

# The Impact of Corporate Governance Mechanisms (ownership structure and board structure) on Dividend Policy of Companies

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## Abstract

Based on the Agency literature, on the one hand, cash dividends paid to shareholders reduce free cash flows and reduce the risk of investment in non-optimal investing projects, and on the other hand, increase constant control on managers by capital markets. Accordingly, interest payments as a policy maker-works to reduce conflict of interest. Hence, this study is about the survey of effect of mechanisms of Corporate Governance on the dividend policy of the companies accepted by the Tehran Stock Exchange. Four hypotheses represented to test this effect. The population of this study involves all listed companies of the Tehran Stock Exchange. Taking consideration the limitations of the sample of the present study, 71 companies selected as the sample of this study. The present study discusses mentioned companies from 2009 to 2013. The methodology of this study involves using the past information. Using statistical methods ,regression analysis using combined data by fixed- effects.

The obtained results of this study are indicative that is not a meaningful relation between the mechanisms of Corporate Governance and the rate of dividend.

**Keywords:** Corporate governance, outside boards, institutional ownership, and agency theory.

## 1. Introduction

Corporate governance is one of the main issues which has been considered by researchers in recent years after widespread financial scandals in big companies, and is considered as a significant subject for investors. Corporate governance thinks to the necessity of supervision on company management, and separates the economic unit from ownership, and subsequently preserves the rights of investors and beneficiaries. On the other hand, cash dividend policy has absorbed many studies in financial and accounting tasks; but no answers has been found so far for this question that why companies divide their interests, or why investors pay attention to dividend policy. This is known as “dividend puzzle” in finance (Adaglu, 2000).

The main infrastructure of both research groups is related to information asymmetry between managers and beneficiaries and agency relationship between managers and stock holders. Jensen & Mc Ling, after explaining the agency cost which is a result of inequality in information among managers and stock holders, express that one of the mechanisms for reducing these costs is to reduce free cash flow available for managers, which is obtained through interest payment (Komar, 2006). Dividend reduces agency cost through distribution of free cash flow, which is invested in unprofitable projects by manager (kovaleski, 2007). Therefore; according to agency theory, it is often expected that managers perform activities which are costly for stock holders, even the signed contracts between managers and companies can not prevent opportunistic activities of managers. So, stock holders without control, require a structure for supervision. Corporate governance is a tool for creating balance between stock holders and management, and reduces agency problems, it also reduces this possibility that managers follow a dividend policy which is lower than desired level. So, it is expected that corporate governance mechanisms affect dividend policy (Pronzit, 2004). Considering above mentioned issues, this question arises that whether there is a significant relationship between dividend policy and corporate governance mechanisms in Iranian companies. In general, overall goals of present research is summarized as below:

1. Determining the impact of institutional ownership on the level of interest payment;
2. Determining the impact of managerial ownership on the level of interest payment;
3. Determining the impact of outside boards on the level of interest payment, and
4. Determining the impact of duality of board's chairman on the level of interest payment.

## 2. Theoretical principles and Research history

The main goal of stock companies is to maximize the wealth of stock holders. One of the effective factors of this issue is the company dividend policy. Hence, dividend policy has always been one of the most significant financial issues; because, divided interest is considered as an indicator of major cash payments of companies, and one of the most important items in managers` desicion-makings. Manager should decide that how much of company`s interest is divided and how much of it is reinvested in company in the form of retained earnings (Baker & Powell, 2005). Moreover, this policy has information content in stock market, and changing it involves information for stock holders. Each stock holder buys a company`s stocks which its dividend policy is

determined as desirable. The level of stock interest proposed by board usually involves information about managers' expectations regarding future profitability of company (Jahan Khani & Parsaeiyan, 2005).

Dividend policy is one of the most significant issues in financing literature of companies. Many researchers have provided theoretical principles and empirical evidence relevant to dividend policy criteria. Nevertheless, dividend policy issue is left unsolved and no specific guideline is created about optimal dividend policy (Naceur et al, 2006). However, corporations usually follow a specified dividend policy. Different factors such as, policies being used in similar companies, previous dividend policy, legal limitations, and profitability stability, are considered when codifying this policy. Despite there are multiple policies, companies often use policies including dividing a fixed and certain amounts, dividing a fixed percentage of interest, dividing fixed interest along with variable margin, and dividing the excess interest. (Baker & Powel, 2005; Jahan Khani & Parsaeiyan, 2005).

