EXPROPRIATION THROUGH EXECUTIVE COMPENSATION AND CASH HOLDINGS: A CASE OF NON-FINANCIAL CONCENTRATED FIRMS IN PAKISTAN

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ABSTRACT

Tunneling, the most severe practice in non-financial firms, harm a firm's performance, bring lose to minority shareholders and discourage potential investors. Agency conflict between minority and majority shareholders causes tunneling activities to take place. This study is aimed at examining the influence of CEO compensation and cash holding on tunneling in the non-financial firms in Pakistan. Several statistical techniques and models (regression, Hausman model, fixed effect model etc.) have been applied to examine the subject phenomenon. Finding of the study shows that both cash holdings and CEO compensation have significant positive impact on tunneling and thus cause minority shareholders' expropriation. Firms usually pay good compensation and hold more cash to safeguard the benefits of controlling shareholders. Finding also confirms gradual increase in tunneling over a period. Study provide detailed examination of tunneling phenomenon to reshape the regulatory policies regarding concentrated firms and hence to flourish the new ventures.

Key Words: Tunneling, Cash Holdings, CEO Compensation, Non-financial Firms.

INTRODUCTION

Conventional wisdom suggests the existence of agency conflict in firm and also the expropriation of minority shareholders' rights (Jensen & Meckling, 1976). This is because controlling shareholders always protect their interests at any cost. Usually controlling shareholders utilizing their power channel firm's assets through entrenchment effect called tunneling (Friedman, Johnson, & Mitton, 2003), which is the siphon of firms assets for the private benefits of dominant party at the cost of minority shareholders. Controlling shareholders practicing various tactics to deviate firm's assets like related party transaction (Ullah & Shah, 2015), intercorporate loan (Jiang, Lee, & Yue, 2010) and maximizing debt (Paligorova & Xu, 2012) to increase cash surplus which can easily be utilized as it is the most liquid and less profit generating asset. Increasing cash within the firms result from debts. Also, major shareholders focused more on dividend payout out policy to drain off firm's cash and pursue private benefits (De Cesari, 2012).

This makes cash dividend a debatable issue in corporate finance because most of the firms exploit high payout as a means for deviating funds to specific party. Sometimes it remains the main aim of shareholders to get higher cash amount in form of dividend for sustaining living standards. This is logical because most of investors do investment for the purposes of continuous income. Signaling theory presents that many of the firms distribute cash dividend because it reflect good signal to the market regarding efficiency of the firms showing that management playing their role increasing performance and future profitability (Miller & Rock,1985; Tsuji, 2012). Dividend payment also benefits company as it is one of the most prevalent factor to manifest the agency problem between insiders (shareholders plus managers) and outsiders of the firms (Faccio, Lang, & Young, 2001). It also tend to minimize the conflict of interest between shareholders and management and align their interests (Caelers, 2010). Among two alternatives of share repurchase and dividend payout, dividend

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dividend payout was found to the most powerful mechanism lead to attenuate agency problems (John & Knyazeva, 2006).

On the other side cash dividend in the concentrated firms is treated and considered differently due to principal-principal agency conflict (Jensen & Meckling, 1976;). Usually, for pursuing private benefits accruing to controlling shareholders, control enhancing device and showing entrenchment in the management are common practices in concentrated firms (Faccio & Lang, 2002). Controlling shareholders hold non-tradable shares not listed on stock market and can only be sold with the consent of government, which is rarely granted. Mostly, these shares are issued to controlling shareholder at very low price compared to other shares and are used as source of tunneling (Cheng, Fung, & Leung, 2009). These shares are treated like other ordinary shares for dividend payment. Preferring more cash dividend extract firm's funds to controlling shareholders as controlling shareholders hold shares in abundance, which is the clear indication of tunneling (Chiou, Chen, & Huang, 2010). In concentrated firms payout policy contribute more in the private benefits of controlling shareholders at the cost of minority shareholders (Anjum & Sadiq, 2012; Su, Fung, Huang, & Shen, 2014), because in countries where external governance is poor and political affiliation of the dominant party is more, than cash dividend is a mean of expropriation instead of market appreciation (D. Chen, Jian, & Xu, 2009).

