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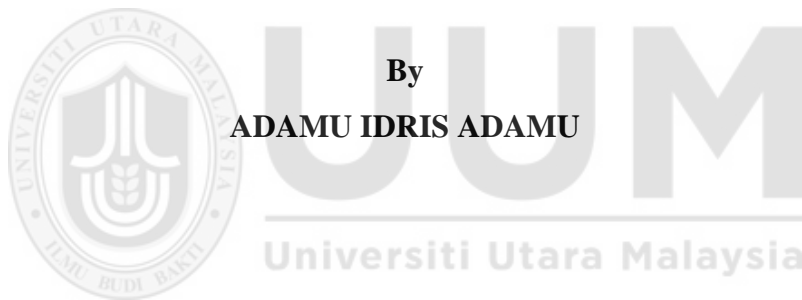
**BOARD CHARACTERISTICS, OWNERSHIP STRUCTURES  
AND PROPENSITY TO PAY DIVIDENDS: THE  
MODERATING EFFECT OF BLOCKHOLDERS OWNERSHIP**

**ADAMU IDRIS ADAMU**



**DOCTOR OF PHILOSOPHY  
UNIVERSITI UTARA MALAYSIA  
May 2018**

**BOARD CHARACTERISTICS, OWNERSHIP STRUCTURES AND PROPENSITY  
TO PAY DIVIDENDS: THE MODERATING EFFECT OF BLOCKHOLDERS  
OWNERSHIP**



**Thesis Submitted to  
Tunku Puteri Intan Safinaz School of Accountancy,  
Universiti Utara Malaysia,  
in Fulfillment of the Requirement for the Degree of Doctor of Philosophy**



**TUNKU PUTERI INTAN SAFINAZ**  
**SCHOOL OF ACCOUNTANCY**  
**COLLEGE OF BUSINESS**  
**Universiti Utara Malaysia**

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Pemeriksa Dalam <i>(Internal Examiner)</i>	: <b>Dr. Sitraselvi a/p Chandren</b>	Tandatangan <i>(Signature)</i>	

Tarikh: **15 May 2018**  
*(Date)*

Nama Pelajar  
(Name of Student) : Adamu Idris Adamu

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Tajuk Tesis / Disertasi  
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PROPENSITY TO PAY DIVIDENDS: THE MODERATING EFFECT OF  
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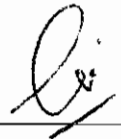
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Program Pengajian  
(Programme of Study) : Doctor of Philosophy

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Nama Penyelia/Penyelia-penyelia  
(Name of Supervisor/Supervisors) : Assoc. Prof. Dr. Rokiah Ishak

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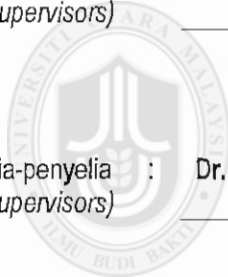
Tandatangan

Nama Penyelia/Penyelia-penyelia  
(Name of Supervisor/Supervisors) : Dr. Nor Laili Hassan

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## ABSTRACT

Dividends payout is important to shareholders as it serves as a return on their investments and a mechanism for controlling agency problems. However, non-dividend paying firms on the Nigerian Stock Exchange (NSE) have continued to increase over the years. The study is aimed at investigating the effect of board characteristics and ownership structures on the propensity to pay dividends and the moderating role of blockholders ownership in Nigeria. The study employs non-financial firms listed on the NSE spanning from 2009 to 2015 and return on assets, firm size and investment opportunities are used to construct the propensity to pay dividends. The study also uses random panel logit regression technique, with 89 sample firms with 596 firm-year observations. The regression results from the direct model showed that board diversity, financial experts, foreign and managerial ownership are strongly related to propensity to pay dividends. However, blockholders reduced propensity to pay dividends and theoretically, implied that they are less likely to use dividend in controlling the managers. Further, the interaction regression results revealed strong positive interaction between blockholders and board size; board diversity and CEO tenure and propensity to pay dividends. Thus, suggesting the importance of blockholders in the firm's governance structures in the sense that they jointly increase the propensity of paying dividend and used dividend payout as a monitoring tool in addressing agency problems. The study recommends that the regulatory authorities should strengthen the rules regarding board diversity and CEO tenure as they affect the propensity to pay dividends of firms listed on the NSE.

**Keywords:** propensity to pay dividends, board diversity, financial experts, ownership structures.

## ABSTRAK

Pembayaran dividen adalah penting kepada para pemegang saham kerana ia berfungsi sebagai pulangan atas pelaburan mereka dan mekanisme untuk mengawal masalah agensi. Walau bagaimanapun, terdapat peningkatan di kalangan firma yang tidak membayar dividen di Bursa Saham Nigeria (NSE) sejak beberapa tahun kebelakangan ini. Kajian ini bertujuan untuk menyelidik kesan ciri-ciri lembaga pengarah dan struktur pemilikan atas kecenderungan untuk membayar dividen dan peranan moderasi pemilikan pemegang blok di Nigeria. Kajian ini menggunakan firma bukan kewangan yang disenaraikan di NSE dari tahun 2009 hingga 2015. Pulangan ke atas aset, saiz firma dan peluang pelaburan digunakan untuk mengira pemboleh ubah kecenderungan untuk membayar dividen. Kajian ini juga menggunakan teknik regresi logit panel rawak, dengan 89 sampel firma dan menjadikan pemerhatian tahunan sebanyak 596 buah firma. Keputusan dari model langsung menunjukkan bahawa kepelbagaian lembaga pengarah, pakar kewangan, pemilikan luar dan pemilikan pengurusan, amat mempengaruhi keputusan pembayaran dividen. Walau bagaimanapun, kewujudan pemilikan pemegang blok mengurangkan kecenderungan untuk membayar dividen dan secara teorinya, ini menunjukkan bahawa mereka kurang menggunakan dividen bagi mengawal pihak pengurusan. Keputusan kajian berdasarkan model interaksi pula menunjukkan interaksi positif yang kukuh di antara pemilikan pemegang blok dan saiz ahli lembaga pengarah, kepelbagaian pengarah dan tempoh perkhidmatan sebagai Ketua Pegawai Eksekutif. Sehubungan dengan itu, keputusan kajian mencadangkan kepentingan pemilikan pemegang blok dalam struktur tadbir urus syarikat yang secara bersama dapat meningkatkan kecenderungan pembayaran dividen dan menggunakan pembayaran dividen sebagai kaedah kawalan ke atas masalah agensi. Keputusan kajian ini mencadangkan supaya pihak penggubal undang-undang perlu meningkatkan peraturan berkaitan kepelbagaian lembaga pengarah dan tempoh berkhidmat Ketua Pegawai Eksekutif kerana kehadiran mereka sebagai ahli lembaga pengarah dapat memberi kesan ke atas kecenderungan untuk membayar dividen di kalangan firma tersenarai di NSE.

**Kata kunci:** kecenderungan untuk membayar dividen, kepelbagaian lembaga, pakar kewangan, struktur pemilikan.



## ACKNOWLEDGEMENT

In the name of Allah, the most gracious and the most merciful. Thanks be to Allah who provides me with all I need to successfully undertake this Ph.D program. His peace and blessings be upon Muhammad, the seal of the prophets, his household the good, the pure and his distinguished companions.

My sincere gratitude to my brilliant and talented supervisors Assoc. Prof. Dr. Rokiah Ishak and Dr. Nor Laili Hassan for their contributions and guidance I also thanked Assoc. Prof. Dr. Hafiz-Majdi Ab Rashid, Assoc. Prof. Rohaida Abdul Latif and Dr. Sitraselvi A/P Chandren for their constructive and critical comments for enriching this thesis. My appreciations go to the management of Federal University Dutsin-Ma, Nigeria for granting me the permission to undertake this valuable doctorate degree abroad.

I am committed to my noble and beloved late parent Alhaji Idris Adamu and Hajiya Sa'adatu Muhammad, may Allah SWT grant them Jannatun-na'eem, ameen! I so much appreciate the support I received from my caring wife, Nafisa Abduljalil and our cherished children Abaan, Zainabul-Kubra and Fatimatul-Jaleelah during the period of my study. May Allah SWT bless and make them among His happiest servants on earth and in the hereafter, ameen. I thanked my younger brother, Abdussamad Idris for his kind support. More so, I remain so grateful to my entire brothers, sisters, and friends in Hanwa quarters.

Finally, I acknowledged heavily to all others that have contributed directly or indirectly to the success of this academic work, whose names were not mentioned.

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## LIST OF ABBREVIATIONS

CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CAP	Chapter
CBN	Central Bank of Nigeria
CEO	Chief Executive Officer
CGT	Capital Gains Tax
CITA	Companies Income Tax Act
CSCS	Central Securities Clearing System
E-Index	Entrenchment Index
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
G- Index	Gompers Index
ICT	Information and Communications Technology
IOSCO	International Organisation of Securities Commissions
ISA	Investment and Securities Act
LFN	Laws of the Federation of Nigeria
MM	Miller and Modigliani
NASDAQ	Nasdaq Stock Market
NCCG	Nigerian Code of Corporate Governance
NEPD	Nigerian Enterprise Promotion Decree
NIBBS	Nigeria Interbank Settlement System
NIPC	Nigerian Investment Promotion Council
NSE	Nigerian Stock Exchange
NYSE	New York Stock Exchange
OLS	Ordinary Least Square
PITA	Personal Income Tax Act
REITs	Real Estate Investment Trusts
SEC	Securities and Exchange Commission
SRI	Socially Responsible Investment
T+2 WEEKS	Trading day plus two weeks
T+3 DAYS	Trading day plus three days
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
WHT	Withholding Tax



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

Dividend policy refers to the path managers tend to follow in determining the level and the pattern of corporate payout distribution to the shareholders (Baker, Veit, & Powell, 2001). Dividends are viewed as corporate distribution of either present or past earnings to the shareholders relative to the proportion of their holdings in the firm (Frankfurter & Wood, 2003). Dividends are shareholders' return on investment and are either distributed in cash or in the form of shares (Osamwonyi & Imasuen, 2006) and are derived from yearly profits or previous years accumulated retained earnings.

Dividend policy has been a topical issue over the years and remains a subject of vital concern in modern finance (Baker & Weigand, 2015). Additionally, Al-Malkawi, Rafferty, and Pillai (2010) noted that dividend policy has become the top agenda item of managers in the modern corporate world and has emerged as a contending topic in the field of accounting and finance. Dividend policy is described as an essential element of the current business environment (Ajanthan, 2013). This is because investors tend to monitor their dividend returns carefully (Hussainey, Mgbame, & Chijoke-Mgbame, 2011). Karpavičius (2014) concluded that a firm's dividend payout is important in the determination of its value, and dividend stability increases the value of the firm. Hence, dividend is crucial to the shareholders as well as to the firm.

A dividend serves as a function of firm performance and the effectiveness of its governance (Ghosh & Sirmans, 2006). Thus, dividend policy also provides an insight or signal on the prospects of a firm, and its payment could be a sign of company's strength and stability. Nissim and Ziv (2001) suggested that a dividend contains information about the future and the level of profitability of the firm. Thus, investors are more likely to be drawn to the firms with a good dividend paying history to enjoy a return from their investments (Hassan, 2015). Several studies from the developing markets of Egypt (Omran & Pointon, 2004), Sri Lanka (Ajanthan, 2013), and South Africa (Vermeulen & Smit, 2013) have attested to the importance of a dividend payout.

Likewise, in the Nigerian context, dividend payout is very vital and relevant (Amadasu, 2011). Adelegan (2003) showed the relevancy of a dividend as it influences changes in the economic policies. Similarly, Musa (2009) reaffirmed that dividend payout in Nigeria is important and relevant because of its link with sustainable economic growth in the country. Dividend policy in Nigeria was first examined during the indigenisation era. This era was a period in which the government increased the participation of local Nigerians in the ownership of companies. However, the studies are constrained by the lack of adopting conventional models of payout policy (Musa, 2005).

The benefit of paying dividends by firms is evident in its share prices, which tend to increase in the stock market as they pay dividends (Oyinlola & Ajeigbe, 2014; Stephen, Nneji, & Nkamare, 2015). In the same vein, Nwidobie (2013) argued that

firms may likely select payout policy that may satisfy the needs of investors. Thus, investors consider dividend policy very useful. This evidence aligns with the suggestion made by Musa (2009) that the board of directors should maintain a steady increase of its payment because investors in Nigeria attach a premium to dividends payout. Adelegan (2009) concluded that firms paying a dividend may generate excess returns from the day of the dividend announcement to thirty days and the opposite for dividend-omitting firms. Therefore, dividends become very crucial to the firm's stakeholders.

The payment of dividends increase the influence of investors in terms of corporate value drivers (Julio & Ikenberry, 2004) because the firms will be exposed to market scrutiny. The importance of dividends to investors has made corporate managers tend to be reluctant to omit them even during financial distress (Frankfurter & Wood, 2002). Despite the importance of dividends to firm stakeholders, the propensity to pay dividends by firms has been reduced according to the studies of Fama and French (2001) and Kim and Kim (2013). Both studies referred propensity to pay dividends as a tendency or likelihood that a firm will pay a dividend given its characteristics. The lower propensity to pay dividends is due to changing characteristics that include profitability, growth and market capitalization. Therefore, the economic fundamentals of firms comprising profitability, growth and market capitalization among others are of importance when making decisions related to dividends.

In line with the propensity to pay dividends literature, Fatemi and Bildik (2012) found evidence supporting the decline of dividends from 33 countries across world.

They argued that the reduction is because of improved in corporate governance that reduces the need for using dividends as a controlling tool. In contrast, some studies have determined that good governance practices are associated with an increase in dividend pay outs (Hwang, Kim, Park, & Park, 2013; Jiraporn, Kim, & Kim, 2011; O'Connor, 2013) and that poor governance practices lead to lower dividend pay outs (Setiawan & Phua, 2013). Thus, the decline in the propensity to pay dividends could exacerbate agency problems as managers may pursue investments that may lead to empire building and perquisite consumption. However, no consistency exists on the lower propensity to pay dividends as documented in the previous findings (DeAngelo, DeAngelo, & Skinner, 2004; Renneboog & Trojanowski, 2011). In addition to the inconsistency, Andres, Betzer, Da Silva and Goergen (2009) cast doubts on the propensity phenomenon and concluded that a more convincing explanation for the propensity to pay dividends is yet to be established.

The corporate governance of the firm may provide an insight into the decision to pay dividends. Corporate governance is seen as an instrument instituted with a view to provide protection to the shareholders (La Porta, Lopez-De-Silanes, Shleifer, & Vishny, 2000). This is because powerful Chief Executive Officers (CEOs) for example, may waste the free cash flow of the firm (Jensen, 1986) when strong control mechanism is not in place. Adewuyi and Olowookere (2013) indicated that firms complying with a corporate governance code have better performance compared to non-complying firms. Therefore, higher performance may increase the likelihood of paying dividends by firms.

One important aspect of corporate governance is board structure. de Villiers, Naiker, and van Staden (2011) view board characteristics as the features of board members who are responsible for monitoring and resource provision in a firm. The board of directors constitutes an important arm in corporate governance as they oversee various critical corporate policies including mergers and acquisitions and decisions to pay dividend, which must be approved by the board of directors (Chen, Lai, & Chen, 2015). Hence the characteristics of the board are significant in determining the propensity to pay dividends.

A board comprises outside and or independent directors who occupy board seats and who are monitors and oversee CEO activities (de Villiers et al., 2011). The 2011 Nigerian Code of Corporate Governance (NCCG) has stipulated that the number of non-executive directors should be greater than the number of executive directors. This provision was not available in the previous 2003 Code. The authority believed that having more non-executive directors will allow the board to have an independent opinion with respect to board decisions.

Board size is the number of board member occupying board seats. The agency theory suggested that in the presence of a fear of free riding, a small board size will be more efficient in monitoring managers. In contrast, the resource dependence theory posits that larger boards may include prestigious directors having experience that will benefit the firm. To integrate these views together, the argument may be made that other monitoring tools such as dividend need to be put in place. In the 2011 NCCG, the upper limit of the board size was scrapped, with the lower limit being a minimum of five. Previously, the NCCG had a mandated that firm have a

minimum of 5 and maximum of 15 members on board. The change may be attributed to having a flexible board that reflects operations of a company and that having more experts on the board who will lead to an increased linkage with its outside environment (Coles, Daniel, & Naveen, 2008; de Villiers et al., 2011).

Board diversity indicates the presence of outside female director on the board. A gender-diverse board may mitigate agency related to conflicts of free cash flow to the extent that the interests of the agent might be aligned with those of the principal more effectively. Evidence from other countries have documented that gender influences dividend payout and that this is associated with the reduction of free cash flow (Pucheta-Martínez & Bel-Oms, 2016). It is not surprising that the 2011 NCCG demanded a diverse board in terms of gender. Therefore, examining how gender affects the propensity to pay dividends will be meaningful in the Nigerian context.

On the other hand, a financial expert is a director with accounting or a related-field expertise. Financial experts perform major roles such as monitoring, advising the CEOs and providing easy to access financial resources that improve the firm (Jeanjean & Stolowy, 2009). Studies on how financial experts influence the propensity to pay dividends is uncommon in the propensity-to-pay literature and is especially limited in Nigeria. Financial experts on a board could also play a significant role relative to corporate financial policies. This is because they are expected to be a strategic partner of the CEO and the board (Florackis & Sainani, 2016). Hence, the role of financial experts should be examined regarding financial policies. Moreover, the 2011 NCCG made a provision the inclusion of financial experts among audit committee members.

CEO tenure is the number of years a director serves as CEO in the firm. Studies on the association of CEOs and the propensity to pay dividends is relative scarce. When a CEO has served for a longer period he/she likely become powerful and able to use free cash flow for private benefit. Longer-tenured CEOs may become powerful such that firing him or her on the basis of performance becomes difficult (Ishak, Ku Ismail, & Abdullah, 2012); however, longer-tenured CEOs may accumulate more experience that may benefit a firm. One possible mechanisms to be used by shareholders in controlling a CEO is to demand a dividend payment. CEO tenure in Nigeria has been limited to only 5 years. Whether this limitation on tenure affects a firm's likelihood to pay dividends is an avenue for further investigation.

Another important factor that may determine the propensity to pay dividends is the ownership structure. Wahl (2006) refers to an ownership structures as the distribution of equity with reference to the votes, capital or by the identity of the equity owners. Ownership structures around the globe continue to attract the attention of researchers, practitioners and policy makers (Lam, Sami, & Zhou, 2012). The attention drawn could be due to existence of agency problems resulting from the separation of ownership and control and the increased volatility of the portfolios of corporate ownership witnessed in recent years (Wahl, 2006).

Sophisticated market investors such as foreign and block owners monitor management either directly or indirectly given their interest in the firm. Institutional and foreign shareholders are in a better position to promote shareholder activism (Kruse, 2007) and, in turn, help in controlling the opportunistic managers of the firms (Satkunasingam & Shanmugam, 2006). Likewise, managerial ownership is

also a monitoring mechanism. Managerial ownership is considered as among the techniques used for controlling managers and for enhancing the distribution of free cash flow (Florackis, Kanas, & Kostakis, 2015). Therefore, its inclusion among the ownership variables may shade more light on a firm's propensity to pay dividends in Nigeria.

Previous studies have noted that the Nigerian market is characterized by blockholders (Arowolo & Che-Ahmad, 2017; Sanda, Mikailu, & Garba, 2010). This means that investors with large holdings may likely exercise some degree of control because they will have more information about the firm. They may monitor the activities of management and, therefore, the board may focus less on monitoring and give more attention to strategic decision making (Desender, Aguilera, Crispi, & Garcia-Cestona, 2013). The presence of controlling owners in a firm may strengthen the monitoring aspect of the board. Because the directors are hired by the shareholders with a view to be providing an adequate monitoring role in a firm, this will reduce agency costs. Accordingly, introducing blockholders as moderating variable will offer additional information on the board monitoring role because of the existence of interdependency between ownership concentration and the board of directors (Bebchuk & Hamdani, 2009).

This current study is motivated by the new 2011 NCCG, which stipulates several control mechanisms. These mechanisms include requiring firms to have either all or most of the board members be independent directors, a diverse board (for example, gender and expertise), the separation of the CEO position from that of the chairman, and the inclusion of financial experts on the board among others. The investigation is



in line with Brown, Beekes, and Verhoeven (2011) and Claessens and Yurtoglu (2013) who suggested further investigation on the functionality of corporate governance under different and local settings. This is because of different regulatory frameworks, market strengths, economic environment among countries, so corporate governance structures should be examined separately (Vafeas & Theodorou, 1998).

The reforms embedded in the 2011 NCCG were aimed at enhancing both the confidence of existing and prospective shareholders in the capital market. Ofo (2011) noted that non-compliance with the code could be associated with negative effects and may be disastrous for investors and perhaps for the economy at large. This indicates that the investments of shareholders may be ruined and, by extension, no return on investment in the form of dividend will be expected. Furthermore, potential investor confidence may be ruined for the capital market and the entire economy may suffer.

