

**Does Insider Ownership Matter  
for Financial Decisions and Firm  
Performance: Evidence from  
Manufacturing Sector of Pakistan**

**Haris Arshad & Attiya Yasmin Javid**

# INTRODUCTION

- In an emerging economy like Pakistan, corporate governance and ownership structure of the firms have been one of the most contentious and attention grabbing issues, on the linkage between expropriation and economic development.
- A larger part of the Pakistan's corporate shareholding structure has concentration of ownership, in which the mainstream shareholders not only maintain the control, but are also engaged in managing it.
- Managerial ownership which is considered to have significant impact on firm's characteristics is defined as "the percentage of shares owned by managers and directors of any company".

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- Many researchers highlighted the conflict of interest between managers and shareholders; managerial ownership has been suggested for alleviation of agency problem (Jensen and Meckling, 1976).
- However, no consensus has yet been developed among researchers regarding the multidimensional role played by managerial ownership in corporate literature.
- Present study is an attempt to test hypothetical relationships between management ownership, firm performance and financial policies in case of Pakistan.

# **SIGNIFICANCE OF THE STUDY**

- Most of the research in this field has ignored the emerging economies.
- This study not only segregates the insider ownership into different levels to check its impact on firm performance and agency costs but also extends the analysis beyond the entrenchment theory in order to capture the behavior of curve-linear relationship.
- It would aid the managers in solving the agency conflict with shareholders to ensure the optimal decision making of ownership pattern and the value of their stocks in the capital market.
- Moreover, it would also help the policy makers to pre-identify those levels of ownership which would have positive impact on firm's performance and agency cost.

# MOTIVATION OF THE STUDY

- In Pakistan manufacturing sector almost 60 percent of the firms are family owned and the major shares of these companies are held by the owners and managers of the firms (Cheema et al., 2003) . So there is a very strong motivation to analyze the influence of such an ownership structure on financial policies and firm values particularly.
- Furthermore, the existence of weak legal environment in Pakistan makes it imperative to examine the activities of managers and corresponding consequences.

# THEORETICAL BACKGROUND

## MANAGERIAL OWNERSHIP AND FINANCIAL POLICIES (LEVERAGE AND DIVIDEND)

- **Leverage:** Debt can be used as a pre-commitment device to alleviate agency problems. If managerial ownership and debt serve as substitute penalizing mechanisms, firms with high managerial ownership should use less debt and vice-versa.
- **Dividend:** Firms with high level of managerial ownership will reduce dividend payout because the purpose of managerial ownership is the same as dividend policy that is to reduce agency cost of equity.
- **The theories of the signalization:** Dividend policy is interpreted as information, in other words we can say that it act as a signal for the firm's future projections.
- **The agency theory:** Dividend policy perform crucial role in reducing agency costs which have arisen from the conflicting interests of both the parties.

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## RELATIONSHIP BETWEEN MANAGERIAL OWNERSHIP AND FINANCIAL PERFORMANCE

- ***Incentive Alignment Argument:*** This argument is of the view that performance is an increasing function of managerial ownership.
- ***Entrenchment Argument:*** According to this hypothesis, corporate performance is a decreasing function of managerial ownership.
- ***Takeover Premium Argument:*** Whenever there is more equity ownership by the managers it may lead to increase corporate performance as the managers are more capable of opposing a takeover threat from the market for corporate control.
- ***Stultz's Integrated Theory :*** This model has integrated the takeover premium argument and entrenchment argument in a single theory.

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- ***Morck et al. Combined Argument:*** The incentive alignment argument dominates the entrenchment effect at lower level of managerial ownership.
- ***Cost of Capital Argument:*** Increased ownership concentration of any sort decreases financial performance because it contributes to raise firm's cost of capital.
- ***Monitoring Argument:*** Large owners or block holders are usually more capable of monitoring and controlling the management contributing to better corporate performance.



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## **MANAGERIAL OWNERSHIP AND AGENCY COST**

- Agency cost refers to conflict of interest between managers and shareholders which are result of separation of ownership and management.
- To control agency costs various solutions have been suggested by researchers, one of which is to increase management share ownership.
- Managerial ownership up to a certain level results in increased personal wealth so the conflict of interest decreases between managers and other shareholders. But when managerial ownership increases beyond a certain level it may results in increased agency costs again.