For cash extraction, private placement is also one of the prevalent tool in which equity shares are offered to specific party of the firms at discounted price. This increases the shares holding by controlling shareholders and are used to pursue private benefits through cash dividend (Xinping & Yixia, 2011). Cash dividend also referred to cash flow tunneling, which was considered to not affect the long term productivity of the firms (Atanasov, Black, & Ciccotello, 2011), but beneficial to the dominant party only, discouraging other investors, create barriers for firms investment in future and defame such firms in the market which result to lose its loyalty. All this confirms that high cash dividend in concentrated firms lead to tunneling (Chen, et al., 2009; Z. Chen & Xiong, 2001, Rengming, 2006). The study of Anjum and Sadiq (2012), examine the association of cash dividend preference in the non-financial firms in Pakistan and presents that poor performance firms prefer and focused more on cash dividend as compared to stock dividend to distribute it among shareholders, when the director, block holder or institutional investor have more non-tradable share. This result to utilize profit of the firms for their private benefits instead of distributing it among shareholders.

REVIEW OF LITERATURE AND HYPOTHESES DEVELOPMENT
Cash Holding and Tunneling
The proverb that "Cash is King" attained attention of research scholars across the globe. Its importance can be confirmed from the evidence of holding significant level of asset in the form of cash by the firms worldwide. Top 1000 non-financial companies holding cash of approximately $ 2.8 trillion, while specifically in each single country, like in US, companies hold $ 5 trillion in cash which was increasing at 0.46% per annum form 1980-2006 (Bates, Kahle, & Stulz, 2009). Japanese firms holding 2.1% of cash, which account about 44% of their GDP, Korean companies also keep 440 billion in cash which is the 34% of their GDP while the Chinese firms holding 20% more from the Korean companies (Q. Chen, Chen, Schipper, Xu, & Xue, 2012). Cash holding of the US non-financial firms got a record increase after 2011 and reached to 2 trillion US dollars which represent 7.1% of the total firms' assets, not only US but majority of the non-financial firms across the world brought a significant increase in their cash holding (Huang, Elkinawy, & Jain, 2013).

Cash holding is helpful as it minimizes the risk of risky cash flows and maximizes chances to avail growth opportunities (Opler, Pinkowitz, Stulz, & Williamson, 1999), benefits firms facing barriers for the external financing (Kim, Kim, & Woods, 2011), minimize risk of financial distress and sustains firms' operation having earning volatility and low profitability. Holding more cash also depends on size of the firms (Shabbir, Hashmi, & Chaudhary, 2016) and used for stronger internal capital market for intra loans to associated companies. Strong internal capital market is particularly valuable for the firm because in most cases funds for all project are not available, so in these situation the management of the firms are busy in "winner-picking" means transferring the scarce capital to the most promising division (Stein, 2003). It is also meaningful for firms operating in market having high information asymmetry (Peyer, 2002). I is also best alternative when firms facing floatation cost, or the expenses incurred to the firms while issuing new securities (Hovakimian, 2011).

Cash holding also creates severe agency problem between minority and majority shareholders because cash is the most liquid asset and can easily be utilize to pursue private benefits of the dominant shareholders (Chiou, et al., 2010; Mayer, 1998). Sometime excess cash result to increase in payout policy which minimize the conflict between insiders and outsider investors (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 2000). On the other hand holding more cash benefits dominant shareholders only through high dividend (Chiou, et al., 2010), because shareholders prefer cash dividend instead of availing opportunities and repurchase of shares specially when investors are not protected and thus expropriate minority (De Cesari, Espenlaub, Khurshed, & Simkovic,2012).

Controlling shareholders make private placement for equity refinancing which is the offering of share to small and specific number of investors instead of public offering. This is an indication of asset tunneling (Baek, Kang, & Lee, 2006), because in the private placement controlling shareholders are mostly participating (Zhao et al., 2015) to purchase all shares of the firms at appropriate price than the market because stock price are control before placement through long trade suspension and then through discount (A.-S. Chen, Cheng, Cheng, & Chih, 2010). This benefits major shareholders for the interest protection through high dividend at the cost minority shareholders (Ramli, 2010), (H. Wang, Li, & Lu, 2007; Zhao, et al., 2015). Excess cash holding also facilitate holders of non-tradable shares (J. J. Huang, Shen, & Sun, 2011). Non-tradable shares held with state owned or controlling shareholders having connection to the state or sometime sold to major shareholders at very low price and are treated like other outstanding shares.

