

Abstract

Dividend policy is always considered as puzzle in companies. Many researchers did research on different variables those, in their opinion, affect dividend payments in the firms. Variables used in different studies consist of governance variables, liquidity, profitability, cash flows, solvency etc. Researchers found different results for different variables in different economies. Therefore we can say that dividend policy is still a puzzle. In this research we tried to find out the relationship between all components of pattern of shareholding like, shares held by individuals, managers, directors, foreign shareholders, financial institutions and non financial institutions. Control variables include profitability, liquidity, leverage, age and size of the firms. We took data of 90 companies from 2009 to 2013 listed on Karachi stock exchange. Regression analysis method was used in this study. As per results shareholding by individuals has a positive relationship with dividend payout ratio and results are insignificant. The reason lied behind this fact that mostly individual shareholders are more interested in dividend income than capital gain because they don't have proper knowledge and skills to forecast the expected movement in the market so they prefer to buy shares of those companies which usually pay dividend to their share holders. Shareholding by management has also positive and statistically significant relationship with dividend payout ratio. Its basic reason is that decision for making the payment of dividend is in the hands of management and they usually pay more dividend. Usually directors hold shares for a long term period of time in a company and in result they are unable to get capital gain on these shares. Therefore their only return from the firm is dividend and its decision is also in the hands of directors so there is a high rate of dividend in case of more shareholding in the firm by management.

There is a significant and positive relationship between shareholding by financial institutions and dividend payout ratio. Its basic reason is that because of heavy investments and expert human resources, financial institutions have more influence over the policies of the firms. Shareholding by other non financial institutions has a positive and insignificant relationship with the dividend payout ratio. Major portion of this shareholding consists of government shareholding and shareholding by associated

companies. Both types of shareholders are not very much interested in dividend payment. Associated companies are under the influence of parent companies and government is interested in just holding the shares for the purpose of participation in decision making process. Shareholding by foreign shareholder also has positive but insignificant relationship with dividend payout ratio. The reason that normally foreign shareholders don't have any control or check on the performance of firm's managers, so they used dividend as tool for measurement of the performance of the company.

In case of control variables almost all variables have insignificant, positive or negative relationship with dividend payout ratio.

Further research in this area can also be done in the different sectors like financial institutions, sugar, textile, oil and gas etc. or using different period and variables.