OWNERSHIP STRUCTURE AND MARKET POWER AS DETERMINANTS OF CORPORATE DIVIDEND POLICY IN SAUDI ARABIA

SONOUSSI ABDUSSALAM SONOUSSI

ALI ALTOUMY

MASTER OF SCIENCE (INTERNATIONAL ACCOUNTING)

UNIVERSITI UTARA MALAYSIA

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By:

SONOUSSI ABDUSSALAM SONOUSSI

ALI ALTOUMY

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ABSTRACT

This study investigates the relationship between ownership structure, market power, and dividend policy for listed companies on Saudi stock exchange over the period 2009 to 2013. The study examines the roles of managerial ownership, individual ownership, concentrated ownership, and foreign ownership and firm's market power in influencing dividend payout. Data of this study has been analyzed using Ordinary Least Square (OLS) regression. F-value revealed that all these five independent variables namely, managerial, individual, foreign, concentrated ownership, and market power, collectively explains the dependent variable by 40.91 percent. This study finds that concentrated ownership has significant and positive relationship with the dividend payout while the relationship between market power and dividend payout is significant but negative. On the other hand, managerial, individual, and foreign ownership has insignificant relationship with dividend payout.

Keywords: dividend, ownership structure, market power.

ABSTRAK

Kajian ini mengkaji hubungan antara struktur pemilikan, kuasa pasaran, dan dasar dividen bagi syarikat yang tersenarai di bursa saham Saudi dari tahun 2009 hingga 2013. Kajian ini mengkaji peranan pemilikan pengurusan, pemilikan individu, pemilikan tertumpu, dan pemilikan asing dan kuasa pasaran firma dalam mempengaruhi pembayaran dividen. Data kajian ini telah dianalisis dengan menggunakan Ordinary Least Square (OLS) regresi. F-value mendapati kesemua lima pembolehubah bebas iaitu, pengurusan, individu, asing, pemilikan tertumpu, dan kuasa pasaran, secara kolektif menerangkan pembolehubah bersandar dengan 40.91 peratus. Kajian ini mendapati bahawa pemilikan tertumpu mempunyai hubungan yang signifikan dan positif dengan pembayaran dividen manakala hubungan antara kuasa pasaran dan pembayaran dividen adalah penting tetapi negatif. Sebaliknya, pengurusan, individu, dan pemilikan asing mempunyai hubungan tidak signifikan dengan pembayaran dividen.

Kata Kunci: Dividen, struktur pemilikan, kuasa pasaran.

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Sincerely,

Sonoussi Abdussalam, S.A.A

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LIST OF ABBREVIATIONS

ROE	Return on Equity
ROA	Return on assets
CONC	Concentrated Ownership
DPR	Dividend Payout ratio
NEMA	Middle East and North African
KSA	Kingdom of Saudi Arabia
WTO	World Trade Organization
FDI	Foreign Direct Investment
SSE	Saudi Stock Exchange
OLS	Ordinary Least Squares
MNG	Managerial ownership
IND	Individual ownership
FORG	Foreign ownership

MarketPow	firm’s market power
PROFIT	Profitability
FSIZE	Firm Size
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The issue of appropriate dividend policy has generated a lot of attention and debate in the business environment and among researchers. This is because of digressed relationship among firms' specific issues such as firm's value and dividend policy (Hafza & Mirza, 2011). Nevertheless, it is the examination of this relationship that has led to the current state of the subject being categorized into three dimensions: the view of generous dividend payment, dividend irrelevance and complete retention of corporate earnings (Miller & Modigliani, 1961).

Dividend payout policy of any organization depends on the expected cash inflows and can be defined as the percentage of amount distributed among shareholders out of profit. Dividends are normally paid either in form of cash or stock dividend that might be stock of other company as well, which is subsidiary of parent company announcing dividend (Hashemijoo, Ardekani, & Younesi, 2012).

In general, investors will not invest in a company, which does not have fair dividend policy or will definitely divest from such. This could clarify why firms adhere to certain dividend strategy and management tries to at-least maintain a constant amount of dividend and only follows this optimistic approach when they can maintain the same dividend amount (Al-Malkawi & Pillai, 2010). Investors are equipped with information in an imperfect market and as a consequence whatever information they can get is considered with utmost seriousness. Intention to pay dividend by company is taken as a sign that the company will be sustainable. These factors prove the relevance and necessity of dividend. Every company formulates its own policy regarding dividend, and this is mostly determined by numerous factors and conditions prevailing during that period (Alkuwari, 2009).

Of many firms' policies that influenced decision-making, dividend policy is said to be affected by corporate ownership structure. Several studies investigated the relationship between ownership structures and dividend payout. Most of these studies are empirical in nature (Hafza & Mirza, 2010; Ahmad & Roslan, 2012; Abdelsalam, El-Masry, & Elsegini, 2008; Thanatawee, 2014; Al-Gharaibeh, Zurigat, & Al-Harahsheh, 2013). Corporate theories available back the relationship between ownership structure and dividend payout because of agency problem (Easterbrook, 1984; Jensen, 1986). Agency theory postulates that outside shareholders favor dividends over retained earnings, in light of the fact that insiders may abuse cash retained within the firm (Myers, 2000). Likewise, Mitton (2004) opined that favoring dividend may be considerably intense in developing markets with fragile investor's protection as outside shareholders see a more serious risk of expropriation by insiders in such markets.

Separation of ownership from management possesses certain challenges for corporation. Agency theory tends to be very relevant to the individual ownership type of corporate structure. Individual investors have conflict of interest with the management of the firm, as a result of the separation between the ownership and control of the firm (Jensen & Meckling, 1976). In view of this, to resolve this conflict of interests between the principles and the agents, dividend payout policies act as a monitoring tool to align the interests of managers with those of the shareholders', as excess cash flows are distributed to shareholders in the form of dividends, instead of remaining at managers' disposal (Jensen, 1986).

To align the interests of owners with management, different researchers like Jensen and Meckling (1976) proposed that management should be awarded by a small percentage of shares based on their performance. They argued that dividend payout policy for the firms controlled and owned by managers will be different than the firms owned by shareholders only. However, researchers are still disagree on this point, for instance, Hafza and Mirza (2010), Al-Gharaibeh, Zurigat, and Al-Harahsheh (2013), Abdelsalam, El-Masry, and Elsegini (2008) found negative relationship between dividend payout and managerial ownership, while others like Zabihi and Ghaleb (2013), Hu and Izumida (2008) claimed that it is positive. In addition, they emphasized that there is direct relationship between management and dividend payout. Putting it other way, higher the number of shares held by management higher will be dividend payout. Accordingly, agency theory has a tendency to be associated with management-owner's interests and is essentially in connection to the effect of shareholders on dividend payout policies.

In addition, agency theory tends to be the most relevant to the concentrated ownership type of corporate structure and its impact on dividend payout policy. The agency theory represents the conflict of interests between the concentrated ownership, as controlling shareholders (Shah, 2011). Large shareholders tend to exert an influence on the firm as a result of owning a large amount of the firm's shares (Ullah et al., 2012). These shareholders may have a preference towards lower dividend payouts, since there is no need for dividend payouts as a monitoring device, as large shareholders are well represented on the board of directors and can easily monitor management practices (Maury & Pajuste, 2002). However, instead of being the consequence of fewer agency conflicts, high dividend payments can be used for mitigating agency conflicts. In other words, dividends can be substituted for shareholder monitoring. Since they incur most of the monitoring costs, large shareholders have strong incentives to require higher dividend payments in order to reduce their monitoring expenses (Easterbrook 1984).

Ownership structure of the firms does matters for the dividend policy. For example, Harada and Nguyen (2011) investigated the association between ownership concentration and dividend policy. They concluded that companies with concentrated ownership usually pay less dividend out of profit even when the earnings are high. Zabihi and Ghaleb (2013) noticed that, firms with the individual shareholders have a tendency to pay less dividend. Contrary to this, Pavi (2007) found that there is positive relationship between individual ownership and dividend payout ratio among Norway's firms. In the same manner, Thanatawee (2014) claimed that dividend payments will be higher in case of concentrated ownership whereas it will be lower for the managerial ownership and management will invest the funds in unprofitable projects. In addition to this, shares held by individuals have effect on policies of dividends payout.

Different types of owners have their own strategic objectives. Besides managerial, individual or concentrated owners, foreign ownership also significantly effects the dividend payout decision of the firms (Ullah et al. 2012; Lam & Zhou, 2012; Chai, 2010). Dividends conceivably minimize agency cost and information asymmetry between both internal and external stakeholders (Miller & Rock, 1985). By paying dividends, firms undergo a market audit which serves to motivate by revealing to market new information and also reducing agency cost. Foreign investors normally prefer to hold shares of dividend paying firms (Douglas & Jin, 2006). Kang and Stulz (1997) contended that foreign investors show home bias while formulating and evaluating performance of dividend paying firms and invest in well known firms only because they can acquire information at a cheaper rate. Chai (2010) argued that foreign investors dynamically monitor corporate actions leading to decrease in agency issues, cost to maximize payout levels.

Furthermore, market power, the ability of a firm to earn higher profits that otherwise exist in competition, is a standout amongst the other factors that influence corporate dividend decision (He, 2011; Obembe, Imafidon, & Adegboye, 2014; Grullon & Michaely, 2012; Booth & Zhou, 2015). Market power of a firm can be determined by firm's ability at the profit-maximizing output level to influence a product price over its marginal cost. Moreover, having the capacity to somewhat influence its product price, the firm becomes strong enough to stabilize the flow of its operating income for the both systematic and unsystematic risk. (Khan & Khan, 2014). As globalization has possess numerous risks on the financial position of an organization. Microeconomic theory shows that a firm's market power also affects its business risk, such as, the risk associated with operating earnings (Booth, 1981; Subrahmanyam & Thomadakis, 1980). In addition, survey literatures Brav et al. (2005), Baker et al. (1985) demonstrate that organizations see the steadiness of future income as a standout amongst the most important determinants of their dividend policy. Therefore, a firm's market power ought to impact its dividend policy through its impact on business risk.

Most of past literatures focused on behavior of dividend in developed markets example of which is U.K and the USA. However, prove from developing economies is scanty. In Saudi Arabia, there are limited studies on ownership structure and dividend policy. Al-Malkawi, Twairesh, and Harery (2013) observed the causes of the likelihood to pay dividends of organizations listed on the Saudi Stock Exchange (SSE). They found that government, family and institutional shareholders are not significantly affecting the corporate dividend choices in Saudi Arabia. Furthermore, Mohammed (2013) investigated the effect of ownership and board of director’s structure on dividend payout policy. His examination affirms strong positive association between institutional ownership, board size, firm performance, and both dividend decision and payout ratio.

Majority of the studies carried out on dividend payout policy focused on either ownership structure or other governance variables but there are limited studies on influence of market power on dividend payout in Saudi businesses. Therefore, this study attempts to broaden literatures by investigating effects of managerial ownership individual ownership, ownership concentration, foreign ownership, and market power on the dividend policy for listed companies in Saudi Arabia. This study differs from those of previous in Saudi Arabia as per variables considered to be determining dividend policy.