Concentrated firms which have abundance of non-tradable shares hold a significant level of current assets in the form of cash which makes the expropriation activities easier for the dominant shareholders (Jiang, et al., 2010), (Lin, Chiou, & Chen, 2010). Investors' protection varies across the countries. In developed countries like US investors are highly protected (Peng, Wei, & Yang, 2011). High investor protection reduced the information asymmetry which results to increase in cash holding (Drobetz, Grüninger, & Hirschvogl, 2010), but instead investors feel themselves safe and secure about expropriation of their rights, while in poor economic and governance countries these activities are on peak contributing in the empire building of dominant party only. Based on above, we propose the following hypothesis.

H1: Cash holding has positive impact on the tunneling activities in the non-financial firms.

CEO Compensation and Tunneling:

Significant evidence exists across the world showing that concentrated firms usually pay good

compensation to the chief executive officers. Research evidences suggest that companies having affiliation with group have more compensation for board and CEO compared to non-affiliated firms. These firms have controlling shareholders which usually pay well to CEO for improving firms performance as both are positively correlated (Michaud & Gai, 2009), because with good pay, CEO work hard maximize performance based compensation (Sheikh, Shah, & Akbar, 2018). Concentrated firms face the severe conflict of interest between minority and majority shareholders as proposed by Agency theory (Jensen & Meckling, 1976). Controlling shareholders are influential and achieve their goals, for which the consent of executive is needed. So for that the controlling shareholder use CEO compensation as a tool for securing their private benefits at the cost of other investors (Fagernas, Sarkar, & Singh, 2008), and CEOs are less interested to performance based compensation (Firth, Fung, & Rui, 2006).

Attractive compensation for executives compel them (Shleifer & Vishny, 1986) to favor the interest of controlling shareholders and make significant contribution in their private benefits through different tactics like outstanding corporate loan (Aharony, Wang, & Yuan, 2010), transferring of wealth, price difference, use of assets of the member firms as collateral for another and inflated payment for intangible asset like patent, insurance and brand name (Bertrand, Mehta, & Mullainathan, 2002; S. Johnson, La Porta, Lopez-de-Silanes, & Shleifer, 2000). This happened in Korea (Kato, Kim, & Lee, 2007), Hong Kong (Cheung, Stouraitis, & Wong, 2005), Italy (Barontini & Bozzi, 2011) and other many countries, where CEO's remuneration is used as a way for the draining off of firm's assets. According to (Luo & Jackson, 2012) executive compensation relate positively to tunneling. Top management have in depth experience and know where and how to drain off firm's asset for benefits of controlling party. This is possible when CEO have well compensation policy and low risk which result from weak governance tools (Cooper, Gulen, & Rau, 2016) because CEO looks for benefits as well as for survival in future. CEOs in such situations easily commit fraud for the interest of dominant party (S. A. Johnson, Ryan, & Tian, 2009) and involved in overinvestment or in value destroying projects.

These sort of activities where management is mostly a part of illegal practices are not specific to certain market but occurred in both developed and developing markets like Hong Kong (Cheung, et al., 2005), Italy (Barontini & Bozzi, 2011), US and Europe (Vallascas & Hagendorff, 2013). This all suggests that controlling shareholders are too influential and can alter the decisions of the board (Morse, Nanda, & Seru, 2011). With good pay CEOs can induce the firm board to shift decision. Board usually announce high cash dividend which directly benefits the controlling shareholders more because these shareholders hold maximum number of shares through non-tradable share and private placement, this benefits the dominant shareholders in shape of high cash dividend (Ramli, 2010) and (H. Wang. et al., 2007; Zhao, et al., 2015). In Pakistan, concentrated firms have also provided the same arena where the controlling shareholders can easily secure their benefits at the cost of other investors as private placement and non-tradable share are also common. There are other factors which lead to tunneling like, weak governance mechanism create way for the tunneling practice (Ullah & Shah, 2015) low penalty risk encourage management of the firms to extract firm's assets (Anjum & Sadiq, 2012), ownership concentration and CEOs compensation (Sheikh, et al., 2018). From above discussion following hypothesis is proposed.

