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## EFFECTS OF CORPORATE GOVERNANCE ON DIVIDEND DECISIONS WITH A FOCUS ON MODERATING ROLE OF BOARD DIVERSITY

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### ABSTRACT

This study evaluates the moderating effect of diversity (gender, age, experience, nationality and education) between Corporate Governance and the Dividend Decisions of listed companies of Pakistan Stock Exchange for a period from 2010 to 2017 in addition to the effect of conventional accounting variables (Firm Size, Debt to Asset Ratio and Earning per Share) using panel data analysis. General to specific modelling is used by including all the potential regressors. Results depict that orthodox accounting variables (Firm Size, Leverage, Earning per Share), Corporate Governance (CEO Duality) and Diversity (Nationality, Age and Experience) have a significant effect on Dividend Decisions. Firm Size, Leverage and Experience Diversity of Board negatively affects the Dividend Decisions, while Earnings per Share, CEO Duality, Directors Nationality, and Age effects positively. Furthermore, Dividend Decisions are significantly affected by Corporate Governance with moderating role of Diversity (Age and Nationality). An insignificant relationship between Dividend Decisions and Board Independence is found.

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## 1. INTRODUCTION

Diversity of group generally displays constructive rational outcomes resulting in a better selection of viewpoints being taken relevant to the decisions, hence promoting problem-solving through creativity and innovation. The need for this creativeness and innovations is most essential in the decisions which are taken by the members of board of directors of a firm because they frequently require contribution of facts and figures from a variety of inside as well as outside functional areas beyond the organization. Dividend payout is one of the most important financing decisions, which offset the agency costs caused due to asymmetrical information between the owners of the firm and

management. This asymmetry in information is caused by the parting of the firms' ownership and its control as highlighted by the Agency Theory (Fama & Jensen, 1983). Corporate Governance is a tool that is widely used to address the issue of the agency problem with a view that aligns the objectives of shareholders and management through effective Board of Directors (Baysinger & Hoskisson, 1990). In addition to the conventional accounting factors contributing to the dividend payout, Corporate Governance is an unorthodox factor also influencing the dividend decisions. This relationship is moderated by the diversity of the members of the board of directors. The board of directors that are prudently governed and diverse would diminish the agency costs to the shareholders by increasing the dividend payout.

In order to mitigate the cash flows, which are available at the discretion of the management, dividend disbursement is perceived to be a precise instrument (Fama & Jensen, 1983; Jensen, 1986). Stouraitis & Wu (2004) also proposed that the problem of excessive investment faced by the firms can be overcome through dividend payouts. Hence dividend payout, in addition to minimizing the agency costs, can be a mechanism to signal the information pertaining to the value of the firms to the shareholders. Higher dividend payout is preferred when the rights of shareholders are not preserved irrespective of the growth opportunities available for the firm (Mitton, 2004). On the contrary, the shareholders having known that their rights are safeguarded and the firms have worthy opportunities to grow shall be ready to forego the dividends for the prospective payoffs from the growth of the firm with the use of retained funds. La Porta, Lopez-De-Silanes, Shleifer, & Vishny (2000) emphasized that the firms having strong governance mechanisms have negative relations between firm growth opportunities and dividend disbursement. However, at large periodical disbursement of dividends can help to mitigate agency costs and subsequently increase the value of the firm.

In this era of globalization, diversity of the members of the Board of Directors results in elevated decision-making, enhanced vision, uniqueness of ideas and creative marketing to culturally diverse customers (Cox, 1991). Generally, bi-faceted diversity can be observed among the groups categorically discernible diversity which includes gender, nationality, age, race or ethnicity, etc and indiscernible diversity such as education, technical abilities, experience, etc (Milliken & Martins, 1996). Diversity of board of directors is gaining significance as most of the countries of the world have made it mandatory to have the presence of women in the board of directors (Kagzi & Guha, 2018). The authors have further argued that as per the Social Identity Theory, members of the boards of directors of same age, incumbency, education, and sex have homogenous intellect thus their decision affects the corporate outcomes.