1.2 Problem Statement

Ownership structure of listed organizations operating in Middle East and North African (NEMA) region remained either in the hands of concentrated, government, or institutional investors whereas diverse ownership has been discoursed in the history. This change in composition of ownership structure has possessed serious challenges in executing corporate policies especially related to dividend payout. Nader (2010) reported that ownership structure as mentioned above is an attempt to avoid or reduce the agency problem. Dividends is the reward to the shareholders for bearing the risk, however, dividend distribution, announcement is at discretion of management, is not mandatory for all companies but ownership structure significantly effects management's intention to announce dividends. Again, frequency (quarterly, semiannual, or annual) and amount (percentage of profit, specific amount/share) of dividend declared is important in this aspect. Therefore, Nenova (2005) highlighted that in corporate governance regulation of Saudi Arabia special consideration has been given to the disclose of ownership structure and non-financial matter. Nader (2010) investigated the dividend paying pattern of firms in NEMA region and found that economic activities in the region is stagnant and firms normally pay lower dividends. However, author found that firms with concentrated especially family ownership are performing so well and paying high dividends.

Numerous factors like agency cost, investment opportunities, existing capital structure, dividend tax rate, preferences of investors, and ownership structure especially effects on dividend payout decisions. However, Mohammad (2011) found that only firm size, board size, and institutional investors are significant factors for dividend policy and payout ratio in Saudi Arabia. As Saudi companies has seen a dramatic shift in their ownership structure during last decade that will significantly effects the dividend policy and payout ratio which is the focus of this study. Stringent governance measures are important to boost the confidence of investor. However, Saudi Arabia is lacking behind in this concern. Majority of either study that has been conducted on the topic of governance focused on developed or transitional economies while emerging economies like Saudi Arabia remained ignored.

Furthermore, market models significantly effects on dividend payout, for example, in case of monopoly, as there is no competition in market and these firms are enjoying maturity where there are few investment projects are available, they distribute higher dividends as compared to other market model firms. In addition, on the issues of competition, it is opined that more pressure will be on local firms to raise the standard of their produce to international level whilst maintaining competitive pricing policies (Alsaleh, 2007). According to the best knowledge of author, not even a single study is available for the Saudi Arabia, which explored the relationship of market power on dividend decision among firms beside other governance factors. In addition, the results from previous studies are inconclusive and mixed. These studies are limited in emerging countries. Therefore, this study attempts to extend and contribute to existing literatures by investigating managerial ownership, individual ownership, concentration ownership, foreign ownership, and market power on dividend policy in listed companies in Saudi Arabia with emphasis laid on manufacturing companies.

1.3 Research Questions

The study attempts to answer the following questions:

1. Do managerial, individual, concentrated and foreign ownership affect dividend policy of the company?
2. Does Market power affect dividend policy of the company?

1.4 Research Objectives

1. To examine the relationship between individual, concentrated, managerial, foreign ownership and the dividend payout of the company.
2. To examine the relationship between market power of the company and the dividend payout of the company.

1.5 Significance of Study

The significance of this study is to find out on how corporate management should decide on the dividend policy and what should be considered before they make any decision. In Saudi Arabia, there are few studies, which investigate the relationship between ownership structure and dividend policy. It is important to address the relationship separately because of the variety of owners in Saudi firms, for example (managerial individual and foreign ownership). These types of owners may have different preferences for dividend payouts (Maruy & pajuste, 2002). Aside from this, there are limited studies conducted in Saudi Arabia that examine the effects of market power of the firm and dividend decision. Therefore, this study will broaden literatures on dividend payout performance in Saudi Arabia, and support the existing literatures on the finance area generally, and dividend theory specifically.

In other words, study on dividend performance can provide guideline that will be of help to the investor, in making accurate decisions likewise the management in making good decisions per dividend payout. Lastly, this study will provide useful evidence to academician and future investigator who wish to investigate related issues.

1.6 Scope of Study

For this study to be conducted, this study focuses on manufacturing that is, firms listed in Saudi Stock exchange. With the exclusions of non-listed firms, reason being that it is difficult to obtain data for these companies. As of the time of this study, there are 76 manufacturing companies listed on Saudi Stock Exchange. Of these 76 firms, 49 manufacturing firms ended up to be a sample. Having in mind that this study focuses on four types of ownership structure which are: managerial, individual, concentrated and foreign ownership.

1.7 Organization of Study

The paper consists of 5 chapters, Chapter one entails the introduction, focusing on the background and overview of the study, problem statement, research questions, research objectives, significance and scope of study. Chapter two describes about an overview of Saudi Stock Exchange, likewise introducing the background of the existing studies that relates to the dividend payout character and also, a review of the conclusions of the former empirical studies on the association between dividend policy and four (4) types of ownership structure. In addition, reviewing related literature pertaining to the relationship between firm's market power and dividend policy. Third chapter consists of research methodology adopted, presents data and the framework of analysis employed in this study. Chapter four provides about the empirical analysis employed as well as the investigated findings of the study. Chapter five presents the least summarize the observations, as well as suggesting useful recommendations for future studies.

CHAPTER TWO

LITERATURE REVIEW

This chapter provides an overview of Saudi Stock Exchange, and a review of the findings of the previous empirical studies on the relationship between dividend policy and four types of ownership structure, namely, (managerial, individual, concentrated and foreign ownership) in addition, review the related literature on the relationship of firm's market power and dividend policy.

2.1 Saudi Stock Exchange

Saudi Stock Exchange (SSE) started their operations in 1985, which means that it is still in its early stage of development (Al-Razeen & Karbhari, 2004). Around 25% of the NEMA's Gross Domestic Product (GDP) belongs to Saudi Arabia and it is 25th largest importer of consumer and capital goods in the world. So far, Saudi government has established policies to boost the confidence of domestic and foreign investors and provide a business friendly environment to both. SSE is able to secure top position in terms of largest market capitalization in the region, whereas it is the eighth position in emerging market, and worldwide, SSE ranked at 23rd (Alsaeed, 2006). The government established Capital Market Authority (CMA) because of rapid growth in SSE and increasing share of stock market into the Saudi's GDP.

This newly established organization has been given the task to not only protect the investors from fraud but also promotes fair-trading, transparency, and complete discloser of facts. Corporate governance mainly focus on issues like management accountability, resources allocation, proper and timely discloser of corporate information, directing and terminating the underperforming management, improving financial/non financial performance, transparency, shareholder activism, minority investor protection, and building long-term relationship with the stakeholders. To achieve the earlier mentioned (management accountability, allocation etc) objectives, SSE imposed a condition on every organization that is raising money via stock exchange that they must issue a prospectus containing the details of directorship, nature of the company's operations, number and value of shares, auditor committee, and other material issues. Furthermore, corporate governance law was promulgated in 2006 by the board of Capital Market Authority, later on it was amended in 2010, in order to improve the regularity issues related to listed companies, for example, completeness and fairness of the financial statements, number of directors, dual directorship etc, which will improve the overall efficiency and confidence of stakeholders as well.

2.2 Dividend Payout

Dividend was defined in a simple word as a percentage of earnings that is paid to shareholders. Dividends are a central piece in corporate finance because equity investors receive their payoffs as dividends. The market value of a share is the discounted value of the expected cash-flows in the form of future dividends that the owner is entitled to receive. However, these dividends are uncertain. Every year there will have to be a decision on which percentage of net income is reinvested in the firm and which percentage is paid out as a dividend. Reinvesting income results in lower current cash-flows, but in the expectation of higher future cash-flows. Therefore dividend policy is a key determinant of equity value and firm value (Saez & Gutierrez, 2015).

Dividend policy is important to attract and retain shareholders as well as for management. Al-Gharaibeh, Zurigat, and Al-Harahsheh (2013) point out that since the year 1960, dividend policy was thought as a unique puzzle to the organization. Management of the companies paying dividend need to ask questions like this, how much should we pay, should we have ability to pay it on regular bases etc. In addition, Al-Gharaibeh, Zurigat, and Al-Harahsheh (2013) also have mentioned that, based on the majority economists, they suggest that the investor should not only focus on whether a firm pays dividends or otherwise. This is because the investor already owned the firm by investing in that firm and they will just either obtained the dividend or just invest it back in the firm business. A study by Ullah et al. (2012) has suggested that dividend payment that announced by a company could create agency issue. This might be due to that now managers are more concern to reinvest the resources rather than pay the dividend to shareholders. They opt this reinvestment (growth strategies) because this will increase the size of company, power, and control on the organization. However, shareholders normally prefers dividends because if profits are reinvested then they have to wait longer for higher return on equity in the form of dividend or capital gain, the managers might change their goals toward the benefit which only for management. Here, agency conflict will occur as the goal of managers and shareholders are divergent. On the other hand, Easterbrook (1984) claimed that, dividends play an important role to control the agency problem between manager and shareholders.

Dividend is an important corporate decision what somehow represents performance of company. For instance, Al-Shubiri, Al-Taleb, and Al-Zoued (2012) said that decisions to pay the dividend is one of the fundamental items in corporate policy and at the same time, one of the important issues in financial research literature. The dividend is a reward to the shareholders for their fund invested and for risk bearing. However, several factors effects on dividend payout decisions. Amount of dividend paid can be viewed as a benchmark by the investors to judge company's performance. A study conducted by Alias, Rahim, Nor, and Yaacob (2013) stressed that dividend payment has a long relationship to the firm's profitability and also the performance matters. Likewise, Murekefu and Ouma (2013) found that the major factor, which has affected the performance of one company, is the dividend payout. Therefore, managers need spend more time to decide about the dividend payout because it shows the level of a company's performance to the new investors.

2.3 Ownership Structure

The ownership structure can be defined in terms of voting right, capital investment, and identity of the equity owners. These structures are of special concern in case of corporate governance because it determines the incentives of managers and thereby the economic efficiency of the corporations they manage (Hu & Izumida, 2008). Ownership structure is a mechanism that aligns the interest of shareholders and managers (Al-Amarneh & Yaseen, 2014). Agency problem largely depends on ownership structure, for example, dispersed owners with little stake in organization does not bother to strictly monitor the actions of managers. On the other hand, large investors having greater stake in organization are more interested to monitor management via representation in board, but there arise another agency problem then between large and minority shareholders (Desender, 2009). At the same time, it will be higher even in widely held organization as well because of the dispersed owners (Maury & Pajuste, 2002).

Percentage of shares owned decides the ownership and legal structure of firms. Accordingly, there are several types of ownership, such as management and/or board ownership, family, government, foreign, individual, and institutional ownership. Under the principle of legal separate entity, the owners do not manage the day-to-day operations of firms. Rather, they are appointing the board of directors to formulate and implement the policies and monitoring the performance of the firm (Almudehki & Zeitun, 2012).

Numerous studies have been conducted to explore the nature of ownership structure in Saudi Arabia. For instance, Al-Tonsi (2003) concluded that despite the fact Saudi Arabia is an open economy but still majority (approximately 75%) of the companies are owned and controlled by few families. A similar study by Al-Harkan (2005) reported that majority of firms in Saudi market are owned and controlled either by family or state itself. However, after becoming the member of World Trade Organization (WTO) in 2005, Saudi Arabia has implemented several structural and legal legislations to improve and attract the investment culture in the country, for example, corporate governance law 2006. As a result, ownership structure of SSE listed companies saw a shift from concentrated and state ownership towards diversified and diluted one.