H2: CEO compensation has positive effect on the tunneling activities in the non-financial firms.

METHODOLOGY

This is a quantitative study relying on the secondary panel data collected from a sample of 200 non-financial firms during the period for 2000-2015. Data is collected from the audited annual reports of the firms, however, for the triangulation and convergence of data, various other sources are also used like data portal at Pakistan Stock exchange (PSX), balance sheet analysis and data warehouse department at State bank of Pakistan (SBP).

DEPENDENT VARIABLE

Cash Dividend as a Proxy of Tunneling

Cash dividend is measured as the total cash dividend paid divide by total numbers of outstanding shares [Div/share]. Cash dividend is also treated as a proxy for tunneling in the previous studies (e.g. Chiou, et al., 2010; La Porta, et al., 2000; De Cesari, et al., 2012; Baek, et al., 2006; Zhao, et al., 2015; A.-S. Chen, et al., 2010; Ramli, 2010).

INDEPENDENT VARIABLES

Cash Holding

Cash holding is treated as independent variable, which is measured as the ratio of cash and cash equivalent to net asset (C. Liu, Uchida, & Yang, 2014; Y. Liu & Mauer, 2011). Cash holding hurt the firms because it is the least earning asset and can easily be used for expropriation of minority shareholders (Paligorova & Xu, 2012). Excess cash increases free cash flow used for overinvestment to benefits dominant party only (Anjum & Sadiq, 2012; Chiou, et al., 2010; Luo & Jackson, 2012; Rajan, Servaes, & Zingales, 2000; Su, et al., 2014).

Compensation of CEO:

CEO compensation is an independent variable and is measured as the natural log of total compensation to the CEO in the form of cash and other incentives (Crespí-Cladera & Pascual-Fuster, 2015; X. Liu, Lu, & Chizema, 2014). CEO compensation maximize firms performance (Michaud & Gai, 2009), but in concentrated firms CEO align with dominant party through good pay policy to expropriate minority shareholders.

ANALYTICAL PROCEDURE

Testing for Multicollinearity

One of basic assumption of the Classical linear regression model (CLRM) is to detect the presence of perfect correlation which shows that relationship among the values of all explanatory variables to be exact linear. The existence of exact linear relationship among explanatory variables results to the fact that the OLS method cannot estimates for the population parameter. The study used correlation matrix and VIF to detect the multicollinearity.

Testing for Heteroskedasticty

One of the basic assumptions for the efficient outcome of the statistical technique of (CLRM) is the error term [random disturbance] in relationship between dependent and independent variable is constant across all the values, through equation it can be represented as.

$$Var(\varepsilon t) = \sigma^2$$

Violation of this assumption causes problem of heteroskedasticty which means that error term is not constant across all the independent variables and makes the OLS invalid.

Multiple Regression

Multiple regression is used to deal with endogeneity issue. It is also used for predicting unknown values. This study used it to examine that how these variables relates before moving for Hausman's to specify model for the data.

Model Specification test (Hausman's test)

Hausman assumed and presented two estimators' β0 and β1 of the statistical model parameter vector β. Null hypothesis is tested for selection of fixed and random effect model which presents that both estimators are consistent but the estimator β0 is inefficient while alternative hypothesis states that β0 is consistent and efficient but the estimator β1 is inconsistent. In short, this test basically looks for, if there is a correlation between a unique error and regressors in the model.

$$H = (\beta^{FE} - \beta^{RE}) \left[Var(\beta^{FE}) - Var(\beta^{RE})\right]^{-1} (\beta^{FE} - \beta^{RE}) \sim x^2$$

Fixed Effect Model

In fixed effect model the group means are fixed opposite to random effect in which the means are random sample from population. In this method the constant is treated as a group specific which shows that in this model constant is specified for each group. Fixed effect model is also known as the least squared dummy variables (LSDV) estimators. We can write formula for it is.

$$Y_{it} = \sigma_{it} + \beta 1 X1_{it} + \beta 2 X2_{it} + - - - - - - - - - - - - - - + \beta k X k_{it} + \varepsilon_{it}$$