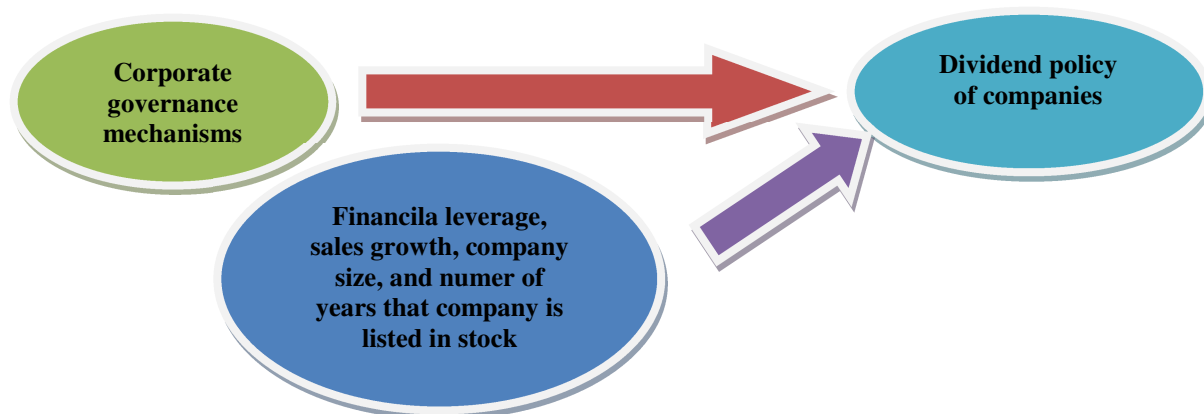
Based on agency theory, there are two hypotheses when explaining dividend in financial literature: 1) outcome hypothesis, 2) replacement hypothesis. Outcome hypothesis is based on free cash flow hypothesis. According to free cash flow hypothesis, opportunist managers invest free cash in projects which increase their reputations (Mitton, 2004). Outcome hypothesis argue that dividend is an outcome of quality of corporate governance. In fact, companies which do not preserve the rights of stock holders, develop opportunistic managements, because in such companies managers possess a widespread power and stock holders do not supervise their activities adequately. In this case, managers try to maintain cash in company instead of distributing it among stock holders. So, lower interest payment is a result of weak corporate governance. But if stock holders possess power, they can affect the dividend (Blau, 2008).

Replacement hypothesis is another hypothesis when explaining interest distribution. Based on this hypothesis, the rights of stock holders is replaced by dividend. that is; companies with weaker governance, pay more dividend, so that it is a substitute for their weak management. This issue especially focuses on companies' needs for external financing through outside investment markets. Companies should have an acceptable credit for external financing, and one of the ways to obtain such a credit is to pay stock interest. Therefore, stock interest payment is the biggest achievement for such companies. Ofcourse, if companies have a powerful corporate structure, the need to credit mechanisms and payment of stock interest by them, will be decreased (Mitton, 2004). Previous studies support the presence of replacement relation between dividend and the level of corporate governance (companies with weaker corporate governance, pay more dividend to their stock holders). In fact, more payment encourages the stock holders to invest in company. Since, companies' financing in Iran often is done through loans and stocks, and it is important for them to obtain credit; more cash interest is paid in companies in which the stock holders' rights are weak, and investors may be recommended to pay enough attention to corporate governance level beside dividend policy, when forming their portfolio; because opportunistic managers use dividend as a tool to cover their weak corporate governance (Fakhari & Yousef Alitabar, 2010).

Zeckhauser & Pound (1990) argued that institutional stock holders force the companies to pay more dividend. They prefer to pay stock interest instead of maintaining cash, because individuals within organization may waste this amount of free cash flow. In other words, stock holders make the managers to distribute more interest, in order to prevent wasting of surplus funds and also to reduce agency costs. So according to this theory, as institutional ownership increases, demands for more interest payment increase as well. Zeckhauser & Pound (1990) express that they may look at stock interests and institutional stock holders as a tool for signalling. The presence of big stock holders may result in decrease in using stock interest as a signal for appropriate performance of company, because these investors are a reliable sign (even more reliable than stock interest). According to this viewpoint, there is a negative relationship between institutional ownership and payable stock interest, and as institutional ownership increases, payable stock interest decreases. It may indicate that institutional stock holders prefer to maintain cash in company rather than distributing it as stock. The research findings are consistent with works by Baclay et al (2006) and Zeckhauser (1990).

