OWNERSHIP STRUCTURE, BOARD SIZE, BOARD COMPOSITION AND DIVIDEND POLICY: NEW EVIDENCE FROM TWO EMERGING MARKETS

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ABSTRACT

Good corporate governance practices build equilibrium between management and shareholders and eliminate agency problems, as results managers pursue a suboptimal dividend policy. The aim of this study is to examine the potential relationship between ownership structure, board size, board composition, CEO duality and dividend policy of 176 listed firms at KSE and 280 listed firms at BSI from 2010-2015. We used pooled OLS regression test to analyse the association between corporate governance determinants and dividend policy. Among other methods, VIF and Hausman tests had been used to check the fitting of Random effects and fixed effects, while fixed effect method was chosen to test the hypothesis. We discover a positive association between managerial ownership, board size, board independent and dividend policy, while a negative association of ownership concentration and dividend policy. Finally, it is observed that there is a positive impact of return on assets (ROA) and size on dividend policy. This study will contribute to the existing literature through investigating the impact of corporate governance on dividend policies of listed firms in emerging markets.

Key Words: *Dividend policy, board size, Ownership structure and board independence*

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1. INTRODUCTION

In early 2000s, a range of corporate scandals for example, WorldCom, Enron, Parmalat and Xerox escorted to the credibility of big corporations and shook the investor's confidence. As a result, the corporate governance topic has been discussed widely by various stakeholders because good corporate governance practices can build equilibrium between management and shareholders and eliminate agency problems. The Sarbanes-Oxley Act (2002) legalized corporate governance practices with the aim of reassuring investor's confidence and reliability of financial information. It is generally accepted that financial crises and corporate scandals have exposed the concept of corporate governance. The same as pointed by Coskun & Sayilir (2012) that major benefits comprise of increasing performance of the firm, reducing cost of capital, protecting the rights of shareholders through ensuring legal practices, fighting corruption, strengthening corporate reputation, providing smooth investment environment, mitigating risk and increasing shareholder value. Existing evidence indicates that in emerging markets, companies have disadvantaged due to weak corporate governance. Corporate governance practices enhanced division of authority among stakeholders, management and the board of directors.

Corporate governance comprises of an association between management of firm and stakeholders, mainly shareholders, who decide the future direction of firms. Therefore, by reason of the extent, forming a business connection, investors are sceptical, and it is necessary to bring back investors' confidence in business activities through accountability, transparency and investor protection regulations. The principles of OECD clearly state that the major responsibility of the board of directors is corporate governance and smooth operation of a company (OECD, 2004). Indeed, one of the goals of corporate governance is well-organized functioning board and board's features, like board size. In relation to existing corporate governance literature, small board size exercises more efficient control due to better coordination and communication among members, as compared to a large board (Setayesh & Ebrahimi, 2012). The shareholders are major beneficiaries of efficient corporate governance system and ultimately play a role in corporate decision-making through the selection of board members and influence to moderate the agency costs. Hence, in effective corporate governance system, the board of director is answerable to shareholders and other stakeholders (Esmailzadeh *et al*., 2010).

Dividend policy has one of the important research areas in corporate finance because dividend policy decision is a major component of corporate policy. Generally, shareholders consider that dividends provide an influential signal regarding firm's ability to increase the earning. Currently, in emerging markets, an important area of research is examining the impact of corporate governance on dividend policy because investors are paying more weightage to dividend policy options in the capital markets. As a result, researchers acknowledged that some emerging markets provide opportunities for further investigation as emerging markets play a significant role in international financial activity these days.

Various researchers examine the association of corporate governance with dividend policy, evidence shows that those firms which distribute high cash dividends, by following smooth dividend policies, reduce agency costs and conflicts between management and shareholders. As identify by Jensen (1986) and Rozeff (1982), corporate governance significantly affect dividend policy, since it reduces agency costs.