This study investigates how board characteristics affect the propensity to pay dividends. The incidence of a decrease in the tendency of firms to pay dividends started in US markets and then spread to markets in the united Kingdom (Ferris, Sen, & Yui, 2006) and other parts of the world (Fatemi & Bildik, 2012). Therefore, the phenomenon may also affect the African region as advancements in technology and globalization continue to unite markets into a single entity. Similarly, with the greater level of dependency of several other markets on the United States, particularly emerging markets, the lower propensity-to-pay dividend phenomenon may exist in the Nigerian market.

Other reasons motivated this current study as well. First, scant evidence exists regarding the decision to pay dividends in Nigeria, which is the second largest market after South Africa in the sub-Saharan region. Second, the legal framework of Nigeria originated from the British common law and is expected to be stronger than civil law in terms of investor protection (La Porta et al., 2000).

However, the observance of the shareholder's rights in the country is merely an imagination according to Abor and Fiador (2013). They added that there is inconsistency in Nigeria with regards to issues that relate to board activities and communicating relevant information to owners and market participants with due warnings on the capital structure changes of a firm. Adebite (2015) concluded that enforcing corporate law as well as harnessing the benefit of self-regulatory initiatives in Nigeria remains merely a narrative. Although the prevailing regulations in the country require a fair conduct in those issues, they have not been fully effective. Therefore, the Nigerian market is an interesting avenue for examining the propensity to pay dividends.

## **1.2 Problem Statement**

Dividend policy for the past five decades has attracted the interest of economists and has been a topic of theoretical modelling as well as empirical investigation (Frankfurter & Wood, 2002). It is classified among the top most debated topics in the accounting, finance, and management literature (Al-Malkawi et al., 2010). Baker and Weigand (2015) claimed that no common set of factors is applicable for all firms. In

fact, dividend payout policy is sensitive to several factors that range from firm characteristics to market characteristics (Baker & Weigand, 2015).

In a recent study, Abdulkadir (2015) highlighted that, among the most challenging issues facing the Nigerian market, is the non-payment of dividend. In addition, Nwidobie (2011) pointed out that the dividend satisfaction of shareholders in the country is very low. The study indicated that about 85% of the existing shareholders are not pleased with the dividend payout of their firms. These findings, therefore, are alarming giving the fact that dividends are a major source of compensating investors for the capital committed in a market.

Statistics by the NSE (2016) indicated that the number of firms paying dividends in Nigeria is declining hence, the number of non-paying firms is increasing. For example, in 2013 only 44.9% of the firms paid dividends (89 of 198 firms), which decline to 40.8% in 2014 (80 of 196 firms) and to 37.9% in 2015 (72 of 190 firms). Further investigation into the history of firms paying dividend indicated that only 18 listed firms consistently paid dividends to their shareholders between September 2011 and September 2016 (Awoyemi & Bagga, 2016). This condition of the higher number of non-dividend paying firms than the number of paying firms is problematic for the market.

Indeed, the consequential effect of the non-payment of dividend behaviour might affect an investor negatively diminishing the confidence of the existing and potential shareholders. This, in turn, may make investing in the stock market less attractive because non-payment is considered a poor signal for the prospect of firms (Ethel,

Okwo, & Inyama, 2015). Theoretically, there may be an increase in agency costs due to the reduction of dividends because free cash flow may be accumulated (Easterbrook, 1984; Jensen, 1986). Dividend payout serves as a mechanism to reduce such costs as it deflates the cash available in the possession of manager who may use it for perquisite consumption. Thus, dividend reduction might be associated with poor prospects. Moreover, from survey evidence, Lintner (1956) documented that managers pay dividend to lessen any form of negative reaction from the point of view of investors. Thus, it is not surprising that managers are reluctant to reduce dividend payments, even in difficult times such as financial distress (Brav et al., 2005; Frankfurter & Wood, 2002).

Union Diagnostic was one of the listed companies in Nigeria that proposed to pay a dividend and communicated such intention to the concerned authorities and the media. Surprisingly, few days later, the company reversed the proposal (Nairametrics, 2015). This reversal of a dividend might raise questions regarding the roles of the board of directors, which relates to the effectiveness of the implementation of corporate governance. The non-payment of a dividend in the market may be attributed to the probability of aggravating agency problems (Nwidobie, 2011, 2013). Hence, the need exists to institute good and strong corporate governance practices. In fact, Park (2009) agreed that good corporate governance practices are associated with higher dividend payout. This is because in a legal regime that tends to protect investors, firms with greater investor protection pay higher dividends compared to firms with lower investor protection regimes (La Porta et al., 2000).

Addressing the non-payment of dividends may require increased efforts from regulatory and implementing policies aimed at protecting shareholders. One effort made by the Nigerian Securities and Exchange Commission (the apex regulatory body) is strengthening internal monitoring mechanisms through NCCG regulations. Corporate governance in Nigeria was first introduced in 2003 and was subjected to review in 2008. In 2011, a new code was commissioned and all listed firms were advised to comply with all its requirements. In their study, Adewuyi and Olowookere (2013) revealed that the performance of the firms complying with the NCCG 2011 are better than non-complying firms. Similarly, studies have found that good corporate governance practices have significant effect on corporate dividend payout (La Porta et al., 2000; Park, 2009), hence, increasing the likelihood to pay dividends.

Corporate governance is a major component of a corporation (Brown et al., 2011) and it stipulates the way and manner corporations in which should be governed. The board of directors and its committees are among the central issues in corporate governance. However, ineffectiveness or negligence in discharging their responsibilities has led to various reported corporate scandals around the globe. For example, Bhasin, (2013) mentioned that the world has witnessed numerous corporate scandals that include giant corporations such as Enron, Qwest Communications, Xerox, Parmalat and Vivendi Universal and which directly or indirectly will affect the dividend policy of the firms.

In Nigeria, corporate scandals have also appeared and among the prominent and well-publicized ones were the Cadbury Plc, Intercontinental Bank and Oceanic Bank Plc (Adewale, 2013). A report showed that the Chief Executive Officer (CEO)

of Cadbury Nigeria Plc used among other things, cost deferrals, trade loading and false suppliers' stock certificates to manipulate the company's financial reports amounting to 13.3 billion Naira from 2003 to 2006. This occurred in collaboration with the board of directors, some management staff and the audit committee of the company (Adewale, 2013) and therefore, could not pay dividends. Furthermore, because of the scandals, Cadbury Plc failed to meet its shareholders' expectations in relationship to dividend payout despite the track record it had regarding dividend payout. Besides that, Cadbury Nigeria Plc took over the administration of dividend payment from its registrars. Thus, indicating the intensity of the corporate scandal as it could not pay dividends to shareholders because of the manifested irregularities.

Most previous studies that have examined the propensity to pay dividends have found firm characteristics (for example, profitability, size, and investment growth) of dividend payers to differ from those of non-paying firms (DeAngelo et al., 2004; Fama & French, 2001; Fatemi & Bildik, 2012; Grullon, Paye, Underwood, & Weston, 2011; Kim & Kim, 2013). A firm's characteristics may be seen to make it a dividend payer, but when a firm's governance practices are weak, this may affect its decision to pay any dividends at all or may lead to less disgorgement of cash to shareholders than expected (Jiraporn et al., 2011). Moreover, firm characteristics are one aspect among the numerous factors that needed to be considered in examining corporate dividends. Therefore, firm characteristics alone may be biased in indicating whether a firm might be a dividend payer or not. To overcome this problem, a firm's governance and ownership structures should be considered including the board of directors who are the top ranking officers of the firm and who

recommend the payment of dividends, which is ratified by shareholders (Choi, Kang, & Lee, 2014).

Furthermore, the evidence revealed regarding the propensity to pay dividends is predominantly within the developed markets context (Francis, Hasan, John, & Song, 2011; Jiraporn et al., 2011; Renneboog & Trojanowski, 2011). Hence, it is necessary to investigate the propensity to pay dividends in developing market such as Nigeria. Measuring the propensity to pay dividends has advantage over dividend payout as it allows the study to identify firms with their basic characteristics that suggest that the firms should be dividends payers and on the other hand to examine whether the set of the independents variables influences the likelihood to pay dividends. For instance, a firm may be a dividend payer in a certain period but when the existing board characteristics and ownership structures are weak or ineffective, the dividend payment may not be considered.

Moreover, Jiraporn et al. (2011) posited that propensity to pay dividends may offer a more robust conclusion because it may circumvent potential bias that may be encountered during the analysis as a consequent of an imprecise model for the optimal dividend payout (Jo & Pan, 2009). Unlike the propensity to pay dividends, dividend payout ratio of a firm may require optimal model and such model is yet to be in the dividend literature. (Jiraporn et al., 2011).

Additionally, previous studies such as Brown et al. (2011) and Claessens and Yurtoglu (2013) have suggested the need for further investigation of corporate governance practices based on local settings to gain more understanding from those

environments about how corporate governance practices influence firm outcomes such as the propensity to pay dividends.

Bebchuk and Hamdani (2009) affirmed that, in addition to corporate governance mechanisms, ownership structures of firms are crucial and could be of use in addressing agency problems. Similarly, Mancinelli and Ozkan (2006) noted that the effectiveness of dividend payout in mitigating agency costs will depend on the structures of the ownership. Ownership structures are also of significant importance not only in a determining firm's dividend policy but on a firm's corporate governance practices because they impact managers' incentives and the efficiency of firms (Wahl, 2006).

Florackis (2008) opined that blockholders seem to play an important role in mitigating agency costs. Truong and Heaney (2007) pointed out that firms are less likely to pay dividends when the largest shareholder is an insider. As a consequent of their holdings, investors with substantial holdings for example, blockholders may acquire more relevant information and thus, monitor management directly (Shleifer & Vishny, 1997). In this vein, Desender et al. (2013) argued that controlling shareholders may influence both the incentives and the abilities of board members in terms of monitoring. Additionally, blockholders can benefit minority shareholders because they have the incentive and power to mitigate expropriation or asset stripping by managers (Okpara, 2011). Hence, blockholders ownership may moderate the relationship between board characteristics and the propensity to pay dividends.



In line with the above arguments, Nigeria is a good market to test the effectiveness of blockholders. On the average, the market has a high degree of blockholders ownership, which is about 32.46% of equity (Okpara, 2011; Sanda et al., 2010), and the existence blockholders in the market is significant across all the sectors of the NSE market (Adenikinju, 2012; Babatunde & Olaniran, 2009). Moreover, Arowolo and Che-Ahmad (2017) noted that Nigeran market exhibit two major classes of blockholders; institutional and individual blockholders and the institutional blockholders dominated most of the listed firms on the NSE. The study further revealed that the institutional blockholders in the market has a mean value of 47.41% compared with individual blockholders scoring a value of 8.44%. Thus, it is expected that the institutional blockholders may have more influence on firm's activities including monitoring than the individual. The institutional blockholders in most of the Nigerian firms are corporate bodies or organizations (Arowolo & Che-Ahmad, 2017; Miko, 2016). In another Also, Arko et al. (2014) showed that majority of the shareholders in the Nigerian market are the institutional and account for a mean value of 53.36%. Consequently, Abdulmalik and Che-Ahmad (2016) reported that blockholders provide better monitoring and hence, lead to the reduction of agency problem between owners and the managers.

Therefore, the blockholders may have an important role to play in firm governance structures as Setia-Atmaja (2009) opined that blockholders have a greater effect on controlling agency problems than do other shareholder.

Consequently, in good corporate governance regimes, excess funds may be returned to shareholders in the form of dividends as shareholders are better protected

(Sharma, 2011) and the propensity of a firm propensity to pay is increased. Hence, based on the gap highlighted above, the study investigates how board characteristics and ownership structures influence a firm's propensity to pay dividends. Furthermore, this study investigates the moderating effect of blockholders on the relationship between board characteristics and the propensity to pay dividends.

First, the choice of board characteristics and ownership structure variables for this study is guided by the existing theoretical explanations underpinning them. Hence, incorporating these selected variables is an extension of the previous evidence that has examined the propensity to pay dividends (DeAngelo et al., 2004; Fama & French, 2001; Fatemi & Bildik, 2012; Jiraporn et al., 2011; Kim & Kim, 2013; Sharma, 2011).

Second, this study is also being motivated by the changes in the 2011 corporate framework and is consistent with Brown et al. (2011) and Claessens and Yurtoglu (2013) who suggested the need for investigating governance structures in a local setting. In the same vein, when there is change in regulatory framework of a given market, more evidence is needed regarding its functionality (Germain, Galy, & Lee, 2014) and ascertainment of its effectiveness. Moreover, investigating the interaction effect of blockholders ownership on corporate governance practices is a response to the call made by Desender et al. (2013) and based on the arguments highlighted in the previous paragraphs. The investigation will be interesting as the 2011 NCCG allows a firm to decide on the ratio for which blockholders may be given the opportunity to have a board representation instead of stipulating the percentage as it

did in the 2003 NCCG. This is one of the unique features of the 2011 NCCG regarding blockholder ownership.

### **1.3 Research Questions for the Study**

Based on the discussion on the problem statement (1.2) above, the study attempts to provide answers to the following research questions:

1. Do board characteristics (size, composition, diversity, financial expertise on the board and CEO tenure) affect the propensity to pay dividends in Nigeria?
2. Do ownership structures (foreign, managerial, and blockholders ownership) influence the propensity to pay dividends in Nigeria?
3. Do blockholders moderate the relationship between board characteristics (size, composition, diversity, financial expertise on the board and CEO tenure) and the propensity to pay dividends in Nigeria?

### **1.4 Research Objectives**

The primary purpose of this study is to investigate the effect of board characteristics and ownership structures on the decision to pay dividend as well as the interaction effect of blockholders among the listed non-financial firms in Nigeria. Thus, the specific objectives of the study are:

1. To examine the effect of board characteristics (size, composition, diversity, financial expertise on the board and CEO tenure) on the propensity to pay dividends in Nigeria;
2. To investigate the influence of ownership structures (foreign, managerial and blockholder ownership) on the propensity to pay dividends in Nigeria; and
3. To investigate the moderating effect of blockholders on the relationship between board characteristics (size, composition, diversity, financial expertise on the board and CEO tenure) and the propensity to pay dividends in Nigeria.

### **1.5 Scope of the Study**

This study investigates the effects of board characteristics and ownership structures on the propensity to pay dividends. In addition, this study also tests the moderating effect of blockholders on the relationship between board characteristics and the propensity to pay dividends in the NSE spanning from the years from 2009 to 2015. The choice of 2009 was encouraged because there was substantial decline in dividends in Nigeria (Abdulkadir, 2015) and 2015, is due to the availability of recent annual reports of the listed firms. Moreover, the choice of this period is encouraged to ascertain the efficacy of the NCCG 2011 since board of directors who are acting on behalf of shareholders and therefore, it is expected that they should influence the paying of dividend when the firm have met the requirements and vice versa as discussed in chapter three. The study excludes financial related companies because they are specialized in nature with distinct corporate governance administered by CBN. The financial firms also must meet certain requirement as stipulated by the

prudential guidelines for example capital adequacy ratio and cash reserve requirements. In addition to the above reasons, Baker, Dutta, and Saadi (2008) indicated that combining financial with non-financial firms while studying dividend payout may not yield fruitful results. Lastly, previous studies on propensity to pay dividend do not mixed financial with non-financial firms in one study.

## **1.6 Contributions of the Study**

This study is useful as it is conducted in the Nigerian market where formulation and implementation of policies that drive private sector development is relatively low and inconsistent (Hearn, 2013). The country is also the largest economy among the African economies and its corporate governance development is being influenced by blockholders (Adegbite, 2015).

The study contributes to the extant literature on resource and agency theories through the characteristics of board of directors' membership. Similarly, the study has made contributions to the study of ownership structures. The study provides additional evidence on roles of blockholders and how they influence the propensity to pay dividends. The theoretical and policy implications are discussed in the following paragraph.

### **1.6.1 Body of Knowledge**

This study is an extension of propensity to pay dividends research. The Fama and French (2001) propensity-to-pay model is being tested in a different environmental setting. Unlike previous studies that have examined propensity to pay dividends

(Baker & Wurgler, 2004b; Fatemi & Bildik, 2012; Kim & Kim, 2013), the current study investigates how board characteristics and ownership structures affect a firm's propensity to pay dividends. This is entirely a novel approach in sub-Saharan Africa particularly in Nigeria.

Based on individual variables, the study offers incremental evidence on board diversity and how it affects the propensity to pay dividends. The findings support the agency and resource dependence theories. From the agency theory perspective, a female director may use dividends to scale down the level of cash that is available in a firm. The reduction of this cash enhances the impact of her monitoring role in a firm such because a manager may not have excess funds to use in empire building.

Resource dependent theory suggests that a director serving on the board of a company that is rich in resources will have an impact on the firm. Firms may likely hire the services of a director based on his or her experience, and a female director may strive hard to protect the interests of the shareholders. For example, they may support a decision to pay dividends when a firm has a greater tendency to pay dividends. Therefore, paying dividends to shareholders in this sense is an indication of good governance (Jiraporn et al., 2011).

Study of the role of financial expertise on the propensity to pay dividend is uncommon. A considerable number of researches has examined how financial expert enhances financial reporting quality (Kibiya, Che-Ahmad, & Amran, 2016) and leads to reduction of earnings management (Cunningham, 2008). However, little is known about the effect of financial expert directors on board on the propensity to

pay dividends. Financial expert directors are regarded as rich in resources and are very useful to an entity as they provide expert advice to the CEO and board on issues related to cash management such as dividends (Florackis & Sainani, 2016). Hillman and Dalziel (2003) contended that monitoring and resource provision are at their best when directors possess the requisite experience and expertise. Therefore, the current investigation provides strong evidence about how financial experts on the board influence the propensity to pay dividends. The study lends support to agency and resource dependence theories.

Ownership structures also influence firm financial policies. Most previous studies have examined a few classes of ownerships. For example, Abdulkadir, Abdullah, and Wong (2016) tested the effect of foreign ownership of the decision to pay dividends from the Nigerian market. However, the current study employed the propensity to pay dividends model to explore the effects of foreign, managerial and blockholders ownership, thus, filling the gap. The study provides strong statistical evidence on the role foreign, managerial and blockholders ownership on the propensity to pay dividends in Nigeria.

As Bebchuk and Hamdani (2009) suggested governance mechanisms may be either irrelevant or even destructive when blockholders are neglected. The study examines how blockholders moderates board characteristics on the propensity to pay dividends. This relationship has also received limited attention in the propensity to pay dividends framework. However, the current study provides empirical evidence that, when firms have blockholders, directors on board, female directors and longer-tenured CEOs, they are more likely to pay dividends in the NSE. Hence, contributing

to the existing literature on agency theory through the reduction of cash available in a firm.

### **1.6.2 Practical Contributions**

Pertinent to practice, the study provides contributions in the following ways. First, the findings from this study are expected increase the understanding of regulatory bodies Nigerian Stock Exchange (NSE), Securities and Exchange Commission (SEC) on some key issues driving the propensity to pay dividends. For instance, the study establishes strong evidence on board diversity and financial expertise on boards in which the SEC has mandated firms to have gender diverse board.

Second, examining the NCCG is in line with Brown et al. (2011) and Claessens and Yurtoglu (2013) who suggested a need for further investigation of corporate governance based on local settings. The findings are also expected to provide a clue to SEC regarding the effectiveness and relationships with corporate monitoring mechanisms such as dividends.

The findings of this study are timely as they add to the understanding of the NSE on the factors that influence corporate dividend payment at a time when the number of dividend paying firms continue to shrink. The study may assist the NSE to further strength any measures that the NSE may consider in addressing dividend payment.

The empirical evidence of this study also indicates the importance of blockholders in relationship of whether to pay or not to pay dividends. Furthermore, the finding in relation to the blockholders shows that they are likely to reduce dividends as a



monitoring mechanism. However, when the blockholders jointly acted with the board size, females on the board, and CEOs with a longer tenure, their monitoring strategy may change. These results indicated that indicate that block shareholders have influence on board members in terms of monitoring (Desender et al. 2013). More so, the block shareholders may prevent asset stripping by managers (Okpara, 2011). Therefore, consistent with the agency theory that blockholders may have greater influence on the firm and strengthening the monitoring role of the board.

The study found evidence on gender and financial experts on board may provide clue to the shareholders to pay greater attention during the selection and hiring of a director on the board. This because the gender as well as the experience or expertise of a director have a significant effect on determining whether a firm should be a dividend payer.

Equally, existing and potential retail shareholders who are dividend-driven investors will find this study of benefit concerning the type of directors and ownership that support dividend payment. Likewise, this study could serve as a reference material to academics, and researchers in corporate governance and corporate finance can use these findings as reference material in their quest for broadening the existing knowledge on the propensity to pay dividends.

### **1.7 Summary of the Chapter**

The chapter highlights the background of the study, the problem statement, the research questions and the objectives. It also provides the scope as well as the contributions of the study. Overall, the study investigates the effect of board

characteristics, ownership structures and the propensity to pay dividends moderated by blockholders. Hence, filling the gap in the existing literatures on board characteristics and ownership structures.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The focus of this chapter is on the relevant literature that relates to the propensity to pay dividends, board characteristics and ownership structures. It includes the legal framework on dividend policy, and development of corporate governance in Nigeria, also it takes into consideration the underpinning theories of the study. The literature also comprises both conceptual and empirical studies that previously examined the propensity to pay dividends, dividend payout and corporate governance/board characteristics and ownership structures.

