The Impact of Ownership Structure on Dividend Policy
the Evidence from Saudi Arabia

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Abstract
This paper aims at providing the reader with a comprehensive understanding of the relationship between the ownership structure and dividend payout policy. Our sample incorporates 100 firms listed on the Saudi Stock Market (Tadawul) over a four-year period from 2012 to 2015. Our results show that the presence of managerial ownership increase the distribution of dividends which constitutes a tool of management control. Our results also indicate the existence of a negative correlation between family ownership and the level of dividend distribution supporting the agency theory. However, the increasing ownership of Saudi institutional investors reduces in general the need for high dividend payouts, which may be due to their efficient monitoring on the firms’ management. The paper supports the fact that ownership structure is relevant in determining the dividend policy.

Key Words: Dividend payout policy, Ownership structure, Institutional, Ownership, Agency theory
1. Introduction

Corporate dividend policy has long been an issue of interest and is part of the most controversial topics in the financial literature. Since the works of John Lintner (1956), Miller and Modigliani (1961), dividend policy remains a controversial issue. In fact, the neoclassical theory advocates the neutrality of dividend policy, according to which dividend policies are all equivalent and there is no particular policy that can increase shareholders’ wealth in efficient market without tax or transaction costs. Following their irrelevance dividend policy hypothesis many explanations have been provided in order to solve the so-called dividend puzzle.

One of the most widely studied explanations for why firms pay dividends is the agency cost theory, which derives from the problems involved with the separation of management (the agent) and ownership (the principal) and the differences in managerial and shareholder priorities, also known as the principal–agent conflict (Jensen and Meckling, 1976). This theory argues that cash dividends can be used as a tool to mitigate agency problems in a company by reducing free cash flow and forcing management to enter the capital market for financing, hence leading to induce monitoring by the market (Easterbrook, 1984; Jensen, 1986).

According to this theory, due to the separation between the functions of decision and those of control, the organization includes persons characterized by the heterogeneity of their expectations and goals. In this context, agency theory highlights conflicts of interest arising between the major players while emphasizing the impact of these conflicts on dividend policy. While extensive research has been conducted to solve the dividend perplexity, a complete understanding of the factors that influence dividend policy and the manner in which these factors interact is yet to be established. We remind the famous statement of Fisher Black (1976) about dividend policy "the harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together". In addition, Brealey and Myers (2003) lists dividends as one of the “Ten unresolved problems in finance”.

The interest of this research stems from its original context. The institutional setting of Saudi Arabia is worthy to study due to ownership concentration of Saudi companies and low legal protection of minority interests. This paper proposes to make a contribution on a topical subject that is rarely tackled in Saudi Arabia. Outside the developed countries, renowned cross-country studies have provided evidence that concentrated ownership is the prevailing form of the ownership structure in most emerging economies. Recent literature has shown that the patterns of corporate dividend payout policies vary tremendously between developed and transition equity markets. For instance, La Porta et al. (1999) examined the ownership structures of large firms in 27 different countries and suggested that relatively a few of these firms are widely held; rather, they are heavily concentrated and are commonly controlled by families or the
Accordingly, it is extremely important to consider ownership structure of companies in emerging markets in understanding dividend policy related to the agency problems in these markets. This paper aims to investigate the impact of ownership structure on dividend policy of listed firms in Saudi Arabia. Particularly, it attempts to uncover the effects of family involvement, ownership concentration, institutional investors and managerial ownership on dividend decisions in the 2012-2015.

The results of the study show that the presence of managerial ownership raises the distribution of dividends which constitutes a tool of management control. Our results also indicate the existence of a negative correlation between family ownership and the level of dividend distribution supporting the agency theory. However, the increasing ownership of Saudi institutional investors reduces in general the need for high dividend payouts, which may be due to their efficient monitoring on the firms’ management. The findings of this paper may benefit policymakers, investors and fellow researchers, who seek useful guidance from relevant literature. The remainder of this paper is organized as follow: the second section presents the literature linking the dividend policy to the shareholding structure. The third section describes the sample and the methodology, followed by the results and discussions. The last section concludes the paper.

2. Literature and Hypotheses Development

The agency theory focuses on mitigating conflicts of interests between managers and shareholders due to the separation between ownership and control (Jensen and Meckling, 1976). Managers in Saudi Arabia are very often members of the controlling family which may exacerbate the potential conflicts between the controlling-manager and minority shareholders (Shleifer and Vishny, 1997). Relying on insights from agency, opportunism assumption, overinvestment problem and stakeholder theories, our analysis is based on investor heterogeneity. Indeed, each shareholder has different objectives and motivations according to their category.

