The Relationship between Ownership Structure and Dividend Policy: An Empirical Investigation

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Abstract

This paper examines the possible association between ownership structure, dividend payout policy. It is also one of the very first examples, which tries to detect any potential association in ownership structure, and well established dividend payout models in context of an emerging market .The present study examines the payout behavior of dividends and the association of ownership structure for Jordanian industrial firms over the period 2005-2009. The results consistently support the potential association between ownership structure and dividend payout policy.

The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. More precisely, the results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment. The regression results conducted on five models show a strong effect of the free cash-flow on dividend policy. The empirical evidence about the effect of firm size on the level of dividend shows a negative and significant effect. Larger firms are less likely to pay out dividends. Moreover, those firms with better investment opportunities are more likely to pay dividends and firms with high leverage tend to distribute a lower level of dividends.

Keywords: *Dividend policy, ownership structure, Cash dividends.*

JEL classification: G32, G35,G38.

1. Introduction

Corporate ownership through pyramid structures is popular around the world due to the limited responsibility and private benefit of control rights (Attig et al., 2003). Ultimate shareholders can build their corporate structure through a pyramid with limited costs. This phenomenon is more significant in countries and regions with weaker laws and undeveloped economies (Claessens et al., 2000). In

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China, both government and entrepreneurs control a large number of listed firms through pyramid structures (Fan et al., 2005; Zhu, 2006).

This study tests the association between dividend payments and state ownership of firms in Jordan as the more dominant of two conflicting effects. First, the capital constraint hypothesis concludes that privately controlled firms (NSOEs) pay less dividends than SOEs because NSOEs are more capital constrained. In Jordan NSOEs have more difficulty in raising both equity and debt capital than SOEs. Debt financing is more difficult for NSOEs because banks, which are historically state-controlled, are more biased towards lending to SOEs; and public debt markets are almost nonexistent (Brandt and Li, 2003). Equity financing is more difficult for NSOEs because the government decides on which firms issue shares, and SOEs are favored over NSOEs in allocation of rights to issue new shares (Green, 2003). In contrast, the agency cost hypothesis concludes that NSOEs pay more dividends than SOEs.

Minority shareholders prefer more dividends to less dividends in order to reduce agency costs of free cash flow (consistent with Jensen, 1986), and in Jordan minority shareholders of NSOEs have more influence on corporate policy than do minority shareholders of SOEs (Beltratti and Bortolotti, 2006). Thus minority shareholders of NSOEs can more successfully influence their firms to pay dividends. Our tests show that consistent with the capital constraint hypothesis, state-controlled firms pay more cash dividends than privately controlled firms.

The second set of analyses examines the impact of longer control Jordan on firms' dividend policies. We test the efficacy of the internal capital market hypothesis, which concerns the impact of a longer control chain on the dividend policy of listed firms in Jordan. Longer control chains—i.e. corporate layers in the pyramid structure—can result in investable funds being more fully utilized within the firm, a well-known benefit of internal capital markets for firms in corporate pyramids (Stein, 1997).

Dividend payout decisions are one of the fundamental components of corporate policy and have been viewed as an issue of interest in the financial literature. Dividend, reward to stockholder for their investment and risk bearing, depends on various factors. Foremost of these determinants are level of profits, financing constraints, investment opportunities, size of the firm, and pressure from shareholders and regulatory authorities. The relationship between dividend policy and agency costs has been a recent development in the corporate finance theory focusing on the problem of how dividend policy can be used in reducing the agency cost. This association is based on the idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the managers are not in a position to abuse their position. The basic motivation for the agency models of dividends is that unless a firm's profits are paid out as dividends, corporate managers may divert the cash flow for personal use or pursue unprofitable investment projects.

Recent studies such as Claessens et al. (2000), Faccio et al. (2001) observe that many public listed companies located outside the US and UK have high

concentration of ownership, with a single large shareholder or shareholder group predominantly controlling companies. The evidence of large shareholders in developed countries beside US and UK, European countries and East Asian countries are against the concept of the separation of ownership from control viewed by Berle and Means (1932). The effective control of the large shareholders enables them to influence the decisions regarding how companies are run and also decisions on corporate policies. However, as stated by Holderness (2003), the role of large shareholders is not well developed in the ownership literature, especially the role of the largest shareholder. The largest shareholder is a unique group of shareholder, as their holding can be associated with benefits and costs, especially the underinvestment costs (Truong and Heaney, 2007).