2.3.1 Managerial Ownership

Managerial ownership can be defined as the proportion of stock that owned by the manager and the board of directors from the total outstanding shares in the company for that year (Mehrani, Moradi, & Eskandar, 2011). While Zabihi and Ghaleb (2013) defined managerial ownership as the number of shares that owned by the directors and divided by the total number of shares issued by the company.

In relation to the theories, the agency theory and the signaling theory tend to be applicable when discussing the impact of managerial ownership type of corporate structure on dividend payout policies. The agency theory represents the conflict of interests between shareholders and managers of firms (Jensen & Meckling, 1976; Eisenhardt, 1989). Firms controlled by managers tend to prefer different dividend payout plans than firms controlled by external investors. Managers tend to favor lower dividend distributions and retained earnings, to use them for future investments or on their personal interests, as opposed to individual owners who favor high dividend distributions to reduce the excess cash flows at the managers' disposal for monitoring purposes (Jensen, 1986). Similarly, if management controlled firms intend to send signals of high corporate performance to shareholders, regardless of whether these signals are fake and misleading to receive bonuses or comfort external shareholders, or not, they choose to maintain high dividend payout levels (Li & Zhao, 2008). Therefore, dividend payout policies tend to affect the company's image as it sends signals to external shareholders.

Dividend policy of a firm largely depends on the ownership structure of the firm. For instance, according to agency theory, management tries to reinvest the profit for the sake of growth of company, control, and power. Therefore, dividends payments in the companies with higher managerial ownership will be lower than companies others. According to Jensen (1986), there is a significant negative relationship between the managerial ownership type of corporate structure and dividend payout policies. Jensen (1986) explained that managers prefer retaining the earnings rather than distributing dividends to shareholders, as they come to use the company's resources for future investments and capital growth of the firm, alongside their personal benefits. This implies a negative relationship between the managerial ownership type of corporate structure and the dividend payout policies. Eckbo and Verma (1994) also showed that as the power of managerial ownership increases, dividends tend to decrease. They argued that firms which are controlled by managers and where managers have absolute voting power, there are no dividends distribution, zero cash dividends.

Chen et al. (2005) also showed a negative relation between managerial ownership and dividend distributions and further argued that managerial ownership has a negative association with the overall firm performance in Hong Kong, which does not only result in lower dividends but in lower profits of the company as a whole. Short et al. (2002) also found a negative relation between managerial ownership and dividend payout plans. Also, Wen and Jia (2010) found that both managerial and institutional ownership have negative association with dividend payout policies, especially where companies are controlled by banks, as a unique type of institutional ownership. It was also argued that managerial ownership negatively impacts the dividend payout plans and the company's debt, as managers retain the earnings which tends to lower their need for external borrowings for funding the firm's projects (Jensen et al.,1992). Mehrani et al. (2011) also support the negative association between the managerial ownership type of corporate structure and dividend payout policies.

A study carried out by Abdelsalam, El-Masry, and Elsegini (2008) investigated the relationship between management ownership structure and dividend policy for the Egyptian listed companies and they claimed that increasing managerial ownership will not reduce agency problem. Authors found a negative relationship between managerial ownership and the dividend payout. Putting it other way, large percentage of managerial ownership lower will be dividend payout. Another study by Hafza and Mirza (2010) that studied about dividend payout in the emerging economy of Pakistan has revealed that there is significant but negative relationship between managerial ownership and dividend payment. The study also has mentioned about the management practices in

Pakistan that were not efficiently controlled by corporate law authorities of the country. That could be the reason that the corporate managers usually have a greater interest to increase funds under their control and to distribute low dividend payouts in the company. A similar nature of study conducted by Al-Gharaibeh et al. (2013) also explored the ownership structure and dividend payout decisions for emerging market. The study found a negative relationship between managerial ownership and dividend payout by using the Partial Adjustment Model.

In addition, Ullah et al. (2012) also investigated the factors effecting dividends payout decisions. In the context of agency relations, corporate dividend policy can give a greater impact on the sentiments of the shareholders. Their study proposed that between the dividend payout ratio and the managerial share ownership, there was a negative relationship. It means that, the higher the percentage of the managerial ownership held in the firms, the high probability that dividend payout will become lower. The study also mention that the reason of a negative relationship between managerial ownership and dividend payout was because of an increase in the managerial share ownership that was used as internal governance mechanism information the behavior of the firm manager. Later on, a study by Zabihi and Ghaleb (2013) studied the relationship between profitability and dividend policy for companies listed on Tehran Stock Exchange. They also confirmed the aforementioned negative relationship between dividend policy and managerial ownership.

Hu and Izumida (2008) indicated that high level of managerial ownership, which also insider ownership helps align the interest of managers and shareholders that were resulting in a good performance of the companies. Besides that, the study also mentions that high level of managerial ownership increases the probability that the manager devotes significant effort to create a creative activity from misuses the corporate resources in the company. In addition, Wang (2003) also studied the ownership structure and firm performance for the Taiwan's listed companies and concluded that there is negative relationship between ownership structure and firm's performance for the listed and OTC manufacturing companies in Taiwan. Furthermore, contrary to the findings of Abdelsalam, El-Masry and Elsegini (2008), Wang (2003) suggested that when the number of managerial ownership in the companies increases, it decreased conflicts that occurred between managers and shareholders. Wang (2003) emphasized that increasing percentage of ownership will induce management to invest in more profitable projects rather than merely increasing the size of company. In addition, Cui and Mak (2002) studied the relationship between managerial ownership and dividend payout and concluded that performance of firms in their study was changed when the managerial ownership was charged. It means that, there was a positive relationship between managerial ownership and firms' performance in U.S market: NYSE, AMEX and NASDAQ.

In a previous research paper that investigated on the issue of managerial ownership and performance in companies have concluded that in his analysis, managerial ownership have influenced the performance of the companies. He also suggested that a company that has a higher number of shares that owned by their managers do well in their business. The reason was the managers should protect and secure their company's performance in order to attract new investors and customers (Mueller & Spitz, 2004).

2.3.2 Individual Ownership

Individual ownership measures the proportion of shares owned by the individual from all the shares outstanding. Under dispersed ownership structure, individuals are unable and unwilling to monitor the activities of management because of little share in the company. Therefore, agency problem is very high in case of individual ownership and management will try reinvest majority of the profit earned. The agency theory tends to be very relevant to the individual ownership type of corporate structure. External individual investors have conflict of interest with the management of the firm, as a result of the separation between the ownership and control of the firm (Jensen & Meckling, 1976). As a result, to resolve this conflict of interests between the principles and the agents, dividend payout policies act as a monitoring tool to align the interests of managers with those of the shareholders', as excess cash flows are distributed to shareholders in the form of dividends, instead of remaining at managers' disposal (Jensen, 1986). Therefore, dividends distributions restrict managers from spending the excess cash flows on their personal interests and hence, help maximize the value of the firm and the shareholder wealth. Using dividends, to resolve the conflict of interests presented by the agency theory, tend to be useful under the signaling theory as well. The signaling theory suggests that dividend payouts may act as a monitoring device to control management practices and to send signals to external shareholders about the health of the company and its financial position (Miller & Rock, 1985). Therefore, these two theories tend to be correlated and are in effect in relation to the impact of external shareholders on dividend payout policies. Shareholdings held by individuals have an impact on the dividend payout policies. According to Khan (2005) it is difficult to distinguish between inside and outside individual shareholdings- managerial and external shareholdings- in some datasets. He suggests that external individual investors, who have strong motives to monitor and enough voting power to limit managerial actions, tend to have lower agency costs and hence, prefer lower dividends. These individual shareholders tend to have a tax bias in favor of retentions, as they get to increase their capital gains and maximize the value of their shares without having to pay higher taxes on their dividends annually (Khan, 2005).

According to the study of Thanatawee (2013), that studied the relationship between ownership structure and dividend policy for Thailand's listed companies, there is significant but negative relationship between individual ownership and dividend payout decision. Putting it differently, higher the number of small investors in a company lower will be the dividend payments. In the same study, he pointed out that when an individual investor appeared as major shareholders, they turned to extracted private benefits by not distributed it to minority shareholders in the companies. Another study by Zabihi and Ghaleb (2013) explored the same relationship for the listed companies on Tehran Stock Exchange from different sectors. Authors found that there is a negative correlation between individual ownership and the division policy of the firms. Similarly, Hafza and Mirza (2010) also studied the same relationship and found that individual ownership has negative correlation with dividend payout. They pointed out this negative relation is because of high tax rate for dividend payments whereas tax rate for capital gain is much lower. In addition, they highlighted due to lower tax rate for capital gain, investors will frequently sell their shares.

Furthermore, a study by Khan (2005) investigated the ownership characteristics of firms towards the dividend behavior of firms in UK over a period of 1985-1997. Result from the study point out that individual shareholder in the firms sample was negatively correlated with the dividend payout of the firms. The study also mentioned that the negative relationship between individual ownership and dividend payout is because of growth following policies of management. In addition, the previous research by Ehsan, Tabassum, Akram, and Nasir (2013) also studied the relationship between individual owners and dividend payments for the KSE (Karachi Stock Exchange) 100-index non financial firms over the period of 2007 to 2011. They found that individual ownership is negatively significant with the dividend payout for non-financial firms. It means that, the more individual ownership held the shares in the company, the lower dividend payout was distributed by the company. Wei et al. (2003) also reported a negative relationship between individual ownership and dividends in Chinese firms.

On the contrary, Jensen (1986) does not support this relationship. He explains that the existence of free cash flow causes high agency costs because it creates a conflict of interest between the management and shareholders. This free cash flow may lead managers to undertake sub-optimal or worthless investment projects or to use this cash for their personal benefits. Hence, to reduce the cash flows available in the hands of managers and reduce agency costs, Jensen (1986) suggests that it is better to distribute the excess cash to shareholders in the form of dividends, in order to reduce the possibility of these funds being wasted on unprofitable projects or being used for the management's own benefit. An empirical analysis of non-listed companies on Norwegian small and medium-sized enterprises by Paivi (2007) found contradicting results that individual ownership influenced firms' performance as it contributed to the outstanding profitability than institutional ownership that evidenced from Norway companies. In addition, Jainn (2007) found that individual investors prefer to invest in high dividend yield stocks and in dividend paying firms, suggesting that higher-taxed individual investors are found to prefer high dividend yield stocks and individual investors do not prefer share repurchases. Similarly, A recent study by Safdar et al. (2014) that investigated the relationship of ownership structure and dividend policy, using samples of 18 companies listed on Karachi Stock Exchange selected from cement industry of Pakistan from 2008 – 2012.The multiple regression model was used to regress the explanatory variables. Their result revealed that there was a positive significant relationship between individual ownership and dividend policy, suggesting that the firms with high individual ownership pay high dividend to their investors.

2.3.3 Concentrated Ownership

The number of shares held by the top five shareholders measures the concentrated ownership structure. All the important corporate policies and decision especially dividend payment will be on the discretion of concentrated person. Furthermore, concentrated ownership can improve the overall monitoring of the management to reduce the cost of agency problem. Similarly, management will act to ensure the interests of those few influential shareholders and might ignore or even damage the interests of small investors (Ullah et al. 2012).