2.1 Ownership Concentration and Dividend Policy

The shareholder concentration is a qualification attributed by reference to companies whose capital is dominated by a number of shareholders. In this case, there is a complete separation of ownership and control functions. The Major Stockholders can have considerable influence in a business and significant control power, which is likely to weaken the classic conflicts between managers and shareholders. The ownership concentration makes possible the risk of expropriation of minority shareholders by the controlling shareholders through their crucial power in the important decisions, notably the distribution of dividends (Shleifer and Vishny, 1997; La Porta et al. 2000).
Several studies developed within the framework of the agency theory aim to examine the impact of shareholder concentration on dividend payout policy. Maury and Pajuste (2002) studied the relationship between the controlling shareholder, the agency problems and the dividend policy of Finnish companies. Their sample is composed of 131 firms over the period 1995-1999. Analysis of ownership and control structures shows that the dominant shareholder has a negative impact on distribution of dividend payouts. This result suggests the existence of private benefits of control by the controlling shareholder. Thus, less dividend because, the shareholding is not much dispersed and consequently less agency conflict exists (Harada and Nguyen, 2006). These results are consistent with the theory that dividends are the result of legal protection for investors, as suggested by La Porta et al. (2000). For an unbalanced data panel, composed of 2,274 firm-year observations of 254 companies listed on the BM&FBovespa, in the period 1996-2012, Crisóstomo and Wellington (2016) indicate that ownership concentration, proxied by the presence of a major shareholder, in fact, has a negative effect on the dividend distribution.

Thomson (2005) uses the dividend policy as a means to test the agency problem between majority and minority shareholders. Minority shareholder, threatened with being expropriated by the majority shareholder, prefer the dividend on the capital gain. The empirical tests were made for a sample of 990 companies over a period of 10 years. The results show a negative effect of the controlling shareholder on the dividend distribution. These results corroborate the hypothesis of expropriation of minority shareholders.

Chen (2002) finds that when the controlling shareholder holds majority of the shares, a low dividend distribution tax rate is expected because the majority shareholder is risk averse and prefers self-financing to other means of financing. In their study on the effect of ownership structure on dividend policy, Faccio et al. (2001) find that the presence of multiple large shareholders dampens expropriation in Europe (due to monitoring), but exacerbates it in Asia (due to collusion). Most of these empirical studies focus on the simple presence of multiple block holders, and not on the characteristics of individual blockholders. This result was suggested by Maury and Pajuste (2002), who add that the majority shareholders do not own the other shareholders until they form a group holding more than 50% of the voting rights.

The other opinion is that block investors have enough strength to compel companies to pay dividend in order to reduce agency conflict as well as having powerful seat in the board room to influence management decision to protect their investment.

Block-holder owners can putting pressure on managers to report favourable financial performance which leads to the enhancement of the stock price of their investments, unlike small shareholders whom have no power to control the managers (Shleifer and Vishny, 1997). Indeed, ownership concentration may force managers to involve in income increasing in order
to report better performance. Bethel et al. (1998) show that block-holders put pressure on the managers to take a specific actions or face risk of being dismissed every time the company have a poor performance.

Nuraddeen and Hasnah (2015) found a positive relationship between block-holders and dividend policy of eight listed conglomerates firms in Nigeria for the period 2001-2010.

Thanatwee (2013) examines the relationship between ownership structure and dividend policy in Thailand. The result shows that firm with high ownership concentration and an institution compared with an individual is more likely to pay dividends. Mirzae (2012) confirms this result in companies listed on Tehran stock exchange by taken 88 sample.

The preceding discussion leads to the following hypothesis:

H2: There is a negative relationship between ownership concentration and dividend policy

2.2 Ownership Identity and Dividend Policy

2.2.1 Managerial Ownership

Agency theory clearly stipulates that managerial ownership is an important mechanism for good governance that could foster a greater alignment the interests of managers with those of shareholders. Thus, managerial ownership could serve as an agency-cost reducing mechanism and accordingly increases the firm value.

Overall, it has to be noted that the managerial decisions influence on the choices of investment by investors. Indeed, the managerial decisions may alter the evaluation of future corporate performance (De Angelo al.1996).