# Literature Review

Year	Author Name	Paper Name	Conclusion
2011	Javid and Din	<i>Impact of Managerial Ownership on Financial Policies and the Firm's Performance</i>	Their research supported that the concentration of managerial ownership affects the firm's financial policies (leverage and dividend).
1992	Jensen et al.	<i>Simultaneous Determination of Insider Ownership, Debt, and Dividend Policies</i>	High insider ownership firms choose lower levels of both debt and dividends. Impact of profitability, growth, and investment spending on debt and dividend policy support a modified "pecking order" hypothesis
2003	Mahadwartha	<i>The Association of Managerial Ownership with Dividend Policy and Leverage Policy: Indonesian Firms</i>	Research proved that managerial ownership is important in controlling agency costs .Leverage and dividend can also be used as controlling mechanism for agency costs.

<p><b>2007</b></p>	<p><b>Yanming</b></p>	<p><i>Simultaneous Determination of Managerial Ownership, Financial Leverage and Firm Value</i></p>	<p>An inverse U-shaped relationship between Managerial ownership and firm value was observed even if managerial ownership is endogenous. Leverage and firm value are influenced jointly positively</p>
<p><b>2000</b></p>	<p><b>Jensen and Meckling</b></p>	<p><i>Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure</i></p>	<p>Documented a non- monotonic relation between Tobin’s Q and managerial stock ownership, “inverted-U” or “hump-shaped” relation between Q and managerial ownership</p>

# OBJECTIVES

- To examine the determinants of three instruments of reducing agency cost that are managerial ownership and financial policies namely leverage and dividend .
- To analyze the impact of managerial ownership on firm performance.
- To verify how firm performance varies with different levels of managerial ownership.
- To determine if there is any non-linear relationship between firm performance and managerial ownership.
- To check the relationship between agency costs and managerial ownership.
- Likewise, how agency costs varies with different levels of managerial share ownership.

# HYPOTHESES

- ✓ **Relationship between managerial ownership and financial polices:**
  - **H<sub>1</sub>:** All else equal there is a negative impact of managerial ownership on leverage.
  - **H<sub>2</sub>:** All else equal there is a negative influence of managerial ownership on dividend.
  - **H<sub>3</sub>:** All else equal there is a negative effect of financial polices (leverage and dividend) on managerial ownership.

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- ✓ Regarding performance the following hypothesis are constructed:
  - $H_4$ : There is a relationship between managerial ownership and firm performance, other things remaining the same.

The sub-hypothesis are as follows:

- $H_{4a}$ : Managerial ownership affects firm performance positively.
- $H_{4b}$ : Only a moderate level of ownership has positive effect on firm performance.
- $H_{4c}$ : There exist non-linear association among firm performance and managerial ownership.

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✓ For agency cost following hypothesis are framed:

- $H_5$ : All else remains the same there is relationship between managerial ownership and agency cost.

The sub-hypothesis are as follows:

- $H_{5a}$ : There is a negative relationship between managerial ownership and agency cost.
- $H_{5b}$ : There is negative relation between leverage and agency cost.
- $H_{5c}$ : There is negative relation between dividend and agency cost.

# DATA AND SAMPLE

- **Source:** The data employed is derived from Balance Sheet Analysis of (Non-Financial) KSE listed firms published by State Bank of Pakistan. Annual Reports of the included companies are collected in order to extract the data of managerial ownership.
- **Period:** The time period of this study is nine years, from 2003 to 2011.
- **Sample:** This study includes 19 sub-sectors of the manufacturing sector, 140 firms having varying levels of managerial ownership; Textile, Food & Beverages, Sugar, Chemicals, Engineering, Paper & Board, Cement, Oil & Gas, Refinery, Tobacco, Jute, Woolen, Pharmaceuticals, Automobiles, Cable & Electrical goods and Transportation.