Y_{it} is treated as dependent variable for individual i which is observed at time t, X_{it} is the regressor or the independent variables, alpha (σ_{it}) is the effect of individual which is unobserved time-invariant and ε_{it} is the error term. Following regression model is to be testes

$$TuNN_{it} = \alpha_0 + \beta_1 CH_{it} + \beta_2 CEOC_{it} + \beta_3 CEOD_{it} + \beta_4 BI_{it} + \beta_5 FSIZE_{it} + \beta_6 FCEO_{it} + \quad (1)$$

ANALYSIS AND RESULTS

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std Dev	Minimum	Maximum
TuNN	3200	-3.257908	1.305004	-6.084598	2.840131
CEOC	3200	29.96711	10.57776	-0.514478	70.81097
CH	3200	-6.930001	8.060011	-1.470008	0.066677
CEOD	3200	0.24	0.427149	0	1
FCEO	3200	0.503125	0.500068	0	1
BS	3200	8.067187	1.760829	0	16
BI	**3200**	**0.369809**	**0.311484**	**-0.375**	**1**

Table 1, exhibit brief statistical information of each variables used, mean value of Tunneling is (-3.257908), carrying the minimum (-6.084598) and maximum value (2.840131). Average value of CEO compensation (29.96711) carrying minimum (-0.5144789) and maximum (70.81097) values. Similarly, average value of cash holding is (-6.93001), lowest value of cash holding is (-1.470008) while highest value is (0.06677). Controlled variables, CEO duality, family CEO, board size and board independence have mean value of (0.24), (0.503125), (8.067187) and (0.369809), having minimum value of (0), (0), (0) and (-0.375) while maximum value of each are (1), (1), (16) and (1) respectively.

Table 2: Correlation Matrix

	TuNN	CEOC	CH	CEOD	FCEO	BS	BI
TuNN	1.000						
CEOC	0.1643	1.000					
CH	-0.0970	-0.0229	1.000				
CEOD	-0.0208	-0.1376	-0.0338	1.000			
FCEO	-0.1304	-0.1339	-0.0642	0.0923	1.000		
BS	0.1262	0.2162	0.0254	-0.0799	-0.12	1.000	
BI	**0.0134**	**-0.0692**	**0.0562**	**0.0237**	**-0.039**	**0.053**	**1.000**

Table 4.2 presents correlation matrix for the detection of multicollinearity, all results show that none of the correlation between two variables are in severe range (above 90%), which indicates that data is free from the issue of multicollinearity.

Table 3: Heteroskedasticity

Chi Square	Prob
8.06	0.1263

Table 4.3, disclosed result of the Breusch Pagan test for the detection of multicollinearity, probability value (0.1263) present that null hypothesis that is data is homoskedastic cannot be rejected, it exhibits that mean value is constant and data is scattered equally, this obey basic assumption of CLRM and we can rely on the result.

Table 4: Multiple Regression Model

TuNN	Coeff	Std error	t-stat	Prob
CEOC	0.01621	0.00251	6.46	0.000***
CH	14.7942	4.33359	3.41	0.001***
FCEO	-0.24378	0.05225	-4.67	0.000***
CEOD	0.06828	0.06063	1.13	0.260
BS	0.05360	0.01494	3.59	0.000***
BI	-0.04254	0.08221	-0.52	0.605
Cons	**-14.58517**	**3.09080**	**-4.72**	**0.000*****

F-statistics 20.83, F-Probability 0.000, R Squared 0.0469, Adjusted R squared 0.0447. * Significant at 10 percent, ** significant at 5 percent and *** significant at 1 percent. TuNN represent tunneling for which cash dividend is used as a proxy which can be measured as total dividend payment divide total share outstanding, CH is the cash holding measured through cash and cash equivalent to net assets, while CEOC is the compensation of executives which can be measured as the natural log of total compensation in the form of cash. FCEO is the CEO belong to owner and for that a dummy variable is used, similarly CEOD is the duality of CEO and again it is measure through dummy variable. BS is the board size which can be measured though total number of executive and non-executive directors while BI is the board independence measure as the ratio of independent director to total number of directors.