Under concentrated ownership structure, dividend payments will be higher than any other ownership structure because these owners want a constant stream of cash. Ramli (2010) conducted a study on Malaysian listed companies and found that there is positive relationship between concentrated ownership and dividend payout. Putting it in another way, concentrated owners has more influence on the dividend policy. Therefore, they declare higher dividend. Leal and Carvalhal-da-Silva (2004) also support the idea that when ownership is concentrated, minority shareholders tend to face a high risk associated with the concentrated ownership owning a huge amount of the company's shares, as well as having the power to implement their own interests and influence managerial decisions.

Kouki and Guizani (2009) carried out study on Tunisian companies concluded that under the concentrated ownership structure, dividend payout will be higher than any other ownership structure. According to the study by Thanatawee (2014) that examined relationship between ownership structure and dividend payout policy over the period 2007-2011, for 875 listed companies at Shanghai Stock Exchange. He argued that majority of the Chinese firms are owned and controlled either by concentrated. The results showed that ownership concentration has positive impacts on both the likelihood that firms pay dividends and the magnitude of dividend payouts, indicating that the ownership concentration can be beneficial to minority shareholders in terms of dividend payments. Abdullah et al. (2012) investigated the relationship between ownership structure and dividend policy of Malaysian listed companies for the year 2010 utilizing full and partial adjustment models for a sample of 100 listed firms. Results obtained from both of these models confirmed that concentrated ownership has positive and statistically significant relationship with dividend payouts.

On the other hand, concentrated ownership can negatively influence on dividend payment in case if these concentrated owners have growth following mindset. For higher future earning, they can postpone their current cash payment that is in the form of dividend. For instance, Maury and Pajuste (2002) argued concentrated owners generally prefer growth strategies, which requires re-investment of profits into firm, rather than paying high dividends. Therefore, there is negative relationship between concentrated structure and dividend payout. Gugler and Yutoglu (2003) observed a negative relationship between ownership concentration and dividend payouts in Germany, so the concentrated ownership type of corporate structure tend to prefer lower dividend distributions. Similarly, Trojanowski (2004) found that the existence of large block-holders, or high concentration of ownership, tends to weaken the relation between the firm’s earnings and their dividend payout ratios and hence, results in a negative relationship between the concentrated ownership and their dividend distributions. Stacescu, Berzins and Bohren (2012) also found that private block-holders tend to have a negative influence on the firm's cash dividends.

Another study by Renneboog and Trojanowski (2007) reported that concentration of large ownership weakens the relationship between the earnings and dividend payout. In addition, Harada and Nguyen (2011) also studied two agency-based hypotheses for the Japanese firms regarding the effect of concentration ownership structure on dividend payout policy utilizing level regressions. Different measures of dividend payout were used to ensure the robustness of results. They found that ownership concentration was associated with significantly lower dividends in proportion to earnings as well as relative to book equity, suggesting that firms with concentrated ownership were less likely to increase dividends when earnings increased or when debt decreased. Followed the studied by Gonzalez and Rosso (2014) that studied the effect of ownership concentration on dividends using a unique sample of Latin American publicly-traded corporations during the period 2007 – 2013. They used Univariate analysis, OLS, and panel data regressions. Their result showed that ownership structures highly concentrated, and the presence of an individual or family-related largest shareholder is associated with a strong, negative, and a significant effect on the level of dividends paid. This is consistent with insiders extracting private benefits at the expense of minority shareholders.

2.3.4 Foreign Ownership

Percentage of shares owned by the foreign investors and normally invests dividend-paying firms. Foreign investors strictly monitor the actions of management and take keen interest in the corporate decisions especially dividend related. Chai (2010) emphasize that this will significantly affects the dividend payout policy of firms. In addition, Baba (2009) also explored the relationship between foreign ownership and dividend payout policy for Japan. Results showed that there exist positive relationships between foreign investor's ownership and dividend policies of the firm. In the same manner, study of Jeon et al. (2011) again study the foreign relationship for the Korean Stock market and found that firms paying higher dividend will attract large number of foreign investors. In addition, Cook and Jeon (2006) investigated the relationship between ownership (foreign and domestic) and firm's dividend payout policy. They highlighted that larger foreign ownership has positive relationship with dividend, and domestic intuitional investor does not play any significant effect on firm's payout policy. Therefore, they emphasized that foreign investors act as active monitors of corporate by reducing agency problems while improve the level of payouts.

Manos (2002) had investigated the agency theory of dividend policy in the context of an emerging economy, India. He had modified the Rozeff's cost minimization model by introducing a business group affiliation namely foreign ownership, institutional ownership, insider ownership and ownership dispersion as a proxy for agency cost theory. The results reveal a positive impact of all business group affiliation to payout decisions. The positive relationship between foreign and payout indicates that the greater the percentage held by foreign institutions, the greater the need to induce capital market monitoring. Besides that, capital market monitoring is also important when the dispersion of ownership increases since the more widely the ownership spread, the more acute the free rider problem, hence, the greater need for outside monitoring. Further, the evidence of a positive relationship between institutional and the payout ratio is consistent with the preference for dividends related prediction.

Ullah et al. (2012) explored the determinants of the corporate dividend policy in the context of the agency relation utilizing stepwise multiple regressions via random sample of seventy firms form the period of 2003-2010 for Karachi Stock Exchange KSE-100 index. Results reaffirms that there exist positive relationship between foreign investors and dividend payout policy. In addition, they claimed that this will lower the agency problem because having a large dividend payout will reduce the funds available for reinvestment, hence, a reduction in agency problem. At the same time, attitude of the foreign investor can be as growth investor. However, negative relationship also found in the previous studies. For example, Lam and Zhou (2012) explored the relationship between type of ownership and dividend payout policy. They found a significant difference (paying less as dividend to shareholders) for the dividend payout among firms having foreign shareholders and operating in multiple countries at the same time. On the other hand, firms under the ownership of state or individuals are more likely to pay large dividends payout. Therefore, firms having foreign investors and cross-listing might negatively effects on dividend payout policy. Followed the study by Al-Amarneh and Yaseen, (2014) that investigated effects of corporate governance practices on dividend payout policy over the period 2005-11 for Amman Stock Exchange (ASE), Jordan. The results also revealed that foreign investors are growth investors (one possible reason for this reinvestment might be higher tax rate on dividend as compared to capital gain) they prefer to reinvest business profit for higher future earnings.

2.4 Market Power

Market power is defined as a company’s ability to manipulate price by influence an item's supply, demand or both. A company with market power would be able to affect price to its benefit. Firms with market power are said to be price makers as they are able to set the price for an item while maintaining market share (Investopedia, 2013). Market power of a firm can be determined by its ability at the profit-maximizing output level to influence a product price over its marginal cost. Moreover, having the capacity to somewhat influence its product price, the firm becomes strong enough to stabilize the flow of its operating income in the face of exogenous economy-wide or firm-specific shocks to which it is exposed in a market (Booth & Zhou 2015).

The market power results in reduction of a business risk to which a firm is exposed in a specific industry, producing a lower idiosyncratic or systematic volatility of stock returns as a result. A more critical description would suggest that the market power of a firm specifies its ultimate potential to exploit consumers and misallocation of resources due to the absence of healthy competition (Booth, & Zhou, 2008). Several theoretical and empirical studies investigated the impact of firm's market power on its risk. An early empirical study by Sullivan (1978) reported a negative association between market power and the CAPM beta. He documented that a firm enjoying market power is able to absorb major changes in political, social and economic events, and hence has less exposure to systematic risk. This idea is formalized by Subrahmanyam and Thomadakis (1980) and Booth (1981) who examined the impact of price uncertainty on a firm's cost of capital. Firms with market power face finite price-elasticity of demand; the economic charges generated from the most constructive output decision allow the firm to mitigate the impact of economy-wide distress. Gaspar and Massa (2006) find that firms with higher market power have lower idiosyncratic volatility. Their explanation is that market power can help a firm hedge the firm-specific shock from its product market and/or reduce the information uncertainty faced by its investors. Irvine and Pontiff (2009) document that the increase in idiosyncratic return volatility over the past four decades is associated with a concurrent increase in the idiosyncratic volatility of fundamental cash flows, while the latter is closely related to intense competition caused by deregulation and globalization.

Risk has always been an important determinant of dividend policy. The field survey conducted by Lintner (1956) shows that conservative managers usually are reluctant to increase dividends that will subsequently have to be reversed due to negative cash flow shocks. Further, Baker et al. (1985) found in a survey of NYSE firms that the most important determinant of dividend policy is the anticipated level of a firm's future earnings. More recently Brav et al. (2005) found around 67% CFOs of the dividend paying considers stability of earnings as the most prominent factor in formulating their dividend policies. Later on, Brav et al. (2008) conducted a survey based research to point out important factors affecting dividend policies of a firm. They concluded that rate of tax and earnings stability are the most important factors in this regard.

The existing literature clearly states that there is a strong association between risk and dividend policy of the firm. Consequently, a firm's market power should influence its dividend policy through its impact on business risk. Several recent empirical studies investigated the association between the firm's market power and dividend policy. Khan et al. (2014) investigated the relationship between dividend policy and market power, using a sample of 178 firms from the Malaysian industrial sector. Their study used three measures of market power, the degree of import competition, the Lerner Index and the Herfindahl- Hirschman index and concluded that market power contributes positively in dividend policy of the firms. Their study provided evidence that it's the business risk through which market structure influences the dividend decision. Firms with lees market power are exposed to high levels of market risk and are less likely to pay dividends than firms with high market power.

Mature firms pays higher dividend because of little further expansion. A study of Obembe et al. (2014) explored the effect of product market competition on the dividend policy for the non-financial firms listed on the Nigerian Stock Exchange. They concluded that market power has significant and positive effect on dividend payment.

On the other hand, market competition has negative effect on dividend payout of firms in Nigeria. Followed the studied by Booth and Zhou (2015) that investigated how and why a firm's market power affects its dividend policy. They used three measures of market power; Herfindahl-Hirschman index, the degree of import competition, and Lerner Index to examine how a firm's product market power affects its dividend policy. Their study showed that market power positively affects the dividend decision, in terms of both the probability of paying a dividend and the amount of dividend payment. They also provided evidence that the route through which market power affects the dividend decision is business risk. Firms with less market power are riskier and hence less likely to pay dividends than firms with more market power.

However, negative results of the relationship between market power and dividend have found in some previous studies. He (2012) investigated whether product market competition reduces agency problems between controlling shareholders and minority shareholders in Japan. He measured Product market competition by the reciprocal of market power. The researcher found competition significantly effects the dividend payout policies and the vice verse. In addition, they found that the impact of firm-level agency problems on dividend payouts was weaker in highly competitive industries, suggesting that product market competition can be an effective industry-level governance mechanism that can force managers to disgorge cash to outside investors.

2.5 Control Variables

The control variables are the variables that could influence the relationship, but not the area of interest to be studied by the researcher. Previous researchers also incorporated control variables in their studies on the dividend policy (Alzomaia, & Al-Khadhiri, 2013; Thanatawee, 2013; Malik, Gul, & Khan, 2013; Warrad, Abed, Khriasat, & Al-Sheikh, 2012; Boamah, Richard & Opoku, 2014). Similar to previous studies, this study use firm profitability and firm size as the control variables.

2.5.1 Profitability

The term profitability measures the power of profit generation of a firm and might be an important factor in influencing the size of cash dividend payments of Saudi industrial firms. A firm having a policy of paying out more dividends to its shareholders in the long run must occupy substantial profits since it is a distribution of a portion of a company's net earnings (profits). The findings of many studies revealed a significant effect of profitability on dividend payments (Musiega et al., 2013; Boamah,et al., 2014; Alzomaia, & Al-Khadhiri, 2013; Okpara & Chigozie, 2010; Mehta, 2012).