A review of the literature reveals that there exists negative relation between dividend decision and conventional accounting variables such as liquidity constraints, growth, risk, liquidity, and leverage. Conversely, size of the firm, preceding dividend pattern, recent earnings, and firm size are positively related to dividend decisions (Al-Ajmi & Abo Hussain, 2011; Cristea & Cristea, 2017; A. O. John, 2013; Kania, 2005; Mehta, 2012b; Pourali, 2019).

Literature available for corporate governance and dividend payout suggests that board independence, CEO duality, institutional shareholding, ownership concentration have strong positive effect on dividend decisions (Abdelsalam et al., 2008; Ayub, 2005; Boyd, 1994; Fama & Jensen, 1983; Ghosh & Sirmans, 2006; Jabbouri et al., 2014; Ullah et al., 2012). On the contrary, Abor &

Fiador (2013), Gugler (2003), Mansourinia et al. (2013) and Ullah et al. (2012) on the other hand found significant negative relationship between CEO duality, state governed firms and managerial share ownership with dividend payout.

Globally the firms have comprehended that the presence of heterogeneous members on the board is more beneficial in terms of efficacy, novelty and problem-solving. Various diversity attributes of the board of directors are mostly explored in context to the firms' performance (Ali et al. 2013; Bear et al, 2010; Ruigrok, et al., 2007a; Seierstad et al., 2017; Van & Elbertsen, 2008; Wang & Clift, 2009). The decision to pay the dividend is the prerogative of the board of directors, while firm performance may relate to variety of factors other than diversity of board of directors (Byoun, Chang, & Kim, 2011). Hence the moderating effect of diverse boards can be studied better in context of the dividend payout decision than the firm performance.

## 1.1 PROBLEM STATEMENT

Conventional accounting factors such as firm size, leverage and earning per share (EPS) affect the dividend payout decisions of the firm in addition to the unconventional factors like Corporate Governance. However, in the presence of diversity of board characterized as nationality, age, and experience of the directors, the relationship between Corporate Governance and Dividend Decision may be effected. In response to this problem, our study proposes to investigate the moderating effect of board diversity on relationship between Corporate Governance and Dividend Decision. This study also considers conventional as well as unconventional factors affecting dividend decision especially in context of Pakistan.

## 1.2 RESEARCH QUESTIONS

The main question thus arises is, Whether the relationship between Corporate Governance and Dividend Payout decision is moderating by the Diversity of board of directors? Other sub-questions may be:

- Whether dividend decisions are affected by the conventional accounting variables like Firm Size, Leverage and Earning Per Share?
- Whether dividend decisions are affected by the unconventional accounting variable of Corporate Governance?
- How the diversity of board of directors contribute to the dividend payout decisions?

## 2. LITERATURE REVIEW

### 2.1 DIVIDEND PAYOUT DECISIONS

A dividend can be defined as incentive to the investor for supplying the funds to the firm (Uwalomwa et al., 2015). Uwalomwa et al. (2015) further highlight that dividend policy is the shape and extent of the cash distributed to the owners of the firm over the period of time. One of the most important corporate decisions the management has to make is the dividend payout and its consistency. The decision not only influence the value of the firm but also sway the shareholder's wealth (John, 2013). Neoclassical economists focused on dividend irrelevance theory i.e. investors do

not consider dividend payout while valuing the firm (Miller & Modigliani, 1961) and capital gains are equivalent to the dividend. In the enlightenment of Agency Theory (Ross, 1973), dividend payout is considered to be one of the important decision which minimize the conflict between the shareholders and managers (Jensen, 1986; Rozeff, 1982; Short, Zhang, & Keasey, 2002; Stouraitis & Wu, 2004).

Kania (2005) found that there exists significant negative relation between dividend decision and profitability, growth, risk, liquidity and leverage. Mehta (2012a) suggested that size of the firm is positively related to dividend decisions, while risk and profitability are negatively related. John (2018) found that preceding dividend pattern, recent earnings, alternate sources of capital at disposal, liquidity constraints and investment opportunities significantly affect the dividend decisions of Nigerian firms.