Dividend policy is one of companies' decisions that are found to be influence by corporate ownership structure. Dividends can be used to mitigate agency problems in a company (Jensen, 1986), thus substitute large ownership as monitoring tools. On the other hand, large shareholders could use their power to expropriate corporate resources for their own private consumption

The main focus of this study is to investigate the effect of the largest shareholder on the corporate dividend policy by examining Jordanian listed companies from 2005 to 2008. also this study provides an interesting background to examine this issue as the ownership structure is concentrated and large shareholders are in control.

The remaining sections of the paper are organized as follows: Section 2 presents a review of literature. Section 3 describes data and research methodology. Section 4 reports results of the statistical analyses. Section 5 summarizes the main conclusion and recommendations of the study

2. Literature Review

A substantial theoretical literature, including Bhattacharya (1979: 1980), Linter (1956), Lintner (1962: 1970), Miller and Rock (1985), suggests that corporate dividend policy is designed to reveal earnings prospects to investors. Fama and Babiak (1968) argues that the _rms a priory set their target dividend level and try to stick to it. In addition there may be interrelation between dividend payout policy and agency cost (Easterbrook 1984). Easterbrook (1984) presents two agency cost explanations for changes in dividend payouts. Lalay (1982) investigate a large sample of bond indentures focusing on conflict between shareholders and bondholders on the dividend decision. Bhattacharya (1979: 1980) derive the existence conditions for a non dissipative signaling model and show that dividends are signals for future cash flows.

According to Jensen (1986), firms with substantial free cash flows have a tendency to have high agency costs. The existence of free cash flow may lead management to undertake sub-optimal investment projects. To reduce cash flows available to managers and then reduce agency costs, Jensen (1986) suggests that it is better to return the excess cash to shareholders as dividend in order to reduce the

possibility of these funds being wasted on unprofitable projects. Crutchley and Hansen (1989) test whether insider holding leads to lower agency costs by analyzing the relation between ownership, dividend policy, and leverage and conclude that manager controls agency costs through financial policy trade-off. *Jensen et al.* (1992) analyze the determinants of cross sectional differences in insider holdings, debt and dividend policies of firms.

They assume that if the insider owners hold the major shares of the company then management naturally prefers not to declare more dividends. This is consistent with Rozeff's model who proposed that high insider holding acts as a substitute for dividends as agency costs reducing benefit. Dutta et al. (2000) extend the prior research of Jensen et al. (1992) by examining the impact of the insider ownership level on corporate policy choices Mollah et al. (2000) test the influence of agency costs on dividend policy in an emerging market. The authors argue that the emerging markets are quite different from developed markets in all respects. The dividend behaviors of companies listed on these two markets are then assumed to be different. From a sample of 153 non-financial sector companies listed on Dhaka stock Exchange over the period of 1988-1997, *Mollah et al. (2000)* find a result supporting the agency cost theory of dividend policy

Dividends can also be utilized by controlling shareholders to off-set the minority shareholders' concern in an environment where expropriation by controlling shareholders prevails (Faccio et al. 2001). However, in the presence of large shareholders, lower dividend payments can be observed as dividends are not needed to function as an alternative agency control device (Goergen et al. 2005). Dividends are viewed as a substitute mechanism to large shareholder ownership in mitigating agency conflicts. Several studies have examined the relationship between the largest shareholder and dividend policy. A negative relationship between the largest shareholder and dividends are observed by Gugler and Yurtoglu (2003), Maury and Pajuste (2002), Mancinelli and Ozkan (2006), Renneboog and Trojanowski (2007) for companies from Germany, Finland, Italy, Netherland and UK, respectively. While a positive association between the largest shareholder and dividend payouts is observed by Truong and Heaney (2007) based on the sample drawn from 37 countries.