#### **2.2 Legal Framework of Dividend Policy in Nigeria**

Corporate dividend policy is regulated by several bodies controlling the affairs of companies in Nigeria. These regulatory bodies comprise the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange (NSE). In addition to these two bodies, the Central Bank of Nigeria has also some pronouncements regarding the dividend policy of banks and other financial institutions. Similarly, acts like the Companies and Allied Matters Act (CAMA 2004) and the Companies Income Tax Act (CITA) have made some provisions with regards to the administration of dividend policy in Nigeria.

### **2.2.1 The Securities and Exchange Commission Nigeria**

The Securities and Exchange Commission (SEC) is the top regulatory body of the Nigerian Stock Exchange (NSE) and is supervised by the Federal Ministry of Finance (SEC, 2015). The SEC acts as a surveillance for the purpose of maintaining and ensuring orderly transactions in securities. It also protects against any abuses in the form of insider trading. The commission was established from a committee known as the non-statutory Capital Issues Committee set up by the Central Bank of Nigeria (CBN). It was charged with the mandate to examine applications from different companies that intend to raise capital from the capital market and to recommend the timing of such issues.

Given the need from the increase in the level of economic related activities along with enactment of the Enterprises Promotion Decree in 1972, it became necessary for the government to establish a body that will be responsible for regulating the activities of the capital market (SEC, 2015). The Capital Issues Commission came into existence and took over from the Capital Issues Committee with the enactment of Capital Issues Commission Decree in 1973. The new commission had a board of nine members, with a representative from the CBN that served as chairman. The other eight members were sourced from Federal Ministries, the industrial and financial sectors of the economy.

The commission's power was later enhanced because of Financial System Review Committee to review the activities of the capital market in 1976. According to SEC, the committees' recommendations gave rise to the establishment of the Nigerian SEC following the promulgation of the Securities and Exchange Commission Decree

No. 71 of 1979 to supersede the Capital Issues Commission in 1973. The commission enjoyed more powers to develop and regulate the Nigerian Capital Market along with determining the prices of issues and setting the basis for allotment of securities. After nine years of its establishment, the law was amended to cater for new challenges facing the capital market and enhance its effectiveness. In 1996, however, a panel was commissioned headed by Chief Dennis Odife. The outcome of the panel led to a new act called The Investment and Securities Act No. 45 of 1999. The primary intent of the newly enacted Act was to promote a more efficient and virile capital market setting, capable of meeting the nation's ambitions economic activities.

In 2007, the Investment and Securities Act was further revised and passed into law in same year. Currently the act empowers the SEC to carry out its functions effectively and efficiently. The SEC is also member of International Organisation of Securities Commissions (IOSCO). The goal of the international organisation is to cooperate in developing, implementing and promoting adherence to internationally recognised and consistent standards of securities market regulation around the globe.

### **2.2.2 Companies and Allied Matters Act**

In Nigeria, the Act governing the affair of companies is known as the Companies and Allied Matters Act (CAMA) as amended in 2004. This Act spelt out what is required of a company from its incorporation up to liquidation as the case might be. It also makes provisions regarding the processes that directors should follow for dividend declaration.

The CAMA empowers the board to recommend the payment of a dividend to the shareholders during the general. The general meeting will from there either approve or disapprove of their recommendations. Once shareholders approved a dividend it becomes a liability to the company as stated in section 379 (1) of the CAMA 2004. Section 379 (3) of the Act allows the shareholders to reduce the amount of dividend recommended by the board. Conversely, the Act does not permit them to increase the level of the dividend where the general meeting considers it as too small and requests for an increase.

Furthermore, on the declaration of the dividend, the act also stipulates how it should be handled. Section 379 (5), stipulates that dividends shall be paid to the shareholders (owners) of the company only out of the distributable profits of the company. Additionally, the act does not restrict the payment of a dividend from the current profits of the company, and the company may also pay dividends from its accumulated profits.

### **2.2.3 Prudential Guidelines Issued by CBN**

In addition to the requirements of the CAMA 2004, the prudential guidelines made some provisions in connection to the financial sector. In banking sector, the prudential guidelines issued by the CBN elaborate on the payment of dividends by the money deposit banks. Section 3.14 of the prudential guidelines for money deposit banks states that ~~no~~ bank shall pay dividend until (i) all its preliminary expenses, organizational expenses, shares selling commission, brokerage, amount of losses incurred and other capitalized expenses not represented by tangible assets have been

completely written off; (ii) adequate provisions have been made to the satisfaction of the CBN for actual and contingent losses on risk assets, liabilities, off balance sheet commitments and such unearned incomes as are deliverable there from; (iii) it has complied with all capital ratio requirement as specified by the CBN". This means that banks willing to pay dividends must satisfy certain requirements that include preliminary expenses, capital requirements, and reserve funds creation to mention but few. From these provisions, clearly the regulatory authorities do not take the issue of dividend payment lightly. Hence, financial firms tend to have more strict regulation than the non-financial firms in listed in the NSE.

#### **2.2.4 Companies Income Tax Act**

Nigeria like any other country in the world, subject companies that carry out business in its environment to taxation along with individuals. The tax laws came into being in 1961. They were amended several times to accommodate the dynamic nature of business and are now referred to as Companies Income Tax Act of 2004 (CITA Chapter, C21, 2004 LFN) amended in 2007 (Ekeocha, Malaolu, Oduh, & Onyema, 2012). Companies before 1996 paid a tax rate of 35% chargeable to their profits. However, the rate was reduced to 30% effectively from January 1996, which was aimed at providing incentives for companies to increase the level of compliance and transparency.

Ehigiamusoe (2014) argues that factors both from the demand and supply sides accounts for tax evasion and avoidance. The study further stated that poor tax administration, poor taxpayers' education, inconsistent policies from the government

inadequate statistical data base and corruption led to the large understatement of the revenues sourced from companies' income tax. For the purpose of improving compliance level, the federal government further reduced the rate to 20% from 30% in the 2010 assessment period and also subjected companies to an education tax of 2% meant for the enhancement of tertiary institutions in the country (Ekeocha et al., 2012).

Besides that, the Act made certain provisions regarding dividends and interest income earned by individuals. This tax is known as the withholding tax on dividends and interest. The law provides that dividend income of an entity or an individual shall be subjected to the payment of a withholding tax of 10% deducted from the source. This is included in Section 72 of the Personal Income Tax Act (PITA) and in Section 63 of Companies Income Tax Act (CITA) for personal and corporate bodies respectively. Moreover, provisions were also made as to reduce the incidence of double taxation. Section 63 (3) of CITA provides that dividends that are received by individual investors are regarded as franked investment income. In this case, the dividends are not taxable in the hands of the investors because they have been deducted from the source. The Act mandated the authorised bodies to deduct such withholding taxes and remit them directly to the relevant authority within 30 days of the deductions.

Conversely, the Nigerian tax laws exempt some dividend income from taxation some of them are; dividends distributed by Unit Trust; dividends derived by a company from a country outside Nigeria and brought into Nigeria through Government approved channels of CBN, dividends received from small companies in the



manufacturing sector in the first five (5) years of their operation and dividends received from investments in wholly export oriented businesses.

### **2.2.5 Nigerian Enterprises Promotion Decree (Act)**

Prior to the relaxation of the indigenization policy known as Nigerian Enterprises Promotion Decree (hereafter NEPD) of 1972, the government imposed restrictions on the inflow of foreign direct Investments (FDI). The decree reserved about 22 different business to the Nigerians. These include advertising, gaming, electronics manufacturing, basic manufacturing, road transport, bus and taxi services, the media and retailing and personal services. Similarly, in 1977, the government tighten its restrictions on the FDI inflow from 60% ownership to only 40% in areas like plastic and chemical manufacturing fish-trawling, insurance and banking. In addition to that other areas such as drugs manufacturing, hotels and metals business that were 100% allowed to own by foreign was also reduced to 60%. This policy decreased the percentage of foreign ownership, but the list of local investors ownership was expanded (Amobi, 2014).

Adeoye (2009) asserted that foreign direct investment can bring about substantial benefits to emerging economies and increase the speed of their economic development. FDI relates to the ownership structures of company. According to Adeoye (2009) FDI comprises long-term investments that comes from different sets of investors, ranging from individual and multinational entities as well as other bodies from outside their country of existence. It entails the control of an enterprise in a particular country by a firm that resides in another country that is different from

the targeted one. The investment could be either buying a firm or expanding operations of an existing business activities in a given economy. The FDI is expected to have numerous advantages as it can create jobs and enhance economic growth. In specific terms, FDI can shape corporate policies because it is associated with transfer of technology and productivity of local firms (Alsubaie, 2012).

The FDI may as well influence corporate policy decisions because foreign investors control a significant percentage of ownership in the country. Therefore, local firms may tend to adopt policies that suit multinational corporations or investors. Desai, Foley, and Hines (2009) indicated that multinational companies influence positively the activities of local firms. Amobi (2014) asserted that the primary goal of the FDI policy of the Federal Government Nigeria is to increase the presence of transnational corporations in the country to bridge capital, management, skills and technology gaps, and to support the competence of local companies and the local workforce towards achieving world standards.

Furthermore, the increasing demand for diversification and for foreign expertise among others influenced the government in 1989 to amend the NEPD of 1972. This paved the way for the foreign business list to be extended to 40 different businesses. This addition excludes the former shareholdings of 40% allowable to them in the banking, insurance oil production and mining sectors. Additionally, a remarkable change that took place in 1995. This was the result of a new Act called the Nigerian Investment Promotion Commission Act. The Act led to the relaxation of all the restrictions that were previously imposed on foreign ownership holdings across all the sectors of the economy.

### **2.3 Corporate Governance in Nigeria**

The world has witnessed the collapsed of some reputable and giant corporations as a consequence of fraudulent activities and limited means of checks and balances, which drew attention from governments as well as the markets (Tariq & Abbas, 2013). In response to those failures, various corporate governance codes were enacted in different parts of the world and Nigeria was one of them including the 2003 code of corporate governance. Subsequently, the 2003 code was replaced by the 2011 NCCG because of the need to meet the dynamic nature of business entities.

Corporate governance, according to Claessens and Yurtoglu (2013), depends on its applicability at the country level. The authors viewed corporate governance as a behavior of corporate bodies relating to firm-specific variables such as performance, efficiency, growth, financial structure, shareholders' treatment and other stakeholders. In comparative studies, corporate governance could mean the set rules under which firms are operating. The sources of the rules could be from the legal system, the judicial system, and capital markets. Moreover, Shleifer and Vishny (1997) posited that corporate governance is the way in which investors who provide funds to corporate entities assure themselves of obtaining returns on the invested capital. In addition to the above definition, the Nigerian SEC also explained that corporate governance served as a guide to promote and facilitate sound corporate behavior (SEC, 2011).

A corporate governance code is classified into two elements which are: the principled-based and rule-based codes (Tariq & Abbas, 2013). Principle-based corporate governance is common in the United Kingdom, Commonwealth countries

and the Europe. For principle-based corporate governance, a firm must comply with these codes or otherwise must explain the reasons for non-compliance publicly in their annual reports (Aguilera & Cuervo-Cazurra, 2009). The idea behind this “comply or explain” system (principled-based) is to let the market decide on some particular set of standards that a firm considers desirable for its purposes.

However, the rule-based system of corporate governance, is sometimes referred as “one size fits all” is a prescriptive approach to corporate governance. The supporters of the rule-based system are of the view that it is easier to comply with it and ensure its enforceability. An example of this rule-based system, is the Sarbanes–Oxley Act 2002. The regulators require United States-listed firms to fully comply with the Sarbanes–Oxley Act 2002. The objective of both codes is to enhance monitoring. For the case of Nigeria, the regulatory body directs all the listed firms on the NSE and firms wishing to be listed to comply fully with all its provisions (SEC Nigeria, 2011).

In summary, corporate governance could be seen as a set of rules guiding the affairs of a business enterprise that will promote best practices among corporations and negate any form of activity that is detrimental to owners of the corporation and its stakeholders (Okike, 2007). Therefore, corporate governance is very vital from an economic development sense. Claessens and Yurtoglu (2013) found supporting evidence that firms with good corporate governance enjoy greater access to financing, lower costs of capital, and experience better performance and more favourable treatment from numerous stakeholders. In addition to this Reddy, Locke, and Scrimgeour (2010) noted that a firm with good corporate governance has an

increase cash flows accruing to the investors as well as reductions in the costs of capital to the firm.

In Nigeria, several calls were made for the need of an effective and efficient corporate governance. In response to the calls, a committee of seventeen members was set up by the SEC in collaboration with corporate affairs commission headed by Atedo Peterside in the mid-2000 to facilitate the enactment of NCCG. The committee made recommendations with regard to instituting a code of best practices that registered public corporation should be followed. At the end of their assignment, the committee submitted its reports, which made recommendations to ensure the transparency as well as the accountability of public companies' boards. The recommendations made to the SEC in respect of the new corporate governance code (NCCG 2011) were extracted from other corporate governance codes around the world that are captured as best practices codes (Okike, 2007).

Prior to the adoption of the committee report as the NCCG, a draft was published in different newspapers for further review in three different areas of the country: Abuja, Lagos and Port Harcourt. After a rigorous review, the boards of the SEC approved the final report as the NCCG, which was considered as a code of best practices (SEC, 2001).

As time passed and due to corporate failures as well as fast changes in business activities caused by ICT, the NCCG of 2003 became obsolete. The need to provide a more comprehensive review of the existing one arose. In 2008, the M.B. Mahmoud committee was inaugurated and tasked with reviewing the existing NCCG of 2003.

The committee was in particular mandated to identify weaknesses and constrains to good corporate governance and further recommend ways by which greater compliance and aligning the code with international best practices could be achieved (SEC Nigeria, 2011). The committee conducted an in-depth review and handed over the report in 2009. The report was further exposed to other regulatory authorities. At its 43<sup>rd</sup> meeting, the SEC offered amendments based on what the committee had submitted to them (Ofo, 2011). Subsequently, the draft was also made available for further inputs from the stakeholders and members of the public. In doing that, the SEC made the draft of the code available in its website and in the newspapers. After having reviewed the suggestions, the final code was later released and was to take effect from April 2011.

In Nigeria, there are five prevailing corporate governance codes. Among these codes are, the SEC code of corporate governance 2011 (NCCG), which is the general code applicable to all public corporations. The remaining codes are specifically designed to meet the demands of peculiar industries (Ofo, 2011). For example, the code of corporate governance for banks and discount houses of 2014 is applicable to banks and discount houses registered in Nigeria and is issued by the CBN. Second, a code of corporate governance was issued by the National Pension Commission for all pension fund administrators and pension fund custodians. Third, is the code of corporate governance for insurance corporations of 2009 issued by the National Insurance Commission, which focuses attention on insurance firms in the country. The last is the code of corporate governance for the telecommunications industry

2014 issued by Nigerian Communications Commission. Nonetheless, the SEC Code of 2011 is the primary code of corporate governance that cut across all industries.

The new 2011 code highlighted areas that were not fully articulated in the previous code of 2003. Among these areas are the duties of the chairman, CEO and the board of directors. Section 5.1 of the 2011 code pointed out fully what is required for the chairman. The chairman is charged with the duty to preside at the general meetings of the company and to ensure the continuation of the meeting with regards to a quorum. The chairman has the power of adjourning the meeting where necessary. The chairman is also to ensure the proper functions of the board that align with the strategic goals of the company. However, the code denied the chairman from interfering with the day-to-day affairs of the board. It states that the CEO and the management are responsible in running the day-to-day affairs of the company.

Additionally, the roles of the board of directors are expressly provided for in the new code. The success of the company rest with the board of directors. They are expected to define strategic goals and ensures that both financial and human resources are channelled towards attaining those strategic goals (Ofo, 2011). The code also emphasizes the need for the board of directors to properly manage the company and carry out activities as stated in companies' memorandum and articles of association. The board comprises three different members; executive, non-executive and the independent directors.

The 2011 NCCG also categorically defined what it means to be an independent director compared to the former code in which very little was discussed about them.

An independent director according to the code refers to a director with shareholding not exceeding 1% of the paid-up capital of the company. An independent director is not employed by any person or group that has a substantial interest in the company, which may influence the management Section 5.5(a). The code also sheds light about its size. A board should not constitute less than five (5) members. In this regard, the number of the non-executive should exceed that of executive directors. This is so because of the need to have an independent board capable of discharging its responsibilities. The code strongly embraces professionalism at the board and committee levels.

Furthermore, the new code emphasizes also that at least one financial expert is expected to be among the members of the audit committee. Section 30.1 stipulates that one member of audit committee should be financially literate, which will enable them to read and understand a financial statement. Moreover, Section 30.2 further states, that among the members of the committee, at least one of them must possess accounting or financial-management knowledge.

The 2011 NCCG also made provisions for the performance evaluation of the chairman, board and other committees; the orientation and training of the board; diversity in terms of gender and expertise of the board members; establishment of a website that will provide information to shareholders termed as “investors relation section”; disclosure of the owners of the company with substantial holdings; provision of a whistle-blowing mechanism that will expose wrongdoings or unethical practices and sustainable related issues. Provisions for external audit related issues are also captured in the code. The 2011 NCCG prohibits the provision of non-audit



services by auditors to their clients; the mandatory rotation of the external auditors; and restricting the total percentage of auditor income from a single client. These are some of the fundamental issues that were captured in the recent 2011 NCCG.

### **2.3.1 Board Characteristics**

Corporate governance mechanisms are simply classified into internal and external mechanisms. Regulatory bodies tend to focus more on the internal aspects of corporate governance. The external mechanisms, are determined by factors outside the firm such as legal protection and takeover rules (Man, Kong, & Wong, 2013). Board structure falls under the category of internal governance mechanisms (Bekiris, 2013). Internal governance mechanisms are utilized to check for and mitigate abuses, whether existing or anticipated, from the management, and to mitigate agency problems in modern corporate entities. The board acts on the behalf of shareholders in running the activities of the company. Board members are expected to carry out their duties effectively in monitoring the managers and provide resources to the company.

A board member is elected when a vacancy exists, and, if any short fall occurs relative to fulfilment of their responsibilities, they stand a chance of being voted them out, and, in this case, a new member would be elected to fill the position (Man et al., 2013). The monitoring role of the board makes its structure an important feature, and the compositional dimension of the board has been found to be related to for example, high levels of disclosure and firm value (Ntim, Opong, & Danbolt, 2012).

Board characteristics and structure have been studied extensively with respect to corporate governance. Factors such as board size, board independence, and gender diversity are classified as being among the components of board characteristics (Akpan & Amran, 2014; Amran & Che Ahmad, 2011; Bradbury, Mak, & Tan, 2006). Additionally, Wan and Ong (2005) considered elements of board structure to include the distinction between directors who occupy management positions in the firm and those who do not. In a another study, Amran, Yusof, Ishak, and Aripin (2014) considered professional qualifications and multiple directorships among the variables of board characteristics. Drawing from the above studies, board size, board composition, board diversity, financial expertise on board, and CEO tenure are the board characteristics variables studied in the current research.

### **2.3.2 Ownership Structures**

Various forms of ownership exist in the today's corporations. They comprise family, institutional, managerial, domestic and foreign, and dispersed (diffuse) and concentrated ownerships among others (Ezeoha & Okafor, 2010). Some study has noted that ownership in many countries seems to be concentrated in the hands of few individuals. For example, Becht and Mayer (2001) revealed that in European countries, a single voting shareholder may have a more than 50% holding in the stake in a firm. In East Asian countries, Claessens, Djankov, and Lang (2000) reported the that a high concentration of ownership exists in various corporations. Azlina (2013) and Ishak (2010) also concluded that Malaysia is an environment with ownership concentration in the hands of few individuals.

In Nigeria, Adenikinju (2012) revealed that, even though the concentration of ownership varied across sectors, evidence of the existence of the blockholders remains very significant in general. The study further stated that the ownership concentration in most sectors was more than 50%. The highest concentration was exhibited in the airline (99%) industry followed by agriculture (88.9%), automobiles (89.6%), commercial services (85.7%) and chemical and paints (72%). It was, however, low in footwear (25%) and printing and office equipment (49%).

According to Oyejide and Soyibo (2001), the average total holdings of the government between 1995 and 1998 was about 8.1% of the shares of the quoted firms. Nonetheless, individual ownership appears to be increasing in many sectors, and on average domestic individuals now own about 35% of the shares of the quoted companies in Nigeria.

The presence of ownership by foreign and domestic institutions of firms quoted on the NSE accounts for nearly 48%. Further analysis shows that the participation of foreign institutions is much more pronounced in the quoted firms compared to the local domestic institutional ownership. The differences in terms of shareholdings may be around 30%.

Meanwhile, management-staff ownership accounts for less than 6%. On the overall, this implies that the Nigerian economy is fruitful for investors, but especially for foreign investors, and this may have implications for the corporate governance structures of Nigerian firms. The presence of blockholders may yield an avenue to protect minority shareholders, increase firm performance and the less likely to use

dividends as a monitoring tool. Thus, this study investigated the effect of foreign, managerial and blockholders ownership on the propensity to pay dividends.

## **2.4 Theories Underpinning the Study**

This study has identified two important theories to be used as the underpinning theories. These theories are the agency theory and the resource dependence theory, and their explanations are provided below.