Ling et al. (2008) studied the profitability as a function of dividend payout ratio in Malaysia and used sample consist of 100 firms are listed on Bursa Malaysia. They used return on assets and return on equity as parameters. They pointed that ROE and ROA have strong relationships with a dividend payout ratio. Another study by Boamah, et al.

(2014) conducted a study to examine the industry sector determinants of dividend policy and its effect on share prices of companies listed on the Ghana Stock Exchange (GSE) for the period 2006-2011. Their findings show that Profit After-Tax happens to be a key variable that is considered by most sectors in paying their dividend, suggesting that Profitability is a key determinant of dividend policy of companies across the various sectors on the GSE.

Another study by Musiega et al. (2013) examined factors effecting dividend payout policy for Nairobi Securities Exchange utilizing purposive sampling over the period of 2007-11 for non-financial firms. The researchers used descriptive statistics and multiple regressions to explore relation between dividend payment and selected factors. Current earnings were found to be positively correlated to dividend payout. Following a study by Alzomaia, and Al-Khadhiri (2013) studied firms on Saudi Arabia stock exchanges the findings showed that earnings per share was significant and had a positive relationship with dividends per share, suggesting, when firms increase their profitability, dividends per share increase. Mohammed and Mohammed (2012) in their research on a worthy factor affecting dividend policy decisions an empirical study on industrial corporations listed on an Amman stock exchange, found that profitability shown by earnings per share (EPS) has the highest effect on dividends and it was significant.

However, the study of Amidu and Abor (2006) concluded that there exist significant negative relationship between profitability and dividend payout. Therefore, firms try to reinvest their profits into business rather than paying as dividend. This results have supported by Okpara and Chigozie, (2010) who found that when a firm's profits are increased then dividends are affected negatively, suggesting that firms invest their surplus earnings in their growth rather than distributing dividends. On the other hand, Mehta (2012) studied UAE companies for the years 2005 to 2009 and concluded that the profitability of the firms as measured by ROE has a negative relationship with dividend payout, which indicates that the most profitable firms pay less dividends. Profitability measured by ROA and EPS is negatively associated with the dividend payout ratio, but the results are not statistically significant.

2.5.2 Firm Size

Large firms are more likely to have lower growth opportunity than small firms since it is expected that large firms have already discovered and utilized its all potentiality that results in the benefits of diversification come through more stable or less volatile cash flows, less often fail, and economies of scale in some aspects and substantial earnings. Several empirical studies have argued that size of the company is one of the factors that have the largest influence on the dividend payout ratio. (Abor & Fiador, 2013; Hashemi & Zadeh, 2012; Thanatawee, 2013; Malik, Gul, & Khan, 2013; Warrad, Abed, Khriasat, & Al-Sheikh, 2012; Al-Gharaibeh et al., 2013; Hafza & Mirza, 2010; Setiawan & Phua, 2013).

According to Mansouriniaet et al. (2013) that studied the firms of the Tehran Stock Exchange, found that there was a significant and positive relationship between the variables of firm size and dividend performance at error level less than 1%. In the previous study by Abor and Fiador (2013) the researchers found that only firm size was significantly and positively related to the dividend payout. The study also mentioned that large firms in a country were often held a stable cash flow to pay higher dividend to shareholders. In a situation where large firms have low development in future growth opportunities, more dividend payments would be a better option for the firms because it would not be a good way to retain profits for future investments. Study by Hashemi and Zadeh (2012) that studied on Tehran stock exchange found that there was a positive relationship between the firm's size and dividend payment. The reason mentioned by the researcher is the largest firm size held a good capital market that makes them easier to pay more dividends to the shareholders of the firms with increased the cash and decreasing the costs.

According to the study by Al-Nawaiseh (2013) on the firms in Amman stock exchange found that there was significant and positive relationship between firm size and dividend policy, which indicates that large firms are more able to pay dividends to their shareholder. The same result also have been found in the study by Thanatawee (2013) in a sample firms of Thailand with the positive coefficient and also suggested the same reason that firm with larger size tend to pay high dividends. Another previous by Malik et al. (2013) stated that firm size was related to the dividend payout and has a possibility to influence the manager's decision regarding the dividend payment to the investors. Thus, the similar result also found in the study by Warrad et al. (2012)

stressed that company size will have a positive relationship with the company in industrial public shareholding company in Jordanian.

On the other hand, the result was contrary to the study by Bokpin (2011) that found that firm size was statistically significant negative relationship with the dividend policy in the firms on the Ghana stock exchange. A study by Setiawan and Phua (2013) found that there was a negative relationship between firm size and dividend. It means that, firm size does not affect the dividend policy in Indonesia. The research concluded that, there was no difference between big and small firm in term of dividend payment to the shareholders in that study. Another previous study by Hafza and Mirza (2010) supported that firm size having a significant negative relationship with dividend behavior of firms in Pakistan. The study also mentioned that, large firm size preferences have been found to pay lower dividends than small companies. The situation might be because the larger firm size was preferred to keep the cash for reinvesting in assets, whereas smaller companies try to gain investors' attention to improve the demand of their shares by not fail to pay dividends to their shareholders.

Other than that, in the study by Al-Shubiri, Al-Taleb, and Al-Zoued (2012) who's examined the payout behavior of dividend for Jordanian industrial firms revealed that firm's size show a negative and significant effect of the dividend and also mention that larger firms are less likely to pay out dividends. Another study also reveals the same result which is the study by Ullah et al. (2012) that study the corporate dividend policy on firms in Karachi Stock Exchange. It also has been supported in the study by Al-Gharaibeh et al. (2013) that study of firms in Jordanians corporation companies. However, contrary result in the study by Adil, Zafar, and Yaseen (2011), that has found the insignificantly correlation between firms size and dividend payout for firms in KSE 100 Index in order to observe the profitable performance of the firms.

CHAPTER THREE

HYPOTHESIS DEVELOPMENT AND METHODOLOGY

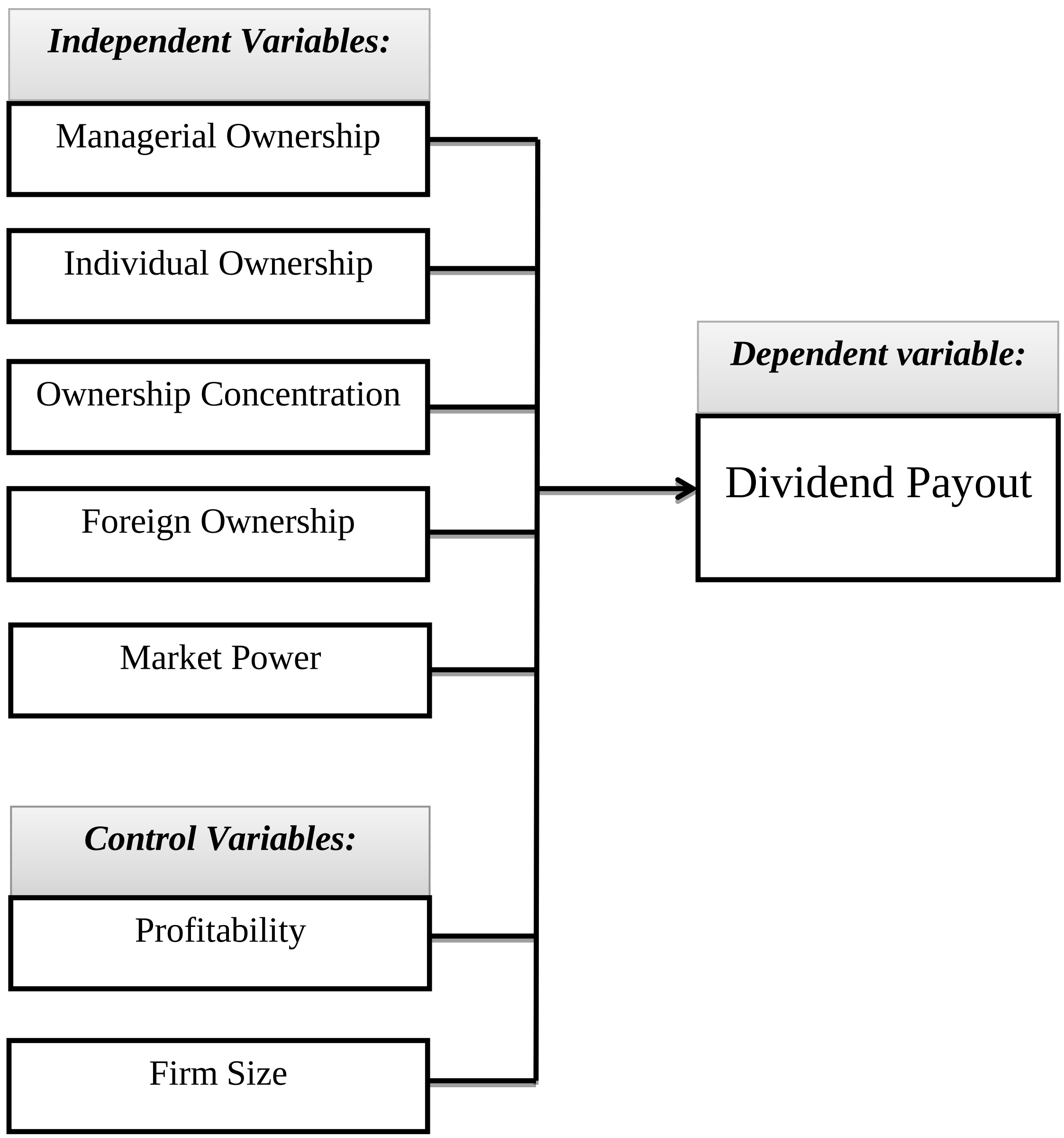
3.1 Introduction

This chapter, at the first place, explains the theoretical framework followed by the hypothesis formulation. Then, it follows to present the research design used by the researcher in this study and the statistical use to validate or reject the hypothesis. Besides that, the chapter provides a description in terms of research design, sources of data collected, measurement of the variables and statistical tests applied in this study.

3.2 Research Framework

This study is an attempt to explore the relationship between ownership structure, namely, managerial, individual, concentration and foreign ownership, firm's market power and dividend payout for the listed industrial companies in Saudi Arabia. In this study, ownership structure and firm's market power represented as an independent variable, meanwhile the dependent variable is represented by firm's dividend payouts.

Figure 3.1 Framework of the study



3.3 Hypothesis Development

This section provides the hypothesized relationship between dividend payout as the dependent variable with the independent variables, namely, managerial ownership, concentrated ownership, individual ownership, foreign ownership and firm's market power, in addition, the control variables namely, profitability and firm size.