So, considering the ambiguity which exists in the impact of different corporate governance mechanisms on dividend policy of companies, this research has reviewed this issue.

Theoretical model of present research is shown below:



A number of domestic and foreign researches which are somehow related to this research, are presented below: Findings of research of Jiraporn et al. (2011) indicated that as the quality of corporate governance mechanisms increases, normal intention of companies to enhance interest payment increases. AlNajjar et al. (2009) reviewed the relationship between interest payment ratio and percentage of outside board members. The results indicated that percentage of outside board members has a negative and significant relationship with interest payment. Chae et al. (2009) indicated that companies with more effective corporate governance and higher foreign financing limitations, pay lower stock interest, while companies with weaker corporate governance and lower foreign financing limitations, pay more stock interest. Pronzit et al. (2009) indicated that there is a positive relationship between the quality of corporate governance dividend. These results do not change after controlling the company's features such as size, profitability, tax effect and growth opportunities. Abdelsalam et al. (2008) indicated that there is a significant relationship between institutional ownership and cash interest payment. Despite this, no significant relationship was seen between board combination and cash interest payment. Kawalewski & Talavera (2007) in a research performed about 110 non-financial companies listed in Poland stock exchange, concluded that centralized stock ownership and Deviation from the principle of one share of the vote resulted in decrease in stock interest payment. Moreover, the results support free cash flow hypothesis, but interest signalling hypothesis has a lower impact in this country. The results of a research by Kumar (2006) indicate that institutional ownership has a negative and significant relationship with interest payment ratio. Belden et al. (2005) reviewed the impact of outside board members on interest payment, and decrease in agency costs. The results indicated that as the members of outside board in board combination increase, cash interest payment level increases. Bebczuk (2005) believes that if corporate governance mechanisms in company are better, stock interest payment will be more. Desh Much (2003) reviewed dividend policy dynamism through a random model, and concluded that dividend has a reverse relationship with inequality level of information and investment opportunity growth, and it has a direct relationship with cash flow level. Short et al. (2002) in English companies indicated that bigger management ownership means lower stock interest payment level; while bigger institutional ownership is related to higher stock interest payment. They interpreted that their results support free cash flow hypothesis. Forughi et al. (2009) reviewed the level and quality of effectiveness of institutional stock holders (ownership structure type) and managerial stocks (association level of stock holders in company management) on company dividend policy. The results indicated that the level of managerial stocks of company has a positive and significant relationship with dividend policy. The results of a research by Sharif et al. (2009) also indicated that the ownership level of the biggest stock holder, ownership amount of 5 big stock holders, and ownership percentage of institutional stockholders, have a positive impact on company interest payment. The results of a research by Setayesh et al. (2010) indicated that corporate ownership and independency of board have positive impact, and institutional ownership has a negative impact on interest payment level of companies being reviewed. However, the findings of their research include no evidence about any significant relationship between managerial ownership and ownership focus level with dividend policy. Khajavi et al. (2011) reviewed internal and external supervisory mechanisms on dividend policy. The results indicated that there is a negative and insignificant relationship between percentage of outside board members

with cash interest payment level, and there is a positive and insignificant relationship between percentage of institutional ownership with cash interest payment level.

### **3. Research hypotheses**

#### **Main hypothesis**

Corporate governance mechanisms have impacts on stock interest payment.

#### **Secondary hypotheses**

- 1) ownership percentage of stocks of company managers has impacts on stock interest payment to stock holders in companies listed in Tehran stock exchange.
- 2) institutional ownership has impacts on stock interest payment to stock holders in companies listed in Tehran stock exchange.
- 3) percentage of outside board members have impacts on stock interest payment to stock holders in companies listed in Tehran stock exchange.
- 4) the presence of one of outside board members has impacts on stock interest payment to stock holders in companies listed in Tehran stock exchange.