### **2.4.1 Agency Theory**

The agency theory is the first theory to be considered in this study. The theory explains the relationship between the principal and agent and their behaviours. It further explains how directors on the board can act on behalf of a principal so that they control or monitor the agents' activities. An agency relationship is defined –as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent” (Jensen & Meckling, 1976, p. 5). Agency theory describes the association between the principal and the agent. In other words, it discusses the relationship between shareholders and managers. This relationship to some extent suffers as the two parties may have different goals or interests. The agents tend to behave contrary to the wishes of principal because both are utility maximizers (Jensen & Meckling, 1976) or as a result of risk bearing and decision making (Fama & Jensen, 1983). This form of conflict is viewed as an owner-manager conflict or a type one agency problem (Thomsen, 2005).

According to the agency theory the primary role of the directors on board is controlling the managers or monitoring the managers in a firm (de Villiers et al. 2011; Hillman & Dalziel, 2003; Sharma, 2011). Agency theorists have claimed that, because of the conflict of interest existing between the owners and the managers, managers may undertake investments that may result in value destruction instead of enhancing the value of a firm for the benefit of the shareholders of a firm (Easterbrook, 1984; Jensen, 1986; Sharma, 2011).

However, the presence of directors on board who have strong monitoring abilities can enforce dividends as a tool that has strong effect in addressing the agency conflict (De Cesari & Ozkan, 2014; Jiraporn et al., 2011). Moreover, the payment of the dividends is likely to deflate the amount of free cash flow that the managements can waste through perquisite consumption or investing in projects, which yield negative net present value (Boumosleh & Cline, 2015; Jensen, 1986; Jensen & Meckling, 1976; Jiraporn & Chintrakarn, 2009; Rozeff, 1982; Sharma, 2011). Thus, a strong board may likely not allow managerial investment decisions without being properly examined (Al-Najjar & Hussainey, 2009; Jiraporn & Ning, 2006; La Porta et al., 2000).

Likewise, the exposure of a firm to the market due to paying dividends may enhance the monitoring role of the managers as the firm requires capital to finance new projects (Easterbrook, 1984; Jiraporn et al., 2011). This study therefore, adopts agency theory to explain the relationship among board composition, CEO tenure, foreign managerial ownership, and blockholders ownership and dividend payments.

This study is also used resource dependence theory as the second underpinning theory.

#### **2.4.2 Resource Dependence Theory**

The board of directors is believed to have dual functions or responsibilities. It acts as a monitor and providing resources to a firm (Hillman & Dalziel, 2003). The resource dependence view can be seen to be rooted in the classical works of Pfeffer and Salancik (1978) and Pfeffer (1972). They contended that the outside directors support the company to acquire numerous resources and to safeguard it from the influence of the environment. According to Hillman and Dalziel (2003) resources mean anything that could improve or support a firm in relationship to its needs.

Pfeffer and Salancik (1978) provided that the essence of appointing a board member is to aid the firm and offer special services that the firm needs or requires. In general, the expectation is that such an appointment will serve a root in obtaining greater opportunities for the firm. In areas such as advice and counsel legitimacy, these links will enhance the relationship between the environment and a firm and improved access to commitment from outside the firm. Hillman, Cannella, and Paetzold (2000) classified directors as either insider or outsiders, experts in businesses, or those with strong influence in community and specialists who support the firm. This classification is based on the likelihood of resources that a firm could derive from its board of directors.

The resource dependence theory for example, will relate to board size in the sense that when a board is large may incorporate more experience as well as

knowledgeable directors and are expected to provide valuable advice to the firm. In larger board, it is probable to have directors whom are experts on finance related issues. de Villiers et al. (2011) posited that firms with larger boards have more probability in accessing critical financial resources which a firm requires and therefore, allowing such boards to be financially flexible to improve the firm performance and in turn have more likely to pay dividends.

Board comprising members with diverse knowledge not only on board affairs but also with expertise in their fields of endeavors will certainly benefit a firm (Hillman & Dalziel, 2003). For instance, firms that require financial policy advice may likely seek personalities identified with financial expertise to become a director. This means that issues relating to financial policies would be handled appropriately. Daily, Dalton, and Cannella (2003) referred such board members as “boundary spanners” who could provide advice depending on their expertise. Similarly, Kor and Misangyi (2008) maintained that experienced directors drawn from industry may complement managers who have less expertise in some key areas of the firm to carry out strategic investment decisions, create competitive dynamics, and probably help in product repositioning. They also showed that resource provision by the outside directors is important especially in young firms. This evidence lends support to Kor and Sundaramurthy (2009) who indicated that advice and counsel business experts might have an additive influence on firm growth.

According to Carpenter and Westphal (2001) a board comprising experts enables the inflow of resources and vital information within an industry. In a nutshell, the resource dependence theorists emphasize issues relating to resource provision to an

enterprise. de Villiers et al. (2011) contended that resource-rich directors have the capabilities of establishing wider societal connections that fit with resource provision. With respect to the financial policies of a firm, the directors rich in resources tend to be knowledgeable in a firm's financially related issues (Florackis & Sainani, 2016; Jeanjean & Stolowy, 2009). They tend to advance ideas on firm financial policies that will yield positive outcomes for a firm, which will, in turn, affect the returns of shareholders (Florackis & Sainani, 2016). For instance, a resource-rich director in finance may advocate that a firm should take advantage of the tax deduction on interest payable. Therefore, a firm may prefer financing its projects with debt rather than through issued equity (Ghosh & Sirmans, 2006). This research adopts resource dependence theory to relate board size, board diversity and financial expertise with the likelihood of dividend payout.

#### **2.4.3 Justification for the Underpinning Theories**

The rationale behind using agency theory in this study is based on the fact that conflict of interest in the firm is inevitable and control mechanisms are needed (Jensen & Meckling, 1976). The mechanisms put in place will monitor the managers and ensure that those managers do not deviate from the will of the shareholders. One of these controls is corporate governance. It suggested that most of the board of directors should be from the outside so that they will be independent from managers. This will enable them to monitor and ensure that the managers interests are aligned with those of the shareholders. Similarly, the stake or interest of the blockholders usually serves as an incentive to carefully monitor the management entrusted with the responsibility of the business operations (Desender et al., 2013; Setia-Atmaja,



2009; Shleifer & Vishny, 1986). Furthermore, the alignment of interests could also be achieved when managers hold some reasonable amount of stakes in the firm (Farinha, 2003; Rozeff, 1982).

Additionally, foreign owners like blockholders may institute more monitoring mechanism to ensure that managers interests are aligned with those of shareholders (Jeon, Lee, & Moffett, 2011; Jeon & Ryoo, 2013). The presence of foreign shareholders may weaken the agency- related conflicts better than local investors because their financial as well as technological resources and experience allows them to more closely monitor the management (Hwang et al., 2013; Pucheta-Martínez & López-Zamora, 2017). Foreign shareholders, moreover, are profit-driven investors and have no close ties with the management that can weaken their monitoring roles (Yoshikawa & Rasheed, 2009). Additionally, the foreign shareholders are more likely to demand reasons from the management with regard to strategic decisions and may be more critic of the initiatives that are not in alignment with the firms values (Jeon & Ryoo, 2013).

On the other hand, resource dependency will also be used as another underpinning theory for the study. The theory maintains that outside directors serving on the board will provide linkages to the external environment such that the organization they serve will be able to have access to those required resources (Pfeffer & Salancik, 1978). Outside directors are expected to be better monitors because they do not depend on the management.

In addition, outside directors have incentives such as preserving reputational capital and avoiding legal liability (Ali, Ng, & Kulik, 2014) to monitor the effectiveness of a firm's management; their abilities to do so are also very important (Hillman & Dalziel, 2003; Tuggle, Sirmon, Reutzel, & Bierman, 2010). Therefore, boards may likely vary in their abilities to monitor because outside directors possess heterogeneous abilities in terms of skills and incentives in the form of reputation (Ali et al., 2014). Moreover, firms tend to hire directors based on their capabilities in terms of monitoring and resource provision rather than occupying board seats. Hence, resource dependence could also explain the association between outside directors and dividend policy.

The need for heterogeneous board members such as female directors and financial experts, may make the board size large; even so, this offers better monitoring and resources provision services (Certo, 2003; Dalton, Daily, Johnson, & Ellstrand, 1999; de Villiers et al., 2011). Similarly, a diverse board may enhance strategic board decision making and develop links with outside stakeholders of the firm by integrating a wide range of information that allows for a more informed judgement (Ali et al., 2014; Hillman et al., 2000; Mishra & Jhunjhunwala, 2013).

## **2.5 Dividend Policy on the Nigerian Stock Exchange**

Historically, the Nigerian Stock Exchange (NSE) began as the Lagos Stock Exchange and was incorporated in 1960 and was a privately owned entity under the 1960 Lagos Stock Exchange Act provisions (Osaz, 2007). Later, the name was replaced by the Nigerian Stock Exchange to align with the 1977 Indigenization

Decree. Subsequently six other trading floors were commissioned in various part of the country to boost the capital market activities.

Among the first trading floors established where Kaduna and Port Harcourt in 1979 and 1980 respectively. Later, in 1989, the Kano trading floor was launched, and the Onitsha and Yola floors were created in 1990 and 2002 respectively. Furthermore, the second-tier market referred to as the Alternative Securities Market (ASeM) came into existence in April 1985 as a segment of the NSE. The ASeM was created to cater for small and medium enterprises who intended to raise funds in the NSE. Afterwards, in line with international standards and to further improve the efficiency of the NSE activities, the Central Securities Clearing System (CSCS) was incorporated in July 29, 1992. The CSCS is charged with the full responsibility of offering clearance and depository services for securities listed on the NSE. Consequently, the activities of the NSE is enhanced with the creation of ASeM and CSCS.

As indicated in the previous paragraphs, the NSE began its operations in 1961 with only few securities. However, as at end of the year 2010, 217 listed companies were trading on the exchange with a total market capitalization of N10.33 trillion. Moreover, the equities market capitalization stood at N7.92 trillion. For 2011, with 198 companies listed on the Exchange, the total market and equities market capitalization were noted to be N10.28 trillion and N6.54 trillion respectively. This shows that a percentage decrease of the activities occurred in 2011 compared to those of 2010. The activities of the NSE recorded an impressive performance in 2012. The All Share Index (ASI) appreciated by 35.5% in the year compared to a

loss of 16.3% recorded at the end of 2011. Along this line, the market capitalization appreciated by 44.04% to close 2012 at ₦14.80 trillion from ₦10.28 trillion. The results of 2013 were quite good also as the market witnessed an increase in its activities. The record shows that total market capitalization closed at N18.60 trillion from N14.80 trillion in 2012, indicating an appreciation of 25.68%, and there was an upsurge in market activities.

According to Baker (2009) dividend policy refers to the “payout policy that a firm follows in determining the size and pattern of cash distributions to shareholders over time” (p. 3). This is the return investors receive when they purchased shares of a firm (Longinidis & Symeonidis, 2013). This is described as an important element of the current business environment (Ajanthan, 2013). Several groups are concerned about decisions concerning the payment of dividends by a company to its shareholders and it includes investors, creditors, regulatory and authorities. Dividend policy for the years has been a topical issue that has engaged managers since the inception of modern corporation in 1932. Al-Malkawi et al. (2010) noted that dividend policy has become the top agenda of the managers in the modern corporate world. Since then dividend policy has emerged as a contentious topic in the field of accounting and finance. Dividend payout could be in the form of cash or shares (Osamwonyi & Imasuen, 2006).

In the Nigerian market, cash dividend is the most common means of rewarding the shareholders in the NSE (Abdulkadir, 2015). The board of directors may make a recommendation of its payment to be deliberated on at the annual general meeting. Prior to its declaration, a company must formally communicate its intention first to

the NSE in written form. The notice contains vital information, which includes the date for which the registry of the company will be closed and the accounting period. An investor will be a beneficiary of that dividend only if his or her name is included in the register of the company before its closure; otherwise, such an investor will not be entitled to the dividend the company proposes to pay. Accordingly, the SEC mandated a company to transfer the total amount of the dividends voted for by the shareholders to the registrar of the company. The registrar then makes the payment immediately and files a return to the commission within 24 hours. The payment is done using dividend warrants and, more recently, through an electronic dividend (e-dividend). In the event the registrar fails to comply with the commission's requirements, the commission has the right to sanction them.

After a firm has declared and paid dividends to the existing shareholders whose name appears on the registry before the ex-dividend date, the dividend account with the company's registrar should have a zero-balance indicating that every shareholder has received his or her dividend. This is not the case for most Nigerian companies. More than half of the companies in both first tier and second tier markets are having some amount of cash balance in their dividend account with not less than 4% of the dividends declared every year (Elujekor, 2012). These outstanding dividends are termed as "unclaimed dividends". An unclaimed dividend usually is the amount of dividend that is yet to be received by the shareholders for one reason or another.

## **2.6 Propensity to Pay Dividends**

The focus of this section will be on the relevant empirical evidence on the propensity to pay dividends and then will proceed to review studies correlating dividend payout policy with board characteristics and ownership structures. Appearing and disappearing or the propensity to pay dividend is a recent topical issue surrounding the dividend puzzle. Fama and French (2001) were the first to note the lower tendency of paying dividends among US firms.

A lower propensity to pay dividends according to Fama and French (2001) is a situation in firms appear to make zero dividend payments irrespective of their characteristics. This means that firms prefer to retain all their earnings despite the fact that it has the capability to do so. DeAngelo, DeAngelo, and Skinner (2004) explained that a reduction in the propensity to pay dividend refers to the situation whereby dividend paying firms distribute a lower proportion of their earnings than before. The propensity to pay dividends could be seen as the situation in which the tendency to disburse net cash to the owners of the firm declines (Grullon et al., 2011). According to Baker and Wurgler (2004b), the decline of the propensity to pay dividends means the likelihood that a firm will not pay dividends because investors preferences have shift from dividends to capital gains.

The catering theory on dividends provides that managers respond to the investors demand for either dividends shares or non-dividend paying shares. Catering theory as suggested by the theorists such as Baker and Wurgler (2004a) contended that investors varying preference for dividend paying firms. Moreover, the theorist pointed out that their inclination for dividends or not is what makes the firms to

consider whether to pay or not pay dividends. As a consequent of this demand, investors may have preferences for dividend or capital gains depending on the value they attach to dividend payers.

The value attached according to Baker and Wurgler (2004b) is termed as premium. They further noted that managers follow the path of the dividend premium. Thus, when the dividend premium is high, managers are more probable to pay and vice versa. Baker and Wurgler (2004b) concluded that the decline in dividend payment among US firms is largely attributed to the catering theory. This current study considers the propensity to pay dividends as the tendency of a firm to pay a dividend to the extent that firm characteristics suggested that the firm should pay that dividend.

The propensity to pay dividends is considered to have a direct association with dividend policy. This is because the factors that determines the dividend policy of firms are also the same factors used to describe a firms' propensity to pay dividends (Baker & Wurgler, 2004b; DeAngelo, DeAngelo, & Stulz, 2006; Fama & French, 2001; Li & Lie, 2006). The factors include profitability, firm size, market capitalization, age, idiosyncratic risk, growth opportunity, retained earnings, and ownership which are common in the literature that surrounds the patterns of dividend policy of a firm (Holder, Langrehr, Hexter, & Holder, 1998; Rozeff, 1982; Singhania & Gupta, 2012; Patra, Poshakwale, & Ow-Yong, 2012).

However, despite the similarities that exist between dividend policy and the propensity to pay, the methodology of study differs. It is a tradition in the propensity

to pay dividends literature to use probability models as the tool of the analysis, thus, logit regression is mostly used. This is unlike normal dividends payout literature in which a linear model and its family are employed such as ordinary least squares regression and feasible generalized least squares are employed for analyzing the data.

Fama and French (2001) noted that the number of publicly listed firms paying cash dividend has significantly dropped from 66.5% in 1978 to 20.8% in 1999. They argued that this behaviour was because of changing firm characteristics (high investment, firm size and low earnings). Similarly, Baker and Wurgler (2004b) indicated two distinct positions in relationship to the propensity to pay dividends by firms. The study pointed out that the likelihood of a firm paying a dividend tends to increase as the dividend premium increases. However, it reverses when a dividend premium becomes negative. The study lends support to Fama and French (2001), which concluded that the decline in the dividend payment is the result of catering to the needs of shareholders and investors. The evidence, therefore, is consistent with the catering theory that managers pay dividends when investors show their preference for it by paying more for the stock of firms that intend to pay dividends.

In examining dividend policy, Skinner (2008) classified firms into three groups according to their payout policies. First are those firms that combine dividend payments with repurchases, second are firms that repurchase regularly and third are those firms that rarely repurchase. The study of Compustat firms revealed that firms that the pay payment of only cash dividends significantly decreased from 13.2% to 6.8% during the period from 1952 to 2004, and, on aggregate dividend supply, there



was a sharp decline of payout from 8.3% to 1.7% during the same period. Also, Ferris et al. (2006) studied the pattern of company dividend policy from United Kingdom setting and revealed evidence on dividend decline. The evidence shows that the magnitude at which dividends are declining are lower when compared to the evidence indicating the declines reported from the United States.

Besides the factors that Fama and French documented as driving the lower propensity to pay dividends, risks may also be a contributing factor. Bulan, Subramanian, and Tanlu (2007) indicated that dividend-initiating firms have lower idiosyncratic risks than non-initiators prior to initiation and that idiosyncratic risk becomes weaker around the event as opposed to non-initiators. In a study combining idiosyncratic and systematic risks, Hoberg and Prabhala (2009) found market and firm-specific risks to be associated with a firm's propensity to pay dividends. The study contended that the variability of the daily stock returns emanated from firm-specific (idiosyncratic) or market associated (systematic) risks having standard deviations of 2.35% and 0.58% respectively; also, both risks have values which are bounded below by zero. The study, therefore, concluded that almost 40% of dividend disappearance (another term used for propensity to pay) can be explained by risks.

In cross-country evidence, Kuo, Philip, and Zhang (2013) confirmed that the propensity to pay dividend is mainly risk driven. Although in common law countries, the catering theory of dividend tends to offer an additional explanation. The catering evidence could be attributed to the legal system that prevails to the extent that investors enjoy better protection in common law countries than in civil law

countries. The finding is in accord with Ferris, Jayaraman, and Sabherwal (2009) and La Porta et al. (2000). However, Amihud and Li, (2006) suggested that the decline of the information content of dividend announcements could be a possible explanation for dividend disappearance.

Fatemi and Bildik (2012), in a broader international sample, revealed that the disappearance of dividends is certain. The study noted that both the proportion of dividend-paying firms and the average dividend payout have declined over time. This led them to conclude that dividends have disappeared and that this issue is more prevalent in civil law economies than in common law economies.

In an attempt to provide more light on the propensity to pay dividends, Baker and Wurgler (2004b) posited that the propensity to pay dividends in US markets increases when the dividend premium increases and the propensity to pay dividends become lower when the dividend premium decreases. Hence, the study concluded that the propensity to pay dividends is associated with catering incentives. Whereas, the study by Abdulkadir, Abdullah, and Wong (2014) based on the Nigerian market documented strong evidence that dividend premium is positively associated with decision to pay dividends among some listed financial firms. The study concluded that managers in the financial sector of the market have responded to the demand of investors that attached more value to dividend paying shares. Similarly, Kim and Kim (2013) also noted the decrease of the propensity to pay dividends among Korean firms. They found that lifecycle provides an explanation regarding the decline in the likelihood of paying dividends in addition to other factors such as profitability, size systematic risk, investments and idiosyncratic risk.

From the governance perspective, the propensity to pay dividend decreases by 8.9% and 1.7% in response to antitakeover laws (Francis et al., 2011). For dividend payers, the result is like that of previous studies that affirmed firms that specific features drive the probability of paying dividends. Moreover, Francis et al. (2011) added that the probability of the paying dividends also declined with managerial shareholdings risk and taxation.

Some authors have attributed an increase in dividends to a significant change in the US tax law in 2003, which reduced the individual tax rate on dividends substantially (Chetty & Saez, 2006, 2010; Grullon et al., 2011). On the other hand, Julio and Ikenberry (2004) attempted to examine whether cash dividend reappeared using US data. Their investigation showed that dividend reappeared and reached a level of more than 20% in 2004, after which it fell to lowest level of 15% in 2001. They concluded that the reappearance of the dividend was a result of tax cuts, the advancement in technology (internet era), the need by the lower-growth firms to communicate earnings quality to the market and lastly because of a firm's maturity.

Chetty and Emmanuel (2005) and Skinner (2008) affirmed that the increase in dividends and repurchases since 2003 was related to taxation. Chetty and Emmanuel (2005) added that the strong responses by the firms was due to tax incentives of some class of owners that have influence on a firm and who benefited from the tax cut. Therefore, this lead to an increase in the number of firms paying dividends, in other words, referring to reappearance of dividend payment. Similarly, DeAngelo et al. (2004) also refuted the notion that dividends payout was declining as earlier

provided by Fama and French (2001) and supported the increase of the likelihood to pay dividends.