Al-Ajmi & Hussain (2011) found that past dividends pattern, profitability, cash flows and life cycle of Saudi firms regulate the dividend payout decisions. (Cristea & Cristea, 2017; Short et al., 2002) attempted to determinants of dividend payout and found negative significant relationship between Firm Size, Leverage, and dividend payout.

## **2.2 CORPORATE GOVERNANCE:**

Agency theory highlighted that the goals which are of the prime value to the managers. These goals are pursued by the managers rigorously for their own benefit irrespective of the benefit of the shareholders, particularly when there is a conflict between the interests of management and the shareholders (Fama & Jensen, 1983). To address the issue of the agency problem, corporate governance is used as a tool with a view to line up the interests of executives with firms' owners. This task is accomplished by the firms' directors, oftentimes by the endorsement of decisions taken by the executives and subsequent monitoring of these decisions. On the contrary, financial performance of the firm can be linked with executives' compensations and incentives (Baysinger & Hoskisson, 1990).

The board of directors, while acting as the envoy of the shareholders, ensure that decisions of the board are aligned with the shareholders' interest i.e. value maximization of the firm and dividend policy is maintained being the formal representative of stockholders of the firm. This part of the job is done through executing the governance role by outlining the contractual and compensations terms of the executives and appraising and approving suggestions for all strategic decisions (Kosnik, 1990).

Andreou, Louca, & Panayides (2014) identified three corporate governance dimensions. One of the facets of Corporate Governance is Shareholding Structure of the Firm, which can be enumerated either through proportion of institutional shareholding or percentage of insider shareholding or block shareholding greater than 5% of the stock of the firm. Another aspect of Corporate Governance is structure of board of directors which can assessed by the size of the board of directors, presence of outside members in board of directors, the number of busy directors, existence of Corporate Governance committees and quality of Audit Committee. The position of chairman and Chief Executive Officer, if occupied by the same person tends to explicate the Chief Executive Officer's influence on the Board of Directors. This is also referred to as Chief Executive Officer Duality, the third dimension of Corporate Governance.

When the directors are independent of the management, interest of shareholders is shielded in a

far more better way (Fama & Jensen, 1983). Chief Executive Officer, having the position of Chairman of the board not only has the power on the base but also on the locus of control as well (Boyd, 1994). Having the dual role of CEO and Chairman, the election of directors can be structured by the CEO, which may result in the loyalty of the outside directors. Ghosh & Sirmans (2006) and Southern (n.d.) found significant positive relationship between CEO duality and dividend payout. Abor & Fiador (2013) on the other hand have found significant negative relationship between dual role of CEO/Chairman and dividend decision for Nigerian firms, while no such relationship exists for South Africa and Ghana. Mansourinia, et al. (2013) also showed that the relationship between dividend payout and CEO duality is insignificant.

Abdelsalam et al. (2008) explored the relationship of composition of board of directors and ownership structure on the dividend payout in the context of Egyptian firms. They found that firms having higher institutional ownership disburse more dividends than the firms having lower institutional ownership. While investigating the bond between Corporate Governance and dividend decisions, (Gugler, 2003) showed that state governed firms are more inclined than privately governed firms towards the dividend cuts if desired. (Al-Ajmi & Abo Hussain, 2011) have emphasized that agency costs do not chalk out dividend policies of Saudi firms as these firms show flexibility in dividend decisions i.e. slash dividends when the profit declines and skip dividends on losses. (Ayub, 2005) also explored that ownership concentration significantly affects the dividend payout positively. (Jabbouri et al., 2014) suggested positive relationship between prudent corporate governance practices and disbursement of dividends. This further results in cheaper debt as the creditors desire lower required rate of return.

Ullah et al. (2012) in their study discovered that significant indirect relation exists between dividend payments and managerial share ownership, while direct relationship exists between institutional and foreign share ownership. With higher foreign share ownership, more will be the dividend payout resulting in the expatriation of shareholders' wealth. Adjaoud & Ben-Amar, 2010; Chae, Kim, & Jung, 2009; Iik & Sawicki, 2009; Jiraporn & Ning, 2006; K. John & Knyazeva, 2006; Mitton, 2004; Southern & 2006 all explored the relationship between the strength of corporate governance and corporate dividend or total payout.