On this basis, we restrict the existence a relationship between managerial ownership and dividend policy.

Thus, the more the managerial ownership is important, the more shareholding managers will be motivated to seek more profitable projects and accordingly the control cost of directors would decrease. Denis et al. (1997) confirm that finding. Nuraddeen and Hasnah (2015) show a negative relationship between managerial ownership and dividend policy. Their sample is made of eight listed conglomerates firms in Nigeria for the period (2001-2010).

Nevertheless, other authors have a different vision. They argue that a high managerial ownership increase dividends. This explanation referred to opportunism assumption.

In this context, a high managerial ownership leads to an opportunistic behavior among managers that result in high levels of dividends to control this behavior (Zwiebel, 1996). Fida, and Khan (2012) examine the association between the managerial ownership and dividend policy by selecting 70 for the period (2003-2010).They show a negative relationship between managerial ownership and dividend policy. Sehrish and Afzal (2010) confirm this finding.

H2: There is a relationship between managerial ownership and the dividend distribution ratio.

2.2.2 The Family Ownership
In most emerging economies, companies usually have controlling shareholders that hold significant fractions of stocks, typically founding families. La Porta et al. (1999) stated that family members involve directly in the management of their companies on almost all occasions; therefore, family control is a very effective organisation governance way of monitoring managers to provide more efficient management and supervision, which leads to negligible agency cost. However, according to the works of Maury and Pajuste (2002), the risk of expropriation of minority shareholders is more pronounced in firms controlled by individuals. Connelly (2005) suggest that the dividend cannot be a mechanism for good governance in this type of firms. Indeed, family shareholders have the power to expropriate the other shareholders through the transfer the wealth of the business for their own account. Moreover, Shleifer and Vishny (1997) argued that when shareholders family owners, hold almost full control, they tend to generate private benefits of control (such as expending the companies’ cash flow, paying themselves extreme salaries, providing top managerial positions and board seats to their family members). In these cases, the prominent agency problem is, therefore, expropriation of the wealth of minority owners by the controlling shareholders, which is the conflict between controlling shareholders (principal) and minority shareholders (principal), in other words the principal–principal conflict. Likewise, Villalonga and Amit (2006) stated that families tend to have more motivation to expropriate minority shareholders’ wealth than any other controlling large shareholders. Anderson and Reeb (2003) emphasised that family owners may act for their own interests over the other investors, such as by lessening firm risk, enhancing their control at the cost of minority owners and misusing internal resources by participating in non-profitable projects that benefit them.

Collins et al. (1996) show a negative relationship between family ownership and dividend policy. In this type of firms, authors argue the existence a large asymmetry of information between family members who occupy managerial positions and external shareholders. Indeed, a family firm needs less to report its performance dividends. For Chinese listed firms from 2003 to 2012, Lin et al (2017) find that firms with higher information asymmetry are less likely to pay dividends. Also, Kumar (2004) confirms this finding by using a sample of Indian firms from 1994 to 2000. The author adds that family ownership increases profit opportunities and reduced distribution of dividends. Chen et al. (2005) reported a significant negative association between dividend payouts and family ownership of up to 10 per cent of the firm’s stockholdings and a positive correlation for family shareholding between 10 and 35 per cent for only small Hong Kong companies. Moreover, Wei et al. (2011) found that families have lower cash dividend payouts and lower tendencies to distribute dividends compared to non-family firms in China. Gonzalez et al. (2014) examined the effects of family involvement on dividend policy and how family involvement influences agency cost problems between large and minority
shareholders. Their results showed that family influence in relation to the amount and probability of dividend payments varies considerably according to the type of family involvement.

Research on the distribution of family businesses generally shows that they distribute less than non-family owned businesses. Thus, we hypothesize the following:

**H3:** There is a negative relationship between family ownership and the dividend distribution ratio.

### 2.2.3 Institutional Ownership

Institutional investors have become as perhaps the leading player in firms. They comprise a mechanism of corporate governance and invest in corporate control because holding more shares with voting rights in ownership structure.