# VARIABLE DESCRIPTION

DEPENDENT VARIABLES		DESCRIPTION
Managerial share ownership	<b>MSO</b>	Number of shares held by the company's top five executives divided by the number of common shares outstanding
<b><i>Financial policies</i></b>		
Leverage	<b>LEV</b>	Debt /Equity
Dividend	<b>DIV</b>	Dividend paid per share
<b><i>Firm performance</i></b>		
Return on Asset	<b>ROA</b>	Net profit before tax / total assets
Return on equity capital	<b>ROE</b>	PBIT / the total outstanding paid up equity capital of the firm
Tobin's Q	<b>Q</b>	(Total Borrowings + Market Value Equity) / Total assets
<b><i>Agency Cost</i></b>		
Assets utilization ratio	<b>AUR</b>	The ratio of annual sales to total assets

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INDEPENDENT VARIABLES		DESCRIPTION
Size	<b>SIZE</b>	Natural log of total assets
Growth	<b>G</b>	Book to market value of equity
Net income	<b>NI</b>	Net income over net sales

# EMPIRICAL SPECIFICATIONS

- **Managerial Ownership & Financial Policies**

The system of reduced form simultaneous equations model is:

$$LEV_{it} = \beta_1 MSO_{it} + \beta_2 SIZE_{it} + \beta_3 DIV_{it} + \beta_4 G_{it} + \beta_5 NI_{it} + \varepsilon_{it} \quad (4.3.1)$$

$$DIV_{it} = \alpha_1 MSO_{it} + \alpha_2 SIZE_{it} + \alpha_3 LEV_{it} + \alpha_4 G_{it} + \alpha_5 NI_{it} + \varepsilon_{it} \quad (4.3.2)$$

$$MSO_{it} = \omega_1 LEV_{it} + \omega_2 SIZE_{it} + \omega_3 DIV_{it} + \omega_4 G_{it} + \omega_5 NI_{it} + \varepsilon_{it} \quad (4.3.3)$$

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- **Managerial Ownership and Firm's Performance**

FP represents Firm Performance and this study considers both Accounting (ROA, ROE) and Market (Tobin's Q) measures of performance.

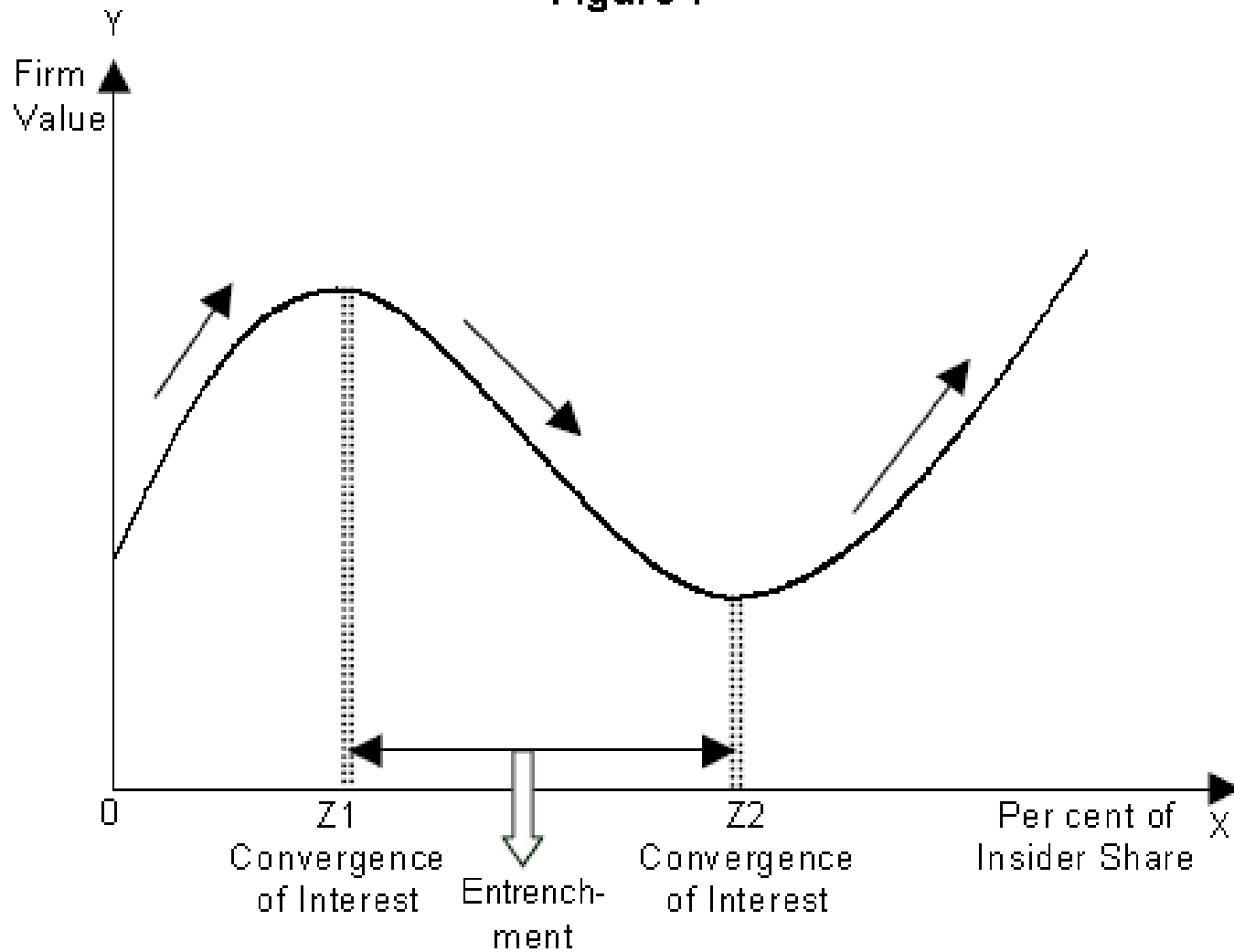
$$FP = \delta_0 + \delta_1 MSO_{it} + \delta_2 SIZE_{it} + \delta_3 DIV_{it} + \delta_4 LEV_{it} + \delta_5 G_{it} + \delta_6 NI_{it} + \varepsilon_{it} \quad (4.3.4)$$