3.3.1 Managerial ownership and dividend payout

Managerial ownership is the percentage shares that owned by the board of director of a company. In one company, board of director must hold the proportion of shares in order to be voted as a board of director by other shareholders. The research by Abdelsalam, El-Masry and Elsegini (2008) found that there is negative relationship between percentage shares board of directors and dividend payout by the company. Similarly, Hafza and Mirza (2010); Ehsan, Tbassum, Akram and Nasir (2013) found that a negative relationship exist between managerial ownership and dividend payout because managers usually were preferred to retain earnings rather than paying out as dividend. In addition, other previous studies that found a negative relationship between managerial ownership and dividend payout were Al-Gharaibeh et al. (2013), Wang (2003) and Ullah et al. (2012). Meanwhile, other previous studies that found positive relationship were Hu and Izumida (2008), Cui and Mak (2002) and Mueller and Spitz (2004). As mentioned above, previous researches found contradictory results for the relationship between managerial ownership and dividend payout, therefore following hypothesis is formulated:

H1: There is significant relationship between managerial ownership and dividend payout.

3.3.2 Individual ownership and dividend payout

Individual ownership is the percentage shares that owned by the individual in a company. Individual ownership will receive all profit and also obtained unlimited responsibility for all losses. The previous studies found that the individual ownership has significantly negative relationship between the dividend payout of a company. A company owned by individual ownership turn to pay a lower amount of dividend due to the double taxation on dividend and no tax on capital gain. The previous study also mentioned that individual investor seems to be interested in speculative the profit gain rather than retain the long term investment. These are according to the study by Thanatawee (2013), Zabihi and Ghaleb (2013), Hafza and Mirza (2010), Khan (2005) and Ehsan et al. (2013). Meanwhile, apart from those previous studies, there found that the individual ownership influence the dividend payout positively, suggesting that individual investors prefer to invest in high dividend yield stocks and in dividend paying firms (Paivi, 2007; Jainn, 2007; Safdar et al. 2014). As mentioned above, previous researches found contradictory results for the relationship between individual ownership and dividend payout, therefore following hypothesis is formulated:

H2: There is significant relationship between individual ownership and dividend payout.

3.3.3 Concentrated ownership and dividend payout

Corporate strategies, especially related to dividend payout, largely depend on ownership structure of the firm. Large number of shares held by few members can be termed as concentrated ownership. Having a concentrated ownership will improve the management's monitoring but this might destroy the interests of small investors. A study conducted by Ramli (2010) explored aforementioned relation for listed companies of Malaysia and found that where ownership is concentrated in that firm's dividend payouts are higher than the others with diverse ownership structure. In the same manner, Thanatawee (2014) argued that majority of the Chinese firms are owned and controlled either by concentrated or state ownership. In addition, these large shareholders prefers for larger dividend payment, which will also benefit small.

On the other hand, Maury and Pajuste (2002) argued that concentrated ownership normally follows growth pattern, investors are more inclined towards higher future earnings, and there exist negative relationship between concentrated ownership and dividend payout as opposed to many studies. A study by Gonzalez, and Rosso (2014) showed that ownership structures highly concentrated, and the presence of an individual or family-related largest shareholder is associated with a strong, negative, and a significant effect on the level of dividends paid. This is consistent with insiders extracting private benefits at the expense of minority shareholders. As mentioned above, previous researches found contradictory results for the relationship between concentrated ownership and dividend payout, therefore following hypothesis is formulated:

H3: There is significant relationship between concentrated ownership and dividend payout.

3.3.4 Foreign ownership and dividend payout

Foreign ownership has been defined as percentage of shares owned by the foreign investors. Chai (2010) emphasize that this will significantly affects the dividend payout policy of firms. In addition, Baba (2009) showed that there exist positive relationship between foreign investor's ownership dividend policy of the firm. In the same manner, study of Jeon and et al. (2011) found that firms paying higher dividend will attract large number of foreign investors. In addition, Cook and Jeon (2006) highlighted that larger foreign ownership has positive relationship with dividend, and domestic intuitional investor does not play any significant effect on firm's dividend payout policy. Therefore, they highlighted those investors from outside act as active observers of corporate by reducing the firm's agency problems while improve the level of payouts. Ullah et al. (2012) also reported a positive association between foreign investors and firm's dividend payout policy. In addition, they claimed that this will lower the agency problem because having a large dividend payout will reduce the funds available for reinvestment, hence, a reduction in agency problem. In addition, Lam and Zhou (2012) concluded that under the ownership of state or individuals are more likely to pay large dividends payout. Therefore, firms having foreign investors and cross-listing might negatively effects on dividend payout policy. The results of Al-Amarneh and Yaseen (2014) also revealed that foreign investors are growth investors (one possible reason for this reinvestment might be higher tax rate on dividend as compared to capital gain) they prefer to reinvest business profit for higher future earnings. As mentioned above, previous researches found contradictory results for the relationship between foreign ownership and dividend payout, therefore following hypothesis is formulated:

H4: There is significant relationship between foreign ownership and dividend payout.

3.3.5 Market power and dividend payout

The market power of a firm can be determined by its ability at the profit-maximizing output level to influence a product price over its marginal cost. Moreover, having the capacity to somewhat influence its product price, the firm becomes strong enough to stabilize the flow of its operating income in the face of exogenous economy-wide or firm-specific shocks to which it is exposed in a market (Booth & Zhou, 2015). The market power results in reduction of a business risk to which a firm is exposed in a specific industry, producing a lower idiosyncratic or systematic volatility of stock returns as a result (Booth & Zhou, 2008). Several recent empirical studies investigated the association between the firm's market power and dividend policy. Khan et al. (2014) concluded that market power contributes positively in dividend policy of the firms, suggested that most competitive firms (less market power) are exposed to high levels of market risk and are considered to pay less dividends as compare to the firms with high market power. Followed the studied by Booth and Zhou (2015) indicated that market power has a positive effect on dividend decision, in terms of possibility of paying dividends and the amount of dividend payment. This provide evidence that companies which have less market power are riskier and likely to pay less dividends and less likely to pay dividends than firms with more market power.

However, negative results of the relationship between market power and dividend found in some previous studies. Grullon and Michaely (2012) explored that firms that are operating in less competitive industries (high market power) have significant lower ratio of dividend payout than the firms operating in more competitive industries. Correspondingly studied by He (2012) found that the effect of agency problems at firm-level on dividend payout had weaker effect in highly competitive industries, suggesting that product market competition can be proof an effective industry level mechanism of governance that can force mangers to pour out cash to outside investors. As mentioned above, previous researches found contradictory results for the relationship between market power and dividend payout, therefore following hypothesis is formulated:

H5: There is significant relationship between firm's market power and dividend payout.

3.4 Data Collection

This study focuses only on manufacturing companies listed on the Saudi Stock Exchange over the period 2009-2013. The reason behind focusing on manufacturing companies because of market power variable, where the measurement of this variable (sales minus cost of goods sold divided by sales) only can be found in these companies. To be included in the sample, companies are required to have full five years data. Therefore, firms with no complete five years are excluded from this study.

Furthermore, the study eliminates 11 companies that do not have ownership information. Table 3.1 describes the sample selection procedure for the study.

Table 3.1 Sample selection procedure

Sample selection criteria	Number observations
Companies listed in 2013	76
Less: number of firms excluded for the following reasons:	
Companies with no complete data for the five years period (2009-2013)	(16)
Companies with no data available for ownership	(11)
Final sample	49
Number of observations (49*5 years)	245

3.5 Procedures of Data Collection

Required data for this study related market power of the firm, ownership structure and dividend payout were retrieved and collected from the annual reports of the firms in general that are listed on Saudi stock exchange market which is known as Tadawal stock exchange. Data on ownership structure of the firms was collected from the annual reports specifically from shareholder information section. Then, for dividend payout ratio, market power, profitability and logarithm of total asset were gathered from DataStream provided in UUM Library.

3.6 Model Specification and Ordinary Least Square Regressions

The ordinary least squares (OLS) regression method is used to examine the relationship between the dividend payout and managerial ownership, individual ownership, concentration ownership, foreign ownership and firm's market power. Previous researchers like Harada and Nguyen (2011) and Adil et al., (2011) utilize Ordinary Least Squared (OLS) method to study the relationship between ownership structure, market power, and dividend payout. This method is often used which the independent variable (explaining variable) are correlated with each other and with the dependent variable (variable of interest).

The regression model in the estimated as follows

$$\mathrm{DPR}_{it} = \beta_{0_{it}} + \beta_1 \mathrm{MNG}_{it} + \beta_2 \mathrm{IND}_{it} + \beta_3 \mathrm{CONC}_{it} + \beta_4 \mathrm{FORG}_{it} + \beta_5 \mathrm{MarktPow}_{it} + \beta_6 \mathrm{PROFIT}_{it} + \beta_7 \mathrm{FSIZE}_{it} + \varepsilon_{it}$$

Where;

DPR represents dividend payout ratio, MNG represents managerial ownership, IND represents individual ownership, CONC represents ownership concentration, FORG represents foreign ownership, MarktPow represents firm's market power, PROFIT represents profitability, FSIZE represents log total asset and ε represents error term.

3.7 Measurement of the Variables

The measurement of dependent, independent variables and also the control variables are as follows:

3.7.1 Dependent Variables

DPR: Dividend payout ratio (DPR) is measured as dividing the dividend per share (DPS) with earning per share (EPS) of the firm (Zabihi & Ghaleb, 2013).

3.7.2 Independent Variables

MNG: managerial ownership is measured by the percentage of the share held by the member of board of directors and executive directors of the company (Zabihi & Ghaleb, 2013).

IND: Individual ownership is represented by the proportion of shares held by the public individual investors in the company (Zabihi & Ghaleb, 2013).

FORG: Foreign ownership is measured by the proportion of shares owned by foreign investors (Al-Amarneh & Yaseen, 2014).

CONC: Concentrated ownership is measured by the proportion of shares held by the top five shareholders. Top five shareholders has been used as proxy of ownership concentration in most previous empirical studies like Demsetz and Villalonga (2001) and Thanatawee (2014), taking the assumption that company's control is shared equally among the group of these shareholders.

Market Power: Lerner index is used to measure the market power of firm that is the difference between the price and Marginal Cost (MC). The formula as following

$$\text{Lerner Index} = \frac{\text{Price of product} - \text{MC}}{\text{Price of product}}$$

This formula takes into account difference between price and marginal cost that can be termed as operating profit (earnings before interest and taxes) divided by sales (Booth & Zhou, 2008). In this formula, the numerator is the operating profit that is sales less cost of goods sold (CGS) minus selling and general administrative expenses (Gasper & Massa, 2006). As precise data on marginal cost is not available, therefore, author followed the formula used in the study of Obembe et al. (2014) the researcher approximated the Lerner index as:

$$\text{Lerner Index} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}}$$

3.7.3 Control Variables

PROFIT: return on assets (ROA) has been used as proxy to profitability (Ling et al., 2008).

FSIZE: Firm size is measured by the natural logarithm of total assets (Hafza & Mirza, 2010).

3.8 Data Analysis

In this study, the data that the researcher collected were analyzed by using the STATA10 software. It provides the findings on descriptive statistics, correlation analysis and regression analysis to answer the research questions.

3.8.1 Descriptive Analysis

The descriptive analysis provides the information regarding the data mean, minimum, maximum and the standard deviation for each variable of the sample that choose by the researcher in the present study. The findings enable us to understand and interpret the data.

3.8.2 Multicollinearity

To test the presence of multicollinearity among the independent variables used in this study, the researcher applied the variance inflation factor (VIF) method. Variables with VIF value greater than 10.0 reveals that there is multicollinearity problem exist in the study.