Another major component of corporate governance is board's independence, since it is an imperative component which evaluates the efficiency of the board. Thus, in firms, the corporate board is responsible for investor protection and takes care of business operations. In relation to the existing literature, separating the board chairman and CEO duties is the main features of corporate governance that supports independence of a board (Esmailzadeh *et al*., 2010). Similarly, in case of CEO duality, the board supervisory role is reduced, hurting the shareholders' rights. In such situations, another way to reduce agency conflict between owners and managers is through maximum dividend payment. This indicates that managers are working in agreement with corporate goals and confidence of shareholders also increases about director's performance. So, dividend payment reduces the cost of conflicts (Mashayekh & Abdollahi, 2011) and increases the benefits of shareholders (Mansourinia *et al*., 2011). Good corporate governance practices build equilibrium between management and shareholders and

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eliminate agency problems, which results when managers pursue a suboptimal dividend policy (Fakhari and Yosofalitabar, 2010).
Corporate governance plays an important role in the stock market expansion by escalating the flow of capital in the financial markets. The financial crisis in East Asian countries attracted major interests in the importance of corporate governance in developing countries. In early 2002, corporate governance codes were initiated by the Security Exchange Commission of Pakistan, which was a major movement in corporate governance reforms in the country. These corporate governance codes incorporate many suggestions similar to international good corporate governance practices. The board of directors is a major reform which was enforced with the intention that it will be accountable to all stakeholders and better disclosure, including improved all types of audits of listed firms, are required.
India has a large corporate sector registered as widely-held corporation according to the Companies Act. Since 2000, a lot of regulations have transformed the Indian corporate governance practices and advanced the level of accountability of insiders, fairness in the treatment of minority shareholders and stakeholders, board practices and transparency, especially, the securities regulator initiated a corporate governance section in the listing agreement that clarified many issues. Current endeavours, to implement the law and guidelines, improved investor confidence in the financial markets. These are positive drivers of change which enhance the shareholder rights; though, law enforcement and implementation is still a major issue (ROSC Report, 2004).
The key purpose of study is to examine the relationship between corporate governance practices and dividend policy of listed firms in two major South Asian emerging markets. This study contributes to the existing literature by examining the impact of corporate governance determinants on dividend policy of listed firms of BSE and KSE. Therefore, this study draws its significance from one of the growing markets like Pakistan and India within emerging markets. The studies related to the corporate governance impact on dividend policy broadly examine developed markets, but limited research is available in emerging markets like Pakistan and India. We fill this gap by doing research on this topic. To conduct this study, listed companies Corporate Governance Index has been constructed, which comprised a certain level of Governance Practices from 2010-2015. The ownership structure relationship with dividend payout is analysed by employing ownership concentration and managerial ownership variables. We collect the data from DataStream, annual reports and database of individual firms. The remaining of this study is structured as following: section II presents major literature related to subject area, including emerging-markets, section III presents the methodology and the variables included in the study, and section IV provides data analysis and results, section V provides conclusion with recommendations.

2. LITERATURE REVIEW

In the existing literature, the relationship between corporate governance and dividend policy has been extensively examined; however these researches provide mixed findings. Although, from existing researches it is evident that high-quality governance is associated with larger dividend payouts (Sawicki 2009) but few studies indicate the opposite (Jo & Pan, 2009). In view of the fact, several researches have been conducted by following many theories to examine how much dividends should be paid by firms as information contained, such as agency theory, signalling theory, life cycle theory and free cash flow (FCF). The Modigliani & Miller (1961) hypothesis, that dividend payout policy opted by companies has no impact on value of firm, doesn't seem true as when dividend payout vary it influences share prices in the market. According to signalling theory, insiders have good knowledge regarding firm future cash flows and profitability, as dividends announcement might communicate better information, which was not earlier known by investors. Therefore, dividend announcement is recognized positively, while reduction in dividend is perceived negatively by investors (Brush et al., 2000; John and Williams, 1985).
The free cash flow (FCF) hypothesis are closely linked with the agency cost theory as Jensen (1986) pointed out as divergences of interests among management and shareholders which increase agency costs. Generally, board of directors executes policies according to management's interests at the cost of shareholders' wealth (Brush *et al.,* 2000). Jensen (1986) shows that sometimes firms have surplus

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free cash flow, but no corporate investment, thus management may use the excess cash for their personal benefits at the cost of shareholders. As a result agency costs increase, causing inadequacy in allocation of resources and investment policies. Chung *et al*. (2005) point out that excessive free cash flow might have a negative impact on profitability and stock price of firm.