## 2.3 DIVERSITY

Since 1990s the world has embarked into the era of globalization, consequently management of cultural differences is on the agenda of most corporate leaders due to the combination of workforce diversity in terms of gender, race, ethnicity, and nationality (Cox, 1991). This diversity not only yields gains like improve decisions, greater vision, novelty of ideas and product marketing to culturally diverse customers but also generates costs such as more turnover rate, social differences, and communication issues.

Ararat et al. (2015) investigated the impact of Board Diversity using Board Diversity Indices (Gender, Age, Education, Nationality and Independence) on the Firm Performance who found positive relationship between the Demographic Board Diversity and the Firm Performance. While reviewing the literature on the Diversity of Board of Directors, Kagzi & Guha (2018) stated Board Diversity as a remarkable and vital dimension for research.

Based on the various researches (Jackson et al., 1995; Milliken & Martins, 1996; Tsui et al., 1992) diversity can be broadly categorized into two broad features i.e. apparent features such as gender, age, race or ethnic background, nationality etc and unobvious attributes such as education, technical abilities, experience etc. Differentiating between the two types of diversities is important as the persons' apparent features tend to induce the reactions owing directly to presumptions, prejudice and typecast (Milliken & Martins, 1996). The authors further argued that the classification of diversity cannot be mutually exclusive. For example, gender differences may be linked with the differences of underlying attributes such as social status, schooling, and beliefs.

### 2.3.1 NATIONALITY DIVERSITY

A director having foreign nationality will pass on diverse viewpoints, expertise, and cognition along with diverse beliefs, standards and apprehensions (Ruigrok et al., 2007b). Ruigrok et al., 2007 argued that directors of Swiss corporate boards with nationality diversity may have minimal linkage with the shareholders and may be confined due to minority positions, however may introduce novel notions and generate deliberations. Iliev & Roth, 2018 studied that corporate governance practices are passed on through overlapped international boards. The authors suggested that corporate located in the markets with weaker governance practices tend to benefit more by the presence of foreign national directors in order to proliferate stronger corporate governance.

A study by Masulis et al. (2012) concluded that foreign independent directors of US firms can fortify the decisions due to their distinctive characteristics such as global knowledge and conversant advisor. On the contrary, monitoring as well as the disciplinary role of the board is adversely affected as the foreign directors are less effective in supervisory roles. Estélyi & Nisar (2016) performed a study on the effects of international diversity on firm governance and performance. They emphasized that nationality diversity has a significant positive effect on board independence and multinationals' operations. Seminal contributions have been made by Hahn & Lasfer (2016) in establishing the negative impact of foreign directors on the frequency board meetings resulting in declining shareholders' returns and escalating agency costs.

### 2.3.2 AGE DIVERSITY

Members of the corporate board are supposed to be educated intellectuals, mature, knowledgeable, experienced and hence aged above the forties. Diversity in age can be referred to as the degree to which the age of the members of a group or organization varied (Li et al., 2011). Age diversity is considered to be the apparent attribute (Jackson et al., 1995). Group diversity in terms of age is one of the salient topics among the researchers as the workforce is getting old throughout the world. The aging of personnel globally subsequently resulting in an increase in age diversity in the business firms (Li et al., 2011).

Maturity and experience gained with the age of the board of directors are in return result in the selection of company's effective management teams thus increasing the performance of the company (Kang et al., 2007). The authors explored that aged or retired executive is perceived to be the best contenders to be selected as non-executive members of the governance body instead of less experience or younger individuals.

Murray (1989) indicated that goal analogy and communication balance can be realized through a less age diverse board, as such boards are comprised of the individuals sharing similar values as they nurtured in the backdrop of historic events occurred. Houle (1990) on the contrary illuminated that board with age heterogeneity is able to multitask more efficiently. The author explained that organization is benefited by the expertise, connections and monetary resourcefulness of the senior members; executive capabilities of middle age members; and openness to new approaches, flexibility and energy of young members of the board who are profound learners and knowledge builders.