Sample is further divided into three sections, first of those firms having MSO less than 10%, companies having MSO ranging between 10%-25%, and those firms which have above 25% MSO and separate regressions have been run to check the impact of different levels of MSO on FP.

- **To capture non-linearity**

$$FP = \gamma_0 + \gamma_1 MSO_{it} + \gamma_2 MSO_{it}^2 + \gamma_3 MSO_{it}^3 + \gamma_4 SIZE_{it} + \gamma_5 DIV_{it} + \gamma_6 LEV_{it} + \gamma_7 G_{it} + \gamma_8 NI_{it} + \varepsilon_{it} \quad (4.3.5)$$

Figure 1



Source: Pant, Manoj and Pattanayak, Manoranjan (2007)

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- **Managerial Ownership and Agency cost**

To relate agency cost with managerial ownership asset utilization ratio (AUR) is regressed on managerial ownership along with the explanatory variables.

$$AUR = \mu_0 + \mu_1 MSO_{it} + \mu_2 SIZE_{it} + \mu_3 DIV_{it} + \mu_4 LEV_{it} + \mu_5 G_{it} + \mu_6 NI_{it} + \varepsilon_{it} \quad (4.3.6)$$

Again three levels of managerial ownership: lower, moderate and higher are considered and separate regressions have been run to check the impact of different levels of MSO on AC.

# TECHNIQUE OF ESTIMATION

- For estimating the models panel data estimation technique is applied for 140 KSE listed non-financial manufacturing firms for the period of 2003-2011.
- To estimate simultaneous equation models, Generalized Method of Moments (**GMM**) is used. The lag of explanatory variables are used as instruments and Sargan J test is used to check the validity of the instruments, P value of J test indicate that instruments are valid.
- **Common effect model:** It estimates a common intercept for all cross sectional units.
- **Fixed effect model:** It captures the industry effect by using dummy variables.
- **Random effect model:** It estimate the random parameters for each group.
- **Hausman test** is used to make a choice between the fixed effects and the random effects approach.
- **F-test** is used to compare common effect and fixed effect model.
- F test support the fixed effect model therefore only results of fixed effect model are reported. OLS is the estimation technique.