Recent studies has analyzed the effect of other large shareholders, beside the largest shareholder on companies based from agency perspectives. Other large shareholders could monitor the controlling shareholder (Pagano and Roell 1998). The monitoring role play by the other large shareholders thus, could limit the expropriation of minority shareholders' resources.

However, other large shareholders may collude with the controlling shareholder in expropriating corporate resources and share the private benefits (Faccio et al. 2001; Pagano and Roell 1998). Empirical evidence on the impact of other large shareholders on dividend policy has been limited. Faccio et al. (2001) find that the presence of multiple large shareholders in Europe minimizes the expropriation activity of the controlling shareholder, thus resulting in higher dividend payments, while in Asia, lower dividend rates are being observed. They

conclude that the controlling shareholder collaborate with other large shareholders to expropriate the minority shareholders in Asia. Several single country studies that analyzed the effect of other large shareholders, particularly the second largest shareholder on dividend policy yield mixed results. For Finland, Maury and Pajuste (2002) show that dividend payouts are negatively related to the second largest shareholder. In contrast, Gugler and Yurtoglu (2003) find a positive relationship between the second largest shareholder and dividend payouts in Germany. Lv and Zhou (2005) suggest the phenomenon that large amounts of stock in the hands of controlling shareholders are not circulated to be special in Chinese securities market.

More recent works suggest the benefits of large shareholders in a different context. Laporta et al (1999), Bebchuk (1999) and Gomes (2000) argue that in the countries when the legal and institutional frameworks do not offer sufficient protection for outside investors, concentrated ownership can mitigate the shareholder conflicts. The benefits of large shareholding highlighted in the theoretical and empirical literature may be summarized in terms of the convergence of interest hypothesis and the efficient monitoring hypothesis. According to these hypotheses, large shareholders play a basic role in corporate governance and hence reduce agency costs. When a firm has free cash flows, managers are not allowed to expend them on unprofitable projects but they are forced to distribute these funds as dividends. According to the substitute model of dividends developed by Laporta et al (2000), dividend policy can be seen as a substitute for conflicts of interests between insiders and outsiders.

Maury and Pajuste (2002) examine the relationship between controlling shareholders and dividend policy for Finnish listed firms. They report that dividend payout ratio is negatively related to the control stake of the controlling shareholder. They interpret this result as an evidence for the existence of private benefits of control by strong blockholders. Moreover, their results also indicate that different owner type in control influence dividend policy differently. They find that if the CEO is among the three largest shareholders firms pay lower dividends. Gugler and Yurtoglu (2003) claim that in the context of Germany, the existence of large blockholdings, is related to a significantly lower payout ratios. Thomsen (2004) has examined corporate dividends payouts as a moderating mechanism between blockholder ownership and the stock market value of European firms. Using dynamics panel data analysis he found a negative effect of the level of blockholder ownership on dividend payout. Furthermore, separate estimates by the owner identities produced significantly negative blockholder level effects for bank and government ownership while the evidence for other ownership groups (family, company, institutional investors) was mixed

Empirical tests on the impact of multiple large shareholders on dividend policy are limited. Only few studies have dealt with this concern. Faccio et al (2000) show that dividend rates are higher in Europe, but lower in Asia, when there are multiple large shareholders, suggesting that they dampen expropriation in Europe, but exacerbate it in Asia. Maury and Pajustie (2002) find that the presence

of another larger shareholder for Finnish companies affects the payout ratio negatively. However, in the context of Germany, Gugler and Yurtoglu (2003) find that larger holdings of the second largest shareholder increase the dividend payout ratio.

3. Data and Methodology

3.1 The Model Proposed and Definition of Variables

Based on predictions of the finance theory and our earlier discussion, we consider the empirical model described as follows:

$$Div = c_0 + b_1\, FCF + b_2\, Lev + b_3\, Q + b_4\, Size + b_5\, Inst + b_6\, Maj + \varepsilon_{it}$$

The dependent variable, DIV is the dividend per share. This variable is measured by dividing total dividend distributed by the number of outstanding equity.

