable?
- How does dividend influence the performance of the company?

1.4 Delimitations of the Study

While this study focused on managerial ownership influence on company performance, they are not test synchronized impact company performance may be a managerial ownership title given the complex nature of the selection data ownership. As this study focuses mainly on Pakistan because of their unique managerial ownership, non-Pakistan is excluded in the pilot tests. Furthermore is the exclusion of non-listed companies also due to lack of data. Because of the different measurement standards with regard to the performance of the companies (financial ratios), also financial companies should be excluded from the tests. Though interesting, do not resolve the operational and financial mechanisms behind the effect

property management on the performance of the company in order to limit the scope of the analysis.

2. Literature Review

(Rizqia et al., 2013) examined the effect of managerial ownership, financial leverage, dividend policy, firm size, investment and profitability on firm performance during the period of 2006 to 2011.For this purpose, researcher used census method hence Results showed that managerial ownership investment opportunities had little or no effect on profitability, financial leverage and dividend policy, firm size, investment and profitability.

(Andrei Shleifer and Robert W. Vishny, 1989) they specified the manager's entrenchment for making managers specific investment in the firms. They measure it through entrenchment empirical model implication for manager's benefits or managers loss for making the investment in the firms.

(Rudiger Fahlenbrach and Rene M. Stulz, 2009) they examined that change in managerial ownership results in negative impact for the firms in USA doing the Period of 1988 to 2003. Results shows that managerial ownership must decrease when firm perform well and managerial ownership increase when firm is perforating average or poor.

They studied the effect of shares taken by directors or the managerial ownership. The result shows that the shares taken by officers or taken by directors do not have any effect on the firm value. Actually the quantity of shares does not matter to the firm value either or taken by directors or by officers.

(Marko Simoneti and Aleksandra Gregoric, 2004) they aim to describe trends in ownership on Slovenian corporation in post privatization era and to give answer to the question that influence of consolidation managerial ownership on the Slovenian firms during the period of 1995 to 1999. Results shows that increase in managerial ownership have no positive effect on the firm in case if firm is private and non-listed then managerial ownership have effect if exceeding from 10%.

(Severin, 2001) they studied the effect of managerial ownership on the financial and economic performance of the firm for the French companies. The result shows the non-linear relation for ownership structure and performance. Variables like leverage and sock turnover partially explained the performance of the firm and debt level influence negatively on the firm.

(Ruan et al., 2011) they studied the influence of managerial ownership on firm performance for Chinese firm during the period of 2002 to 2007. Non-linear relationship found between

managerial ownership and firm value. Regression shows that managerial ownership effect capital structure. Agency relent situation in terms of china civilian firms can also be thereby.

(Attiya Y. Javid and Robina Iqbal, 2008) they investigate the dominants of ownership concentration. The efficacy of ownership concentration on firm performance with sample of 50 firms from Pakistan for 2003 to 2008.In Pakistan there is more concentration of ownership due to weak legal environment. Concentration of ownership seems to have positive effect on firm performance and profitability and there is negative relationship between corporate governs and disclosure and transparency with concentration of ownership.

(Elisabeth Mueller and Alexandra Spitz, 2002) they Find out the relationship between Managerial ownership and company performance. Incentive and entrenchment hypothesis is used. They focus on small and medium size enterprise taking 356 companies from service sector since 1997-2000. They find that performance measure by survey base profit information when increase in managerial ownership is up to 40%. Most studies focus on listed companies while they focus on companies with ownership control of limited liabilities. Unbalance data of private companies in used. If managers own 40% to incentive had effect on performance entrenchment is not consider when incentive are given to a maximum.

(Wenjuan Ruan and Gary Tian, 2009) they study the consequence of managerial ownership on firm performance and on capital structure. There remains of divergence of interest between shareholders and managers so that managerial ownership is require. Prior research focus on managerial ownership, firm value and financial decision while they discuss effect of managerial ownership on firm performance and it's in turn effect on capital structure.OLS Regression is used and result shows non-linear relation between managerial ownership and firm performance. Two cubic equation is used for the research and they find that capital structure endogenously determine by managerial ownership and firm value.

(Elisabeth Mueller and Alexandra Spitz, 2002) they find out the effect of managerial ownership on firm performance and its determinant. Almost 1300 firms for 1997-2000 are taken that are small, medium enterprise. Result shows that up to 80% concentrated ownership show a positive result while for upper it is negative. They focus on dynamic structure of panel taken of risk associate with firm on managerial ownership is negative.