These shareholders are characterised by active involvement. Jensen and Meckling (1976) argue that the agency costs may be limited by control activities assumed by institutional investors. A study by Grinstein and Michaeley (2005) show a relationship between institutional ownership ownership and dividend distribution rate. The authors add that this result is due to the various control measures carried out by them. Cook and Jeon (2006) confirm this finding on a sample of Korean firms. Renneboog and Trojanowski (2007) show, respectively, that in the British context, the presence of holders in control blocks improves, in order to limit the dividend payout ratio. Also, institutional investors constitute a guarantee for the protection of minority shareholders' interests particularly in an environment marked by little protection of shareholders and an ownership concentrated (Ginglinger and L'Her, 2002). Greater attention has been paid to the monitoring role of institutional investors in dividend policy literature. A number of studies investigated the impact of institutional investors on dividend policies of firms listed in emerging markets; however, they generally reported evidence supporting two opposing arguments.

Grinstein and Michaeley (2005) show that ownership of institutional investors is positively related to the dividend distribution rate and this is due to the supervisory functions exercised by them. This result is confirmed in the case of British companies by Short et al. (2002) and Korean companies by Cook and Jeon (2006).

Renneboog and Trojanowski (2007) and Pindado and De la Torre (2005) show, respectively, that in the British and the Spanish contexts, the presence of holders in control blocks improves, in order to limit the overinvestment problem, or the dividend payout ratio.

Moreover, in countries with little protection of shareholders; interests, institutional investors constitute a guarantee for the protection of minority shareholders' interests, especially when ownership is concentrated (Ginglinger and L'Her, 2002). Abdelsalam et al. (2008) documented a positive association between institutional ownership and dividend policy decisions of
Egyptian companies. Similarly, Manos (2002) found the impact of institutional ownership on the payout ratios of Indian firms was positive.

Moreover, in countries with little protection of shareholders; interests, institutional investors constitute a guarantee for the protection of minority shareholders' interests, especially when ownership is concentrated (Ginglinger and L'Her, 2002).

However, another trend of research predicts a negative relationship between the presence of institutional investors and dividend policy. Indeed, institutional investors act as a monitoring mechanism on the firm’s management, consequently reducing, in general, the need for high dividend payouts.

In addition to this, given the importance investors attach to any project and reinvestment, shareholders prefer to retain and reinvest profits rather than distribute them. Kouki and Guizani (2009) reported that Tunisian firms paid out lower dividends when they had higher institutional ownership, which is consistent with the argument that the ability of institutions in terms of more effective monitoring reduces the need for the dividend-induced mechanism.

Considering that the Saudi governance code urges institutional shareholders to actively seek to enhance governance, performance, and disclosure practices in Saudi companies and by referring to assumption of active behaviour from institutional investors exercising control mechanism for the good governance, we can formulate the following hypothesis:

**H4**: There is a positive relationship between the institutional ownership and the dividend distribution rate.

### 3. Empirical Analysis

Despite a great deal of prior research on the subject, few studies investigated the agency and ownership-based explanations of dividend policy. This paper therefore attempts to provide more insights into the literature by providing an empirical analysis on the relationship between corporate payout policy and ownership characteristics.

#### 3.1 Data Collection

In order to conduct this empirical study, a sample of Saudi listed companies from the Saudi Stock Exchange (TADAWUL) has been used. The study population is all firms listed on the Saudi Stock Exchange during 2012-2015. First, due to the fact that banks and financial institution are subject to certain regulations not applicable to other companies operating in other sector, they have been excluded from the sample. Second, the sample has been reduced further due to lack of some companies’ data.

Thus, the final sample comprises 100 firms listed on the Saudi Stock Market (Tadawul) over a four-year period from 2012 to 2015, spread across 13 different sectors, and thus 400 firm-year observations for non-financial firms.

The data collection process was undertaken via manual content analysis of all the annual
reports of the firms as well as some variables were collected from Saudi Stock Exchange (Tadawul) official website.

3.2 Definition and Variables’ Measures

The distribution ratio of the dividend is equal to the total gain of the dividend combined with its net worth. This ratio allows one to estimate the arbitration undergone between the distribution of resources and the return of profit. Other researchers such as Al-Najjar and Kilincarslan (2016) and Thanatawee (2014) use dividend payout ratio in their studies when measuring the effect of ownership structure on dividends.

Ownership concentration: The percentage of shares held by the first large shareholder.

Managerial ownership: This proportion is defined as the percentage of shares owned by any employee, manager or a director of the same firm.

Family ownership: It is measured by the percentage of shares owned by family members.

Institutional ownership: It is defined as the percentage of shares held by institutional investors.