### 2.3.3 WORK EXPERIENCE DIVERSITY.

Experienced directors may explore the new prospects for the firm with better grasp of the association between corporate board of directors and its decisions. Altiner & Ayhan (2018) studied and found positive correlation between experience diversity and team efficiency. The organizations can learn from diverse backgrounds and experiences of different individuals. The knowledge so gained can be used to yield favourable results (Jehn & Bezrukova, 2004). While switching the corporates, directors gain facts, information, and skills. This gained experience consequently outlines the range of decisions, which in turn becomes the framework for strategic considerations of the organization (Kroll et al., 2008). Past experience drives the future course of action of the executives (Beckman, 2006). Corporations can accomplish expertise in certain activities performed internally by adding experience in execution of such activities. Likewise, directors gain expertise via their external experience (Haleblian & Finkelstein, 1999).

It is assumed that directors with experience have a rather worthwhile comprehension of the enterprise, hence such directors have propensity to be contributory in bringing to light key components of the enterprise habitat and in aligning management focus on the critical aspects for guidelines. While highlighting the behavioral aspects of theory of the firm, Cyert & March (1963) emphasized former experience cannot be parted away from the decision making, therefore while analyzing a given situation with perspective of the individuals with varied experiences, an innovative solution can be triggered.

Consequent to the examination of literature critically, in order to investigate the possible relationship of the dividend decision of the firm with the unconventional factors like corporate governance through a diverse board of director as well as conventional accounting factors, following are the hypotheses:

H1: Firm Size significantly affects dividend decisions.

H2: Leverage significantly affects dividend decisions.

H3: Earning per share significantly affects the dividend decisions.

H4: Board Independence significantly affects dividend decisions.

H5: CEO Duality significantly affects dividend decisions.

H6: Nationality diversity significantly moderates the relationship between Board Independence and Dividend Decisions.

H7: Nationality diversity significantly moderates the relationship between Board Size and Dividend Decisions.

H8: Nationality diversity significantly moderates the relationship between CEO Duality and Dividend Decisions.

H9: Age Diversity significantly moderates the relationship between Board Independence and Dividend Decisions.

H10: Age Diversity significantly moderates the relationship between Board Size and Dividend Decisions.

### 3. METHODOLOGY

#### 3.1 VARIABLES OF STUDY

For this study, the general-to-specific modeling was used to explore the subsurface optimal model. In general-to-specific modeling, empirical investigation commences with an overall statistical model that gauges the fundamental attributes of the base dataset. Consequently, the intricacy of the generalized model is reduced by eradicating those variables which are statistically insignificant, while ensuring the harmony of finally chosen model by scrutinizing the soundness of the variable eradication at each step (Campos, Ericsson, & Hendry, 2005).

Therefore, 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.

**Table 1: Measurement of Variables**

Variables	Measurement
Firm Size	Log (Market Capitalization) while Market Capitalization = Number of Share * MPS
Leverage	Total Assets / Total Equity
Earnings per Share	Earning After Tax / Total Shares Outstanding
Board Independence	Log (Number of independence Directors)
Board Size	Log (Number of Directors)
CEO Duality	Equals to one If Chairman & CEO of the Firm are the same person, otherwise zero
Dividend Decisions	Dividend Payout = DPS / EPS
Nationality Diversity	Equals to one If Non-resident director is on the board, otherwise zero
Age Diversity	The average age of the board of the directors of the firm
Experience Diversity	Log (Average experience of the directors of the firm)

#### 3.2 POPULATION AND SAMPLE

Data for eight years (2010 to 2017) was taken from listed companies registered in PSX. Due to the lack of reporting of diversity data by most of the firms, sample size was selected from 29 public listed companies. Financial data was collected from annual reports of the firms, while data related to diversity was collected from annual reports and profiles of the directors available on websites (www.linkedin.com, www.bloomberg.com).



### 3.3 THEORETICAL FRAMEWORK

Figure 1 show the theoretical framework used in this study with the final target at the dividend decisions.