(Herciu, 2010) they studied that managerial performance and firms are strongly correlated with each other .The result shows that managerial performance is higher if they have more shares.

(Viral V. Acharya and Alberto Bisin, 2009) they examine how risk-averse mangers can hedge risk. The result shows that risk-averse mangers can hedge only cash flow risk but not risk associated with firm. In this way mangers have freedom to pass standard contract with more aggregate risk. The hazard taken shows more greater risk in stock market.

(Abbas et al., 2013) they study the relationship between ownership structure and firm performance. In most of the companies in the world have large ownership and preferably concentrated for this purpose 100 listed companies non-financial firms are taken from Pakistan. The result shows that ROA and ROE effect positively large shareholder. If large ownership goes above then it effect negatively, positively relationship is result of large ownership expropriation of resources and exploitation of minority shareholders.

3. Data and Methodology

This section outlines the methodology review, search method, and choose variable is formulate hypotheses and data generation.

Many researchers conduct research on this topic and locate different results as the literature of the subject. I also have to make the effort to test the hypothesis in the context of Pakistan's economy following.

3.1 Research Hypothesis

H_1 = There is an association between 'managerial ownership and firm performance.

H_2 = Greater the managerial ownership higher the firms performance.

3.2 Explanation of Variables

3.2.1 Firm Performance

The objective of this paper is to observe whether the company's performance is involved by ownership structure. With regard to performance, some dimensions are applied to clarify various aspects of the strategy Ownership structure, as one aspect of governance, is believed to affect the performance of the company through its influence on key-worker relations in addition, reviewed studies the impact of nation, as different ownership structure and its impact on corporate performance among diverse countries

3.2.2 Owner Identity and Managerial Performance

Influence the identity of the owner based on the argument that the diverse owners have diverse strategic objectives (valuation, profitability, growth and risk); the dominant objective of the owner's preference will affect the operation and performance of the company. Specific identities frequently is scattered (inside), family, institution and Government. In this subsection, a review of relevant studies such identities owner four individually.

3.2.3 Variable Description

The variable that is influenced by some other variable is known as dependent variable. I have taken firm performance as dependent and Independent variable, as it is influenced by management ownership. There are different tools to measure the firm performance, but I have selected ROA, ROE, Tobin's Q, Growth, SIZE, NET INCOME, MO, and Dividend to measure firm's profitability and market value respectively and these are calculated as follows:

Table 1: Variable Description

VARIABLES	SYMBOL	DESCRIPTION
Return on asset	(ROA)	N.P(Net profit) before tax and interest to total asset
Return on equity	(ROE)	Profit before income and tax/the total outstanding paid up equity capital of the firm
Tobin's Q	(TQ)	Total Borrowings + Market Value Equity to Total assets
Leverage	(LEV)	Long term debt divided by total long term debt plus market value of the common stock outsiders own
Net income	(NI)	Net income over net sales
Growth	(GROWTH)	Book value /market value of equity
Managerial Ownership	(MO)	%age of ordinary share owned by Managers and directors of the firm
Dividend	(DIV)	Dividend paid per share (DPS)

3.3 Model

The system of reduced form simultaneous equations model is:

$$LEV_i = \alpha_0 + \alpha_1 MO_i + \alpha_2 DIV_i + \alpha_3 GROWTH_i + \alpha_4 NI_i + \alpha_5 SIZE_i + \varepsilon_I \ldots\ldots\ldots (1)$$

$$MO_i = \beta_0 + \beta_1 LEV_i + \beta_2 DIV_i + \beta_3 GROWTH_i + \beta_4 NI_i + \beta_5 SIZE_i + \varepsilon_I \ldots\ldots\ldots (2)$$

$$DIV_i = \gamma_0 + \gamma_1 MO_i + \gamma_2 LEV_i + \gamma_3 GROWTH_i + \gamma_4 NI_i + \gamma_5 SIZE_i + \varepsilon_I \ldots\ldots\ldots (3)$$

$$ROA_i = \alpha_0 + \alpha_1 MO_i + \alpha_2 DIV_i + \alpha_3 LEV_i + \alpha_4 GROWTH_i + \alpha_5 NI_i + \alpha_6 SIZE_i + \varepsilon_{I....} \quad (4)$$