Table 5: Hausman's specification Test

Chi Square	Prob
13.37	0.0173

Hausman's test suggest the appropriate model for the study, probability value of the test (0.0173) reject the null hypothesis which states that random effect model is more appropriate, so alternative hypothesis can be accepted that fixed effect model is the suitable model for the study. Fixed effect model is beneficial as it is consistent even when the estimators are correlated with individual effect.

Table for Fixed effect Model:
R Squared, 0.3440, Adjusted R squared, 0.3284. F Statistics, 4.49, F Probability, 0.000. * Significant at 10 percent, ** significant at 5 percent and *** significant at 1 percent.
Note: TuNN is the abbreviation of tunneling practice which is treated as dependent variable and for which cash dividend is used as a proxy; the cash dividend of the firm can be measured as the ratio of total cash dividend to net assets of the firms. CH stand for cash holding of the firms, which is measured as the ratio of cash and cash equivalent of the firm to net assets and considered as independent variable in the study, finally the last independent variable of the study is the CEOC which is the abbreviation of chief executive compensation, it is measured through natural log of the total compensation (salary and bonuses) of chief executive officer in the form of cash, (Crespi-Cladera 2014). CEOD stands for the CEO duality for which a dummy variable is used takes the value of 1 if the CEO is also a chairman of the firm and 0 otherwise, FCEO is the family chief executive officer which is measured through dummy variable, the dummy variable takes the value of 1 if the CEO belongs the family or group of concentrated owners and 0 otherwise. BS stands for board size which is the controlled variable measured as the number of executives and non-executive directors within the board, while the last controlled variable is the board independence (BI) measured as the ratio of independent directors to total number of directors within the firms.

Table 4.5, exhibit result of fixed effect model to examine determinants of tunneling. Result disclosed value of F-probability (0.0000) is less than the statistical significance values (0.05). This suggests that the study has 99% confidence to makes decision that null hypothesis can be rejected which states that model has no explanatory power while alternative hypothesis of having explanatory power is accepted. How much is the explanatory power in the mode? It can be explained by the value of R-squared and adjusted R-squared, value of adjusted R-squared (0.3284), clearly shows that 32% of the variation is explained by the model used in the study.

Table further exhibit that all the regressors (Cash holding and CEO compensation) have significant influence on the regress (Tunneling), result presents that cash holding has statistically significant (0.000) and positive (0.38385) influence on the tunneling, which indicates that one percent increase in the cash holding result to increase tunneling by 38 percent. Compensation of the chief executive officer (CEO) also has significant (0.000) and positive (0.05255) impact on tunneling. Among the

control variable board independence (BI) is the insignificant (0.832) variable in relation with tunneling. CEO duality show significant (0.097) and positive (0.31502) impact on the tunneling, mean that if CEO of the firm is also chairman of the board than the chance for high cash holding increased, similarly CEO belong to the controlling shareholder's family also exhibit significant (0.000) and positive (1.03355) association with illegal practice. Board size is the last significant (0.000) controlled variable which has positive link (0.38418) with the tunneling, means that larger board weaken governance which create a chance for the major shareholder to utilize firm's assets for their private benefits at the cost of other investors.

Table 6: Hypothesis Testing

Hypotheses	Regression Weight	Adjusted R Squared	P value	Hypothesis Supported
H1	CH→TuNN	0.3284	0.000***	Yes
H2	**CEOC→TuNN**	**0.3284**	**0.000*****	**Yes**

DISCUSSION

Result of the fixed effect model presents that cash holding is positively associated with cash dividend of the firms. Theoretically finding of the study are align with agency theory which presents the conflict of interest between minority and majority shareholders. This lead to motivate the controlling shareholders to align their interest with management and siphon firm's assets in shape of high cash dividend for the private benefits at the cost of minority shareholders. Emphatically positive nexus of cash holding and tunneling based on the argument that cash within the firms are the most liquid asset and can easily be utilize to pursue private benefits of the dominant shareholders (Mayer, 1998), (Chiou, et al., 2010). Holding more cash within the firms facilitate management and controlling shareholders which is possible only when the management decide for more cash dividend, as more dividend helped the specific party only consistent with the finding of previous studies (Chiou, et al.,2010; De Cesari, Domenichelli, & Vallesi, 2014).