The existing literature shows that corporate governance practices can moderate the fundamental agency issues between managers and shareholders through decreasing free cash flows and therefore condenses the investment. Therefore, firms pay out policy can resolve a potential agency problem, and minimizes agency cost as well as suboptimal behaviour of management (Easterbrook, 1984). In addition, cash distribution also compels managers to seek external financing by issuing debt securities and shares frequently. Firstly Berle & Means (1991) recognize the importance of agency theory that agency problems increase due to the separation of ownership and control. Same as the divergence of interests between different stakeholders may cause the agency problem (Jensen & Meckling, 1976) this can be mitigated through high dividend payout strategy (Jensen, 1986). But in some cases, managers may not constantly put into practice a dividend policy which maximizes the wealth of shareholders, but somewhat they make a dividend payout strategy according to their benefits (Jiraporn *et al*., 2011).

As Shleifer & Vishny (1997) point out that the major objective of corporate governance is to make sure that investors should receive a reasonable return on their investments. As Mitton (2004) points out, external shareholders may prefer dividends instead of capital gain when they feel a possible expropriation by insiders, and this preference is higher in emerging markets due to weak investor protection. Chae *et al*. (2009) discuss that firms with good corporate governance pay maximum dividends only if they have no outside funding constraints. That’s why a large dividend payout possibly increases the likelihood for firms to raise external fund in future.

The existing literature indicates a significant association between dividend payouts and shareholder benefits. In firms with strong corporate governance practices, managers are less likely to hold cash rather to pay cash dividend to shareholders. This hypothesis put forward a positive association between dividend payouts and quality of corporate governance. It is noticeable that, the expected dividend policy is the outcome of a governance regime and stronger the shareholder rights, the more will be paid out as dividends (Jiraporn & Ning, 2006). La Porta *et al*. (2000) assert that firms pay higher dividends in those countries with strong legal protection for investors. But John & Knyazeva (2006) contend that dividend payouts are significantly higher in weak corporate governance countries. It may be justified on the grounds that high payout policy is a good mechanism for avoiding the managers-shareholders conflicts. Many researchers examine an association between ownership structure and dividend policy. In the same way, Mehrani *et al.* (2011) examine the potential relationship between ownership structure and dividend policy in TSE from 2000 to 2007. Where they conclude, institutional ownership has a negative impact on dividend payout, while concentrated ownership has a positive impact on dividend payout. However, the researchers could not find a significant association between managerial ownership and dividend policy. Ali *et al.* (2011) carry out an empirical study to examine the relationship of ownership structure with a dividend payout of listed firms at KSE from 2002 and 2006. They find a positive impact of ownership structure on dividend payout. In the same way, Roy (2015) documents the possible relationship of ownership structure with dividend policy. It is concluded that the proportion of cash and cash equivalent to total asset, used as a measure of firm liquidity, also has an influence on the dividend policy. Growth opportunities have a positive influence on firm’s dividend policy.

The impact of ownership structure on firm policy is growing in importance by reason of the prevalence of complex ownership structure in most developed markets and especially emerging markets. The study of Moussa & Chichti (2013) examine the relationship between the ownership structure and dividend policy by using data of 88 listed firms at the Tehran Stock Exchange from 2004-2009. Their results show a negative association between institutional ownership and dividend policy. Although, Moussa & Chichti are unable to find that managerial ownership significantly affect dividend payout, whereas find a positive association between ownership concentration and dividend policy. Warrad *et al.* (2012) investigate the impact of ownership structure on dividend policy by using a data of Jordanian firms from 2005-2007. They conclude that there is no relationship between

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dividend policy and private ownership, government ownership and family ownership. But, they find that foreign ownership positively influences the dividend policy.