# EMPIRICAL RESULTS

**Table 1: Simultaneous Equation Model, Dep Var : LEV, DIV, MSO**

<b>Explanatory Variables</b>	<b>Model 1 LEV</b>	<b>Model 2 DIV</b>	<b>Model 3 MSO</b>
<b>MSO</b>	-0.06*** (0.002)	-0.043*** (0.005)	-
<b>DIV</b>	0.212*** (0.039)	-	-0.255*** (0.040)
<b>LEV</b>	-	-0.464*** (0.820)	-0.213*** (0.024)
<b>SIZE</b>	0.955*** (0.041)	1.064*** (0.067)	-0.295*** (0.044)
<b>NI</b>	-1.028*** (0.029)	0.268*** (0.073)	-0.219*** (0.022)
<b>G</b>	0.441*** (0.145)	1.626*** (0.370)	1.751*** (0.511)
<b>Sargan (P value)</b>	<b>0.920</b>	<b>0.816</b>	<b>0.639</b>

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- Standard Error in parenthesis.
- Managerial Ownership, Dividend, Size, Net Income and Growth are denoted by MSO, DIV, SIZE, NI and G respectively.



**Table: 2 Results of Overall MSO Sample**

<b>Explanatory Variables</b>	<b>DEP VAR: ROA</b>	<b>DEP VAR: ROE</b>	<b>DEP VAR: Q</b>
<b>C</b>	0.344*** (9.414)	0.677*** (7.178)	0.514*** (6.682)
<b>MSO</b>	-0.01 (-0.377)	0.011 (0.647)	0.010 (-0.366)
<b>SIZE</b>	-0.074*** (-15.389)	-0.145*** (-11.660)	0.006 (0.660)
<b>DIV</b>	0.0140*** (4.168)	0.019** (2.245)	-0.010** (-1.544)
<b>LEV</b>	-0.058*** (-4.574)	-0.074** (-2.237)	0.947*** (35.128)
<b>NI</b>	0.063*** (18.879)	0.131*** (15.180)	-0.013** (-1.872)
<b>G</b>	0.01*** (11.278)	0.01*** (7.855)	-0.010*** (-4.449)
<b>R-squared</b>	0.525	0.506	0.568
<b>Hausman test (p value)</b>	0.002	0.001	0.000

Notes:  
Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.  
T- Statistics in parenthesis

**Table: 3 MSO (<10%) & FIRM PERFORMANCE**

<b>EXP VAR</b>	<b>DEP VAR: ROA</b>	<b>DEP VAR: ROE</b>	<b>DEP VAR: Q</b>
<b>C</b>	0.455*** (11.66)	0.606*** (4.93)	0.145 (1.18)
<b>MSO</b>	0.075* (1.61)	4.06*** (5.32)	5.11 (0.72)
<b>LEV</b>	-0.030 (-0.81)	0.543*** (4.58)	0.68*** (5.76)
<b>DIV</b>	0.012** (2.28)	0.042*** (2.42)	-0.02* (-1.33)
<b>NI</b>	0.086*** (12.40)	0.168*** (7.62)	-0.03* (-1.54)
<b>G</b>	-0.04 (-0.18)	0.096 (1.27)	0.103* (1.37)
<b>SIZE</b>	-1.105*** (-13.72)	-0.198*** (-8.21)	0.05** (2.22)
<b>R<sup>2</sup></b>	0.59	0.55	0.54
<b>Hausman test (p value)</b>	0.000	0.001	0.001

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis

**Table: 4 MSO (10-25%) & FIRM PERFORMANCE**

<b>EXP VAR</b>	<b>DEP VAR: ROA</b>	<b>DEP VAR: ROE</b>	<b>DEP VAR: Q</b>
<b>C</b>	0.50*** (6.52)	0.74*** (2.77)	0.31** (1.85)
<b>MSO</b>	0.18*** (2.70)	0.28* (1.79)	0.04* (1.82)
<b>LEV</b>	-0.04*** (-3.00)	-0.05 (-1.10)	1.05*** (33.06)
<b>DIV</b>	0.02 (0.65)	0.05 (0.21)	-0.03 (-0.20)
<b>NI</b>	0.05*** (7.87)	0.10*** (4.78)	-0.01 (-1.20)
<b>G</b>	0.02 (0.98)	0.10* (1.42)	0.15*** (3.26)
<b>SIZE</b>	-0.07*** (-8.55)	-0.11*** (-3.88)	0.02* (1.39)
<b>R<sup>2</sup></b>	0.50	0.56	0.54
<b>Hausman test (p value)</b>	0.002	0.000	0.0011