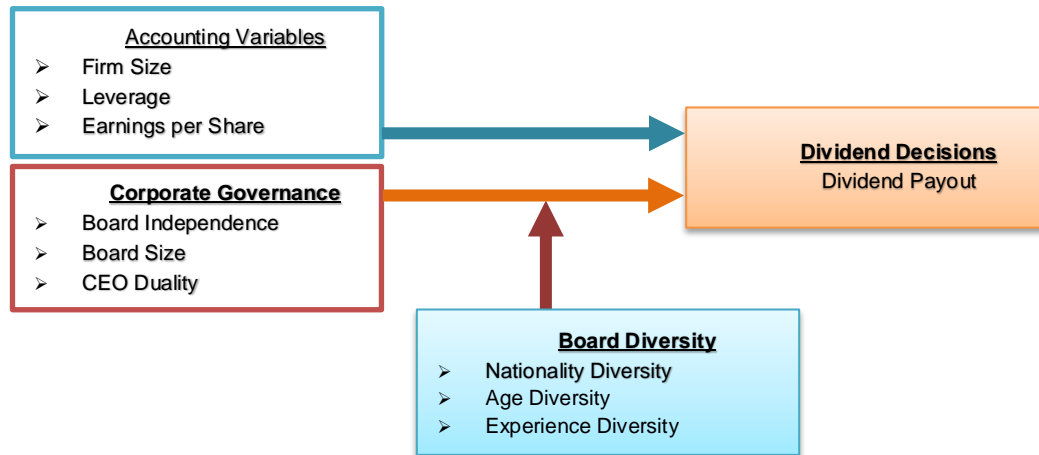


Figure 1: This study framework.

## 4. RESULTS

### 4.1 DIAGNOSTIC TESTS

Table 2 presents the summary statistics for the variables used in explaining the model:

Table 2: Descriptive Statistics (Sample Size = 29, N = 232)

	Mean	Median	Max	Min	SD	Skewness	Kurtosis	J-Bera	Prob
Firm Size	17.114	17.126	20.257	14.230	1.405	0.077	2.247	5.715	0.057
Leverage	0.553	0.565	0.984	0.046	0.226	-0.135	2.090	8.706	0.013
EPS	17.842	9.279	165.411	-85.006	26.592	1.749	10.270	629.192	<0.001
Board Independence	0.664	0.655	2.565	0.000	0.725	0.658	2.321	21.194	<0.001
CEO Duality	0.180	0.000	1.500	0.000	0.377	1.831	4.687	157.172	<0.001
Nationality Diversity	0.608	1.000	1.000	0.000	0.489	-0.441	1.195	39.034	<0.001
Age Diversity	52.857	53.429	69.222	41.111	5.025	0.084	3.568	3.396	0.183
Experience Diversity	3.382	3.414	3.833	2.897	0.172	-0.487	3.396	10.681	0.005
Dividend Decision	0.423	0.386	1.784	-0.802	0.394	0.489	3.257	9.886	0.007

In this study the total number of observations is 232 from 29 public listed companies. It is evident from the information given in Table 2 that average Firm Size is 17 i.e. natural log of firm capitalization, hence average in terms of market capitalization is Rs. 24,154.95 Million. The maximum market capitalization is 20 (Rs.485,165 Million). On the contrary, minimum market capitalization of the selected sample firms is 14 (Rs.1,202 Million). The standard deviation (SD) of the Firms Size is 1.41 (Rs.4.10 Million). The average leverage is 55.32%, which depicts that on average 55.32% of the assets of the sample firm are financed with equity, while 44.68% are financed with debt. Leverage deviates by 22.63% from the average value. Total assets of the sample firms are financed by equity as high as 98.4% and as low as 4.59%. The average EPS of the firms is Rs.17.84 per share, while SD is Rs.26.59 per share.