$$ROE_i = \alpha_0 + \alpha_1 LEV_i + \alpha_2 DIV_i + \alpha_3 LEV_i + \alpha_4 GROWTH_i + \alpha_5 NI_i + \alpha_6 SIZE_i + \varepsilon_{I..} \quad (5)$$

$$Q_i = \alpha_0 + \alpha_1 MO_i + \alpha_2 DIV\ \alpha_3 LEV_i + \alpha_4 GROWTH_i + \alpha_5 NI_i + \alpha_6 SIZE_i + \varepsilon_{I.....} \quad (6)$$

4. Results & Discussion

4.1 Descriptive Statistics

The DIV has lowest and highest value 0 and 25 respectively. The GROWTH has lowest and highest value 0.13944 and 3.894608 respectively. The LEV has lowest and highest value 0.13944 and 49.23223 respectively. The MO has lowest and highest value 0 and 29.66 respectively.

The NI has lowest and highest value 0.022021 and 0.680552 respectively. The ROA has lowest and highest value 0.761807 and 50.54315 respectively. The ROE has lowest and highest value 1.351473 and 12.73175 respectively. The SIZE has lowest and highest value 9.973317 and 12.73175 respectively. The TQ has lowest and highest value 0.309288 and 2.772184 respectively.

The standard deviation for DIV is 7.00157 while GROWTH, LEV, MO, NI, ROA, ROE, SIZE and TQ have standard deviation 1.115842, 14.62477, 10.43772, 0.266619, 16.93657, 21.79153, 0.78143, 0.843332 respectively. The standard deviation for GROWTH is 1.115842 while DIV, LEV, MO, NI, ROA, ROE, SIZE and TQ have standard deviation 7.00157, 14.62477, 10.43772, 0.266619, 16.93657, 21.79153, 0.78143, 0.843332 respectively. The standard deviation for LEV is 14.62477 while DIV, GROWTH, MO, NI, ROA, ROE, SIZE and TQ have standard deviation 7.00157, 1.115842, 10.43772, 0.266619, 16.93657, 21.79153, 0.78143, 0.843332 respectively. The standard deviation for MO is 10.43772 while DIV, GROWTH, LEV, NI, ROA, ROE, SIZE and TQ have standard deviation 7.00157, 1.115842, 14.62477, 0.266619, 16.93657, 21.79153, 0.78143, 0.843332 respectively. The standard deviation for NI is 0.266619 while DIV, GROWTH, LEV, MO, ROA, ROE, SIZE and TQ have standard deviation 7.00157, 1.115842, 14.62477, 10.43772, 16.93657, 21.79153, 0.78143, 0.843332 respectively. The standard deviation ROA for 16.93657 is 0.266619 while DIV, GROWTH, LEV, NI, MO, ROE, SIZE and TQ have standard deviation 7.00157, 1.115842, 14.62477, 10.43772, 0.266619, 21.79153, 0.78143, 0.843332 respectively. The standard deviation for ROE is 21.79153 while DIV,GROWTH,LEV, NI,MO,ROA,ROE,SIZE and TQ have standard deviation 7.00157, 1.115842,14.62477, 10.43772, 0.266619,16.93657, 0.78143, 0.843332 respectively.

The skewness possibly will be negative or positive. If mean > median than it will positive skewness and if the median > mean than it will negative skewness. The table 2 result indicates that DIV, GROWTH, LEV, MO, NI, ROA, ROE, SIZE, TQ variable has positive skewness.

Table 2: Descriptive-Statistics Analysis

	DIV	GROWTH	LEV	MO	NI	ROA	ROE	SIZE	TQ
Mean	6.8695	1.25	15.76	7.1352	0.28	18.12	27.30	11.10	1.07
Median	5.5	0.94	13.42	0.02	0.16	9.945	17.64	10.83	0.63
Maximum	25	3.89	49.23	29.66	0.68	50.54	66.45	12.73	2.77
Minimum	0	0.13	0.270	0	0.02	0.761	1.351	9.973	0.30
Std. Dev.	7.0015	1.11	14.62	10.437	0.26	16.93	21.79	0.781	0.84
Skewness	0.9365	0.781	1.272	1.2883	0.51	0.597	0.411	0.696	0.78
Kurtosis	3.2107	2.40	3.578	3.2679	1.45	1.745	1.703	2.307	1.99
Jarque-Bera	3.4047	2.67	6.525	6.4320	3.31	2.878	2.258	2.317	3.35
Probability	0.1822	0.26	0.038	0.0401	0.19	0.237	0.323	0.313	0.18
Sum	158	28.9	362.6	164.11	6.52	416.9	628.0	255.4	24.7
Observations	23	23	23	23	23	23	23	23	23