Though tax cuts in the United States did motivate an upsurge in dividends, however, it re-emergence preceded the tax reduction policy in the US markets and cannot be the main explanation for the increase in the propensity to pay dividends (Bank, 2007). For example, according to Poterba (2004) dividend pay outs rose by 39.4% in 2000 and by 43% in 1993. Bank (2007) found this incidence was associated with other factors such as the cash holding of firms. The study argued that the cash holdings necessitate previous non-dividends payers to pay dividends because these firms have reached their maturity stage, which therefore, leads to an increase in the propensity to pay dividends. Consequently, cash holdings are among the leading explanations of the increased likelihood to pay dividends. Bank (2007) further insisted that a tax cut could only be a temporary issue to explain the propensity to pay dividends and, hence, may have a limited effect on dividend policy in the long run.

Moreover, DeAngelo, DeAngelo, and Skinner (2009) cast doubt on the declining of dividend payout among firms in the United States but insisted that dividends have been concentrated in a few individual firms. Their evidence showed that the dividend payers reduced in number due to categories of payers who were no longer paying dividends to shareholders, and, in contrast, many dividend payers have increased their current dividend payout ratios. Eije and Megginson (2008) examined the dividend pattern in the European Union and refuted Fama and French claims about the possible explanations regarding dividend policy. On one side, the study showed

support for the increase in the real dividends payout consistent with DeAngelo et al. (2009); on the other side, they revealed a decline on the number of dividend-paying firms. Denis and Osobov (2008) failed to find support for the disappearance of dividends. Their results indicated that aggregate dividends increased over the period of their study consistent with the findings of DeAngelo et al. (2004). Theoretically, the study is in line with life cycle and agency costs theories and failed to support catering and signalling theories. Conversely, these studies have concentrated in the US market and other developed markets little is known from the developing markets such as Nigerian. A close study of propensity to pay dividends is the one conducted by Abdulkadir et al. (2016). The study showed that the decline of dividends payout could be linked to foreign shareholders. The study further revealed that foreign shareholders preference for capital gains instead of dividend as a result of taxation is the primary reason for the decline in dividends. Hence, supporting the catering theory of dividends.

### **2.6.1 Board Characteristics and the Propensity to Pay Dividends**

Besides a firm's specific factors including profitability, growth, size of the firm that may influence dividend policy, the board structures of firms may affect the corporate payout policy. According to Dhamadasa, Gamage, and Herath (2014) board characteristics have an impact on corporate policies as the board is viewed as a catalyst to various segments of a firm. Among others, board characteristics comprise board size, the fraction of non-executive and independent directors (Abdul Latif, Kamardin, Mohd, & CheAdam, 2013), professional qualifications (Amran et al., 2014) and board diversity in terms of gender.

The board of directors governs a firm, and primarily they have two essential functions: monitoring and advisory roles to the management. The monitoring role is stressed by the agency theory whereas the resource dependence theory emphasizes advisory functions (Daily et al., 2003). Bianco, Ciavarella, and Signoretti (2015) noted that the monitoring and advisory functions may be influenced by the characteristics of the board, and a well-functioning board may influence dividend policy. Pucheta-Martínez and Bel-Oms (2016) found the presence of female directors on the board was positively related with dividend policy, and the presence of independent director also affects the payment of dividends (Yarram & Dollery, 2015). However, Benjamin and Zain (2015) showed that board independence and dividend policy were negatively related.

#### **2.6.1.1 Board Size**

Board size refers to the number of directors sitting on the board (Kuan, Li, & Chu, 2011; Kyereboah-Coleman & Biekpe, 2007). Therefore, board size is defined as all members appointed to serve as directors irrespective of their status whether executive, non-executive, independent or affiliated directors. The NCCG 2011, provides that board size should not constitute less than five (5) members and with no upper limit. It is also clearly stated that the number of the non-executive should exceed that of executive directors.

The directors on board are responsible for formulating policies for the company. They also monitor the entire activities of the managers on behalf of the shareholders (Hillman & Dalziel, 2003) as well as provide resources to the firm (Hillman et al.,

2000), including advice to the CEO and linkages to the external environment (Pfeffer & Salancik, 1978). Consequently, the board of directors shoulders tremendous responsibilities.

The board of directors as noted in the literature has a fiduciary responsibility to guard and protect the shareholders (Adams, Hermalin, and Weisbach, 2010). That is board members acting on behalf of the shareholders of the company, will efficiently carry their primary responsibilities, which are monitoring the management and providing resources to the organization. Erickson, Park, Reising, and Shin (2005) noted that a duly constituted board should be able to drive the firm toward greater value. The board has to manage and control the management of the firm to maximize value for the owners and its stakeholders (Kumar & Singh, 2013). Irrespective of the conferred responsibilities on the board of directors, a board must have a reasonable number of members to function effectively (Raheja, 2005).

Previous studies have itemized three areas in which larger board size is found to be ineffective. These include the tendency to increase communication- and coordination-related problems; the inability to effect control measures on management, and the costs of poor decision making, which may arise because of free riding on the board (Eisenberg, Sundgren, & Wells, 1998; Yermack, 1996). Therefore, some studies have suggested a relatively small board size, which is consistent with the work of Jensen (1993).

Jensen (1993) argued that a small board tends to be better in monitoring the CEO and that it is less likely for the CEO to manipulate a smaller board and, therefore, he

shows a preference for a small board over a large one. The study further revealed that a large board may be exposed to coordination and communication problems. This idea is supported by Haniffa and Hudaib (2006). In addition, Cheng (2008) suggested that much effort is required for a larger group to reach a consensus while taking a decision. In this regard, a small board moderates the extremity of board decisions in decision making. The study concluded that larger boards adversely affected corporate performance variability.

However, the proponents of a larger board are of the view that it enables a firm to have a greater number of experienced directors that can enhance shareholder value. According to Certo (2003), firms having larger boards will probably include more prestigious directors. Along this line, de Villiers et al. (2011) showed that a larger board has a significant and positive effect on total environmental strengths. The benefits of a larger board size are numerous. Dalton et al. (1999) highlighted some of these benefits in that a larger board size brings into firm more experienced and knowledgeable directors, secures critical resources required by the company, and leads to efficient capital acquisition.

Nakano and Nguyen (2012) revealed evidence indicating that a larger board size reduces performance variability and is associated with a lower bankruptcy risk. Chang and Dutta (2012) concluded that shareholders received a higher dividend when the board size is large.

Given these divergent views about board size, it is conceded that board size should be determined by the relative needs of the firm because one size does not fit all.



Coles et al. (2008) lent support to this argument. They found board size to be non-linear with Tobin's Q and suggested that board size is determined by the complexity of a firm's operations. Similarly, Xie and Fukumoto (2013) also revealed a non-linear association between board size and firm performance. The study, therefore, supported the findings of previous evidence that the size of the board is a function of a firm's operations. Consequently, corporate governance researchers have linked board size with a variety of corporate issues that such as CEO turnover (Ishak, Ismail, & Abdullah, 2012), firm value (Kumar & Singh, 2013), firm performance (Kumar & Singh, 2013), voluntary disclosure (Akhtaruddin, Hossain, Hossain, & Yao, 2009) and dividend policy (Chang & Dutta, 2012).

Chen, Lin, and Yong-cheol (2011) analyzed the propensity to pay dividends in Chinese listed companies. The study found that board size had a significant impact in determining the propensity of the companies for paying a cash dividend. The finding is in line with Officer (2006) and Boumosleh and Cline (2015) who indicated that, when the size of the board is large, a firm shows a higher likelihood of paying dividends. In a recent evidence from Turkish firms, Al-Najjar and Kilincarslan (2016) examined board size and the propensity to pay dividends from 2003 through 2012 using unbalance panel data. Consistent with the prediction, the study indicates a strong positive relationship between board size and the likelihood of a firm to pay dividends. These findings were also observed by other studies such as Prasanna (2014) and Iqbal (2013) from India and Pakistan respectively. These studies indicate that firms with large boards have a higher likelihood to pay dividends than those with smaller boards.

Similarly, Gill and Obradovich (2012), using US data confirmed the findings by documenting a positive association between board size and dividend payout. An examination of variables comprising board size and board independence are recorded in the study (Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori, 2013). The study employed 140 listed companies on the Tehran Stock Exchange from 2006-2010 and found a significant and positive influence of board size on dividend policy. They concluded that dividend payout policy is a good mechanism to align the interests of shareholders with those of directors by extracting more dividends from the firm.

This result is also observed by Bokpin (2011) who identified a significant and positive relationship between board size and dividend pay outs in Ghana. Similarly, Abor and Fiador (2013) posited that companies in Kenya and South Africa pay higher dividends when having larger board size. The study suggested that high dividend payout in Kenya and South Africa were because of good corporate governance that tends to ease the access and relatively costs of external debts. Moreover, a direct correlation between board size and dividend was documented by Uwalomwa, Olamide, and Francis (2015) who determined that board size had a positive and significant effect on dividend payout in listed Nigerian firms. The study had fifty sample firms between 2006 and 2011. They concluded that the higher the number of board members, the higher the payout, which reduced the potentiality of agency problems.

Using linear regression, Shabbir, Tahir, and Akbar (2014) found a strong and positive association between board size and dividend payout among 45 non-financial

firms from Pakistan. Similarly, using pool data of listed firms from the Tehran Stock Exchange, Aazam and Vali (2014) confirmed the previous findings that board size had a significant and positive effect on dividend pay outs. The result also supported the findings of Soliman (2013) who reported that board size of listed firms in Saudi Arabia had a positive impact on dividend policy. Nuhu (2014) examined 30 listed companies in Ghana to find out the determinants of dividend policy in the country from 2000-2009. The study measured board size as the logarithm of the number of board of directors and concluded that a higher dividend payout is associated with an increase in the size of the board.

Jiraporn and Ning (2006) investigated corporate dividends and the strength of shareholder rights. They showed that board size and dividend pay outs were consistently positive and significant. Therefore, the study suggested that this relationship was an indication that the sampled firms had weak governance structures and therefore paid dividend generously.

Conversely, some authors have argued that having a larger board is associated with a free riding problem, and the board becomes more symbolic and less functional (Hermalin & Weisbach, 2003; Jensen, 1993; Wu, 2000). Therefore, a larger board is interpreted as a sign of weak governance. Chang and Dutta (2012) from Canada showed that firms with a larger board size favour higher dividend payout. The study concluded that countries with weak shareholder protection pay dividends to safeguard their reputations as previously documented (La Porta et al., 2000).

Studying dividend patterns has been also extended to family enterprises. Roy (2015) examined some board structures variables in family and non-family firms. The study showed that the size of the board is positively and significantly related to dividend policy in both family and non-family run companies in India. Studies show that level of dividend paid to shareholders by family-controlled firms is a bit higher compared to non-family controlled firms. Kuan et al. (2011) showed that, on average, the dividend payout of family-controlled firms is higher than of non-family controlled firms.

The debate about whether board size has an impact on dividend policy has another dimension in that some authors have reported negative or insignificant results. Subramaniam and Devi (2011) and Alias, Rahim, Nor and Hasimi (2014) documented the negative and significant relationship between the size of the board and dividend policy. They concluded that dividend payout is lower for companies having larger boards. Supporting this is the evidence advanced by Abor and Fiador (2013) who studied sub-Saharan Africa and found sufficient evidence from the listed Nigerian firms that board size and dividends payout are negatively related. This finding contradicts the study conducted by Uwalomwa et al. (2015) which indicated that board size and dividend payout were positively related. Subramaniam et al. (2014) tested the dividend policy of the top market capitalized companies listed on the Bursa Malaysia. The result indicated that dividend payout is significant and negatively associated with the board size of firms.

In the Australian context, Setia-Atmaja et al. (2009) analyzed the effect of board size on dividends during the period from 2000 to 2005. Contrary to its proposition, the

study failed to find any significant association between board size and dividend policy. Similar evidence was documented from Egypt by Abdelsalam et al. (2008) while examining dividend policy of Egyptian top listed companies using pooled cross-sectional observations. Also, Arshad, Akram, Amjad and Muhammad (2013) found an insignificant association between board size and dividend policy in the Karachi Stock Exchange while investigating the information, communication and transport services sectors of the market spanning from 2007-2011.

In addition to the above evidence and in line with these findings, Prasanna (2014) who investigated 176 firm listed in the Bombay Stock Exchange market in India also failed to find that dividend decisions were positively associated with board size. Likewise, Ahmad et al. (2015) in their analysis using firms listed in the NSE during 2008-2012, documented an insignificant relationship between board size and dividend payout.

It is quite interesting that efforts have been made to understand the connection between dividend policy and board size. However, a need still exists for further investigation due of the mixed findings of previous studies.

#### **2.6.1.2 Board Composition**

Scholars have put forward different ways in which board composition can be defined, and the measurements could reach up to twenty ways (Dalton et al. (1999). However, in the corporate governance research the most commonly used measurement is considering the composition of the board by means of inside or outside directors. Some authors view board composition as the ratio or percentage of

inside directors (executive directors) on the board compared to the ratio of outside directors. Still others have defined board composition as the proportion or ratio of outside directors (non-executive directors) on the board (de Andres, Azofra, & Lopez, 2005).

It is important to dwell on the concepts of board composition. First, the inside directors are those who are appointed to serve the board and, at the same time, they are part of the management of the firm. These category of directors, therefore, are believed to possess more inside information than any other directors (de Andres et al., 2005). Despite the superior knowledge on the affairs of the firm, they may aggravate agency costs by acting contrary to the interest of the shareholders (Jensen & Meckling, 1976).

Second, outside directors may refer to as directors who independent with no direct or indirect relationship with the management or having significant interest in the corporation. Affiliated directors can be either inside and outside directors. They are more independent relative to inside directors because their employment is not directly linked to the company they serve as directors. Conversely, this category of directors (affiliated directors) has personal interest in the firm that ranges from financial or other forms of relationship with a firm's executives (Ellstrand, Tihanyi, & Johnson, 2002). Another type of director is the unaffiliated director. An unaffiliated director refers to those directors on the board who have no other connections with the firm or its executives and do not have the full status of an independent director (Boone, Casares Field, Karpoff, & Raheja, 2007). When

compared to an inside director or the management, affiliated directors are closely related to the independent directors.

The objective of this categorization could be to preserve the independence of these directors thereby reducing the agency costs and making them to be truly independent. However, ascertaining whether an outside or affiliated director is truly independent despite the availability of the information related to them is difficult (de Andres et al., 2005). This is at the developed market level where there is reasonable degree of transparency and a free flow of information. Coming down to the emerging economies such as Nigeria, the available information may not grant further classification of the board of directors apart from an executive (insider) and a non-executive (outsider) director.

Therefore, in the context of this study, board composition simply refers to the proportion of non-executive directors to the total directors. This proportion of directors provides a signal that a board is free to carry out its activities independently and that the board is well constituted with non-executive directors as required by the law. Booth, Cornett, and Tehranian (2002) and Choi, Park, and Yoo (2007) are among the previous studies that also identified external board members as outside directors.

The outside directors are an integral part of the board. This is because of their level of knowledge, experience and their independence from the management team (Abdelsalam et al., 2008). Therefore, their presence on a company's board become very crucial. Moreover, the role of outside directors, especially in terms of

monitoring, has become a topical issue because of the global corporate scandals. Particularly, the passage of the Sarbanes-Oxley Act in the United States has drawn the attention of other countries around the world to incorporate and place more emphasis on outside directors serving on the board. Besides, many corporate codes of governance stipulate the number of outside directors that are supposed to be on the board. For example, the Sarbanes-Oxley Act in the United States mandated all companies have a majority of board members from the outside known as the independent directors (Sharma, 2011). Similarly, in the Netherlands and Australia, the majority of the board is required to be independent directors. In the United Kingdom, France and Czech Republic, the codes stipulate that one-third to one half of the directors must be independent.

In comparison to the mentioned countries above, NCCG provides that at least one of the board members must be independent and pointed out categorically that the majority of the board members should be from outside the firm. Probably, because of the cost of hiring independent directors, firms might prefer to the maintain minimum requirements. In a nutshell, the logic behind an outside director (independent, affiliate or unaffiliated director) is monitoring and providing resources to the firm (Hillman & Dalziel, 2003).

Alternatively, dividend policy may serve as tool to control the managers against any self-pursued goal within the context of the firm. This is done by exposing firms to the capital market wherein the managers are then scrutinized. Dividend policy may act as a substitute or complement for a monitoring mechanism where the non-executive directors exhibit their effectiveness (substitute) and otherwise



(complement) in discharging their roles in the firm (Abdelsalam et al., 2008). A lack of a sufficient monitoring role by the non-executive directors may therefore require a higher dividend payout by a company that can complement the other tools and vice versa (Farinha, 2003).

Empirical evidence on the association between the propensity to pay dividends is relatively scant. Hu and Kumar (2004) pioneered the examination of the association between outside director on the board and the propensity to pay dividends. The study found that outside directors on board have a positive and strong influence on the propensity to pay dividends. The study posited that outside directors who reached a 40% threshold of the board effectively affected the likelihood of paying dividends.

Furthermore, Sharma (2011) also explored this relationship from the United States market in a correctional analysis. The study revealed that a board with greater independence was positively and significantly associated with the propensity to pay dividends. Similarly, Prasanna (2014) and Boumosleh and Cline (2015) also showed support to previous evidence that, when a board has a greater percentage of outside directors, the firm is more likely to pay dividends. Likewise Chen et al. (2011) also provided strong evidence supporting the positive association between board composition and the likelihood of dividend payment among firms in Australia and China respectively. More recently, Idris, Ishak, and Hassan (2017) indicated that outside directors from the non-financial listed firms in Nigeria exhibited a higher likelihood of paying dividends.

On the association between board composition and dividend payout, Abor and Fiador (2013) investigated the effects of corporate governance on dividend policy in sub-Saharan Africa. The sample countries employed were South Africa, Nigeria, Ghana and Kenya for the period of 1997 to 2006, using simultaneous panel data regression analysis. The results showed that board composition had positive and significant effect on dividend payout on companies in Ghana and Kenya. For the Nigerian companies, the results were statistically significant but negatively related (Abor & Fiador, 2013). In a study conducted by Adjaoud and Ben-Amar (2010) in Canada, they found that board composition was positively and significantly related to dividend policy.

Yarram and Dollery (2015) attempted to provide evidence on the role of independent directors on dividend policy. They showed that dividends were positively and significantly correlated. The finding was in agreement with La Porta et al.'s (2000) hypothesis and also in line with previous studies (Setia-Atmaja, Tanewski, & Skully, 2009; Setia-Atmaja, 2010). They documented a positive effect of independent directors on dividends in family-controlled firms. Therefore, the findings suggested a complementary role of independent directors and dividend payout when it comes to monitoring the managers. Interesting, Yarram and Dollery (2015) addressed the possible effects of global financial crises; however, the study failed to take into account the possibility of endogeneity effect.

Belden, Fister, and Knapp (2005) found that firms with higher number of outside directors serving on boards pay more dividends. The result validated the earlier findings of Schellenger, Wood, and Tashakori (1989) who measured the composition

of the board as the number outside directors to the total number of the company's board of directors. The study examined a hypothesis on whether outside directors are associated with firms' dividend policy and found a strong positive relationship between outside directors and payout policy. However, it failed to support the substitution hypothesis of dividend policy.

Chen, Cheung, Stouraitis, and Wong (2005) focused on Hong Kong firms during the period from 1995 to 1998 and revealed a positive association between non-executive directors and dividend payout measured by total dividend divided by net profit in companies controlled by family members. The result was only significant for firms with a relatively lower market capitalization. This implies that for firms with higher market capitalization the evidence may not hold. The above findings, however, failed to consider the possibility of the endogeneity effect among the variables, for example, dividends, debt, board structures variables.

Sawicki (2009) examined the relationship of corporate governance and dividends in five East Asian countries (Indonesia, Malaysia, Thailand, Hong Kong and Singapore) over the period from 1994 to 2003. The study compared the outcome and substitute models at the same time before and after the Asian crises in those countries. Evidence showed that the relationship between governance and dividend payout during the pre-crisis was insignificant. Unlike the pre-crisis regime, the post-crisis indicated a strong positive association between governance and dividends. The evidence clearly revealed how the implementation of good governance practices affects dividends. This also confirmed the importance of both country-level and firm-level governance to dividends. However, the author noted that greater board

independence is among the key factors that results in corporate governance improvement and, in turn, affects dividends.

Using data of listed food and beverage firms from the Nigerian Market, Ahmad et al. (2015) showed that the presence of non-executive directors was related to dividend policy positively. Even though the study found such a relationship, the data were not enough to make a generalization as it may suffer from a small effect. In a related study from the same country, Uwalomwa et al. (2015) revealed a positive and significant association between dividend payout and board independence. Board independence was measured as the presence of non-executive directors on the board of 10 listed companies on the NSE. The result is consistent with Ranti (2013). The result may not be surprising as the study failed to account for the possible effect of the structural changes that took place during the period as well as the financial meltdown to which Nigeria was not an exception. In addition to the above studies, a strand of studies exists that either found a negative or no association between non-executive directors and dividend policy.

Benjamin and Zain (2015) analyzed 114 companies spanning the years from 2002 to 2008 with the goal of investigating the role of corporate governance features in controlling agency problems. The results of the study indicated a negative and significant association between board independence and dividends, which was consistent with the substitution hypothesis that corporate governance and dividend policy in Malaysia are substitutes in addressing agency problems. The findings corroborated the results of study of Leng (2007) and Al-Najjar and Hussainey (2009)

that non-executive directors were negatively related with dividend payout in Malaysian and United Kingdom markets respectively.