### **4. Research variables**

Research variables have been divided into 3 groups in order to test the hypotheses: dependent, independent and control variables.

#### **4.1. Independent variable**

Managerial ownership and institutional ownership are introduced as ownership structure components, and outside boards and duality are introduced as board structure.

Institutional ownership is defined as stocks of big stock holders such as banks, insurance companies, pension funds, investment companies, and other state companies (Boshi, 1998). This variable has been used with the same concept in works performed by Charu et al. (2005), Long & Sahu (2008), and ElSayed (2010).

Outside boards are defined as those who are a part time members of board, and they have no fixed salary (Ghaemi & Shahriari, 2009). The same definition is used in works performed by Atmaja et al. (2009), Li Hen et al. (2009), Chaizma & Kim (2010), Hi & Sumer (2010), and Patan & Oskoli (2010).

Duality of board's chairman is defined as a planar variable which if one of the board members is the chairman of the board, it is equal to 1, unless it is equal to 0. The same definition has been used in works performed by Lasfer (2004), Danelli & Keli (2005), and Lasfer (2006).

#### **4.2. Dependent variable**

in this research, cash dividend to sale ratio is determined as dividend policy.

#### **4.3. Control variable**

Control variables used in present research as other effective factors on dividend policy, include:

1. financial leverage (long-term debts to total assets).
2. sale growth rate (SG) (difference in sales in a certain year and previous year is divided to sales in pervious year).
3. company size (company assets logarithm)
4. the number of the years a company is listed in Tehran stok exchange (Listing Years).

### **5. Research population and statistical sample**

Population of this research includes total companies listed in Tehran stock exchange in 2007-2011 time period. Through screening method, only the companies which have had below qualifications have been selectd as statistical samples:

1. their financial year ends in March.
2. they have not changed their financial year during research period.
3. they have provided all the required financial information in 2007-2011 time period.
4. they are not investment company, banks, or financial intermediates.

According to above mentioned qualifications, a number of 71 companies were selected and reviewed as sample.

### **6. Research method and data collection**

Since this research is going to determine the relationship between corporate governance mechanisms (ownership structure and board structure) and dividend policy of companies, it is a correlation research, and since determinatio on such a relationship may be useful to those who use financial information of the companies, it is an applied research. after-event method is used when researcher reviews the issue after the event has happened, and also when manipulation of independent variables is impossible (Reshad quoted by Namazi, 2000).

In this research, data collection is performed by refering to financial statements, explanatory notes, weekly reports and journal of stock exchange, and through using Rah Avard Novin and Tadbir Pardaz softwares.

### **7. Data analysis method and testing the hypotheses**

This research reviews the relationship between corporate governance mechanisms and dividend policy through polled/panel regression analysis, as below:

$$DIV_{it} = \beta_0 + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 OB_{it} + \beta_4 Duality_{it} + \beta_5 LEV_{it} + \beta_6 SG_{it} + \beta_7 SIZE_{it} + \beta_8 LY_{it} + \varepsilon_{it}$$

In which, we have:

- DIV<sub>it</sub>**= dividend policy of company i at the end of financial year t
- MO<sub>it</sub>**= managerial ownership of company i at the end of financial year t
- IO<sub>it</sub>**= institutional ownership of company i at the end of financial year t
- OB<sub>it</sub>**= outside boards of company i at the end of financial year t
- Duality<sub>it</sub>**= duality of company i at the end of financial year t
- LEV<sub>it</sub>**= financial leverage of company i at the end of financial year t
- SG<sub>it</sub>**= sales growth of company i at the end of financial year t
- SIZE<sub>it</sub>**= size of company i at the end of financial year t
- LY<sub>it</sub>**= listing years of company i at the end of financial year t
- ε<sub>it</sub>**= regression residuals of company i at the end of financial year t.

Mergering time and sectional series data (pooled data) and the necessity to use it, is mainly to increase visits number, raise freedom degree, decrease the anisotropy of variance and decrease the linearity among variables.

Before estimation of regression models to test the research hypotheses, an appropriate pattern is selected for regression model. First, pooled data will be chosen against panel data through F-Limer test. If F-Limer possibility value is less than significant level of 5%, using pooled data model is ruled out. Unless using pooled data model is appropriate.