The average of Board Independence is 0.66 (2 members). Average CEO Duality is 0.18 and Nationality Diversity is 0.61. The average age of the members of the board directors is 53 years, while on average experience of the board of directors is 3.38 i.e. log of average experience (29 years). The

maximum age and experience of directors are 69 years and 46 years (3.83) respectively. Conversely, minimum age of board members is 41 years and minimum experience is 18 years (2.90). On the other hand, descriptive statistics of Dividend Decision (Dividend Payout) show that on average the dividend is paid 42.28% of the net income, while deviation from the average is 39.40%. The minimum and maximum values of Dividend Payout are -0.80 and 1.78 respectively.

Furthermore, Firm Size, EPS, Board Independence, CEO Duality, Age Diversity, Experience Diversity, and Dividend Payout are positively skewed. Leverage and nationality diversity, on the contrary, are skewed negatively. Values of kurtosis reveal that EPS and CEO Duality are Leptokurtic being greater than 3 i.e. closer to mean with few values outlying on both sides. The platykurtic trend has been observed in Age Diversity, Experience Diversity and Dividend Payout as the Kurtosis values are closed to 3. Results of the correlation matrix of the independent variables are appended below:

**Table 3: Correlation Matrix (Sample Size = 29, N=232)**

	Firm Size	Leverage	Earnings per Share	Board Independence	CEO Duality	Nationality Diversity	Age Diversity
Leverage	0.228						
Earnings per Share	0.071	-0.286					
Board Independence	0.434	0.149	-0.045				
CEO Duality	0.003	-0.012	0.080	0.048			
Nationality Diversity	-0.098	-0.225	0.213	-0.130	0.195		
Age Diversity	-0.155	-0.135	0.170	0.036	-0.088	0.197	
Experience Diversity	-0.133	-0.125	0.142	0.011	-0.049	0.158	0.509

The correlation matrix (Table 3) depicts that Leverage, EPS, Board Independence and CEO Duality are positively related, whereas Nationality Diversity, Age Diversity and Experience Diversity are negatively related to Firm Size. Direct relation exists between Leverage and Board Independence, however inverse relation exists between leverage and EPS, CEO Duality, Nationality Diversity, Age Diversity and Experience Diversity. There exists negative correlation between EPS & Board Independence and positive correlation with CEO Duality, Nationality, Age & Experience Diversity. Except for CEO Duality, Age Diversity and Experience Diversity, Nationality diversity is negatively related with Board Independence. CEO Duality is positively related to nationality diversity, while negatively correlated with Age and Experience Diversity. Diversity of age and experience both are positively related with Nationality Diversity, whereas Age and Experience Diversity are positively correlated. Relationship among the exogenous variables is weak indicating no issue of multi-collinearity.

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. In order to decide the appropriate model between common effect and random effect, Fixed Effect Redundancy Test is used, wherein F Stats is found significant with p value less than 0.05). Subsequently, Hausman Test is used to select the relevant model between Fixed and Random Effect model, which are depicts the p-value of H Stats less than 0.05). Hence, Fixed Effect Model is used to

explain the relationship among the variables. Results are as under:

**Table 4:** Impact of conventional accounting variables & Corporate Governance on Dividend Decisions with Board Diversity as moderator (Sample Size = 29, N=232)

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.956	2.500	-2.382	**0.018
Firm Size	-0.122	0.045	-2.686	*0.008
Leverage	-0.335	0.192	-1.748	***0.082
Earnings Per Share	0.0034	0.001	3.248	*0.001
Board Independence	-0.924	0.671	-1.377	0.170
CEO Duality	0.196	0.095	2.067	**0.040
Nationality Diversity	1.203	0.338	3.557	*0.0005
Age Diversity	0.349	0.102	3.408	*0.0008
Experience Diversity	-0.302	0.100	-3.007	*0.0004
Board Independence * Nationality Diversity	0.235	0.048	4.873	*<0.001
Board Size * Nationality Diversity	-0.529	0.136	-3.898	*0.0001
CEO Duality * Nationality Diversity	-0.204	0.117	-1.739	***0.084
Board Independence * Age Diversity	0.016423	0.012	1.331	0.1849
Board Size * Age Diversity	0.007209	0.002	3.346	*0.001
Adj R-squared	0.586427	Durbin-Watson Test		1.775271
F-Statistics	8.988947	Prob (F-Statistic)		<0.001