Ullah *et al*. (2012) explore the major factors which influence dividend policy within the context of the agency relation by employing various proxies for ownership structure, for example, institutional ownership, managerial ownership and foreign ownership. In this study, data of 70 listed firms at KSE from 2003-2010 are used. The researchers find that managerial ownership negatively influences corporate dividend policy. In contrast, both institutional and foreign ownership positively influences dividend payments. These findings are very important since results show that how dividend policy can minimize the agency costs. Abdullah *et al*. (2012) investigates the relationship between ownership structure and dividend policy of firms. They conclude that concentrated ownership positively effect dividend policy, while managerial ownership negatively affect dividend policy. But no evidence is found between foreign ownership and dividend policy.

Among other researchers, Al-Gharaibeh *et al.* (2013) try to investigate the ownership structure impact on dividend policy by constructing a sample of listed firms at Jordan's stock exchange from 2005-2010. The results also show that managerial ownership negatively effects dividend payout. Similarly, Thanatawee (2013) examines the ownership structure relationship with dividend policy by using the data of 1,927 firms listed in Thailand stock exchange from 2002-2010. The findings indicate that the sample firms are more likely to pay dividends when they have the higher ownership concentration or the largest shareholder is an institution and that firms pay higher dividends when the largest shareholder, especially an institution, holds more percentage of shares. Further, he discovered that the likelihood of paying dividends and amount of a dividend payout increase (decrease) with higher institutional (individual) ownership.

Chen *et al*. (2011) examine the relationship between corporate governance, financial characteristics and tendency to pay cash dividends by using data of Chinese listed firms from 2001-2007. The findings indicate that board size and composition of senior management have a significant and positive impact on the propensity to pay cash dividends. While CEO's duality has a negative (significant) impact on the tendency of firms to pay cash dividends.

In a research study, Gill & Obradovich (2012) examine the impact of corporate governance and institutional ownership on dividend payment decisions. By using a sample of 296 US listed firms, they find a positive effect of board size and CEO duality on dividend payment. Bokpin (2011) examines the relationship between corporate governance, ownership structure and dividend performance by using data of 23 listed firms at Ghana stock exchange from 2002-2007. The findings indicate a positive impact of board size on dividend policy, while there is a negative (significant) impact of ownership structure on dividend policy. In a similar study, Subramaniam & Devi (2011) examine the impact of corporate governance on dividend policy by employing data of 300 listed firms at the Malaysian stock exchange. Findings indicate that high-growth firm decrease dividend payment and firms with a large board size have a weaker relationship between investment opportunities and dividend policy. Hence, the findings also showed that board size, growth opportunities and board composition have an impact on dividend policy.

Likewise, Mitton (2004) analyses the association between corporate governance and dividend policy of 365 companies by using the agency model from 19 Asian countries. The findings indicated that firms with good corporate governance practices have a higher dividend payment. Results also illustrate that in good corporate governance firms, growth opportunities negatively associated with dividend policy. Borokhovich *et al.* (2005) examine the association between board independence and dividend policy by using the data of 192 US firms from 1992-1999. Findings indicate that there is a negative (significant) impact of board independence on dividend policy. Kim & Lee (2008) examine the relationship between corporate governance, external financing constraints and dividend policy by using a sample of 4434 firms from 1995-2004. They observe in their study that firms with good corporate governance practices and higher external financing constraints pay lower dividends. However, firms with weaker corporate governance practices and lower external financing constraints pay high dividends.

Pornsit *et al*. (2008) find that corporate governance positively effects dividend policy during the period 2001-2004. However, the findings remain the same by adding firm features such as, growth opportunities, profitability and firm size. Fakhari & Yosofalitabar (2010) also examine an association

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between dividend policy and corporate governance. Findings show that corporate governance indicators are negatively associated with dividend policy. Firms shape their dividend payout policies in accordance with their corporate governance policies.