3.3 Control Variables

Firm size (Size): It is a measure of the agency costs, which are higher in larger firms (Jensen et Meckling 1976). Firms of a larger size have easier access to the financial market, which reduces the degree of dependence on their own funding reserves. Redding (1997) observed in his study that large corporations are more probable to pay dividend to their shareholders. Firm size is the natural log of total assets at the end of fiscal year t.

Leverage ratio (Levre): According to Fama and French (2001) and Grullon and Michaely (2002) the firms with low amount of debt have higher tendencies to pay dividends. Leverage ratio is a measure of long-term financial distress and the degree of firm financial leverage.

Profitability (ROA): Applying the signal theory, according to which the payment of dividends is a signal of positive performance, Farinha (2003) find a positive connection between the profit returns and the payment of dividends. As ROA is connected with higher earnings, the higher the firm will pay dividends, and therefore the relationship between ROA and dividend payout should be positive (Al-Najjar and Kilincarslan, 2016). This variable is measured by the return on assets.

Table 1: Definition and variables’ measurement

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIV</td>
<td>The rate of dividend distribution</td>
<td>The natural logarithm of Payout ratio</td>
</tr>
<tr>
<td>Independent variables</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The first large shareholder

Managerial ownership

Family ownership

Institutional investor ownership

Firm size

Leverage ratio

Profitability

The natural logarithm of total assets

Total debt to total assets ratio

Net income/total assets

The percentage of shares held by the first large shareholder.

The percentage of shares held by any manager

The percentage of shares held by family members

The percentage of shares held by institutional investors

3.4 Methodology

According the hypotheses proposed, this study constructs a regression model for carrying out empirical analysis in order to estimate the impact of the ownership structure on the politics of dividend distribution. The multiple regression methodology with panel data is used. Panel data analyses include two special dimensions: an individual dimension, as indicated by the i index, standing for the company, and a t index standing for the period dimension (Gujarati, 2004). The Hausman test is used to choose between fixed effect and random effect models. The results of the Hausman test, not reported here, show that the fixed effect model is preferable to the random effect.

We estimate the following models:

Model 1:

$$DIV_{it} = \alpha_0 + \alpha_1 \text{Conc}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{Levre}_{it} + \alpha_4 \text{ROA}_{it} + u_{it}$$

Model 2:

$$DIV_{it} = \alpha_0 + \alpha_1 \text{Mang}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{Levre}_{it} + \alpha_4 \text{ROA}_{it} + u_{it}$$

Model 3:

$$DIV_{it} = \alpha_0 + \alpha_1 \text{FAM}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{Levre}_{it} + \alpha_4 \text{ROA}_{it} + u_{it}$$

Model 4:

$$DIV_{it} = \alpha_0 + \alpha_1 \text{IINS}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{Levre}_{it} + \alpha_4 \text{ROA}_{it} + u_{it}$$

4. Analysis and Discussion

4.1 Descriptive Statistics

Table 2 summarizes the descriptive statistics of our sample. Not surprisingly, Saudi firms exhibit a very concentrated ownership structure. The average of shares owned by the main shareholders is 26.83%. This Ownership concentration in Saudi Arabia differs considerably
from the U.S. Rubin (2007) shows that the majority shareholder holds on average 5.10%, to 9.79% according to Dennis and Weston (2001) whereas Heflin and Shaw (2000) find that ownership concentration is about 12.3%. Table 2 indicates that the the institutional investors have on average 20.39%. This is an indication that institutional investors participate more and more in the ownership sturcture of Saoudi firms. However, family ownership remains high with rising participation averaging 13.5 %. The averaged managerial ownership is 3.79% with a maximum of 45.00%.

Table 2: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Std. dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>N.Obsr</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>DIV</td>
<td>0.3418</td>
<td>0.24500</td>
<td>0.3936</td>
<td>0.0000</td>
<td>2.9400</td>
</tr>
<tr>
<td>Conc</td>
<td>0.2683</td>
<td>0.2000</td>
<td>0.1998</td>
<td>0.0055</td>
<td>0.9500</td>
</tr>
<tr>
<td>Mang</td>
<td>3.7979</td>
<td>0.0000</td>
<td>11.8722</td>
<td>0.0000</td>
<td>45.0000</td>
</tr>
<tr>
<td>FAM</td>
<td>13.536</td>
<td>0.0000</td>
<td>12.4048</td>
<td>0.0000</td>
<td>95.0000</td>
</tr>
<tr>
<td>IINS</td>
<td>0.2039</td>
<td>0.1700</td>
<td>0.2166</td>
<td>0.0000</td>
<td>0.8400</td>
</tr>
<tr>
<td>Levre</td>
<td>0.5287</td>
<td>0.1035</td>
<td>5.1440</td>
<td>0.0000</td>
<td>93.5652</td>
</tr>
<tr>
<td>ROA</td>
<td>0.2093</td>
<td>0.0500</td>
<td>2.0064</td>
<td>-0.6000</td>
<td>37.1700</td>
</tr>
</tbody>
</table>