Free cash-flow, FCF, is defined as cash flow per unit of asset. Our measure of free cash flow develops from Crutchley's (1989) study of dividend policy as part of managerial decision-making. The author defines FCF as the funds available to managers before discretionary capital investment decisions. This includes net income, depreciation, and the interest expense of the firm. Needed capital expenditure is subtracted from these cash flows to account for investment in positive-NPV projects. Jensen's (1986) free cash-flow hypothesis suggest that if firms have cash in excess of their requirement of investment in positive-NPV projects, it is better to pay these cash as dividend in order to reduce managerial discretionary funds and thus avoid agency costs of free cash-flow.

Future growth opportunities, **(Q)** , is measured as the ratio of market to book value of equity in accordance with Farinha (2002). Our model predicts a negative relationship between the anticipated growth and dividend payout ratio since firms prefer to avoid transaction costs due to external financing and retain a greater proportion of cash if they have opportunities of growth. Last studies such as the Rozeff's study find that dividend policy is negatively influenced by the potential growth of the firm.

SIZE is a control variable that measures the size of the firm. It is defined as the log of total assets. Smith and Watts (1992), document that firms with more assets in place have higher dividend payout ratios. However, Gadhoum (2000) showed that the signaling efficiency of dividends diminishes for the larger firms; since larger firms produce much information than smaller one. Therefore, the inclusion of size may be best regarded as a simple control variable, with no particular sign expectation.

Leverage (LEV) may also influence firm's choices of payout policy. This variable is defined as the long term debt deflated by the book value of equity. According to Jensen (1986) and Stulz (1988) financial leverage has an important

role in monitoring managers thus reducing agency costs arising from the shareholder-manger conflict. Moreover, some debt contracts include protective covenants limiting the payout. Therefore, we expect a negative relationship between payout ratio and leverage.

MAJ is a dummy variable that takes the value 1 if the ownership is concentrated in the hands of five shareholders and 0 if the ownership is dispersed and the five largest shareholders do not have a high ownership. The dominant shareholders can form a coalition to control the firm and then expropriate minority shareholders. In this case, we expect a negative effect of the presence of multiple shareholders on dividend policy. On the contrary, large shareholders can play a monitoring role and thus reducing private benefits of control. Then, a positive relationship will be established between multiple shareholders and dividend payout.

INST is the percentage of equity owned by institutional investors. Institutional blockholders may act as a monitoring device on the firm's managers. Allen and Michaely (2001) argue that large institutional investors are more willing and able to monitor corporate management than are smaller and more diffuse owners. Short et al. (2002) examine three alternative dividend models and find a positive relationship between dividend payout and institutional ownership for the UK firms. Therefore, for institutional controlled firms, we expect a high dividend payout

In line with this view, the hypotheses of this study are as follows:

Hypothesis 1. The dividend policy of Jordanian industrial companies is negatively related to the ownership interest of the largest shareholder.

Hypothesis 2. The dividend policy of Jordanian industrial companies is positively related to the ownership interest of the second largest shareholder ownership

3.2 Sample Selection and Descriptive Statistics

This section describes (i) sample selection (ii) descriptive statistics:

Sample selection: The sample was chosen from all Jordanian industrial firms listed on the Amman stock exchange3 (ASE) for the period 2005 to 2009. The data used in the analysis were collected from the annual reports of the Amman stock exchange. The final sample contains 56 firm-observations.

Descriptive statistics: Descriptive statistics for the relevant variables on the full sample of firms are presented in table 1. The statistics presented show two important remarks: On overage, the dividend per share is .041 distributed to shareholders. It shows a considerable deviation from 0 dividend to 8 dinars distributed. And the mean of FCF is 6.96 , LEV is 6.4 , FGO is 56.23 and mean asset size is 7.16 and MAJ is .16.

Table 1 Descriptive Statistics for (FCF, LEV, FGO, SIZE , INST, MAJ and DIV) Overall Years

year	Index	FCF	LEV	Q	SIZE	MAJ	DIV
2005 TO 2009	**Mean**	6.961	.648	56.23	7.16	.166	.041
	N	224	224	224	224	224	224
	Std.Dev	3.23	.882	15.35	.502	.373	.096
	Minimum	-8.73	.001	2.24	6.01	.001	.001
	Maximum	3.3E08	7.88	7.74	8.94	1.00	.890

4. Empirical Regression Results:

This paper provides an empirical examination of the agency theory explanation of the dividend policy in Jordan. The major objective of this study is to identify the influence of blockholders on the level of dividend distributed. The sample was 56 firms over the period 2005-2009.

