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Does the Diversity of Directors Moderates the Relationship
between Prudently Governed Corporate Board and Decision
to Pay the Dividend?

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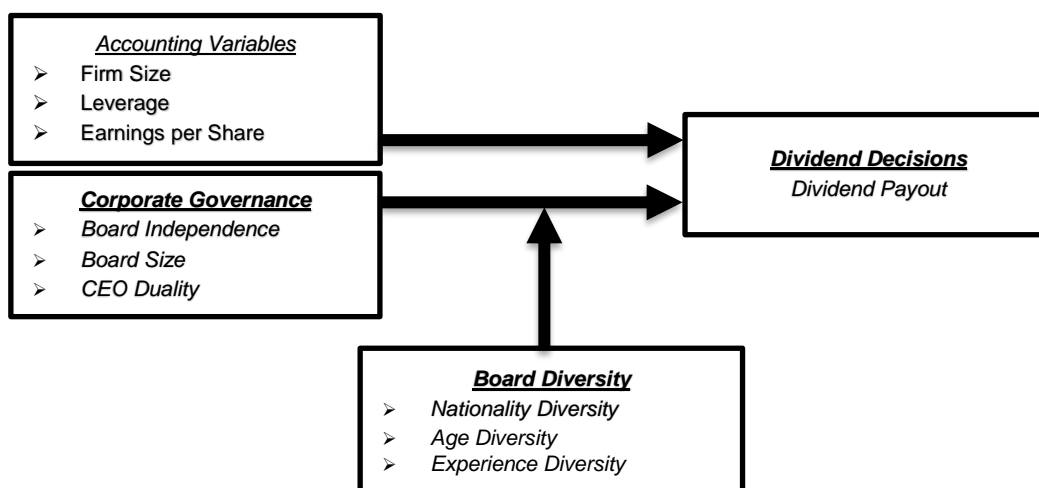
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Research Highlights

This study evaluates the moderating role of diversity in the board of directors on the relationship between Corporate Governance and dividend decisions of listed companies of Pakistan. This study further explores relationship between conventional accounting variables and dividend decisions. Multifaceted diversity of the board of directors encompassing age, experience and nationality is examined. Panel Data Analysis is used to measure the cause and effect relationship among the variables. General to specific modelling is used by including all the potential regressors. Results depict that Firm Size, Leverage and Experience Diversity of Board negatively effects the Dividend Decisions, while Earnings per Share, CEO Duality, Directors Nationality and Age effects positively. Furthermore Age and Nationality Diversity of directors significantly moderate the relationship between Corporate Governance and Dividend Decisions.

Graphical Abstract





Research Objectives

Extensive literature is available on the determinant of dividend decisions both conventional (accounting variables) and unconventional (Corporate Governance) variables (Abor and Fiador, 2013; Cristea and Cristea, 2017; Ullah et al., 2012). In the progressing era of globalization, various diversity attributes of board of directors are explored by the researchers in context of Firm Performance and Decisions Making (Byoun et al., n.d.; Seierstad et al., 2017) due to associated benefits of diversity especially efficacy, novelty and problem-solving. The aim of this study is to examine how diversity of board of directors moderates the relationship between Corporate Governance and Dividend Payout Decisions. We analyze the impact of conventional account variables on the dividend payout as well.

This research in totality identifies importance of the dividend decisions, the firm undertake through the heterogeneous board of directors. The uniqueness of this study is that it explores the moderating effect of the diversity of board of directors through the corporate governance on dividend decisions. This study will be beneficial for the corporate sector with a view to develop a unanimity as to how diversity of board of directors contribute to the dividend payout decisions? How diversity of board of directors maximize the value of the firm by reducing the agency problems?

Methodology

For this study, a generalized model was initially explored by using all the variables as per the literature, however the final optimized model was achieved by studying the effect of Corporate Governance (Board Independence, Board Size and CEO Duality) and Conventional Accounting Variables (Firm Size, Leverage and Earning Per Share) as Independent Variables on Dividend Decisions (Dividend payout) as Dependent Variable. Board Diversity attributes i.e. Nationality, Age and Experience were taken as moderating variables. Data for eight years (2010 to 2017) was taken from listed companies registered in PSX. Due to lack of reporting of diversity data by most of the firms, samples size was selected from 29 public listed companies.

Impact of conventional accounting variables and corporate governance on the dividend decision with moderating role of board diversity variables is measured by using the penal data analysis and Fixed Effect Model is used to explain the relationship among the variables.





Results

Adjusted R-Squared suggests that model is able to interpret nearly 59% of the methodical variations in the exogenous variable. P value of F Stats is also significant. Firm Size (-.1218), Leverage (-.3348), Board Independence (-.9236) and Experience Diversity (-.3020) have significant negative impact on Dividend Decisions. On the contrary Earnings per Share (.0033), CEO Duality (.1958), Nationality Diversity (1.2029) and Age Diversity (.3492) have significant positive impact on Dividend Decisions. Results further suggests that presence of foreign directors on the corporate board significantly moderates the relationship of board independence (.2345), board size (-.5290) with dividend decisions. While with nationality diversity as a moderator, inverse relation between CEO Duality (-.20243) and dividend decision exists at 10% significance level. Board Size strongly affect dividend decisions with the presence of diverse age groups (.0072). No strong evidence is found regarding impact of Board Independence on Dividend Payout Decisions. Even Age Diversity failed to moderate the relationship.

Findings

The results offer unprecedented evidence that diversity (Nationality and Age) moderates the relationship between Corporate Governance (Board Independence, Board Size and CEO Duality) and Dividend Decisions of the firm. The findings highlight Independent Boards having non-resident members pay more dividend. Significant negative relationship is observed between larger boards having foreign directors and Dividend Payout. CEO Duality in nationality diverse boards also have significant negative affect on the dividend decisions of the firm at significance level of 10%. Likewise corporate boards diverse in term of age pay more dividends. Taken together, the above results would seem to suggest that diversity of board of directors not only contribute in the dividend decisions of the firm but also moderates the relationship between the Corporate Governance and Dividend Payout decisions.





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