Table 3 displays the results of Pearson’s correlation and Variance Inflation Factors (VIF) for the independent variables included in the multivariate analyses. The table reveals that there are significant relationships between independent variables; however, there is no high correlation between any two of the variables, although a few variables are moderately correlated. Moreover, the VIF statistics are further used to check whether multicollinearity exists between independent variables. As a rule of thumb, the VIF values larger than 10 generally suggest multicollinearity. Tolerance (calculated as 1/VIF) is also computed to check the degree of multicollinearity; if a tolerance value is lower than 0.1, which corresponds to a VIF value of 10, it implies multicollinearity. As reported in the table, none of the VIF values exceeds 10, nor are the tolerance values smaller than 0.1, the results, therefore, suggest that there is no serious multicollinearity.

Table 3: The Pearson correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>Conc</th>
<th>Mang</th>
<th>FAM</th>
<th>IINST</th>
<th>SIZE</th>
<th>ROA</th>
<th>Levre</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conc</td>
<td>1</td>
<td>0.2459</td>
<td>0.2725</td>
<td>0.0495</td>
<td>0.4132</td>
<td>-0.0469</td>
<td>-0.0443</td>
<td>1.53</td>
</tr>
<tr>
<td>Mang</td>
<td>1</td>
<td>0.6965</td>
<td>0.1110</td>
<td>0.1163</td>
<td>-0.0157</td>
<td>-0.0231</td>
<td>1.63</td>
<td></td>
</tr>
</tbody>
</table>
Results show that the ownership concentration does not affect the level of distributed dividend for firms listed at the Saudi Arabia Stock Market. The result not supports the hypothesis suggested by Easterbrook (1984) that dividends contribute to discipline management and may be a substitute for shareholder monitoring. This pattern contradicts also the argument raised by Shleifer and Vishny (1997) that dominant shareholders prefer to extract private benefits, such as favorable transfer pricing between controlled entities or expropriation of valuable business opportunities, rather than receive dividends that benefit equally majority and minority shareholders.

There is however, a positive significant relationship between managerial ownership and dividend rate. We confirm our hypothesis on the existence of a positive relationship between managerial ownership and dividend payout. This finding not support the free cash flow hypothesis-an extension of agency cost theory which suggests that dividend decreases with the increasing power of managers. The finding is in line with those of Mizael (2012) and contrary to those of Adeiza et al. (2015). A high managerial ownership leads to an opportunistic behavior. Also, we show a negative relationship between family property and the level of dividend distribution. The finding supports the agency hypothesis and expropriation hypothesis, particularly concerning the property of management and it associated with low levels of dividend distribution. When family shareholders, hold almost full control, they tend to generate private benefits of control. In these cases, the prominent agency problem is, therefore, expropriation of the wealth of minority owners by the controlling shareholders, which the principal–principal (PP) conflict. Hence, family owners may act for their own interests over the other investors, such as by lessening firm risk, enhancing their control at the cost of minority owners and misusing internal resources by participating in non-profitable projects that benefit. However, this result not conforms to the results found by Setia-Atmaja et al. (2007) in a sample of Australian firms between 2000-2005 which found a positive correlation between family property and the distribution of dividends up to 39% of the right to vote.

In addition, we have identified a negative relationship between institutional investor ownership and the rate of dividend distribution. The presence of these investors are a good example of a different approach to conflict resolution between stakeholders. They carry out constant monitoring to control management in order to limit the abuse of funds. Thus,

<table>
<thead>
<tr>
<th>FAM</th>
<th>1</th>
<th>0.0203</th>
<th>0.0895</th>
<th>-0.0238</th>
<th>-0.0142</th>
<th>1.29</th>
</tr>
</thead>
<tbody>
<tr>
<td>HINST</td>
<td>1</td>
<td>0.3161</td>
<td>-0.0516</td>
<td>-0.0628</td>
<td>1.13</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>1</td>
<td>-0.2143</td>
<td>-0.1998</td>
<td>1.06</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>1</td>
<td>0.0958</td>
<td></td>
<td>1.41</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.2 Multivariate Analysis
institutional investors can serve the same purpose as dividend payouts.