Moreover, Borokhovich, Brunarski, Harman, and Kehr (2005) who analysed the independent directors and dividend policy using sample firms from the United States found independent directors on board were negatively related to dividend payout. This implies that all other things being equal, companies with a higher number of outside directors on their boards tend to pay lower dividends. Therefore, dividend payout serves as a substitute for outside directors on the board supporting the substitution hypothesis of La Porta et al. (2000).

Conversely, Subramaniam and Devi (2011) failed to establish strong evidence on the association between board composition and dividend policy using Malaysian data with a final sample of 409 companies drawn from OSIRIS and BANKSCOPE from 2004 to 2006. Similarly, Abdelsalam et al. (2008) also revealed no significant relationship between board composition and dividend policy using top Egyptian companies during the period from 2003 to 2005. Mansourinia, Emamgholipour, Rekabdarkolaei, and Hozoori (2013) investigated the role of board independence on dividend policy in the Iranian market and found no sufficient evidence on how independent directors influence dividend policy.

Additionally, Subramaniam, Suppiah, and Shaiban (2014) employed a sample of the most capitalized firms from the Malaysian market and found no association between board composition and dividend policy. Similar evidence was also revealed by Tahir, Aslam, and Akhtar (2014) from Pakistan who found that board independence was

statistically insignificant. In the same vein, a study from Saudi Arabia by Soliman (2013) also reported an insignificant relationship between board composition and dividend policy. This evidence conforms with Cotter and Silvester's (2003) study from Australia that board independence and dividend payout did not have any significant association. They found that, although they were positively related, the relationship was insignificant. The studies may lack generalizability due to sampling bias.

### **2.6.1.3 Board Diversity**

Kang, Cheng, and Gray (2007) said that board diversity means a multiplicity of the composition of directors present on a board. Diversity of the board is indicated in two ways. First is the apparent difference that is readily seen in the directors. Indicators of this aspect of diversity are gender, age ethnic or cultural background and nationality. Second is a less visible form of diversity. Indicators of this aspect are education, professional, industry expertise and organizational membership (Kang et al., 2007).

Board diversity is best seen as a good avenue when values are enhanced in achieving individually established objectives. This enhancement can range from a clear view of the marketplace, to an increase in creativity, to the promotion of innovative ideas and consequently to better capabilities in problem-solving (Carter, D'Souza, Simkins, & Simpson, 2010). Additionally, a diverse board with individual from different backgrounds facilitates global linkages particularly outside the entity and offers some degree of independence. Because the personalities of individuals may differ

according to gender, ethnicity and cultural origins, which may allow them to ask critical questions that would not emerge from directors having similar backgrounds (Kang et al., 2007). Furthermore, the inquisitive nature of the female directors might make managers avoid self-pursuing objectives that are not aligned with the interests of shareholders.

Gender diversity reflects the existence of female in a group that males dominate. Males in most cases have been seen to have significant numbers in various entities, professions and, in general, the political structure of a country. For the purposes of this study, gender diversity refers to the presence of at least one female director on a firm's board. Many corporate governance codes around the world, for example, France, Germany, Kenya, South Africa and Nigeria, have recommended or made provisions for the availability of female director on the board (Mordi & Obanya, 2014). This provision is aimed at exploring the talents of the females, their views and perceptions and contributions toward achieving organizational goals.

In this regard, studying diversity in connection with gender may yield fruitful outcomes to corporate bodies particularly as the contributions of females in corporate performance are becoming noticeable globally. Carter et al. (2010) indicated a link between gender diversity and higher performance. Moreover, because of the new ideas that may emerge from their presence, women on boards, according to Adams and Ferreira (2009), influence the performance of firms more in weak corporate governance settings. Additionally, female directors on board is worthwhile in other areas such as attitudes towards tax (Huseynov & Klamm, 2012) less tendencies for tax evasion (Kastlunger, Dressler, Kirchler, Mittone, & Voracek,

2010), firm performance (Amran et al., 2014), stock market valuation (Ntim, 2013), board monitoring (Kamardin, AbdulLatif, Mohd, & Adam, 2014) and the enhancement of shareholders' value (Nguyen & Faff, 2007). Moreover, gender diversity is also important in corporate payout policy (Florackis et al., 2015; Pucheta-Martínez & Bel-Oms, 2016).

The benefit of females on the board has been noted as they contribute immensely to the decisions taken by a board and in other corporate actions (Pucheta-Martínez & Bel-Oms, 2016). Despite the potentially significant role of female directors serving on a board few studies have tested their relationship with corporate payout policy. Pucheta-Martínez and Bel-Oms (2016) investigated dividend policy and gender diversity on board using data from Spanish firms. The study found that women directors on a board strongly affected the decision to pay dividends and concluded that gender diversity influences a firm's overall dividend policy.

Moreover, Byoun, Chang, and Kim (2016) examined the effect of gender and non-gender diverse board on dividend payout. The results indicated that a gender diverse board is associated with higher dividend payout. The study also noted that gender diversity is likely to offer a solution for companies that are much-exposed to agency problems. The study is in line with Al-Rahahleh (2017) who found evidence that having females on the board tends to reduce agency conflict by paying more dividends in Jordanian firms. Therefore, this provided support to the argument advanced by Adams and Ferreira (2009) that gender diversity is important in monitoring the opportunistic behavior of the managers and in having distinctive idea to facilitate strategic decision making (Carter et al., 2010). Thus, a board with gender



diversity provides better and closer understanding of a firm's internal and external environments and minimizes uninformed decisions (Byoun et al., 2016).

In addition to the above studies, Wellalage, Fauzi, and Wang (2012) hypothesized that an increase of female directors on a board is associated with higher dividends. Consistent with the hypothesis, the study revealed that female directors influence cash dividend payout in companies characterized with larger boards and highly profitable. Likewise, the results supported the recent findings documented by Byoun et al. (2016) that corporate cash dividends become higher with the presence of female directors on the board. From the above findings, the deduction can be made that aligning the interests of managers with shareholders is not merely a function that male directors on the board alone can play, but that female directors can also play a similar role in firms. The finding is also in line with Florackis et al. (2015) who revealed significant and positive association between dividend and the proportion of female directors on the board.

Examining the effect of gender diversity among the board members on corporate actions has also extended to the gender status of the CEO. McGuinness, Lam, and Vieito (2015) used Chinese firms to investigate the impacts of female gender on dividend payout. They posited that a female manager weakens the tendency of cash distribution. In support of their argument, the study found that the level of dividend payout did not change with a female being the CEO of a firm. Also, the study revealed that an inverse correlation existed between having two or more female directors on a board and dividend policy. The authors argued that the evidence could be the result of the financial knowledge exhibited by female directors on the board

that could be like that of male directors. Moreover, Jurkus, Park, and Woodard (2011) indicated that gender diversity has a strong inverse association with dividend payout suggesting that studies on gender diversity should consider controlling for endogeneity as it poses threat to the validity of the results.

However, Hamzah and Zulkafli (2014) documented no relationship between females on a board and dividend payout. The argument could be made that the insignificant results may be the function of a measurement error or due to the limited number of the female directors on boards of the firms used during the investigations. From this review, it is unclear whether having female directors on board influences propensity to pay dividends in Nigeria. The next section discusses financial experts on board.

#### **2.6.1.4 Financial Expertise on Board**

The board of directors is the topmost body that oversees the affairs of firms. They design the policies of the company in addition to monitoring and proving linkages to acquire resources that may benefit a firm (Hillman & Dalziel, 2003). Businesses make selections for board membership in accordance with their needs, and individual directors on the board are expected to have vast experience in their professions. From an academic view, Knyazeva, Knyazeva, and Masulis (2013) defined financial experts as those persons in the position of treasurer, chief financial officers, banking, finance, investment or accounting. In terms of financial reporting and governance, Cunningham (2008) considered financial experts to belong to any of these three classes, namely, individuals who have a strong accounting background, non-accounting financial experts and non-financial experts.

Financial expertise and its related occupations of finance, analysts, and investment bankers, among others are of paramount importance to a firm. They contribute greatly to the policies relating to finance and investments. Companies require funds to finance their operations and, in the event of having an excess, they may likely invest that excess on projects that may yield better returns. Experts in the financial and its related field are needed to appraise investment and financially related issues. A growth in demand for experts was witnessed after the passage of the Sarbanes-Oxley Act (Linck, Netter, & Yang, 2009). Besides, successful firms normally have robust financial planning to withstand challenging times. Other advantages of financial experts on a board include ensuring the effectiveness and efficiency of the board (Minton, Taillard, & Williamson, 2014) and appraising and accessing risk-related information, which, when ignored, may endanger a firm's survival (Harris & Raviv, 2008).

Hillman and Dalziel (2003) asserted that board members should provide firms with monitoring and resource provision services. In specific terms, firms may benefit from the services of expert directors based on their unique features and environment (de Villiers et al., 2011). For example, a government-dependent firm may hire directors with political skills (Hillman, 2005). Similarly, a dependency on external funding will lead a firm to recruit directors with such expertise. Likewise, having international investments will necessitate firms to have global experts as board members (Carpenter & Westphal, 2001). In general, while firms need certain experts to discharge a particular role, financial experts are required across all firms because they transact or carryout their operations with a legal tender (money). Expertise has

been found to be worthwhile in a number of accounting, finance and governance literature.

Previous literature has linked financial expertise with a variety of factors, but specifically, in areas related to control and financing decisions. Defond, Hann, Xuesong, and Engel (2005) noted that the market reacts favorably to the appointment of directors with pure accounting expertise. A board of directors typically considers financial experts first and then others when appointing audit committee members (Iyer, Bamber, & Griffin, 2012), and financial experts are important in addressing conflicts and acting in accordance the interests of shareholders (Güner, Malmendier, & Tate, 2008). In the area of earnings management, financial expertise on an audit committee tends to reduce the likelihood of aggressive accounting (Cunningham, 2008; Kibiya et al., 2016). Firms tend to show better outcomes as a result of having experts with relevant experience on the board (Kroll, Walters, & Wright, 2008). Consequently, having experts on a board may be associated a firm's outcomes such as performance and better investor protection because the corporation will benefit from the services of these experts in various capacities including access to lower costs of capital.

The proponents of the resource dependence theory have asserted that directors who are professional, are rich in human capital resources and are experts in their areas or have long-term experience tend to offer incredible and relevant information and better advice to the firms (Hillman & Dalziel, 2003) and to the CEO as well (Chris Florackis & Sainani, 2016). Therefore, drawing from the resource dependent tenets, the presence of financial experts on a board may significantly impact a firm's

financial policies. Linck et al. (2009) claimed that financial experts are among the scarce individuals for appointment as a director. This is because they offer professional advice to the firm regarding issues relating to financial policies (Custodio & Metzger, 2014).

Financial experts are adept when it comes handling finance and investment matters. They can raise funds more easily even when credit terms are rigid (Custodio & Metzger, 2014). Their expertise in financially related issues provides them with high-level technicalities in such a way that the sensitivity of cash flow as a function of firm investment may not be a concern. Güner et al. (2008) offered strong support for the argument that a firm with a financial expert on the board experiences a reduction of investment sensitivity to cash flow.

Adams and Ferreira (2009) noted that financial experts dedicate large parts of their time in advising a firm. Firms with financial experts tend to hold little cash. Bates, Kahle, and Stulz (2009) noted that cash holding by firms is because of unforeseen events in the future. Based the numerous advantages mentioned above that relate to financing and control, it is likely, that firms with a financial expert on board may pay higher dividends than those without these experts on board. In line with this view, Custodio and Metzger (2014) found strong evidence that a financial expert who is also a CEO is related to dividend payout positively.

#### **2.6.1.5 CEO Tenure**

Tenure refers to the period which a CEO serves and is counted in years or in months (Abor, 2007; Güner et al., 2008; Ishak, Ku Ismail, et al., 2012). From the agency

view, longer tenure may provide the CEO with an opportunity to become entrenched. An entrenched CEO is considered to be powerful in the sense that he/she may influence the selection process of his successor or the appointment of new directors (Daily et al., 2003) and could make outside directors less effective, thus resulting in a rubber stamp for the decisions of the CEO (Burruss & Cook, 2010). However, Cheng, Chan, and Leung (2010) argued that the greater the tenure of CEO the higher the familiarity and greater task knowledge the CEO may possess in a firm. Thus, this provides him with vast knowledge in corporate strategies. Conversely, Hambrick and Fukutomi (1991) refuted that notion by revealing that the longer the tenure of CEO the less changes will be expected in corporate strategy.

Tenure forms part of the metrics measuring CEO power or attributes of an entrenched CEOs and has been linked to dividend policy by previous studies (Boumosleh, 2012; Feng, Ghosh, & Sirmans, 2007; Sharma, 2011). Feng et al. (2007) investigated entrenched CEOs in the real estate investment trusts (REITs) using an index comprising CEO tenure and duality. The study found a positive and significant association between entrenched CEOs and dividend payout in the firms that do not have a CEO nomination committee. On the other hand, the influence of the CEOs in firms having a nomination committee is less. Thus, this supports the view that entrenched CEOs use dividends to circumvent the possibility of shareholder sanctions as well as a threat of takeover. Even though he/she may circumvent shareholder sanctions he/she will be monitored by the market particularly when the need for funds arises. Along this line, Jiraporn and Chintrakarn (2009) indicated that companies having entrenched managers may rely more on dividends to

mitigate agency costs than those companies without entrenched manager. The result suggests that entrenched CEOs could be monitored more by the market because dividends paid to shareholders reduce the level of available cash (Jensen, 1986).

Ghosh and Sirmans (2006) contended that dividend payout functions as metric for the quality managerial decisions and is a representation of performance and effective monitoring in real estate investment trusts (REIT) in the United States. The study showed that CEO tenure was positive and significantly correlated with dividend payout. The findings is also consistent with Feng et al. (2007) who documented that entrenched CEOs measured by tenure and duality have an impact on dividend policy, and CEOs pay a higher dividend as a mechanism for antitakeover threat and for evading shareholder sanctions. Lee, Chiu, Lee, Chiang, and Slawson, (2010) documented that in the REIT industry, firms with greater information asymmetry tend to pay higher dividends, and the results lend credence to agency and signaling theory. Strong firms with managerial power are associated with paying higher dividends (Harford, Mansi, & Maxwell, 2008). It is also revealed that a staggered board<sup>1</sup> pays higher dividends because a CEO may be more entrenched (Jiraporn & Chintrakarn, 2009).

Hu and Kumar (2004) examined the likelihood of dividend payment between 1992 and 2000. They reported that longer tenured CEOs and the likelihood to pay dividends were positively related. Thus, suggesting that the longer the CEOs stays in

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<sup>1</sup> A staggered board as opposed to unitary board classifies the board of directors into a maximum of three groups with one class to be elected at each annual general meeting (Jiraporn & Chintrakarn, 2009)

the position, the greater the probability of a firm paying dividends. Similarly, Jo and Pan (2009) reported that entrenched managers have a higher probability for paying dividends, and the dividends tend to persist over a period of time. Studies such as Feng et al. (2007) and Hu and Kumar (2004) also supported the substitution hypothesis that firms with weak corporate governance practices pay higher dividends. Consistent with this notion, John, Knyazeva, and Knyazeva (2015) revealed that a combination of debt and dividend commitments or dividend superseded the use of debt only for firms with weak corporate governance practices. McGuinness et al., (2015) concluded that a strong positive relationship existed between dividend and CEO tenure. Hence, supporting the previous findings.

In contrast, Boumosleh (2012) examined the influence of CEO tenure and dividend policy during the period from 1995 to 2006. The results indicated a negative association between CEOs tenure and dividend payout, which revealed that a longer tenured CEOs tended to exact influence on a firm's financial policies, which led to less payment of dividends. The result is also in line with recent finding (Boumosleh & Cline, 2015). However, other studies have found weak evidence regarding CEO tenure and dividend payout. Sharma (2011) tested conducted a study on the firms listed on the NYSE and NASDAQ markets. The study found a weak and negative association between CEO tenure and the propensity to pay dividends.



### 2.6.1.6 Summary of Literature Review on Board Characteristics

Based on the previous review, a summary of the empirical evidence is offered below.

Table 2.1  
*Summary of the Literature Review on Board Characteristics*

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Hu and Kumar (2004)/US	Managerial entrenchment and payout policy /1992-2000/2081 firms	Logit and OLS regressions	DV: Dividend yield; pay or not pay dividends IV: board independence, CEO tenure	The study found that board independence and CEO tenure have a positive effect on the decision to pay dividends.
Al-Rahahleh (2017)/Jordan	Corporate governance quality, board gender diversity and corporate dividend policy: Evidence from Jordan/ 2009-2015/770 firm-year observations.	Logit and OLS regressions	DV: Pay or not pay dividend; dividend to assets IV: Female on board	The study documented a positive association between females on a board and the decision to pay dividends.
Prasanna (2014)/India	Firm-level governance quality and dividend decisions: evidence from India/ 2011/176 firms	Logit, Tobit and OLS regressions	DV: Pay or not pay dividends/ dividend to earnings IV: board size board independence,	Board size and board independence have a strong positive effect on dividend payout.
Al-Najjar and Kilincarslan (2016)/Turkey	The effect of ownership structure on dividend policy: evidence from Turkey/2003-2012/264 firms	Logit and Tobit regressions	DV: Pay or not pay dividend, IV: board size	The study revealed that board size has a positive impact on dividend decisions.

Table 2.1 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Al-Najjar and Hussainey/ (2009)/UK	The association between dividend payout and outside directorships/ 1991-2002/ 400 firms	Logit and Tobit regressions	DV: Pay or not pay dividends IV: outside directors	Outside directors on the board have a negative impact on decisions for dividends among UK firms.
Byoun, Chang, and Kim (2016)/United States	Does corporate board diversity affect corporate payout policy?/1997-2008/13325 firm-year observations	Logit and OLS Regressions	DV: Pay or not pay Dividend IV: Female directors on the board	Females on the board and the decision to pay dividend are positively related.
Iqbal (2013)/Pakistan	The impact of corporate governance on dividend decision of firms: Evidence from Pakistan /2007-2011/77 firms	Logit and Tobit regressions	DV: Pay or not pay dividend IV: Board size and board independence	Board size has a positive influence on dividend decisions whereas, board independence has a negative impact on dividend decisions.
Sharma (2011)/United States	Independent directors and the propensity to pay dividends/ 2006/944 firms	Logit and OLS regressions	DV: Pay or not pay dividends/ dividend to assets DV: Board independence	A positive association exists between board independence and the propensity to pay dividends.

Table 2.1 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Pucheta-Martínez and López-Zamora (2017)/Spain	How foreign and institutional directorship affects corporate dividend policy/ 2004-2012/947 firms	Logit and OLS regressions	DV: Pay or not pay dividends IV: Female directors	Female directors on the board impact positively on dividends payout policy.
Mehdi, Sahut, and Teulon (2017)/International (Gulf Cooperation Council and Eastern Asian countries)	Do corporate governance and ownership structures impact dividend policy in emerging markets during a financial crisis? / 2003-2011/362 firms.	Generalized method of moments (GMM)	DV: Dividend yield and dividend decision IV: Board size	Board size positively affects the decision to pay dividends.
Afzal and Sehrish (2011)/Pakistan	Ownership structure, board composition and dividend policy in Pakistan/2005-2009/42 firms	Logit and OLS regressions	DV: Pay or not pay dividends/dividend ratio IV: board size	Board size is positively related to the decision to pay dividends.
Pucheta-Martínez and Bel-Oms (2016)/Spain	The board of directors and dividend policy: the effect of gender diversity	Logit and OLS regressions	DV: Pay or not pay dividends/ IV: Female directors	Female directors are positively associated with dividend payout.
McGuinness, Lam and Vieito (2015)/China	Gender and other major board characteristics in China: Explaining corporate dividend policy and governance/ 2000-2008 /9000	Logit and OLS regressions	DV: Pay or not pay dividends/payout IV: CEO tenure	CEO tenure has a strong positive influence on decision to pay cash dividends.

Table 2.1 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Chen, Leung, and Goergen (2016)/United States	The impact of board gender composition on dividend payout/ 1997- 2011/ 1,691 firms.	OLS regression	DV: Dividends payout to net income  IV: Female directors	Female directors on a board positively impact dividend payout among the US firms.
Abor and Fiador (2013)/sub- Saharan Africa	Does corporate governance explain dividend policy in sub-Saharan Africa? 1997- 2006/ 525 firms	OLS regression	DV: Dividend to earnings  IV: Board composition and board size,	Board composition and board size have a significant and positive influence on dividend payout in Kenya and Ghana. However, in Nigeria, the results showed that board composition and board size have a negative effect on dividend payout.
Feng, Ghosh, and Sirmans (2007)/United States	CEO involvement in director selection: Implications for REIT dividend policy/ 1999- 2000/236 firms	OLS regression	DV: Dividend payout  IV: CEO tenure	The study found positive relationship between CEO tenure and dividend payout.
Idris, Ishak and Hassan (2016)/Nigeria	Is there a relationship between board structures and dividend policy: Evidence from Nigeria/267 firms-year observations	Logit regression	DV: Pay or not pay dividends  IV: Board size, board composition board diversity	Board size, board composition and board diversity positively affect dividend decisions in Nigeria.