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis

**Table: 5 MSO (>25%) & FIRM PERFORMANCE**

<b>EXP VAR</b>	<b>DEP VAR: ROA</b>	<b>DEP VAR: ROE</b>	<b>DEP VAR: Q</b>
<b>C</b>	0.11*** (4.43)	0.20*** (3.35)	0.84*** (10.97)
<b>MSO</b>	-0.02 (-1.28)	-0.01 (-0.26)	0.07 (1.13)
<b>LEV</b>	-0.25*** (-7.50)	-0.25*** (-3.32)	0.77*** (7.71)
<b>DIV</b>	0.04 (1.04)	0.01 (0.84)	-0.011 (-0.30)
<b>NI</b>	0.04*** (7.05)	0.08*** (5.97)	0.011 (0.03)
<b>G</b>	-0.02 (-0.60)	-0.04*** (-0.03)	0.03 (0.93)
<b>SIZE</b>	-0.02*** (-5.94)	-0.00 (-0.03)	-0.04*** (-3.98)
<b>R<sup>2</sup></b>	0.51	0.45	0.33
<b>Hausman test (p value)</b>	0.0011	0.000	0.000

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis

**Table: 6 Non-linearity of Firm Performance**

EXPLANATORY VARIABLES	DEPENDENT VARIABLE: ROA	DEPENDENT VARIABLE: ROE	DEPENDENT VARIABLE: Q
<b>C</b>	0.337*** (4.86)	1.585 (1.79)	-0.245*** (-3.76)
<b>MSO</b>	0.031** (1.82)	0.055* (1.87)	0.011 (0.36)
<b>MSO<sup>2</sup></b>	-0.01** (-1.97)	-0.001* (-1.41)	-0.007 (-0.81)
<b>MSO<sup>3</sup></b>	0.014*** (2.25)	0.013* (1.82)	0.016 (0.94)
<b>SIZE</b>	-0.078*** (-7.17)	-0.152*** (-3.83)	0.017* (1.85)
<b>DIV</b>	0.038*** (5.19)	0.644*** (3.77)	-0.04 (-1.28)
<b>LEV</b>	-0.010* (-1.58)	0.095*** (5.93)	0.155*** (26.11)
<b>G</b>	0.025 (1.23)	0.141 (0.07)	0.036 (1.28)
<b>NI</b>	0.058*** (5.19)	0.020 (0.07)	-0.007 (-1.30)
<b>R<sup>2</sup></b>	0.46	0.45	0.58
<b>Hausman test (p value)</b>	0.000	0.0001	0.000

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis

**Table 7: Agency Cost (For Overall MSO Sample)**

<b>Explanatory Variables</b>	<b>DEP VAR: AUR</b>
<b>C</b>	3.665*** (13.127)
<b>MSO</b>	0.026* (1.942)
<b>SIZE</b>	-0.426*** (-11.679)
<b>DIV</b>	0.120*** (4.629)
<b>LEV</b>	0.025 (0.247)
<b>NI</b>	0.127*** (4.811)
<b>G</b>	0.010*** (4.573)
<b>R-squared</b>	0.430
<b>Hausman test (p value)</b>	0.000

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis

**Table 8: Agency cost & different levels of MSO**

<b>EXP VAR</b>	<b>MSO &lt;10% &amp; AUR</b>	<b>MSO 10-25% &amp; AUR</b>	<b>MSO &gt;25% &amp; AUR</b>
<b>C</b>	2.42*** (5.49)	1.25** (2.16)	3.01*** (10.29)
<b>MSO</b>	0.55*** (3.85)	0.065* (1.34)	-0.45* (-1.47)
<b>LEV</b>	-0.11 (-0.26)	0.23*** (2.95)	-1.06*** (-3.12)
<b>DIV</b>	0.24*** (3.85)	0.035*** (3.03)	0.05 (1.23)
<b>NI</b>	0.07 (1.00)	-0.07 (-0.50)	0.16*** (3.80)
<b>G</b>	0.56** (2.08)	0.63* (1.33)	0.25*** (3.13)
<b>SIZE</b>	-0.37*** (-4.27)	-0.04 (-0.43)	-0.27*** (-7.82)
<b>R<sup>2</sup></b>	0.42	0.43	0.42
<b>Hausman test (p value)</b>	0.000	0.000	0.000