3.8.3 Correlation of Variables

In the present study, the research objective is to determine the relationships between the dependent and independent variables. The correlation matrix of the variables is used to examine the correlation of one variable between one another. The results of the correlation matrix analyses explain the nature, direction and significant between the variables used in the research.

3.8.4 Regression Analysis

This study applied linear regression analysis in order to examine the relationship between ownership structure and firm’s market power with dividend payout.

3.9 Summary of the Chapter

The chapter contains the illustrated of the methodology that is used in the research and highlighted the development of hypotheses for testing purposes during the course of the study. Furthermore, it also describes the theoretical framework and hypothesis formulation, research methodology, the research design and data analysis.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the researcher has elaborated the findings of the study by using descriptive statistical analysis, multicolinearity test, correlation analysis and assumption of linear regression analysis. The result of linear regression analyses will be discussed by the researcher in the final section. To find the result, STATA 10 software was applied to the data that was collected from the annual reports and the data stream.

4.2 Descriptive Statistics

In the initial steps, the descriptive statistics for dependent and independent variables have been summarized and presented in the Table 4.1 that comprised the data of mean and standard deviation of the variables. With the use of linear regression analysis, the scores may have a great impact on the results and becomes a cause of concern by the researcher. The means and standard deviation resulting from STATA 10 software were presented in table below.

Table 4. 1 Summary of Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std.Deviation
DPR	245	0	103.2	39.42837	30.29038
MNG	245	0	56.31	8.462286	12.28883
IND	245	0.91	80.5	23.34155	18.39932
CONC	245	10.35	75.51	38.67547	15.02036
FORG	245	0	61.14	4.184612	9.894632
Mrktpow	245	1.457	51.51	11.44797	7.7077
PROFIT	245	-25.05	60.24	10.0618	10.23537
FSZIE	245	10.45	17.48	13.53302	1.549233

DPR: dividend payout, MNG: managerial ownership, IND: individual ownership, CONC: ownership concentration, FORG: foreign ownership, Mrktpow: market power, PROFIT: profitability, FSIZE: firm size

Referred to the Table 4.1 above, it displays the result for descriptive statistic taken from all the data collected in the study. The summary of the result shows that mean for DPR ratio is 39.42 represented the average amount of dividend paid by 49 companies for five years and the minimum and maximum amount of dividend paid by the companies is 0 and 103.2 respectively. Next, the descriptive results for managerial ownership (MNG) reveal that the mean amount is 8.46. The minimum amount of managerial ownership is 0 % as the annual report stated that there were no managers and directors hold any shares in a company. The maximum amount is 56.31. Refer to the summary table; the individual ownership (IND) that held shares in the companies has a minimum amount of 0.91 and the maximum number that the individual held shares are 80.5. The mean percentage of individual ownership is 23.34 and standard deviation is 18.39. The ownership structure range represented by percentage of ownership of firm owned by the five biggest shareholders (CONC) is from 10.35 to 75.51 percent that had resulted 15.02 percent standard deviation. The mean percentage for CONC is 38.68 percent. It indicates that almost 39 out of 100 shares are held in the hands of five largest shareholders among Saudi manufacturing companies. The foreign owners were 4.17 percent has measured a minimum and maximum of zero and 61.14 respectively with the standard deviation of 9.89 percent.

In addition, the firm's market power as measured by the Lerner Index for the 49 manufacturing companies for five years has a mean of 11.44, which reveals the average of sales over its cost of goods sold. The minimum of market power was 1.457 and the maximum was 51.51 and the standard deviation is 7.707. The descriptive result of control variables which are the profitability (PROFIT) and firm size (FSIZE) also were included in the table above. Profitability as measured by return on assets shows a mean of 10.06 percent. Minimum and maximum recorded at -25.05 and 60.24 respectively. In addition, the firm size that measure by the logarithm of total asset shows minimum and maximum at 10.45, 17.47 respectively, and a mean of 13.53.

4.3 Multicollinearity Test

Multicollinearity is a situation when two or more variables are highly correlated with each other. The researcher applied this test to check whether multicollinearity exist or not among variables, this act as a critical issue in linear regression due to the obstacles that occurred during the identifying the effect of one variable with the dependent variable.

Research by Hair, Tatham, and Black (1995), mentioned in their paper that multicollinearity is one of the major reasons for the existence of an abnormal relationship among variables. The utilization of the Variance Inflation Factor (VIF) for each independent variable became a popular method of detecting the multicollinearity and to measurement the result (Naser, Al-Khatib, & Karbhari, 2002). If VIF is more than 10, it shows that the independent variable in the study have high correlations that leads to the multicollinearity problem. In the present study, the researcher applied the multicollinearity diagnostic with VIF before running the linear regression models. Results given in Table 4.2 shows that there is no issue of multicolinearity as value of VIF for all independent variables is less than 10.

Table 4. 2 Summary of Multicolinearity Test

Variable	**Collinearity Statistics**	
	VIF	**Tolerance (1/VIF)**
IND	1.61	0.619261
FSZIE	1.40	0.712373
CONC	1.28	0.779109
Mrktpow	1.26	0.794768
PROFIT	1.25	0.797687
FORG	1.10	0.912760
MNG	1.08	0.924200
Mean VIF	**1.28**	

MNG: managerial ownership, INDV: individual ownership, CONC: ownership concentration, FORG: foreign ownership, Mrktpow: market power, PROFIT: profitability, FSIZE: firm size

4.4 Correlations Analysis

Correlation analysis is used in this study as a statistical tool analysis to determine the relationship between independent and dependent variables. Before the researcher want to carry out the linear regression for this study, the correlation matrix is developed to find the initial relationship between the independent variable. The result of the correlation matrix is used in developing the assumptions for the regression because the result might be reveal as there is no relationship if the value of the result is 0. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship. The values are interpreted between 0 (no relationship) and 1 (perfect relationship). In addition, the relationship is considered weak when r = ±0. 1 to ±0. 29, while the relationship is considered medium when r = ±0.30 to ±0.49, and when r is ±0.50 and above, the strength is considered strong.

Table 4. 3 Summary of Correlation Matrix

	DPR	MNG	IND	CONC	FORG	mrktpow	PROFIT	FSIZE
DPR	1.0000							
MNG	-0.1552*	1.0000						
	0.0150							
IND	-0.1667*	0.1832*	1.0000					
	0.0089	0.0040						
CONC	0.3464*	-0.0960	-0.3554*	1.0000				
	0.0000	0.1341	0.0000					
FORG	0.1238	-0.1905*	-0.1649*	0.1906*	1.0000			
	0.0530	0.0028	0.0097	0.0027				
Mrktpow	0.1675*	-0.1186	-0.1216	0.2332*	-0.0315	1.0000		
	0.0086	0.0638	0.0573	0.0002	0.6241			
PROFIT	0.5495*	-0.1052	-0.0149	0.2246*	0.0542	0.4666*	1.0000	
	0.0000	0.1004	0.8167	0.0004	0.3983	0.0000		
FSIZE	0.2622*	-0.0864	-0.5103*	0.1039	0.1174	0.2692*	0.1047	1.0000
	0.0000	0.1778	0.0000	0.1048	0.0665	0.0000	0.1020	

DPR: dividend payout, MNG: managerial ownership, IND: individual ownership, CONC: ownership concentration, FORG: foreign ownership, Mrktpow: market power, PROFIT: profitability, FSIZE: firm size

*. Correlation is significant at the 0.05 level

Table 4.3 mentioned above reports the correlation matrix among the independent variables and control variables with the dividend payout of 245 observations for 49 industrial companies listed on the Saudi stock exchange, where it shows significant for all independent variables with the dependent variable except foreign ownership. Results revealed that there is a significant (*p-value-0.0150*) but negative (*coefficient, -0.1552*) relationship between dividend payout ratio (DPR) and managerial ownership (MNG). In addition, there is a significant (*p-value-0.0150*) but negative (*coefficient*, *-0.1552*) relationship between individual ownership (IND) and dividend payout ratio (DPR). Similarly, author found that there is significant (*p-value*, *0.0000*) and positive correlation (*coefficient, 0.34640*) between concentrated ownership (CONC) and dividend payout ratio (DPR). On the other hand, results show that there is weak (*p-value, 0.0530)* relationship between dividend payout ratio (DPR) and foreign ownership (FORG). Further, results indicate that there is significant (*p-value, 0.0001*) and positive (*coefficient*, *0.2445*) relationship between market power (mrktpow) and dividend payout ratio (DPR). In the same manner there is a significant (*p-value, 0.0000; p-value, 0.0000)* and positive (*coefficient, 0.5495; coefficient*, *0.2622*) relationship between profitability, firm size, and dividend payout ratio (DPR) respectively.

4.5 Linear Regression Analysis

Linear regression analysis is used in the present study as a statistical method to examine the relationship occurred between dependent (dividend payout) and independent variables (managerial, individual, concentrated, foreign owners, and market power) with the controlling effect of profitability and firm size for 49 manufacturing companies listed on Saudi stock exchange for the period from 2009 to 2013.

Table 4. 4 Summary of Linear Regression Analysis

Variables	Coefficient	T value	P value
MNG	-0.1949506	-1.52	0.129
IND	0.0567138	0.54	0.588
CONC	0.4864541	4.26	0.000***
FORG	0.0354412	0.22	0.825
Mktpow	-0.5137313	-2.33	0.020**
PROFIT	1.531589	9.26	0.000***
FSIZE	4.108362	3.55	0.000***
No: obs	245		
R Square	0.4091		
Adjusted R Square	0.3916		
F (7, 237)	23.44		
prob> F	0.0000***		

DPR: dividend payout, MNG: managerial ownership, IND: individual ownership, CONC: ownership concentration, FORG: foreign ownership, Mktpow: market power, PROFIT: profitability, FSIZE: firm size

***.significant at 0.01; **.significant at 0.05; *.significant at 0.10

Refer to the Table 4.4 mentioned above, presents the result of regression model, R square reports that what percentage of dependent variable has been explained by all independent variables. The table shows that 0.4091 percentage of dependant variable (dividend payout policy) has been explained by the independent variables (ownership structure and market power).

The Table 4.4 mentioned above shows the results for the coefficient of linear regression. The coefficient for managerial ownership is -0.1949 and there is no relationship with dividend. The table also shows the coefficient for individual ownership is 0.0567 and there is no relationship with dividend. Coefficient for concentrated ownership is 0.4864 and has relationship with dividend. The table also shows coefficient for foreign ownership is 0.0354 and there is no relationship with dividend. The table shows market power has relationship with dividend and coefficient at -0.5137.

4.6 Findings and Discussion

The Table 4.4 carries the results for the regression analysis applied to explore the relationship between different ownership structure, market power, and dividend payout. The results show the relationship between independent and dependent variables with the controlling effect of profitability and firm size.

Based on literature review, it was hypothesized that there exist significant relationship between managerial ownership and dividend payout. However, results reported that, contrary to the hypothesis, there is no significant (*p-value-0.129*) relationship exists between managerial ownership (MNG) and dividend payout. This result is in line with the findings of Mak and Li (2001), Fenn and Liang (2001), Mehrani, Moradi, and Eskandar, (2011). There are two competing theories in relation to the possible influent managerial ownership might have on dividend policy. These are alignment of interest and management entrenchment theory. Advocates of alignment of interest theory argue that managerial equity ownership alleviates moral hazard problem between managers and shareholders, thus reducing agency costs (Jensen & Mackling, 1976). They also assert that holding a large stake of shares by top managers is likely to encourage them to increase a firm value. Therefore, given the increase in the firm value, top management will be more motivated to distribute dividend among shareholders.