From table 2 to 7 it can be seen that in all regressions of the variance of the dependent variable explained by the independent variables .This result reaffirms the importance of agency and ownership structure variables in determining dividend policy of Jordanian firms. Moreover, all the regressions show that dividend payment level is related positively to the free cash-flow (FCF). The coefficients are significant at a level of 1% and 5% except 2007 . These results support Jensen's (1986) free cash-flow hypothesis that if the firm has cash in excess of what is required to finance positive NPV projects then the firm either pay dividend or retire its debts to reduce the agency cost of free cash-flow.

The company's financial leverage has a negative influence on the dividend distributed. This variable (measured by Lev) but it is significant only in the last model at all years. This evidence confirms our prediction that debt has a negative impact on dividends because of debt covenants and related restrictions imposed by debtholders. This result invalidates the wealth transfer hypothesis. According to Kalay (1982), firms with controlled stockholders, try to transfer wealth from bondholders by increasing the outstanding bonds and pay out of the proceeds as dividends (debt financed dividends).

The coefficients of the variable Q are positive and significant at a level of 1% and 5% for all the four regressions (not including regression year 2007). Those results contradict our hypothesis that growth opportunities are related negatively to the level of dividend in order to avoid transaction costs due to external financing. One explication of this positive effect is that our sample contains firms that have a highly institutional ownership, in particular firms. Therefore, the costs of access to the external financing are relatively low and for these firms the transaction costs are low. For these reasons, firms with high growth opportunities pay high dividend and finance their projects with external resources.

Firm size has a negative effect on dividend policy. In all years except year 2007 where this variable is introduced, the coefficients are negative and significant

at the 1% and 5% level of confidence. This evidence supports the argumentation of *Barclay et all*. (1995) that larger companies have more liabilities, because debtholders have more confidence in larger firms. Therefore, larger firms would pay out low dividend in order not to borrow even more capital.

Jordanian companies pay out lower dividend when they have higher Institutional ownership. They prefer paying interests to themselves than distribute dividend to all shareholders. This is not in accordance with the preference of small shareholders that seek profits in short terms. Another argument which may explain this evidence is the monitoring role of institutional investors. If managers are not monitored by these blockholders, they can divert resources to their own consumption than paying them as dividends .The results indicate there are a significant level at 5%, 105 level between INST and dividend except the year 2006.

The results also offer an interesting insight on the role of ownership concentration measured by the five largest shareholders in determining the level of dividend payment. In 50% of cases the coefficients are positive and statistically significant at a level of 5% and 10%. The presence of multiple large shareholders raises the level of distributed dividend. Our finding confirms the result of Faccio et al. (2001) who conclude that dividend rates are higher in Europe when there are multiple large shareholders suggesting that these large shareholders dampen expropriation in Europe. This evidence in Jordanian context strengthens the argument of the positive role of multiple large shareholders in corporate control.

Table 2 Regression Analysis: Ownership Structure and Dividend Policy (2005)

Dependent Variable: Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2005	**R**	.702	.548	.409	.037	.423	.372	.756
	R^2	.493	.232	.167	.001	.315	.125	.571
	Adj- R^2	.484	.217	-.151	-.018	.234	.114	.516
	SIG	.000***	.028**	.002***	.793	..032**	..089*	.000***
	F- test	----	---	---	--	---	--	10.426
	T-test	7.116	2.350	-3.228	-.264	1.895	2.521	--
	Beta Coefficient	.702	.348	-.409	-.037	.223	.272	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

Table 3 Regression Analysis Ownership Structure and Dividend Policy (2006)

Dependent Variable: Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2006	**R**	.326	.090	.361	.034	.012.	.094	.400
	R^2	.106	.008	.131	.001	.000	.009	.160
	Adj- R^2	.089	.011	-.114	-.018	.019	.010	.053
	SIG	.016**	.519	.007***	.806	.934	.497	.200