3. RESEARCH METHODOLOGY

In this paper, we examine the association between corporate governance (board size, board composition, managerial ownership, CEO duality) and dividend policy. Recently in emerging countries, corporate governance practices have become very popular according to its importance for investors' protection. The listed companies on stock exchanges also, particularly, pay more attention to attract more foreign investors. They established their investment and dividend payout policies in agreement with their corporate governance policies. However, these policies are not practically used to achieve higher shareholders benefits in emerging markets. A sample of 176 listed firms in Karachi stock exchange (KSE) and 280 listed firms in BSE are selected as sample for this study. The main sources of data are DataStream, annual reports, balance sheet analyses reports, KSE and BSE databases. We also developed a model with the purpose to examine whether corporate governance indicators effect dividend policy or not. The major purpose is to examine the impact of ownership concentration, board size and managerial ownership on dividend payout. We employed the following control variables, such as firm size and return on assets, in this study. The purpose of these control variables is to investigate how these variables restrained the role of corporate governance practice in designing the corporate dividend policy. To investigate the relationship between corporate governance (board size, board composition, CEO duality) and dividend policy, we are testing the following hypotheses:

H_1: There is a significant relationship between the board size and dividend policy of India and Pakistani firms.

H_2: There is a significant relationship between the board independence and dividend policy of India and Pakistani firms.

H_3: the Ownership concentration has a significant impact on dividend policy of India and Pakistani firms.

H_4: There is a significant relationship between CEO duality and dividend policy of India and Pakistani firms.

H_5: There is a significant relationship between managerial ownership and dividend policy of India and Pakistani firms.

Data Analysis Methods and Variables Description

The present study is applied research in terms of purpose, and is descriptive in terms of nature. The panel data are collected to increase the number of observations that enhance the degree of freedom, reduce heteroscedasticity and multicollinearity between variables (Hsiao, 2003). Panel data also contained unobservable problems termed as heterogeneity and endogeneity (McVey & Draho, 2005; Demsetz & Villalonga, 2001). To resolve these problems, panel data methodology and generalized method of moments (GMM) are applied. Panel data methodology handles the heterogeneity problem while the GMM controls the endogeneity problem. Furthermore, the misspecification of the model is tested by Hansen J-Statistic and m2 statistics. Also, the Wald tests are used to test the joint significance of reported coefficients and time dummy variables.

The Pooled OLS panel data model is used in this study to test the null hypothesis. In order to estimate efficiency of panel data model, it is necessary to choose one of the models of common effects, fixed effects and random effects using appropriate tests. Therefore, firstly, we select between the Random effects and fixed effects model by using Hausman and F-Limer (FL) tests. Both tests confirmed that fixed effects model is more suitable to test the hypotheses.

Following variables are employed in this study in order to test the hypotheses, where the dividend payout (DP), managerial ownership (MANOWN), board independence (BI), board size (BS), CEO duality (CD), return on assets (ROA) and firm size (FS).

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The econometric model used to test the research hypotheses

We test the hypotheses by using the following pooled OLS (Ordinary Least Squares) model:

$$DIVPAY_{it}= \ + \ 1BOSIZE_{it}+ \ 2OWNCO_{it}+ \ 3MOWN_{it}+ \ 4BIND_{iit}+ \ 5CD_{it}+ \ 6ROA_{it}+ \ 7FSIZE_{it}+ \ it$$

Where; $DIVPAY_{it}$=Dividend payout of firm i in time t; $BSIZE_{it}$=Size of board of firm i in time t; $OWNCO_{it}$=Ownership concentration of firm i in time t; $MOWN_{it}$=Managerial ownership of firm I in time t; $BIND_{it}$=Board independent of firm i in time t; CD_{it}=CEO duality of firm i in time t; FSIZEit=Size of firm i in time t and ROA_{it}= Return on the assets of firm i in time t; is a constant and 1 to 7 are beta coefficients of independent and control variables. Table 2 provide the descriptive statistics summary of all variables which are used in analysis.

4. DATA ANALYSIS AND RESULTS

We examine the association between corporate governance attributes and dividend policy, which are ownership structure, firm size and profitability. The results in table 3 confirm that F statistic and Hausman test are statistically significant and as a result indicates that fixed effect (FE) model is suitable for estimating regression coefficients.