Controlling shareholders are more interested in cash dividend to shift the firm's resources for their private benefits in different ways. Many of the firms make private placement for equity refinancing which is a clear indication of asset transferring. In this process controlling shareholders participate and purchase all shares of the firms at appropriate price because stock price are control before placement through long trade suspension and then through discount all the shares are purchased at very low price (Baek, et al., 2006), (Zhao, et al., 2015), (Wu, Rui, & Wu, 2012). This will benefits to the controlling shareholders because through cash dividend large proportion of fund are transferred (Su, et al., 2014; K. Wang & Xiao, 2011; Zhao, et al., 2015).

Excess cash holding also facilitate holders of non-tradable shares (J. J. Huang, et al., 2011) which are with state owned shareholders or controlling shareholders having connection to the state owned. Sometime these shares are sold to controlling shareholders at very low price, and then these shares are treated equally to other outstanding shares in case of dividend, which makes the expropriation activities easier for dominant shareholders(Jiang, et al., 2010; Lin, et al., 2010; C. Liu, et al., 2014). Investor protection which is quite different across various countries play a key role in influencing the cash holding of the firms. In most of the developing economies investors are not well protected, so these firms keep a huge amount of current assets in the form of cash (Y. Huang, et al., 2013) Finding

oppose to the previous studies of (Opler, et al., 1999; Shabbir, et al., 2016). All these present that high cash holding minimize the risk of risky cash flow and maximize opportunity for the firm to avail various growth opportunities. It also benefits firms which are facing barriers for the external financing, cash holdings also helped the firms having earning volatility and low profitability in order to minimize the risk of financial distress and to sustain its operation (Comprix & Muller III, 2006).

Positive association between cash holding used as a proxy for the tunneling practice and compensation of the chief executive officer contribute to the agency theory (Jensen & Meckling, 1976). Controlling shareholders use executive compensation as the main tool for shifting firm resources at the cost of minority shareholders to their benefits (Fagernas, et al., 2008), as in most countries controlling shareholders have high cash flow right and higher compensation for their executives result to tunnel firms resources like Korea (Kato, et al., 2007), Hong Kong (Cheung, et al., 2005) and Italy (Barontini & Bozzi, 2011).

Findings suggest that management usually act for the best interest of majority shareholders in shape of announcing high cash dividend which is a clear indication of the expropriation of minority shareholders because controlling shareholders holds large number of firm's shares at very low price through private placement to claim dividend (Baek, et al., 2006; Su, et al., 2014; H. Wang, et al., 2007; Wu, et al., 2012; Zhao, et al., 2015). Finding oppose the previous study of (Firth, et al., 2006) that chief executive officers are mostly compensated based on performance, so executive only focused on the efficiency and performance of the firms to maximize entire shareholders wealth rather to act in favor of controlling shareholders (Firth, et al., 2006; Kato & Long, 2006) because stock appreciation maximize the wealth of all shareholders and lack the expropriation of minority shareholders.

Implication for Business and management Practice

This study contributes to agency theory by defining a control mechanism of financial fraud, protection of investors' interests and proposing the way to reduce the conflict[s] between majority and minority shareholders. Along with, this study reveal tunneling phenomenon in a novel context. Results surface direct evidence of minority shareholders' expropriation which help in designing policy for the protection of investors and to encourage investments which will result to affect national economy. Study is also useful for formulating investments portfolios, as it provides information to investors about the concentrated firms. This study also narrates potential measures that the regulatory authority of the market has in place to curb tunneling and to protect minority shareholders. The detailed examination of tunneling phenomenon also helps to reshape the regulatory policies regarding concentrated firms and hence to flourish the new ventures.

CONCLUSION

Considering the principle-principle agency conflict, this study aims to examine the influence of CEO compensation and cash holdings on the tunneling practice in the non-financial concentrated firms. Tunneling results to lose minority shareholders which discourage other investors in the market. Study reveals that most concentrated firms align interest with CEO through attractive remuneration policy. These firms also hold more cash which helps in extracting firm's asset for the private benefits of controlling shareholders. Finding provide suggestion to the regulatory body for protecting minority shareholders rights through looking at the severe cash holding and high compensation policy of the firms. This will encourage potential investors for the economic development of country.

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