If pooled data model is not chosen against panel data model, Hasman test is used to select fixed effects pattern of panel data against random fixed effects pattern of panel data. If Hasman possibility value is less than significant level of 5%, we have no enough evidence to reject fixed effects pattern, and this pattern should be used to test this hypothesis. Unless, if significant level is more than 5%, using random fixed pattern is appropriate.

In all statistical techniques, EXCEL and Eviews are used.

## 8. Research data analysis

### 8.1. Review of descriptive statistics of Research variables

Descriptive statistics of research variables are presented in table 1.

The results indicate that dividend to sales ratio of companies being reviewed has been 74.5% on average, and the level of institutional ownership and managerial ownership has been 42.4% and 11.5% on average, respectively. Sales growth of companies being reviewed has been 15.2%. moreover, their financial leverage has been equal to 8.2% on average.

**Table 1. descriptive statistics of research variables**

Variable	No.	Average	Maximum	Minimum	Standard deviation
Dividend policy	355	0.103	0.745	0.000	0.126
Managerial ownership	355	0.115	0.650	0.000	0.186
Institutional ownership	355	0.424	0.980	0.000	0.335
Outside boards	355	0.447	1.000	0.000	0.243
Duality	355	0.355	1.000	0.000	0.479
Company size	355	5.894	7.795	4.562	0.580
Listing years	355	34.278	58.000	8.000	11.154
Sales growth	355	0.152	2.031	-0.726	0.296
Financial leverage	355	0.081	0.555	0.000	0.093

### 2.8. Testing the first secondary hypothesis

*The first secondary hypothesis: managerial ownership of companies has effects on stock interest payments to stock holders in companies listed in Tehran stock exchange*

Before testing above hypothesis, an appropriate pattern has been selected for regression model. First, pooled data model is selected against plan data model through F-Limer test. The results of F-Limer test are shown in table 2. F test possibility in table 2 is less than significant level of 5%, so using pooled data model for testing above hypothesis is ruled out.



**Table 2. selecting pooled data model against plan data model**

$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		Model
Test possibility	Test value	Test type
0.000	10.48	F-Limer

Since pooled data model is not selected against plan data model, Hasman test has been performed to select fixed effects pattern against plan random effects pattern. The results of Hasman test are shown in table 3. Hasman test possibility in table 3 is less than significant level of 5%, so there is no enough reason to reject fixed effects pattern and this pattern is used to test the first secondary hypothesis.

**Table 3. selecting fixed effects pattern against random effects pattern**

Model	$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		
Test type	Test value	Freedom degree	Test possibility
Hasman	11.84	5	0.037

Plan regression model of fixed effects pattern of impact of managerial ownership on the level of stock interest payment to stock holders, shown in table 4, indicates that the impact of managerial ownership on the level of stock interest payment to stock holders is positive (0.14) but according to t test possibility it is not significant (0.431). it indicates that managerial ownership has no effect on the level of stock interest payment to stock holders.

The results also indicate that, company growth and listing years have negative impacts on stock interest payment to stock holders.

The results regarding F test indicate that the model is generally significant and according to Doorbin-Watson test, it has no self-correlation problem.

Moreover, the results regarding adjusted determination coefficient indicate that about 0.66 of policy of interest payment to stock holders has been affected by research variables specially company growth and listing years.

Since the impact of managerial ownership on the level of interest payment to stock holders is not significant, the first secondary hypothesis is not confirmed.

**Table 4. the effect of mngerial ownership on the level of interest payment to stock holders**

Tests Variables	Regression coefficients	T test value	T test possibility
Fixed amount	0.23	0.88	0.381
Managerial ownership	0.14	0.79	0.431
Company size	0.04	0.82	0.411
Listing years	-0.01	-3.18	0.002
Sales growth	-0.06	-4.04	0.000
Financial leverage	0.04	0.48	0.635
Determination coefficient	Adjusted determination coefficient	F test possibility	Doorbin-Watson test
0.734	0.663	0.000	2.151

### 8.3. Testing the second secondary hypothesis

*The second secondary hypothesis: institutional ownership has impcts on the level of interest payment to stock holders in companies listed in Tehran stock exchange*

Before testing above hypothesis, an appropriate pattern has been selected for regression model. The results of F-Limer test are shown in table 5. F test possibility in table 5 is less than significant level of 5%, so using pooled data model for testing above hypothesis is ruled out.