Table 5 presents the results for the whole sample of Pakistan and Indian listed firms from 2010-2015 based on panel data pooled (OLS and fixed effects) method. According to the first null hypothesis, board size has a significant association with a dividend payout of listed firms at KSE and BSE. The results in table 5 show that board size significantly effects dividend payout of sample firms. In relation to hypothesis, findings indicate insignificant association between board independence and dividend payout for Pakistan, but significant for Indian firms. Similarly, the third hypothesis findings indicate that CEO duality has negative association with dividend payout for Pakistani and Indian firms. Moreover, the findings also indicate that both ownership concentration and managerial ownership positively affect dividend payout ratio. So, higher ownership concentration percentage in the firms leads more dividend payment. We can understand as firms with higher insider ownership prefer to pay higher levels of dividends to shareholders, which minimize agency costs. While managerial ownership relationship with dividend payout is very important for the reason that this reduces the agency conflict between management and shareholders as suggested by Jensen (1986) and resolve the information asymmetry with stakeholders.

*Note: The dependent variable is $DIVPAY_{it}$ and independent variables are $BSIZE_{it}$; $OWNCO_{it}$; $MOWN_{it}$; $BIND_{it}$; CD_{it}; FSIZEit and ROA_{it} .Results report pooled OLS conducted in STATA. Standard error reported in parentheses. ***, ** and * denote significance at 1%, 5% and 10% levels, respectively.*

In relation to control variables, we observed a positive relationship of firm size and return on assets ratio with dividend policy. While the R^2 value indicates that more than 70% of changes in dividend payout of listed firms, for both Pakistan and Indian firms, are explained by independent variables of board size, board independence, ownership concentration and CEO duality and control variables of the study. Moreover, RESET test is insignificant and existence of autocorrelation assumption between variables is rejected.

The determinants of corporate governance are significant, which indicate that corporate governance having an influence on dividend payout. Overall we can conclude all hypotheses are acknowledged except the board independence significantly effects dividend payout policy. We also find meaningful results regarding control variables, which indicate that return on assets (ROA) has a significant positive association with dividend payment. These findings reveal that firms pay higher dividends when profitability is higher. These findings are consistent with the general view as firm distributes more dividends when earn more profits. Finally, we find a positive association between firm size and dividend payment. These findings indicate larger firms pay more dividends than smaller firms.

5. CONCLUSION

Good corporate governance practices build equilibrium between management and shareholders and eliminate agency problem, which results in managers pursue a suboptimal dividend policy. Our paper

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examines the potential relationship between ownership structure, board size, board independence, CEO duality and dividend policy of 280 and 176 listed firms at BSE and KSE, respectively, from 2010-2015. In this study variables such as, ownership structure, board size, board independence, CEO duality, dividend payout, firm size and ROA are employed. Among other methods, F-Limer and Hausman tests are used to check the fitting of random effects or fixed effects, while fixed effect method is found adequate to test the hypotheses.

According to the first hypothesis, results show a positive (significant) relationship between board size and dividend policy which means that firms with larger board size pursue more dividend payout policies. These findings are consistent with Gill & Obradovich (2012), Chen *et al*. (2011) and Bokpin (2011) however, the findings are different from Subramaniam & Devi (2011). The results of the second hypothesis indicate that board independence has no significant association with dividend payout. This shows that firms' board independence has no influence on dividend payments to shareholders. These findings are not consistent with Borokhovich *et al*., (2005). Similarly, the results of the third hypothesis indicate that CEO duality has no association with dividend payout. This shows that CEO duality has no impact on a dividend policy of listed firms in Pakistan and India. The results are not consistent with Chen *et al.* (2011) and Gill & Obradovich (2012) findings. We find that ownership concentration and managerial ownership have a positive impact on dividend payout. The findings are consistent with existing literature. As Jensen (1986) draw attention to the fact that managers choose to keep earnings as retained earnings instead of distributing them in the form of dividends therefore, higher dividends should be paid to reduce agency costs. Our findings indicate that firms with higher ownership concentration pay more dividends. This is mainly due to the fact increasing dividend level reduces both agency costs and conflicts of interest between the managers and shareholders.