Notes:

- Significant at 1%, 5% and 10% are denoted by \*\*\*, \*\* and \* respectively.
- T- Statistics in parenthesis
- AUR represents Asset Utilization Ratio

# CONCLUSION

- Financial policies of firms are affected by the level of managerial ownership, high level of managerial ownership decreases the tendency of firms to go for debt financing. Similarly in firms having high financial leverage, probability to engage in managerial ownership programs decreases.
- Managerial ownership decreases the efficiency of dividend policy as a tool to minimize agency costs. These results support the predictions of agency theory.
- However, this study is unable to observe any significant association between firm performance and managerial ownership. When segregated into different levels, the study comes to the conclusion that managerial ownership exerts significant and positive influence on firm performance only up to a moderate level.



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- Existence of non-linear relationship confirms that initial increments in managerial ownership have increasing influence on firm performance but when managers acquire a significant control of the firm they get entrenched.
- Again when managerial ownership reaches extremely high levels then they start behaving in a value maximizing way and would not undertake risky and non-profitable decisions.
- Furthermore, negative association of managerial ownership and agency cost is observed. Conclusive evidence have been found to state that level of managerial ownership contributes to lessen the conflict of interest between management and stock-holders. Also dividend policy is found to have a crucial role in reduction of agency cost in context of Pakistani non-financial listed firms.

# IMPLICATIONS OF THE STUDY

- The findings of the study imply that financial policies of KSE-listed firms are affected by managerial ownership. Therefore, the decisions about managerial ownership programs should be taken carefully.
- For the management, the results leads to implication that agency cost can be controlled by an effective use of dividend and leverage policies and performance can be improved though in a limited way.
- In the light of these results regulatory authority such as SECP (Securities & Exchange Commission of Pakistan) can monitor the level of managerial ownership to avoid any sort of expropriation.

# LIMITATIONS OF THE STUDY

- Due to the unavailability of data on shareholdings pattern of some firms sample remained confined to 140 firms only.
- Inclusion of corporate governance factors like board size, CEO/Chair duality and board composition etc. could have been more helpful in explaining the behavior of Pakistani enterprises.

*Thank You!*

## **“Financial Decisions, Insider Ownership and Firm Performance”: Evidence from Manufacturing Sector of Pakistan**

Corporate governance and ownership structure of the firms have been one of the most contentious and attention grabbing issues, on the linkage between expropriation and economic development. In the Asian economies, the ownership is profoundly concentrated and families and groups mostly control the corporate businesses. Likewise, a larger part of the Pakistan’s corporate shareholding structure has concentration of family ownership, in which the mainstream shareholders not only maintain the control, but are also betrothed in managing it. Members of the owner family acts as management, they fail to play any significant role in improvement of firm performance as they are not always suitable to accomplish the responsibilities of effective management. Moreover, most of the managers in family owned business are usually not qualified enough or trained to take better decisions regarding firm performance.

Initial increments in managerial ownership have increasing influence on firm performance but when they acquire a significant control of the firm they get entrenched and start pursuing their own motives. Again when managerial ownership reaches extremely high levels then they start behaving in a value maximizing way and would not undertake risky and non-profitable decisions as it has a direct impact on their own-selves and ultimately will have to face the music.

Such like managerial ownership affect the financial policies of firms of firms. As per the predictions of agency theory, managerial ownership results in the decrease in asymmetric information which in turn decreases the efficiency of dividend policy in minimizing agency costs. High levels of managerial ownership, decreases the tendency of firms to go for debt financing. Similarly in firms having high financial leverage probability to engage in managerial ownership programs decreases. Level of managerial ownership contributes to lessen the conflict of interest between management and stock holders. Moreover dividend policy plays a crucial role in reduction of agency cost

Paper presented by Haris Arshad and Attiya. Y. Javid (2013) found statistically significant association among the level of managerial ownership, financial policies, agency cost and firm performance, which supported the predictions of agency theory in case of Pakistani non financial firms listed at KSE.

Haris Arshad and Attiya Y. Javid (2013), **“Financial Decisions, Insider Ownership and Firm Performance”** *Forthcoming PIDE Working Paper.*