	F- test	--	--	--	---	---	---	1.496
	T-test	2.484	.650	-2.794	-.246	-.084	-.684	--
	Beta Coefficient	.326	.090	-.361	-.034	-.012	-.094	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

Table 4 Regression Analysis : Ownership Structure and Dividend Policy (2007)

Dependent Variable : Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2007	**R**	.088	.456	.190	.071	.871	.428	.229
	R^2	.008	.343	.036	.005	.655	.331	.052
	Adj- R^2	.011	.316	-.018	-.014	.214	.318	-.069
	SIG	.529	.003***	.168	.612	.012**	.045**	.854
	F- test	---	---	---	---	----	---	.432
	T-test	.634	3.401	-1.399	.510	2.513	2.203	--
	Beta Coefficient	.088	.556	-.190	.071	.471	.228	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

Table 5Regression Analysis : Ownership Structure and Dividend Policy (2008)

Dependent Variable: Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2008	**R**	.497	.375	.272	.024	.367	.396	.350
	R^2	.339	.231	.074	.001	.234	.129	.123
	Adj- R^2	.321	.212	-.056	-.019	.215	.210	.011
	SIG	.043**	.034**	.046**	.862	.076*	. 056*	.379
	F- test	---	--	---	--		---	1.096
	T-test	2.452	2.283	-2.040	-.174	1.984	2.697	---
	Beta Coefficient	.297	.417	-.272	-.024	.367	.396	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

Table 6 Regression Analysis: Ownership Structure and Dividend Policy (2009)

Dependent Variable: Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2009	**R**	.599	.355	.252	.033	.467	.596	.454
	R^2	.449	.211	.084	.011	.244	.159	.223
	Adj- R^2	.331	.223	-.044	-.025	.298	.250	.021
	SIG	.033**	.044**	.036**	.874	.056*	. 046*	.309
	F- test	---	--	---	--		---	1.296
	T-test	2.952	2.872	-2.550	-.194	2.084	2.997	---
	Beta Coefficient	.255	.327	-.251	-.044	.267	.496	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

Table 7 Regression Analysis Ownership Structure and Dividend Policy (2005-2008)

Dependent Variable: Dividend Per Share								
year	**Index**	**FCF**	**Q**	**SIZE**	**LEV**	**MAJ**	**INST**	**Total**
2005-2009	**R**	.649	.216	.140	.119	.428	.423	.191
	R^2	.232	.123	.020	.014	.221	.351	.037
	Adj- R^2	.212	.325	-.015	.010	.124	.214	.009
	SIG	.033**	.045**	.039**	.081*	.056*	.078*	.248
	F- test	---	---	---	--	---	---	1.323
	T-test	2.719	2.240	-2.075	1.756	1.806	1.336	---
	Beta Coefficient	.449	.316	-.140	.119	.328	.223	---

Significant at p <0.10 * Significant at p< 0.05 ** Significant at p< 0.01***

5. Conclusion and Recommendations

This study examines the relationship between large shareholders and dividend policy of Jordanian listed companies. Analysis has been carried out with the view that companies' dividend policy may be used to expropriate wealth from minority shareholders. Jordanian provides an excellent setting to investigate the relationship as the corporate ownership structure is characterized as concentrated in nature

This paper also provides an empirical examination of the agency theory explanation of the dividend policy in Jordanian. The major objective of this study is to identify the influence of blockholders on the level of dividend distributed. To reach this objective, we have used a sample of 56 firms over the period 2005-2009.

The results suggest that ownership structure approach is highly relevant to an understanding of corporate dividends policy in Jordan. More precisely, the results indicate that there is a significantly negative correlation between the institutional ownership and dividend per share, and a significantly negative relationship between the state ownership and the level of dividend distributed to shareholders. The results also indicate that the higher the ownership of the five largest shareholders, the higher the dividend payment. The regression results conducted on five models show a strong effect of the free cash-flow on dividend policy.

The empirical evidence about the effect of firm size on the level of dividend shows a negative and significant effect. Larger firms are less likely to pay out dividends. Moreover, those firms with better investment opportunities are more likely to pay dividends and firms with high leverage tend to distribute a lower level of dividends.

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