This result confirms other studies as Mirzae (2012). According to this author, it is possible that these firms prefer to hold onto these funds as opposed to exploit them in projects within the group. This led to a low value dividends. However, this result is opposed to the one found by Al-Najjar and Kilincarslan (2016), Nuraddeen and Hasnah (2015) and Adeiza et al. (2015). With regard to control variables, the results show that size has a positive impact on the rate of dividend distribution. As the size of the company grows, the level of distribution increases. Indeed, large companies are characterised by high levels of rate of dividend distribution. Debt can act as a mechanism of control in the same way as the politics of dividends can (Collins and Wansley, 2003). Firms with higher growth opportunities and with more debt are less likely to pay dividends (and distribute lower dividends) in the Saudi Arabia Stock Market.

Result indicates also that ROA is likely to have significant positive impact on dividend payout ratio. This suggests that profitability is a major determinant of dividend policy.

Table 4: Linear regression

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constante</td>
<td>-0.063</td>
<td>-0.084</td>
<td>-0.075</td>
<td>-0.095</td>
</tr>
<tr>
<td>Conc</td>
<td>0.002</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mang</td>
<td></td>
<td></td>
<td>0.005**</td>
<td></td>
</tr>
<tr>
<td>FAM</td>
<td>-0.097*</td>
<td>-0.097*</td>
<td>-0.1739</td>
<td></td>
</tr>
<tr>
<td>IINST</td>
<td></td>
<td></td>
<td>-0.212**</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.029**</td>
<td>0.031**</td>
<td>0.028**</td>
<td></td>
</tr>
<tr>
<td>Levre</td>
<td>-0.150***</td>
<td>-0.150***</td>
<td>-0.150***</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.389***</td>
<td>0.388***</td>
<td>0.376***</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>3.508</td>
<td>3.513</td>
<td>3.518</td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>9.1326 (0.000)</td>
<td>9.1523 (0.000)</td>
<td>9.1486 (0.000)</td>
<td>9.1563 (0.000)</td>
</tr>
</tbody>
</table>

***, **, * T-statistics are significant at the 1%, 5% and 10% levels respectively

5. Conclusion

This study investigates the role of ownership structure in determining corporate dividend
policy listed in Saudi Arabia Stock Market. Relying on insights from agency, opportunism assumption and stakeholder theories, this study draws from these strands of the literature, supplemented by the implications of the Saudi context, to identify potential ownership structure that might affect the dividend policy.

Theoretical and empirical literature treats the notion of the division of power at the heart of the firm by placing emphasis on the politics of dividends. To understand the relationship between politics of dividends and ownership structure, our analysis is based on investor heterogeneity. Indeed, each shareholder has different objectives and motivations according to their category. The results of this paper provide a valuable benchmark for such a research. Tests have been carried out with the view that the dividend policy of firms may be used to expropriate wealth from minority shareholders by large shareholders.

A sample of 100 Saudi listed corporations from 2012 to 2015 has been considered. Unlike our prediction, our results indicate that shareholding by management represents a positive coefficient. The presence of a high managerial ownership promote an opportunistic behavior of managers which arouses a high levels of dividends to control this behavior. It has been argued that the firm’s dividend policy has an important part to play in curtailing agency costs arising from the conflicts between the firm’s stakeholders.

Our results also show the existence of a negative correlation between family ownership and the level of dividend distribution. The result supports the agency and expropriation hypothesis. However, our evidence suggests that the increasing ownership of Saudi institutional investors reduces in general the need for high dividend payouts, which may be due to their efficient monitoring on the firms’ management. These investors prefer to retain the funds and reinvest them into projects as opposed to distribute them.

Overall, our findings reveal that cash dividends are not used as a monitoring mechanism by investors to control for agency problems in Saudi Arabia Stock Market. This raises the need for further research regarding the effect of corporate governance on dividend policy behaviour. An other possible venue for future extension of the present study is to examine the interactions between dividend policy and other financial decisions and ownership structure.

References