**Table 5. selecting pooled data model against plan data model**

$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		Model
Test possibility	Test value	Test type
0.000	10.68	F-Limer

The results of Hasman test are show in table 6. Te value of Hasman test possibility shown in table 6 is less than significant level of 5%, so there is no enough reason to reject fixed effects pattern, and this pattern is used to test the second secondary hypothesis.

**Table 3. selecting fixed effects pattern against random effects pattern**

Model	$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$			
	Test type	Test value	Freedom degree	Test possibility
	Hasman	11.67	5	0.04

Plan regression model of fixed effects pattern of impact of institutional ownership on the level of stock interest payment to stock holders, shown in table 7, indicates that the impact of institutional ownership on the level of stock interest payment to stock holders is positive (0.11) but according to t test possibility it is not significant (0.088). it indicates that institutional ownership has no effect on the level of stock interest payment to stock holders.

The results also indicate that, company growth and listing years have negative impacts on stock interest payment to stock holders.

The results regarding adjusted determination coefficient indicate that about 0.67 of policy of interest payment to stock holders has been affected by research variables specially company growth and listing years.

Since the impact of institutional ownership on the level of interest payment to stock holders is not significant, the second secondary hypothesis is not confirmed.

**Table 4. the effect of institutional ownership on the level of interest payment to stock holders**

Tests Variables	Regression coefficients	T test value	T test possibility
Fixed amount	0.26	1.04	0.307
institutional ownership	0.11	1.71	0.088
Company size	0.03	0.61	0.546
Listing years	-0.01	-3.17	0.002
Sales growth	-0.06	-4.09	0.000
Financial leverage	0.02	0.27	0.791
Determination coefficient	Adjusted determination coefficient	F test possibility	Doorbin-Watson test
0.736	0.665	0.0000	2.159

#### 8.4. Testing the third secondary hypothesis

*The third secondary hypothesis: outside boards has impacts on interest payment to stock holders in companies listed in Tehran stock exchange*

The results of F-Limer test are shown in table 8. F test possibility in table 8 is less than significant level of 5%, so using pooled data model for testing above hypothesis is ruled out.

**Table 8. selecting pooled data model against plan data model**

$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		Model
Test possibility	Test value	Test type
0.000	10.64	F-Limer

The results of Hasman test are show in table 9. The value of Hasman test possibility shown in table 9 is less than significant level of 5%, so there is no enough reason to reject fixed effects pattern, and this pattern is used to test the third secondary hypothesis.

**Table 9. selecting fixed effects pattern against random effects pattern**

Model	$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$			
	Test type	Test value	Freedom degree	Test possibility
	Hasman	11.356	5	0.045

Plan regression model of fixed effects pattern of impact of outside boards on the level of stock interest payment to stock holders, shown in table 10, indicates that the impact of outside bords on the level of stock interest payment to stock holders is negative (-0.01) but according to t test possibility it is not significant (0.672). it indicates that outside boards has no effect on the level of stock interest payment to stock holders.

The results regarding adjusted determination coefficient indicate that about 0.66 of policy of interest payment to stock holders has been affected by research variables specially company growth and listing years.

Since the impact of outside boards on the level of interest payment to stock holders is not significant, the third secondary hypothesis is not confirmed.

**Table 10. the effect of outside boards on the level of interest payment to stock holders**

Tests Variables	Regression coefficients	T test value	T test possibility
Fixed amount	0.26	1.03	0.304
Outside boards	-0.01	-0.43	0.672
Company size	0.04	0.74	0.456
Listing years	-0.01	-3.12	0.002
Sales growth	-0.06	-4.07	0.000
Financial leverage	0.04	0.45	0.651
Determination coefficient	Adjusted determination coefficient	F test possibility	Doorbin-Watson test
0.733	0.662	0.0000	2.146

### 8.5. Testing the fourth secondary hypothesis

*The fourth secondary hypothesis: duality of board's chairman has impacts on interest payment to stock holders in companies listed in Tehran stock exchange*

The results of F-Limer test are shown in table 11. F test possibility in table 11 is less than significant level of 5%, so using pooled data model for testing above hypothesis is ruled out.