4.2 Correlation

Table 3: Correlation

	DIV	GROWTH	LEV	MO	NI	ROA	ROE	SIZE	TQ
DIV	1								
GROWTH	-0.48	1							
LEV	-0.66	0.60	1						
MO	-0.23	-0.51	-0.15	1					
NI	0.15	-0.60	-0.10	0.10	1				
ROA	0.39	-0.71	-0.30	0.09	0.95	1			
ROE	0.54	-0.72	-0.36	0.05	0.88	0.97	1		

SIZE	0.29	-0.60	-0.36	0.13	0.83	0.85	0.81	1	
TQ	0.11	-0.60	-0.08	0.18	0.94	0.91	0.85	0.88	1

4.3 Random Effect Model-Dividend

Table 4 indicates the impact of independent variables MO, LEV, GROWTH, NI, SIZE, on the dependent variables DIV is firm performance.

The demonstrative variable explicates very well to dependent variable in the table which R-Square 0.72583, adjusted R- Square 0.645191, F-statistics 9.001044, prob (F-statistic) 0.000251& Durbin- Watson state 2.067727.The regression outcomes show the independent variables MO, LEV, GROWTH, NI negative & LEV, SIZE insignificant impact on dependent variable DIV and SIZE has positive & GROWTH, NI significant impact on dependent variable DIV.

Table 4: REM-DIV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.860768	17.11722	0.34239	0.7363
MO	-0.47649	0.078266	-6.0881	0
LEV	-0.105	0.071595	-1.46661	0.1607
GROWTH	-5.69977	1.262253	-4.51555	0.0003
NI	-12.7045	5.722534	-2.22008	0.0403
SIZE	1.517009	1.639197	0.925458	0.3677
R-squared	0.72583			
Adjusted R-squared	0.645191			
F-statistic	9.001044			
Prob(F-statistic)	0.000251			
Durbin-Watson stat		2.067727		

Significant level adjusted at equal or below the value of 0.05.

4.4 Random Effect Model -Leverage

Table 5 indicates the impact of independent variables MO, DIV, GROWTH, NI, SIZE, on the dependent variables LEV is firm performance.

The demonstrative variable explicates very well to dependent variable in the table which R-Square 0.694263, adjusted R- Square 0.604341, F-statistics 7.720681, prob (F-statistic)

0.000598 & Durbin- Watson state 0.701677.The regression outcomes show the independent variables DIV, SIZE negative & MO insignificant impact on dependent variable LIV and MO, GROWTH, NI has positive & DIV, GROWTH, NI, SIZE significant impact on dependent variable LEV.

Table 5: REM-LEV

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	107.3193	17.66779	6.074289	0
MO	0.21752	0.126413	1.72071	0.1035
DIV	-0.51087	0.183369	-2.78602	0.0127
GROWTH	9.558915	1.623321	5.888493	0
NI	44.81706	5.934534	7.55191	0
SIZE	-10.2967	1.711798	-6.01511	0
R-squared	0.694263			
Adjusted R-squared	0.604341			
F-statistic	7.720681			
Prob(F-statistic)	0.000598			
Durbin-Watson stat		0.701677		

Significant level adjusted at equal or below the value of 0.05.

4.5 Random Effect Model –Managerial Ownership

Table 6 indicates the impact of independent variables LEV, DIV, GROWTH, NI, SIZE, on the dependent variables MO is firm performance.

The demonstrative variable explicates very well to dependent variable in the table which R-Square 0.731511, adjusted R- Square 0.652544, F-statistics 9.263473, prob (F-statistic) 0.000212 & Durbin- Watson state 2.352486.The regression outcomes show the independent variables DIV, GROWTH, NI negative & do not any dependent variable insignificant impact on dependent variable MO and LEV, SIZE has positive & LEV, DIV, GROWTH, NI, SIZE significant impact on dependent variable MO.