Our results also indicate that return on assets has a positive impact on dividend payment and findings can be interpreted that profitable firms increase their level of dividends which is consistent with signalling theory. Even in case of profitable investment opportunities if firms pay more dividends this decreases the retained earnings but such a policy reduces the agency cost. The final results indicate that firm size positively effects the dividend payment, which means that larger companies pay higher dividends as compared to smaller firms. These results are consistent with Jensen & Meckling (1976) where they point out that large firms distribute more dividends to reduce agency costs and minimize the information asymmetry problem between the management, insider shareholders and the outsider shareholders. In future more research is needed to study the impact of other corporate governance indicators including audit committee, remuneration committee, external auditors and foreign ownership on dividend payout. Control variables, other than size and ROA, can also be used to study the dividend payout in emerging markets.

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Appendix

Table 1. Variables Description		
Variables	Symbol	How to Calculate
Dividend Policy	$DIVPAY_{it}$	Ration of total dividend to net income
Board Size	$BSIZE_{it}$	Number of board Members existed in the firm
Board Independent	$BIND_{it}$	Unbound members to all members of board
CEO Duality	CD_{it}	If CEO is Chairman of Board, its value1 otherwise zero
Ownership Concentration	$OWNCO_{it}$	The % of shares hold by three major shareholders
Managerial Ownership	$MOWN_{it}$	A proxy for MOWN, if Chairman owns any % of shares, its value is 1 otherwise zero
Firm Size	$SIZE_{it}$	Natural logarithm of total assets
Return on Assets	ROA_{it}	Net income to total assets ratio

Table 2; Results descriptive test

	Pakistan sample			India Sample		
Variable	Mean	Median	Std. dev	Mean	Median	Std. dev
DIVPAY	0.5964	0.2826	0.094	0.6089	0.4728	0.186
BSIZE	4.6328	2.805	0.163	6.7828	4.9045	0.657
BIND	0.2086	0.1728	0.980	0.6023	0.3706	0.652
OWCON	0.6039	0.3814	0.990	0.6946	0.4098	0.864
MOWN	0.4208	0.2740	0.635	0.5327	0.3764	0.168
SIZE	0.0895	0.0609	0.213	0.1890	0.1689	0.630
ROA	0.0965	0.0473	0.611	0.1065	0.0862	0.905

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Table 3: F Limer and Housman test results					
	Test statistic			**DF**	**Test**
	Pakistan	**India**	**Pakistan**	**India**	
F-Limer	94.845**	89.678***	26.483	24.940	Fixed effect
Hausman	19.826***	21.673**	17.000	27.823	Fixed effect

Table 4: Correlation Result of Dividend Payout and other Variables							
Country	BSIZE	*OWNCO*	*MOWN*	BIND	CD	SIZE	ROA
Pakistan	0.491**	0.335*	0.296	-0.194	-0.158*	0.409*	0.098**
India	0.439	0.428	0.015**	-0.292*	-0.149*	0.546*	0.057*

*Note. Dependent variable is Dividend policy; ** at 1% and * significant at 5% level.*

Table 5. Pooled OLS Test Results				
	Pakistan Sample		India Sample	
Variables	OLS	Fixed effect	OLS	Fixed effect
Constant	0.18560 (0.178)	0.36854* (0.191)	0.36549 (0.379)	0.40238 (0.487)
OWNCON	0.17683** (0.096)	0.35894** (0.092)	0.34687*** (0.074)	0.40238** (0.290)
BSIZE	0.15768** (0.049)	0.14839 (0.972)	0.26834** (0.089)	0.30986*** (0.008)
BIND	-0.02469 (0.932)	-0.03672 (0.987)	-0.04869 (0.282)	-0.06784 (0.009)
CD	-0.01754 (1.058)	-0.01896 (0.845)	-0.09872 (1.058)	-0.12789 (1.809)
MOWN	0.42857*** (0.0539)	0.54890*** (0.078)	0.38246 *** (0.098)	0.48506** (0.178)
SIZE	0.07094*** (0.038)	0.56809** (0.129)	0.09360 *** (0.048)	0.16879** (0.071)
ROA	0.01298*** (0.003)	0.10694** (0.058)	0.10238*** (0.065)	0.11965** (0.090)
Adjusted R2	0.7564	0.7069	0.7748	0.7654
RESET Test	0.86437 (0.248)	0.72958 (0.601)	0.18643 (0.508)	0.20467 (0.496)
Woolridge Test	1.64769 (0.368)		1.83806 (0.692)	

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