**Table 8. selecting pooled data model against plan data model**

$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		Model
Test possibility	Test value	Test type
0.000	10.72	F-Limer

The results of Hasman test are show in table 12. The value of Hasman test possibility shown in table 12 is less than significant level of 5%, so there is no enough reason to reject fixed effects pattern, and this pattern is used to test the fourth secondary hypothesis.

**Table 12. selecting fixed effects pattern against random effects pattern**

Model	$DIV_{it} = \beta_0 + \beta_1 IO_{it} + \beta_2 LEV_{it} + \beta_3 SG_{it} + \beta_4 SIZE_{it} + \beta_5 LY_{it} + \varepsilon_{it}$		
Test type	Test value	Freedom degree	Test possibility
Hasman	11.404	5	0.044

Plan regression model of fixed effects pattern of impact of duality of board's chairman on the level of stock interest payment to stock holders, shown in table 13, indicates that the impact of duality of board's chairman on the level of stock interest payment to stock holders is negative (-0.02) but according to t test possibility it is not significant (0.240). It indicates that duality of board's chairman has no effect on the level of stock interest payment to stock holders.

The results regarding adjusted determination coefficient indicate that about 0.66 of policy of interest payment to stock holders has been affected by research variables specially company growth and listing years.

Since the impact of duality of board's chairman on the level of interest payment to stock holders is not significant, the fourth secondary hypothesis is not confirmed.



**Table 13. the effect of duality of board's chairman on the level of interest payment to stock holders**

Tests Variables	Regression coefficients	T test value	T test possibility
Fixed amount	0.26	1.03	0.303
Duality of board's chairman	-0.02	-1.18	0.240
Company size	0.04	0.78	0.439
Listing years	-0.01	-3.19	0.002
Sales growth	-0.06	-3.99	0.000
Financial leverage	0.04	0.40	0.687
Determination coefficient	Adjusted determination coefficient	F test possibility	Doorbin-Watson test
0.735	0.664	0.0000	2.136

### 9. Discussions and recommendations

The purpose of present research is to review the impact of corporate governance mechanisms (ownership structure and board structure) on dividend policy. A number of 71 companies were reviewed in 2007-2011 time period to perform this research. plan regression models of fixed effects have been used to test the research hypotheses.

The results indicate that non of corporate governance mechanisms (ownership structure and board structure) have effects on dividend policy.

The results also indicate that there is a negative and significant relationship between listing years and sales growth with cash dividend to sales ratio. It indicates that as sales growth and listing years of company increase, managers have no intention to increase interest payment, which is consistent with the research performed by Kovalaski & Talavra (2007). However, company size and non-current debts to total assets ratio have no significant impact on dividend to sales ratio. Possibly, the reason of ineffectiveness of financial leverage gets back to financing structure of companies, which in Iran it is often done through banks.

The results of this research about ineffectiveness of institutional ownership on dividend policy are consistent by previous researches done by Foroghi et al. (2009), and Khajavi & Monfared (2011).

According to research results, it seems that the role of institutional ownership, managerial ownership, and board structure in Tehran stock exchange in the field of cash dividend is very weak. So:

1. Those who use financial information should be informed that presence of institutional stock holders, managerial ownership and outside boards, do not provide enough assurance for cash dividend.
2. Considering that stock exchange may fluctuate in some years. So, it is recommended to investors to pay attention to these fluctuations, in order not to make mistake in their decisions.

### 10. Recommendations for future studies

On researcher's opinion, there are still some issues in this regard that may be important for performing future researches. So, it is recommended to pay more attention to below recommendations to make optimal use of research results and also helping to clarification of the impact of corporate governance mechanisms on dividend policy of companies:

1. Since there is another indexes for researches about corporate governance, it is recommended that future researches provide a comprehensive literature about corporate governance in Iran through reviewing the impact of these indexes on dividend policy. Audit committee, selection and appointment committee, and reward committee, are examples of these indexes.
2. To review the impact of industry type on cash dividend policies of companies.
3. To review the impact of other factors of corporate governance such as managers' employment years, managers' salaries, and independent audits' applying years on dividend policy.
4. To review the impact of great economic variables such as inflation, oil price and currency rate on the relationships between corporate governance and dividend policy of companies.

### 11. References

#### 11.1. Persian References

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