\* Significant at 99%, \*\* Significant at 95%, \*\*\* Significant at 90% Confidence Interval

The R-Squared indicates a way of measuring fitness of the model as a whole. Adjusted R-Squared in Table 4 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. Negative relationship between Firm Size and Dividend Payout suggests that small firms pay more dividend than large firms (Cristea & Cristea, 2017; Zhang & Fu, 2014). This may be due to the reason that smaller firm in order to address the issue of information asymmetry, have to pay more dividends (Uittenbogaard, 2016). Likewise levered firms also tend to pay lower dividends (Uittenbogaard, 2016; Zhang & Fu, 2014). Negative relationship between Board Independence is explained by the substitution effect (Shehu, 2015; Uittenbogaard, 2016) as higher the board independence, more the firm repute, hence suggesting that presence of independent directors in the corporate board can substitute dividend payout. Negative relationship between the director's experience diversity and dividend payout can be explained due to the inability of the board of directors to make strategic decisions effectively as the experience diversity may lead to segregation of the board members socially and asymmetrical communication (Milliken & Martins, 1996).

On the contrary Earnings per Share (0.003), CEO Duality (0.196), Nationality Diversity (1.203) and Age Diversity (0.349) have significant positive impact on Dividend Decisions. The positive relationship between Earnings per Share indicates that theories of profitability can be applied to Pakistani firms being contributor to the corporate dividend payout decisions (Zhang & Fu, 2014). Higher dividend payout due to CEO Duality is also conformed with the previous studies (Shehu,

2015; Uwalomwa et al., 2015), i.e. dividend payout is higher where the position of CEO and Chairman of the corporate firms is held by the same individual. Strong positive relationship between the dividend decisions and presence of foreign directors has already been found (Pucheta-Martínez & López-Zamora, 2017). Furthermore, board with non-resident directors increases the firm performance (Darmadi, 2010), resultantly higher the dividend payout. Similarly age diversity of the board also have strong relation with Dividend decisions of the firm (Byoun et al., 2011). No strong evidence is found regarding impact of Board Independence and Dividend Payout Decisions. Even Age Diversity failed to moderate the relationship.

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.

## 5. CONCLUSION

This paper seeks to address the relationship between orthodox accounting variables and corporate governance with the dividend decisions of the firm by using the dataset of 29 non-financial companies listed on Pakistan Stock Exchange for the period from 2010 to 2017. One of the more significant findings to emerge from this study is the idea that diversity of board of directors moderates the relationship between corporate governance and dividend payout. The results of this research support the idea that conventional variables like Firm Size and Leverage have strong negative influence on dividend decisions of the firm, while Earnings per Share alongwith unconventional variables such as Board Independence and CEO Duality contribute positively to the Dividend Payout decisions of the firm. The empirical findings in this study provide a new understanding of the moderating role of diversity (Nationality and Age) on the relationship between Corporate Governance and Dividend Decisions. In view of the results, diversity of board of directors in terms of nationality and age through effective corporate governance practice may result in higher dividend payouts.

## 6. IMPLICATION

The results of this study reveal substantial evidence for higher management, strategists, investors and future researchers as well. This study is amid the rare studies that explored the moderating relationship of Board Diversity on the relationship between corporate governance and dividend payout decisions in the Pakistan. Moreover, this study employed agency theory in the context of highlighting the relationship of Board Independence, Board Size and CEO Duality with the Dividend

Decisions of the Pakistani listed companies.

This study recommends the investors to invest in the companies having boards diverse in term of Nationality, Age and Experience in order to mitigate the agency costs. This study also suggests to the policy makers i.e. Securities and Exchange Commission of Pakistan to develop policies promoting the diversity in the board of directors with a view to encourage improved decision making with greater vision and novelty of ideas. Furthermore, the policy making shall also be made in order to make it mandatory for the listed companies to incorporate the information pertaining to the observable as well as unobservable characteristics of the directors in the final accounts to have a better insight of the board diversity by the investors.

## 7. AVAILABILITY OF DATA AND MATERIAL

Data can be made available by contacting the corresponding author.

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