Table: 6 REM-MO

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.92396	1.207095	-4.07918	0.0008
LEV	0.0973	0.005129	18.96902	0
DIV	-1.037	0.008134	-127.494	0
GROWTH	-11.3935	0.065992	-172.651	0
NI	-28.8825	0.365367	-79.0505	0
SIZE	3.619127	0.11335	31.92871	0
R-squared	0.731511	Adjusted R-squared		0.652544
F-statistic	9.263473	Prob(F-statistic)		0.000212
Durbin-Watson stat		2.352486		

Significant level adjusted at equal or below the value of 0.05.

4.6 Fixed Effect Model-Return on Assets

Table 7 indicates the impact of independent variables MO, DIV, LEV, GROWTH, NI, SIZE, on the dependent variables ROA is firm performance.

The demonstrative variable explicates very well to dependent variable in the table which R-Square 0.988034, adjusted R- Square 0.976067, F-statistics 82.56784, prob (F-statistic) 0 & Durbin- Watson state 2.303406.The regression outcomes show the independent variables LEV, GROWTH, SIZE negative & MO, LEV, GROWTH insignificant impact on dependent variable ROA and MO, DIV, LEV, NI has positive & DIV, NI, SIZE significant impact on dependent variable ROA.

Table 7: FEM-ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	103.9824	37.77546	2.752645	0.0188
MO	0.109585	3.846318	0.028491	0.9778
DIV	1.098676	0.270957	4.054797	0.0019
LEV	-0.00701	0.233353	-0.03005	0.9766
GROWTH	-0.37742	1.821423	-0.20721	0.8396
NI	33.82154	12.47283	2.711617	0.0202
SIZE	-9.2923	3.632985	-2.55776	0.0266
R-squared	0.988034			

Adjusted R-squared	0.976067			
F-statistic	82.56784			
Prob(F-statistic)	0			
Durbin-Watson stat		2.303406		

Significant level adjusted at equal or below the value of 0.05.

4.7 Fixed Effect Model-Return on Equity

Table 8 indicates the impact of independent variables MO, DIV, LEV, GROWTH, NI, SIZE, on the dependent variables ROE is firm performance.

The demonstrative variable explicates very well to dependent variable in the table which R-Square 0.989799, adjusted R- Square 0.979598, F-statistics 82.56784, prob (F-statistic) 97.03109 & Durbin- Watson state 1.97034.The regression outcomes show the independent variables MO, GROWTH, SIZE negative & MO, LEV, GROWTH insignificant impact on dependent variable ROE and DIV, LEV, NI has positive & DIV, NI, SIZE significant impact on dependent variable ROE.

Table 8: FEM-ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	191.7079	44.87554	4.271992	0.0013
MO	-4.59434	4.569251	-1.00549	0.3363
DIV	2.139707	0.321885	6.647431	0
LEV	0.148502	0.277213	0.535696	0.6028
GROWTH	-1.37959	2.163768	-0.63759	0.5368
NI	50.54192	14.81716	3.41104	0.0058
SIZE	-14.5211	4.315821	-3.36462	0.0063
R-squared	0.989799			
Adjusted R-squared	0.979598			
F-statistic	97.03109			
Prob(F-statistic)	0			
Durbin-Watson stat		1.97034		

Significant level adjusted at equal or below the value of 0.05.

5. Conclusion and Recommendation

The study explores the relationship between managerial ownership and firm performance for the time period 2009-2012. Experiential results that supported the hypothesis proposed, showed positive and significant association between managerial ownership and corporate performance.

The company's performance becomes better, but in reality, the major companies to maximize profit rather than to maximize wealth until the forfeiture of the rights of minorities, and there is no law protecting minorities in that I will recommend working for equality and action to protect the rights of all stakeholders. The result determines of managerial ownership is positive and insignificant with the performance in the corporate culture of Pakistan, where major firms are the family oriented. Dividend shows positive and significant result on firm performance. All the variables are positive correlated with each other except GROWTH that is negative correlated.

Limitations of the Study

There are various gapes in this research, first and foremost, there is the valid standard of categorization ownership of managerial businesses and concentration, there is a gap in the results due to the lack of data and choose a suitable model to measure the relationship between specific variables; you can eliminate all the gapes of further research.

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