On the other hand, supporters of the entrenchment theory believe that managers with high ownership of shares will tend to pursue their own interest rather than maximizing the shareholders' wealth. To increase their wealth and to have more control over firm resources, the managers are less inclined to payout dividend to shareholders. Drawing from the above discussion, the insignificant contribution of managerial ownership could be due to the competing arguments of alignment of interest and management entrenchment theory.

Based on literature review, it was hypothesized that there exist significant relationship between individual ownership structure and dividend payout. However, results reported that, contrary to the hypothesis, there is no significant (*p-value 0.588*) relationship exists between individual ownership (IND) and dividend payout. The results are consistent with the findings of Fenn and Liang (2001), Tawiah, Benjamin, and Banns, (2015). They concluded that dividend policy does not depend on ownership structure of the firm. The insignificant relationship between individual ownership and dividend payout might be due to individuals invest heavily in a business and this will lead them to have close relationship with company manager they invest in. As situation with rent seeking and relation -based transaction, the individual are expected to discourage the firms to distribute its income as dividend to other shareholders as otherwise their control over the company resources and the probability of having more returns from reinvesting the firm income will be jeopardized (Abdullah, 2011).

In the light of literature, it is hypothesized that concentrated ownership structure significantly effects dividend payout. Ownership concentration that is represented by the ownership percentage owned by five biggest shareholders indicates a positive relationship with the dividend payout. The result of this study is strongly significant (*p-value 0.000*), means that concentrated ownership has a strong effect to dividend payout. Findings of this study is consistent with the findings of Abdullah et al. (2012), Nor and Sulong (2007) that showed high dividend payments can be used to elevating the agency conflicts since dividend cab used as substitute for shareholder monitoring cost, therefore big shareholders have strong incentive and higher dividend yields in order to reduce monitoring costs. These results are align with the studies of Kouki and guizani (2009), Clasessens and Djankoy (1999) who had found a significant positive relationship between the concentrated ownership type of corporate structure and dividend payout policies. They explained that the more power block-holders have in the board of directors, the more they can influence dividend decisions. Therefore, they can monitor managerial practices through the distribution of dividends, as they decrease the free cash flows available at managers' disposal.

Literature pointed out that there exist significant relationship between foreign ownership and dividend payout. However, results revealed that there is no significant (*p-value 0.825*) relationship between foreign ownership (FORNG) and dividend payout. This finding is in line with the results of Al-Nawaiseh, (2013) and Tawiah et al. (2015). This result can be explained as the mean value, given in the Table 4.1, for foreign ownership is 4.18%, which shows an average of foreign ownership in Saudi manufacturing companies, this percentage represent as low and it cannot significantly effect on decisions of firm especially related to dividend.

In addition, based on previous researches, it is hypothesized that firm's market power has significant relationship with dividend payout. The Table 4.4 displays the result for the coefficient of linear regression, a firm's market power (Mrktpow) which, measured by Lerner Index, shows that there is a negative relationship between the dividend payout. This study shows a significant result (*p-value- 0.020*), which means that firms operating in low market power pays more dividend on increasing trend. These findings are supported by Gullon and Michaely (2012) that examined the relationship between product market competition and cash distribution to shareholder decision by managers. This study concluded that the firms which operates in less competitive market (high market power) have significant low payout ratios as compared to firms which are operating in more competitive markets, suggesting that the firm's manager, which are operating in highly competitive markets should disburse high cash dividend to the shareholders otherwise the investors can penalized change management. Argument of paying the dividend is also consistent with yardstick competition hypothesis (Shleifer, 1985). This hypothesis states that asymmetric information and costs are reduced by product market competition by generating greater opportunities for foreigners to benchmark the performance of the firm to the performances of other firms competing in industry. Consequently, this argument states that, competition can make the dividend more attracting by reducing the probability of overinvestment and management failure.

Further results of this study show that profitability (PROFIT) as a control variable played a significant role in explaining the dividend payout of Saudi's manufacturing firms. Return on Assets (ROA) which was used as proxy for profitability shows a positive and significant impact on dividend payout of firms, explaining that dividend should increase as profitability of firm increases. This study also results that logarithm of total assets which was used as proxy of size of the firm was found to work-out a positive significant impact on dividend payouts. It could be established that the payouts of bigger firms are greater as compared to small firms.

4.7 Summary

This chapter elaborated the outcomes that were resulted from the analysis conducted by the researcher using several tools. Different statistical tools like descriptive analysis, multicollinearity test, correlation analysis and regression analysis is used to extract and inferred some meaning full information. Overall the findings show that concentrated ownership and market power are significantly related with the dividend payout. Whereas managerial, individual, and foreign ownership are insignificant with the dividend payout.

CHAPTER FIVE

CONCLUSIONS

5.1 Introduction

This chapter presents the summary of the results that obtained from the analysis that carried out from the present study. In this chapter also, the researcher provided the possible limitations that occurred during the study and suggestions for future research regarding the variable's relationship with the dividend payout.

5.2 Summary of the study

The study examined the relationship of dividend payout with the ownership structure (managerial, individual, concentration and foreign ownership) and firm's market power variable, also with two control variables (profitability and firm size), for 49 manufacturing companies that are listed on Saudi stock market for the period from 2009 to 2013. In this study, five hypotheses have been developed and the hypotheses have been tested by using linear regression in order to find the relationship.

Besides the explanatory variable, percentage of ownership owned by five big shareholders which is use as proxy for ownership concentration was observed statistically significant in influencing firm's dividend policy. There exist a significant positive relationship between concentration of ownership and dividend payouts as supported by the findings of Abdullah et al. (2008), Kouki and Guizani (2009). The logic behind this positive association might be the five large shareholders in Saudi manufacturing firms provide the incentive for controlling shareholders for the use of their influence to maximize the value of the firms instead of consuming firm's resource in low return projects, so imply that more cash resource can be distributed as dividends. On the other side the high dividend payouts can be used to control the agency conflicts since the cash dividends can be substituted for shareholder monitoring. Consequently, large shareholders of the firm have strong incentives in higher required yield so that monitoring costs can be reduced.

In addition, market power of the firm which is measured by Lerner Index, indicate that there is a negative relationship between the dividend payout. The results are significant for this study, which indicates that firms in which are operated in high competitive industries (less market power) pay more dividends as compared to firms operating in low competitive market, are more likely to increase dividends. Finding of this study is aligned with the study of Grullon and Michaely (2012) and He (2011). The logic behind this might by negative association in managers in Saudi manufacturing firms which operate in highly competitive environment (less market power) should distribute more cash as dividend to their shareholders because if they not do so they are more likely to be penalized by the disciplinary forces of market on the account of mishandling the resources of the firm. This argument of paying high dividend may related to the yardstick competition hypothesis presented by Shleifer (1985), in which asymmetric information and monitoring costs reduces the product market competition by generating more opportunities for outsiders to benchmark the firm's performance of its competitors. Consequently, according to this argument, high competition could make dividends more attracting by minimizing the possibility of overinvestment and management failure. In the same manner, market power has significant but negative relationship with dividend payout and results are in accordance to (Gullon & Michaely, 2012; Shleifer, 1985).

Many studies found a negative relationship between the managerial ownership and dividend payout policies, for example Ullah et al. (2012), Afza and Mirza (2010), and Al-Shubiri et al, (2012). There are some possible justifications of why this negative relationship between the managerial ownership and dividend payout policies of the Saudi manufacturing listed companies occurred. One possible justification may be due to the increased share of managerial ownership, which reduces the need for dividend distributions as a monitoring device, since managers tend to have the same interests of the individual shareholders and hence, tend to act for the company's best interest. Another justification behind this negative relation could be due to managers' preference for earnings' retentions in order to enhance future investments of the firm, without the need for external borrowings, in order to improve the firm's capital growth. However, this study found that there is insignificant relationship between managerial ownership and dividend payout and result is in line with the findings of Mak and Li, (2001), Fenn and Liang (2001), Mehrani, Moradi, and Eskandar, (2011). The possible reason for insignificant result can be due to the competing arguments of alignment of interest and management entrenchment theory.

There are many studies found positive relationship between the individual ownership and the dividend payout, among them study by Safdar et al. (2014) and Jainn (2007). The reason behind this positive relation may individual external investors want to minimize the excess cash flows in the hands of managers, to reduce the possibility of funds being wasted in unprofitable projects or for managers' own benefits. Hence, dividend distributions act as a monitoring device for shareholders to control the agency costs and the conflict of interest arising between the management and shareholders. Contrary to above discussion, this study revealed that there is insignificant relationship between individual ownership and dividend payout and results are consistent with the findings of Fenn and Liang (2001), Tawiah, Benjamin, and Banns (2015). This might be explained that individuals invest heavily in a business and this will lead them to have close relationship with company manager they invest in. As situation with rent seeking and relation -based transaction, the individual are expected to discourage the firms to distribute its income as dividend to other shareholders as otherwise their control over the company resources and the probability of having more returns from reinvesting the firm income will be jeopardized (Abdullah, 2011).

The result of this study found insignificant relationship between the foreign ownership and dividend payout means that foreign ownership does not give any effect to dividend payout in Saudi manufacturing firms. This study found in line with the findings of Al-Nawaiseh, (2013) and Tawiah et al. (2015), who found insignificant relationship between foreign ownership and dividend payout. The possible justification in this case, could be due to an average of foreign ownership in Saudi companies is below than 05% and they cannot significantly effect on decisions of firm especially related to dividend.

Besides that, the control variables in this study, which are the profitability and firm size, show a strong significant positive relationship with the dividend payout. The positive relationship of profitability with the dividend has been supported by most of the researches in previous studies such as Ling et al. (2008), Boamah et al. (2014), Alzomaia, and Al-Khadhiri (2013). Meanwhile, the positive relationship between firm size and dividend was supported by Hashemi and Zadeh (2012), Al-Nawaiseh (2013), and Thanatawee (2013).

5.3 Limitation of the Study

Regarding the framework of the research, the study has the following limitations. Although listed firms are important, there are other firms that significantly contribute to the Saudi economy and are worthy of being studied, such as family firms. The current study focuses on listed firms due to the importance of good governance practices in these firms, as they have a large number of shareholders who need to be protected. Furthermore, it is more difficult to obtain data for non-listed firms. With respect to market power variable, most of previous researches have used different types of measurement to measure firm's market power. This research has used only one measurement due to the data unavailability of other measurements.

5.4 Suggestions for Future Research

The findings of this research can open new areas to be observed and studied about companies listed in Saudi Arabia stock market. As a result of the findings of this research a detailed study of additional ownership types of corporate structure over the most recent years is required to measure the impact of ownership structure on dividend payout policies in Saudi. Additionally, the impact of board composition or the impact of audit committee on dividend payout policies can also be examined. All these areas can enhance understanding of the business environment in Saudi and of the nature of dividend policies of the Saudi listed companies. As for companies, the corporate dividend policy is considered one of the very critical decisions that affect investors' satisfaction, since dividends are considered a reward to investors for bearing the relevant risks. Therefore, a very minor change in a firm's dividend payout policy may lower the investments on the company's shares, and hence, companies should pay attention to their dividend policies and give them some worthy considerations.

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