Table 2.1 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Adjaoud and Ben-Amar (2010)/Canada	Corporate governance and dividend policy: Shareholders' protection or expropriation? 2002-2005/714 firm year observations	Tobit regression	DV: Dividend to net income IV: Board Composition	Board composition has a positive impact on dividend payout.
Yarram and Dollery (2015)/Australia	Corporate governance and financial policies/ 2004-2009/ 413 firms	Logit and generalized least squares (GLS) regressions	DV: Pay dividend not pay and dividend IV: Board size, and board Independence	Board size and board independence positively influence dividend payout in Australia.
Setia-Atmaja, Tanewski, Skully, & Michael (2009)/Australia	The role of dividends, debt and board structure in the governance of family-controlled firms/2000-2005/ 381 firm-year observations	Three-stage least squares (3SLS) regression	DV: Dividend to earnings IV: Board independence	The study found board independence to have a positive impact on dividend payout.
Belden, Fister, and Knapp (2005)/United States	Dividends and directors: Do outsiders reduce agency costs? 1999 and 2001/1,048 firm-year observations.	OLS regression	DV: Dividend payout IV: Board composition	Outside directors on board have a positive influence on dividend payout.
Benjamin, and Mazlina (2015)/Malaysia	Corporate governance and dividends payout: are they substitutes or complementary/ 798 firm-year observations.	OLS and Tobit regressions	DV: Dividend to total assets IV: Board independence	The study showed that board independence has a significant negative effect on dividend payout.

Table 2.1 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Subramaniam, Devi, and Mohammed (2014)/ Malaysia	Growth opportunities and dividend policy: some evidence on the role of ethnicity in an emerging economy/ 2004- 2011/1330 firm year observations	OLS regression	DV: Dividend payout  IV: Board size	The study revealed that board size has a negative influence dividend payout.
Chen, Lin, and Yong-Cheol, (2011)/China	Financial characteristics, corporate governance and the propensity to pay cash dividends of Chinese listed companies/2001 -2007/1056 firms	Probit and Logit regressions	DV: Propensity to pay cash dividends  IV: Board size and board independence	The study found board size and board independence to have a positive effect on propensity to pay cash dividends in A- share firms.
Uwalomwa, Olamide, and Francis, (2015)/Nigeria	The effects of corporate governance mechanisms on firms' dividend payout policy in Nigeria/ 2006- 2011/ 50 firms	OLS regression	DV: Dividend payout  IV: Board size, and board independence	The study documented that board size and independent directors on board have a positive effect on dividend payout.
Roy (2015)/India	Dividend policy, ownership structure and corporate governance: An empirical analysis of Indian firms/ 2007–2012/51 firms	Hierarchical regression	DV: Dividend payout  IV: Board size, independence, non-executive directors	Board size, independent directors and the proportion of non-executive directors on a board have a positive influence on dividend payout policy.

Table 2.1 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Gill, and Obradovich, (2012)/United States	Corporate governance, institutional ownership, and the decision to pay the amount of dividends: Evidence from USA/2009- 2011/296 firms	OLS regression	DV: Dividend payout  IV: Board size	The study reveals that board size has a positive effect on dividend payout.
Chang and Dutta (2012)/Canada	Dividends and corporate governance: Canadian evidence/1997- 2004/584 firm- year observations.	OLS regression	DV: Dividends to total assets  IV: Board size unrelated directors (outside directors)	The study showed that board size has a positive effect on dividend payout. However, unrelated directors (outside directors) have a negative effect on dividend payout.
Alias, Ruzita, Fauzias and Hasimi, (2014)/Malaysia	Board structure, free cash flow and dividend per share is there interaction effect? 2002- 2005/361 firm- year observations	Panel regression	DV: Dividend per share  IV: Board size and board independence	The study showed that board size has a negative impact on dividend payout whereas, independent directors on a board and dividend payout are positively related.



Table 2.1 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Custodio and Metzger, (2014)/United States	Financial expert CEOs: CEO's work experience and firm's financial policies /1993-2007/ 17,716 firm-year observations	OLS, Logit and panel regressions	DV: Dividend payout and pay or not pay dividends IV: CEO Financial expert	The study revealed that a financial expert CEO is positively related to the decision to pay dividends.
Boumosleh (2012)/United States	Firm investment decisions, dividend policy, and director stock options/ 1997-2006/10,419 firm-year observations	Tobit regression	DV: Dividend decision, dividend payout IV; CEO tenure	CEO tenure is negatively related to the decision to pay dividends
Boumosleh and Cline/ (2015) /United States	Outside director stock options and dividend policy/1995-2006/10,489 firm-year observations	Tobit, Logit and OLS regressions	DV: Dividend payout decision IV: CEO tenure, board size and outside directors	The study revealed CEO tenure has a negative effect on dividend payout whereas, board size and outside directors on board have a positive impact on dividend payout.

## 2.7 Ownership Structures

Lazarides, Drimpetas, and Dimitrios (2009) claimed that ownership structures affect both the financial and the non-financial decision making processes and significantly contributes to the managing and mitigating of agency problems (Sun, Ding, Guo, & Li, 2015). The ownership structure could either be concentrated or dispersed



otherwise called diffused. In a concentrated setting, the shares are held in the hands of few individuals with a large control of the firm affairs. The concentrated ownership is very active in the governance of the firm because they have incentives to monitor the management so as to achieve their objectives such as the maximization of shareholders' wealth (La Porta, Lopez-De-Silanes, & Shleifer, 1999). In this regard, the prevailing agency problem may be associated with protecting the minority from any expropriation expected by the majority shareholders (La Porta et al., 1999).

The second category of the ownership structure is dispersed or diffused ownership. In a dispersed set up, Lazarides et al. (2009) posited that shareholders have either limited or no incentive to monitor the managers thus allowing the managers to fully control the firm. This enables managers (agents) to control significantly the affairs of the firms. This situation may give rise to an agency problem, which exists between the owners and the agents. However, the only source of protection for shareholders that is obtainable is through the legal system. If the legal system is weak, this will give rise to a higher degree of expropriating the rights of shareholders in different ways. Therefore, the ownership structure of a firm should not be ignored. This is so because it is among the focal points of corporate governance and determined by the development of the stock market and state regulatory intervention (La Porta, Lopez-De-Silanes, Shleifer, & Vishn, 1998). This study incorporates particular structures of corporate ownership variables that include foreign, managerial and blockholders ownership.

This section discusses the conceptual and empirical evidence on ownership structure variables as they relate to dividend payout policy. These variables are foreign, managerial and blockholders ownership. These variables are selected based on the premise that previous studies such as Adenikinju (2012) and Sanda et al. (2010) have demonstrated their relevance to the Nigerian market. Adenikinju (2012) argued that the structure of ownership of a firm in the country has an important effect on the capability of firms to react to external factors interrupting its performance, thus, influencing other corporate outcomes such as dividend payout. He also added that ownership structure is one of the internal factors that have a direct bearing on the firms. Furthermore, foreign, managerial and blockholders ownership may have significant influence, but have received less attention in the propensity-to-pay dividend literature and in particularly from the Nigerian context (Abdulkadir, 2015; Adenikinju, 2012).

### **2.7.1 Foreign Ownership**

Foreign ownership is seen as the involvement of non-nationals in the ownership structure of a company (Tsegba & Herbert, 2013) and represents the amount of holdings of non-nationals in firms. Foreign ownership according to Yoshikawa and Rasheed (2010) is the ratio of shares held by foreign owners on the total outstanding shares of a firm. These definitions are centered on corporations that seek financial returns and exclude other strategic foreign corporations.

The separation of ownership and control give rise to the necessity for monitoring. Foreign ownership is believed to have the expertise to aid in monitoring insiders

(Abor & Biekpe, 2007). Other benefits such as cost of capital minimization can be sourced from the foreign ownership. Consequently, having larger holdings of foreign ownership is an added advantage to the firm to prosper. The foreign investors may be accompanied with advancements in technology that may likely be transferred to the firm (Pucheta-Martínez & López-Zamora, 2017). Prior literature has highlighted that having foreign investors may reduce agency costs (Jeon et al., 2011).

Foreign ownership can be seen an effective mechanism to complement the current governance structure to monitor the management about non-value maximizing activities (Dahlquist & Robertsson, 2001). Companies with foreign ownership may be more likely to institute better internal control measures relating to auditing (Abor & Biekpe, 2007), to increase profitability and to reduce dividends (Yoshikawa & Rasheed, 2010). Hence, the presence of foreign ownership is important to a firm. Nigerian market like other developing markets has attracted the inflow of foreign investors. The literature surrounding foreign ownership and dividends is centered on how this type of investor influences corporate payout policy given their shareholdings (Abdulkadir et al., 2016).

Yoshikawa and Rasheed (2010) opined that the influence of foreign owners may depend on the type of the firm. In matured and larger firms, foreign investors, may probably require more dividends, and this results in the indirect monitoring of management and information asymmetry (Dahlquist & Robertsson, 2001). Conversely, in some small and growing firms such as Over-The-Counter (OTC) firms, the motives may change and the preference is for capital growth thus, indicating a negative relationship with dividends. Ferreira, Massa, and Matos (2010)

contended that factors such as repatriating dividend income, transaction costs for reinvesting the dividends, and taxation treatment may have an effect on foreign owners, thus, influencing dividend payout.

The relationship between foreign ownership and dividend policy has been found to be mixed in the literature. Some studies have reported a positive association with dividends, while others have documented either an inverse or no significant relationship. For example, Yoshikawa, and Hashimoto (2005) found a positive relationship between foreign ownership and dividend payout, therefore, showing support for the preference of foreign owners for dividends over capital growth in the Japanese manufacturing firms. In this regard, Baba (2009) argued that the significant inflow of foreign investors into the Japanese firms arises from the need to obtain a higher level of dividends and the enhancement of management performance with a view to increase their return on equity. Consistent with their hypothesis, the study reported that an increase in foreign ownership was significantly associated with a higher likelihood of dividend payout. The study suggested that, because of the greater information asymmetry foreign investor may face, a greater tendency exists for them to pressure management to pay dividends, thus, supporting the agency theory.

Similarly, Ullah et al. (2012) examined the ownership structures of Pakistani firms. They showed that a strong positive association between foreign ownership and dividend policy prevailed among Pakistani companies. Along this line, Jeon, Lee, and Moffett (2011) and Warrad, Abed, Khriasat, and Al-Sheikh (2012) also found a positive correlation between foreign ownership and dividends payout policy in the

Jordanian and the Korean markets respectively. Jeon et al. (2011) posited that foreign owners may influence higher payout because of institutional charters, embedded restrictions under the prudent-man rule or tax advantage considerations. Consistent with the monitoring hypothesis, Jeon and Ryoo (2013) argued that the foreign owners are likely to influence the payout of more dividends through their representation on board particularly when it is an independent director. In agreement with the monitoring role, foreign shareholders could exact pressure on firm management to disgorge free cash flow because of a fear of empire building by the management (Jensen, 1986). Min and Bowman (2015) supported the effective monitoring role of foreign investors. They found that an increase in the ratio of foreign ownership was attributed to the enhancement of firms' corporate governance. Dahlquist and Robertsson (2001) in their analysis found that foreign investors prefer firms paying lower dividends specifically when the firms are large and hold large amounts of cash. The preference for lower dividends by foreign investors is likely to be associated with tax advantage. Foreign investors are rational and are expected to consider the trade-off between capital gains and dividends because the level of taxation on dividend varies in many countries.

Empirical evidence on the association between foreign ownership and dividend payout have been reported to be inversely related. Lam et al. (2012) hypothesized that cross-listed firms having foreign ownership may be likely to exhibit this peculiar feature. In support of their hypothesis, the study showed foreign ownership has a negative and significant impact on cash dividends while suggesting that foreign ownership may play a significant role in addressing problems related to agency type

two problems (majority-minority related agency problems). However, Lin and Shiu (2003) documented that foreign investors prefer companies that exhibit a higher export ratio and low profitability, lower dividend yield and growth due to the asymmetry of information, and foreign investors enhance monitoring thereby reducing the tendency of a family to expropriate the rights and wealth of other shareholders (Yoshikawa & Rasheed, 2010).

In contrast, Sulong and Nor (2008) suggested that foreign investors are passive with regards to monitoring in the Malaysian context and, therefore, may not act as a control mechanism for agency problems. From the Chinese market, Thanatawee (2014) concluded that foreign investors and dividend policy were negatively associated and were detrimental to non-foreign shareholders' wealth because their presence may reduce the magnitude of dividends expected by shareholders.

Moreover, the decision of whether to pay dividend or not to pay has been linked to foreign ownership. Recently, Abdulkadir et al. (2016) reported that foreign owners influenced dividend decisions negatively when the foreigners control a substantial number of holdings for firms listed in the NSE. The results indicate that foreign investors in Nigeria have less preference for dividends. The finding may be driven by factors that are likely to influence foreign owners' preferences for dividends that may include less advantage with regards to the transaction costs of repatriating the dividend income and taxation. Hence, the result is consistent with the findings of Ferreira et al. (2010) that foreign investors show their preferences for lower dividends.

### **2.7.2 Managerial Ownership**

Managerial ownership refers to the fraction of interest held by executive directors and the managers who do not form part of the board (Short, Zhang, & Keasey, 2002). This kind of ownership that tends to alleviate agency problems, which are common among firms (Florackis et al., 2015). This implies that the managers may pursue investments that will add value to the shareholders' funds. Studies have shown that a substantial level of managerial stake in the firm may go a long way to align with the interests of the outside owners (Al-Gharaibeh, Zurigat, & Al-Harabsheh, 2013). The result implies that managers may be fully engaged in advancing policies that are beneficial to all shareholders of the firm.

Managerial ownership is used interchangeably with insider ownership and directors holdings among others (Farinha, 2003; Francis et al., 2011; Sanda et al., 2010; Short et al., 2002). However, for this study, managerial ownership is referred to as the stake controlled by executive directors on the board. The existing literature on ownership structures and dividend policy is tilted towards how dimensions such as managerial ownership affect decision to pay dividend.

Dividend policy is among the techniques that provide control in a firm against potential agency problems. The probability of the managers owning a stake in a company may portray the likelihood of alleviating agency problems (Jensen & Meckling, 1976). The argument is that, because the managers form part of the shareholders, they may not go against the interests of other shareholders by wasting the accumulated cash. This is because such an act may not be at the expense of

merely a given group of shareholders but all the firm's shareholders. Therefore, it could be assumed that managerial owners influence corporate dividend payout.

The arguments on the relationship between managerial ownership and dividend payout are based on a monitoring effect. Quite many studies have debated the appropriate sign between dividend policy and shares held by managers. The monitoring hypothesis suggests that managerial ownership and dividend policy are inversely related (Jensen, Solberg, & Zorn, 1992; Manos, 2003; Short et al., 2002). They viewed the negative sign as an indication that managers are likely to pursue projects that maximize shareholder value.

Agency theory emphasizes the importance of managerial shareholding as a control mechanism that aligns the interests of parties of a firm, which are the principal and the agent (Jensen & Meckling, 1976). Goergen, Renneboog, and Correia da Silva (2005) argued that, as the managerial shareholding increases, the benefits of other monitoring tool may diminish the need for paying dividends as a control tool. However, a decrease in managerial shares may give rise to agency costs (Rozeff, 1982). In this regard, dividend payout could be used as a control mechanism that can subject the managers to capital market monitoring (Short et al., 2002), thus, supporting an inverse relationship between managerial ownership and dividend policy. Other studies have argued that the relationship between managerial ownership dividends may be positive (De Cesari & Ozkan, 2014; Gedajlovic et al., 2005; Kim, Rhim, & Friesner, 2007; Renneboog & Trojanowski, 2011). They noted managers who are directors on the board may influence a higher payout because of



liquidity and diversification and may not pursue investment projects that are not in line with the interests of shareholders.

A dividend is a medium used as a monitoring tool by firm owners or as a medium that the managers use to enhance their welfare. Short et al. (2002) in their study revealed a negative link between dividend payout and managerial ownership and contended that a dividend serves as a monitoring tool. Farinha (2003), Karathanassis and Chrysanthopoulou (2005), and Chen et al. (2005) also reported a negative association in that firms with higher managerial ownership pay lower dividends. These findings confirmed the assertion of agency theory that suggested dividend payout as control mechanism. Using the costs minimization model of Rozeff, (1982) and consistent with the monitoring hypothesis, Manos (2003) also found an inverse relationship between insider ownership and dividends and suggested that bonding the managers with shares may help align their interests with those of outside owners.

Evidence from the Nigerian market indicates that managerial shares are inversely related to dividend payout (Dandago, Farouk, & Muhibudeen, 2015; Miko & Kamardin, 2015). The studies found evidence confirming the results of previous studies that managerial ownership of the listed firms in Nigeria was negatively related to dividend payout. These findings alluded to the substitutability of managerial ownership and dividend policy particularly in the manufacturing sectors and among larger firms. The results, thus, are in agreement with the findings of Farinha (2003) and Florackis et al. (2015) regarding the alignment effect of managerial shareholdings from the United Kingdom and the United States respectively. Additionally, other studies that have found a negative relationship with

managerial shareholding include Indonesia (Rizqia & Aisjah, 2013) Jordan (Al-Amarneh & Yaseen, 2014), and Pakistan (Ullah et al., 2012).

However, Kumar (2006) examined companies in India using the panel data approach over the period of 1994-2000. The hypotheses of the study were tested using five different sets of models and showed that directors' ownership was significant and positively correlated to dividends in the first place but subsequently changed to negative when the variable is squared. Thus, a U-shaped relationship was documented. This finding provides evidence on the entrenchment effect, which relates with the tendency to aligning with the shareholders' interest at a certain level and then extracting benefits as the managerial holdings increases. The findings contradicted the evidence documented in Farinha (2003) and Florackis et al. (2015) who revealed a U-shaped relationship from negative to positive. Thus, they concluded that dividend is used by managers to maximize their welfare.

Kim et al. (2007) documented a positive and significant association between dividend and managerial holdings. The evidence is in line with the managerial entrenchment argument, which posited that managers entrenched themselves by paying a higher dividend. The results is also in line with Jo and Pan (2009) who documented that entrenched managers resulted in a higher dividend payout. Furthermore, Huda and Abdullah (2014) also demonstrated that, when the shares of the director's ownership increased dividends per share may also increase. The study used a hierarchical OLS regression model for the analysis and showed that director's ownership was positively related to dividends per share.

Gedajlovic, Yoshikawa, and Hashimoto (2005) asserted that the positive association between managerial shares and dividends payout was the result of the insider owners who had an interest in residual income that may compel them to favour a more cash dividend policy. Vo and Nguyen (2014) also showed that managerial ownership and dividends are positively related and claimed that, when managers are exposed to risk due to debt, it is likely that they may compensate for the risk by influencing financial policies such as dividends through acquiring more shares in the firms. Likewise, Renneboog and Trojanowski, (2011) found that, when executive directors hold large stake, they tend to exert more influence on the propensity to pay dividends. Evidence from the Europe revealed that shares held by executive directors were positively related to likelihood of paying dividends (De Cesari & Ozkan, 2014). The result indicated that executive shareholdings affect payout policies of firms and, hence, play a greater role in aligning the interests of managers and owners of the firm. Therefore, this leads to an increase in the likelihood of paying dividends, which is consistent with agency theory.

However, other studies such as Mehrani, Moradi, and Eskandar (2011) found no evidence with regards to managerial ownership and dividend policy from the Tehran stock exchange. The results may not be surprising because the percentage holdings of managerial ownership are relatively very low and, in some instances, it tends to be zero. Therefore, this uniqueness may provide an insight into the insignificance of the results. Another possible reason may be related to methodological issues. The study employed models (Fama & Babiak, 1968; Lintner, 1956; Waud, 1966) developed in the United States where agency conflicts are prevalent. Similarly, Gedajlovic et al.

(2005) also found an insignificant association between insider ownership and dividend payout among Japanese firms. Contrarily, Chen et al., (2005) found evidence from the Hong Kong stock exchange market that a negative association exists between managerial ownership and dividend payout. Similar evidence has been revealed by Afza and Mirza (2010) and Jensen et al. (1992) among United States and Pakistani firms.

### 2.7.3 Summary of Literature Review on Ownership Structures

Table 2.2 provides a summary of empirical studies that have investigated the relationship between ownership structures and dividend policy.

Table 2.2  
*Summary of the Literature Review on Ownership Structures*

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
De Cesari, and Ozkan (2014)/European countries (United Kingdom, German, France, Italy, the Netherlands, and Spain)	Executive incentives and payout policy: Empirical evidence from Europe/2002-2009/1650 firms	Logit and OLS regressions	DV: Pay or not pay dividends/ dividend yield  IV: Executive shareholdings	The study shows that executives shareholdings increase the likelihood of a dividend payout.
Al-Najjar and Kilincarslan (2016)/Turkey	The effect of ownership structure on dividend policy: evidence from Turkey/2003-2012/264 firms	Logit and Tobit regressions	DV: Pay or not pay dividend,  IV: Foreign ownership	Foreign ownership has a negative association with the likelihood of paying dividends among Turkish firms.

Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Jeon, Lee, and Moffett (2011)/Korea	Effects of foreign ownership on payout policy: Evidence from the Korean market/1994- 2004/5,583 firm-year obs.	Multinomial logit regressions	DV: Pay or not pay dividend  IV: Foreign ownership	Foreign shareholders have positive effect on  decision to pay cash dividends in Korea.
Baba (2009)/Japan	Increased presence of foreign investors and dividend policy of Japanese firms/ 1997- 2005/847 firms	Probit regression	DV: Pay or not pay dividend  IV: Foreign ownership	Foreign ownership has significant positive impact on probability of dividend payout.
Francis, Hasan, John, and Song (2011) /United States	Corporate governance and dividend payout policy: A test using antitakeover legislation/ 1981-1993/ 11,473 observations	Logit and OLS regressions	DV: Pay or not pay dividend dividends to Assets  IV: Managerial ownership	The study found managerial ownership to have a significant negative effect on dividend payout decisions among US firms.
Ullah, Fida, Khan (2012)/Pakistan	The impact of ownership structure on dividend policy evidence from emerging markets KSE- 100 index Pakistan/ 2003 to 2010/70 firms	Stepwise multiple regression	DV: Dividend payout ratio  IV: Managerial ownerships, foreign ownership	Managerial ownership has a significant and negative effect on dividends policy and foreign shareholders ownership has significant and positive influence on dividends payout ratio in Pakistan.

Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Short, Zhang and Keasey (2002)/United Kingdom	The link between dividend policy and institutional ownership/1988 to 1992/ 211 firms	Generalised least squares (GLS) regression	DV: Dividends payout ratio IV: Managerial ownership	The results show that managerial ownership has a negative impact dividend payout.
Al-Gharaibeh, Zurigat and Al-Harashsheh (2013)/ Jordan	The effect of ownership structures on dividends policy in Jordanian companies/2005-2010/35 firms	OLS regression	DV: Dividends payout ratio IV: Managerial ownership	Managerial ownership has a significant and negative effect on dividend payout ratio.
Miko and Kamardin (2015)/Nigeria	Ownership structure and dividend policy of conglomerate firms in Nigeria /2001-2010/18 firms	OLS regression	DV: Dividends payout ratio IV: Blockholders and managerial ownership	The study revealed that blockholders in the firms are positively related to dividend payout, whereas, managerial ownership has a negative influence dividend payout among the conglomerate firms in Nigeria.
Fairchild, Guney and Thanatawee (2013)/ Thailand	Corporate dividend policy in Thailand: Theory and evidence/1996-2009/287 firms	Logit regression	DV: change in dividend IV: Foreign investors	The finding shows that foreign investors increase dividend payout in Thailand.

Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Kumar (2006)/ India	Corporate governance and dividends payout in India/ 1994– 2000/2,575 firms	Panel regressions	DV: Dividend intensity  IV: Managerial shareholding	The evidence indicated that directors' ownership has positive effect on dividends payout.
Kim, Rhim and Friesner (2007)/South Korea	Interrelationships among capital structure, dividends, and ownership: Evidence from South Korea/ 1997-2002/102 firms	OLS regression	DV: Dividend payout  IV: Insider ownership	The study found dividend payout to be positive and strongly correlated with insider ownership among the South Korean firms
Farinha, (2003)/United Kingdom	Dividend policy, corporate governance and the managerial entrenchment hypothesis: An empirical analysis/1991- 1996/693 firms	OLS regression	DV: Dividend payout  IV: Insider ownership	The study revealed a positive correlation between dividend and insider ownership.
Florackis, Kanas and Kostakis, (2015)/United States	Dividend policy, managerial ownership and debt financing: A non- parametric perspective/200 1 to 2007/ 7376 firm-year observations	Penalized Regression	DV: Dividend to total assets  IV: Managerial ownership	The study indicated a relationship between dividend payout and managerial ownership.

Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Manos, (2003)/India	Dividend policy and agency theory: evidence on Indian firms/1994-1998/ 882 firm-year observations.	OLS regression	DV: Dividend payout IV: Insider, and foreign ownerships	The results showed that insider ownership has a significant and negative effect on dividend payout, whereas, foreign ownership and dividend payout among Indian firms are positively related.
Gedajlovic, Yoshikawa, and Hashimoto (2005)/ Japan	Ownership structure, investment behaviour and firm performance in Japanese manufacturing industries/1996–1998/247 firms.	Generalized least square (GLS) regression	DV: Dividend payout IV: Foreign investors	The study showed that dividend payout is positively associated with foreign shareholders.
Uwalomwa Uwuigbe Olamide Olusanmi and Francis, Iyoha 2015/Nigeria	The effects of corporate governance mechanisms on firms' dividend payout policy in Nigeria/ 2006-2011/50 firms	OLS regression	DV: Dividend payout IV: Directors' shareholdings	The study documented that directors' shareholdings have positive effect on dividend payout.
Warrad, Abed, Khriasat and Al- Sheikh (2012)/Jordan	The effect of ownership structure on dividend payout policy: evidence from Jordanian context/ 2005-2007/168 firm-year observations.	OLS regression	DV: Dividend policy IV: Foreign ownership	The findings support a positive relationship between foreign ownership and dividends payout.



Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Jeon and Ryoo (2013)/Korea	How do foreign investors affect corporate policy? Evidence from Korea/ 1998-2006/ 4936 firm-year observations.	Logit and Probit regressions	DV: Change in dividend payout IV: Foreign ownership	The evidence shows that foreign shareholders impact positively on change in dividend payout.
Lam, Sami and Zhou (2012)/China	The role of cross-listing, foreign ownership and state ownership in dividend policy in an emerging market/1995-2000/7519 firm-year observations.	OLS and Tobit regressions	DV: Dividend payout IV: Foreign investors	The result indicated that foreign investors have a negative effect dividend payout.
Thanatawee, (2014)/ China	Ownership structure and dividend policy: evidence from China/2007–2011/3,500 firm-year observations.	Logit regression analysis	DV: Dividend payout IV: Foreign investors	The study revealed a negative association between foreign investors and dividend payout.
Renneboog and Trojanowski (2011)/United Kingdom	Patterns in payout policy and payout channel choice/ 1992–2004/985 firm-year observations.	Multinomial logit and probit regressions	DV: Dividend payout IV: Executive ownership	The evidence showed that executive directors shareholdings have a positive effect on the decision to pay dividends.

Table 2.2 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Rozeff (1982)/United States	Growth, beta and agency costs as determinants of dividend payout ratios/1974- 1980/1,000 firms	OLS regression	DV: dividend payout  IV: Insider shareholding	The study showed a negative relationship between insider ownership and dividend policy.
Jensen, Solberg and Zorn, (1992)/United States	Simultaneous determination of insider ownership, debt, and dividend policies/1982 and 1987/565 firms	OLS regression	DV: Dividend  IV: Insider ownership	The study found that insider ownership has a negative effect on dividend payout.
Rizqia and Aisjah (2013)/Indonesi a	Effect of managerial ownership, financial leverage, profitability, firm size, and investment opportunity on dividend policy and firm value/2006- 2011/15 firms.	OLS Regression	DV: Dividend payout  IV: Managerial ownership	Managerial ownership has a negative effect on dividend payout.
Hamill and Al- Shattarat (2012)/Jordan	What determines the dividend payout ratio for Jordanian industrial firms? / 1996-2002/ 329 firms-year observations	OLS, panel and Tobit regressions	DV: dividend payout  IV: Insider ownership	The result showed that insider ownership affects dividend payout negatively.

Table 2.2 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Abdulkadir, Abdullah, and Wong (2016)/Nigeria	Dividend payment behaviour and its determinants: The Nigerian evidence/ 2003– 2012/1048 firm- year observations	OLS and Panel logit regression	DV: pay or not pay dividend	The results showed that foreign ownership has significant negative effect of decision to pay dividends
Miko and Kamardin (2015)/Nigeria	Ownership structure and dividend policy of conglomerate firms in Nigeria /2001-2010/ 8 firms	OLS regression	DV: Dividend per share IV: Managerial ownership	The results showed that managerial ownership has negative effect on dividend payout

## 2.8 Blockholders Ownership

Blockholder ownership is also another variable of importance in the structure of firm ownership, and, specifically, a controlling shareholder is considered to be a key among a group of investors (Faccio, Lang, & Young, 2001). The current study considers blockholders as shares held by owners of firm comprise 5% and more, and the owners could be a corporate body or individual investors. The benchmark of 5% aligns with the corporate law in Nigeria that requires firms to disclose the ownership of any individual holding at least 5%. Similarly, the study focuses on blockholders because their coalition (alliance) may have influence on the corporate governance practices in Nigeria.

Blockholders and ownership concentration has been used in the literature interchangeably. The use of the two terms, therefore, common in the literature (Thomsen, Pedersen, & Kvist, 2006). Block ownership has been linked to various firm attributes to gain more of an understanding as to how block ownership impacts on firms. For example, block ownership may improve performance (Gugler, Mueller, & Yurtoglu, 2008), mitigate agency conflicts (Setia-Atmaja, 2009), facilitate third party take overs, influence share valuation (Shleifer & Vishny, 1986), enhance monitoring and affect dividend policy (Fairchild, Guney, & Thanatawee, 2013).

Bozec and Bozec (2007) contended that block ownership places authority in the hands of leading shareholders that will translate into superior monitoring and reduce other forms of corporate controls that are likely to be instituted. Setia-Atmaja (2009) claimed that dividends function as a tool to alleviate agency conflicts between large controlling shareholders and minority. Similarly, dividends may also resolve conflicts of interest that may arise between owners and managers by limiting the amount of free cash flow (Jensen, 1986).

The statute regarding blockholders ownership in Nigeria describes any individual or corporate that directly or indirectly acquires 5% or more shares of a firm to be classified as a blockholder. The ownership structures of Nigerian firms are mostly blockholding with control in the hands of few individuals (Arowolo & Che-Ahmad, 2017; Sanda et al., 2010). On the average, the degree of blockholders ownership is about 32.46% of equity holdings. Therefore, the expectation is that blockholders are likely to play a critical role by either controlling or exacerbating agency problems. Along this line, Ahunwan (2002) argued that in market such as Nigeria, a high

tendency for agency problems exists. Sanda et al. (2010) reported a non-linear association when they studied blockholders and the performance of Nigerian firms.

Fairchild et al. (2013) posited that block ownership may provide a monitoring role in a firm. In this regard, the study suggested a positive association between block owners and dividend policy. However, Renneboog and Trojanowski (2011) in their study contended that blockholders may reduce a firm's dividend payout as they are engaged in controlling the managers. This argument is also in line with the studies such as Desender et al. (2013) and Goergen et al. (2005) that direct monitoring exists from controlling shareholders, and other existing monitoring mechanisms may, therefore, be reduced. This indicates that the role of dividends as a control tool may tend to be reduced.

Examining the effect of blockholders Chen et al. (2005) provided an insight into the association of blockholders ownership and its effect on dividend policy of listed firms on the Hong Kong market. The study claimed that in small businesses a significant and negative relationship prevailed between dividend payout and family ownership controlling up to 10% of a company's shares. The evidence suggested that family-controlled firms may extract resources using dividends as they are less monitored. Furthermore, the study found a positive effect for family blockholders with holdings between 10% and 35%. The study concluded that the non-linearity on the relationship might be an explanation for cash preference.

In this line, Lam et al. (2012) measured blockholders as the ratio of shares owned by the top 10 shareholders to examine their effect on cash dividends using data from

Chinese companies. The study established a significant and positive correlation between blockholders and dividend payout. The finding was confirmed from the evidence advanced by Fairchild et al. (2013) and Thanatawee (2014) that blockholder ownership is positively associated with dividend payout. The study further suggested that cash dividends are likely to be prevalent in closely held firms. From Malaysian settings, Ramli (2010) uncovered that a firm's dividend increases as the holdings of the largest shareholder increase. The explanation for the increase in the payout was related to the monitoring role of block holders. The finding is in accord with Fairchild et al. (2013) that large shareholders have incentive to monitor management and pay higher dividends.

To further understand the relationship of dividends and blockholders some cross-border evidence has been revealed. Truong and Heaney (2007) examined the association of the largest shareholder and dividend policy using data from 37 economies around the world. The study revealed that blockholding is associated with paying more corporate dividends. Additionally, they reported that, when the largest shareholder is a financial institution the level of the dividend tends to be higher as opposed to when an insider has the largest shareholding in a firm.

However, the shareholding of the largest shareholder was negatively linked to dividend payout at relatively low levels of holdings. The finding is in line with the traditional agency theory that ownership and dividends are substitute mechanisms for monitoring managers. The evidence of Grinstein and Michaely (2005) regarding the role of block shareholding and La Porta et al. (2000) also suggests that the legal system plays a major role in dividend determination. Although some evidence has

shown a positive effect of blockholders on dividend payout ranging from individual countries to international evidence, other authors have revealed either a negative or no relationship.

For example, using a sample of Japanese companies Harada and Nguyen (2011) investigated blockholders and dividend policy. They showed that blockholder ownership was negatively related to dividends and thus, in line with their prediction. Likewise, Khan, (2006) from the United Kingdom market had similar results. The findings from these studies support the view that blockholders serve as a substitute for dividends. Gugler and Yurtoglu (2003) found the stakes of the largest owner were associated with a decrease in dividends, while the second largest shareholder was associated with an increase in dividend payout. This evidence connoted the level of severity of agency problems relating to majority-minority conflicts. Similar evidence was also provided by Maury and Pajuste (2002) on the effect of concentrated ownership on dividend policy from Finland. The study indicated that the dividend payout ratio is negatively related to the control stake of the controlling shareholders. They concluded that the benefits enjoyed by these shareholders, which are not shared with minority shareholders, serve as an incentive to act in this manner.

At times, corporate control is achievable indirectly through a pyramid or ultimate ownership among others. In this situation, the controlling shareholders may impose some of their thoughts on a firm, and this imposition will affect all corporate decisions. The study of Renneboog and Trojanowski (2007) found a negative association between dividend decisions and blockholdings. The study argued that a negative relationship is due to a pool of blockholders and that a blockholder prefers

firm to be more liquid instead of distributing cash dividends. The study also noted that, when the company is liquid, it be likely to undertake good and qualitative investment decisions. The finding agreed with the previous evidence of Mancinelli and Ozkan (2006) who studied the association between dividend policy and ownership structure based on the rent extraction argument in Italy. The study highlighted that, because the largest shareholders derive some personal benefits from the firm, they are less likely to pay dividends. This indicates that the largest shareholders in Italian firms favored lower dividend payout.

Furthermore, Renneboog and Trojanowski (2011) also revealed a negative and statistically significant relationship between blockholders and the likelihood to pay dividends. In more recent evidence, Liljeblom and Maury (2016) and Mehdi, Sahut, and Teulon (2017) found a negative association between propensity to pay dividends and blockholder ownership. The studies suggest that the negative findings may be because of lower agency costs. Chang, Kang, and Li (2016) suggested that the heterogeneity of the blockholders may be the main factor that drives the negative association. Blockholders may have different incentives and vary in their trading and monitoring. They added that blockholders may not use dividends to monitor a firm with a view to mitigating agency conflicts when other strong monitoring mechanisms are present in the firm. From the above studies, the deduction can be made that block ownership is a vital tool to mitigate the free riding problem and, in turn, to alleviate agency conflicts.

However, some have found no relationship. For example, Naceur, Gaied, and Belanes (2006) found no evidence for a relationship between dividends and



blockholders. The finding negated the evidence advanced by other studies such as Faccio et al. (2001), Khan (2006) and Maury and Pajuste (2002) that found an inverse relationship between dividend and ownership structures.

### **2.8.1 Moderating Role of Blockholders Ownership**

Various agency models have shown that dividend payout is associated with the reduction or mitigation of agency conflicts between shareholders and the management. Basically, dividends payment may reduce the excess amount of free cash flow that is available to the managers (Jensen, 1986). As Easterbrook (1984) and Rozeff (1982) noted, the payment of dividends may subject firms to market scrutiny and monitoring particularly when it requires funds to finance its investment projects. Based on these facts, dividend payment is costly because it is associated with transaction costs for raising new capital or on the basis that dividends are tax-inefficient for investors who pay tax or investors with a higher tax bracket.

Moreover, Khan (2006) noted that agency models portray dividends as a substitute for the direct monitoring of managers by the owners in circumstances where the owners' monitoring is insufficient to address the prevailing agency problems. Reddy and Locke (2014) asserted that when the ownership structure of firms constitutes shareholders who are good monitors and are willing to do so, dividends may not be required for monitoring role. In this regard, firms may be less likely to pay dividend. On the other hand, where these shareholders are reluctant or found it costly to monitor managers or the block owners lack the monitoring skills, a higher dividend

payout may be needed to ensure the alignment of interests between shareholders and managers. Therefore, increasing the likelihood of paying dividends.

Nonetheless, corporate shareholders are important in mitigating agency problems and, hence, in governance settings. Bebchuk and Hamdani (2009) affirmed that measures put in place for protecting outside investors without considering a controlling shareholder may be inappropriate or even destructive to firms when controlling shareholders prevails. Hence, blockholder ownership is important in the firm as several corporate governance mechanisms will be irrelevant if they are ignored. La Porta et al. (2000) suggested that legal settings (a combination of laws and their enforcements) that provide strong protection to investors (shareholders and creditors) enables them to exact pressure on management to disgorge more cash. However, in countries with weak investor protection, block shareholders may play a vital role in alleviating agency costs by forcing management to distribute available cash in the firm that may not be required for investing activities (Truong & Heaney, 2007).

However, Setia-Atmaja (2009) contended that blockholdings can either be a mechanism either for controlling or for aggravating agency conflicts. The largest shareholders act as a mechanism for monitoring managers in the sense that they exact pressures on the management to pursue goals, which maximize shareholders' value (Abdulmalik & Che-Ahmad, 2016; Arowolo & Che-Ahmad, 2017). In carrying out this task, the owners are likely to be provided a lower level of dividends because sufficient control mechanisms exist in the firm (Mancinelli & Ozkan, 2006).

Consequently, blockholders present in a firm have an impact on the governance structures of firms. This is because their stake in the firm may provide them with greater incentives to monitor because they may collect more information (Setia-Atmaja, 2009). Similarly, expropriation may likely be too costly considering the blockholders reputation. In an attempt to protect their reputations, in the presence of any dealings that may undermine or endanger their reputational status, blockholders may tend to abstain from those dealings, for example, expropriating minority interests as Truong and Heaney (2007) discussed, although some studies have indicated that blockholders may expropriate the interests of other shareholders in the firm through dividends (Chen, Firth, & Xu, 2009; Fairchild et al., 2013; Lv, Li, & Gao, 2012). However, this is unlikely to occur when their wealth and reputation is considered. This is because the blockholders' wealth may be adversely affected as an outcome of the expropriation, which may lead to a decrease in firm value (Claessens, Djankov, Fan, & Lang, 2002; Truong & Heaney, 2007).

Drawing from these arguments, the study used blockholders ownership to moderate the relationship between the board characteristics and the propensity to pay dividends. In line with this, Setia-Atmaja (2009) found negative and significant evidence of the moderating effect of blockholders on the relationship between independent directors and firm value. The result implies that blockholders have a greater incentive to monitor management, and this is likely substitute for role of independent directors in monitoring.

Blockholders have a greater incentive to monitor management, which, in turn, leads to the tendency for using dividends as a monitoring mechanism consistent with

agency theory. In countries with weak legal protection the largest shareholders may offer an important control mechanism through their voting power to pressure managers to distribute excess cash. This action, in turn, alleviates potential agency problems (Truong & Heaney, 2007). Furthermore, dividend payout increases when the holdings of the blockholders increase (Gugler & Yurtoglu, 2003).

The legal framework of Nigeria emanated from the United Kingdom like other British colonies and is expected to be strong because the legal system is based on common law as compared to civil law. La Porta et al. (2000) claimed that a strong legal regime with a combination of laws can protect investors. Therefore, it is possible to employ blockholders as a moderator and tested this relationship in the Nigerian context.

Consequently, because of the interests blockholders have in firms, it is expected that they will actively participate in monitoring the managers in the Nigerian market. This could be done through ensuring flow of important information exchange from managers to directors on board that can enhance monitoring and strategic advice. Furthermore, blockholders might maintain strong relationship with directors on board directly or through their representatives on boards (for example, female directors and financial expertise), thus provides additional avenues for obtaining the necessary information on the firms. Thus, these directors may work together for the enhancement of corporate monitoring and the reduction of agency conflict.

## 2.8.2 Summary of the Literature Review on Blockholders Ownership

Table 2.3 provides summary of empirical studies that have investigated blockholders ownership and dividend policy.

Table 2.3  
*Summary of the Literature Review on Blockholders Ownership*

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Al-Ajmi and Hussain (2011)/Saudi Arabia	Corporate dividends decisions: evidence from Saudi Arabia/1990-2006/54 firms	Logit regression	DV: Pay or not pay dividends IV: Blockholders ownership	The decision to pay dividends is positively related to blockholders ownership.
Chang, Kang, and Li (2016)/United States	Effect of institutional ownership on dividends: An agency-theory-based analysis/1995-2009/ 31,139 firms-year observations	Logit and OLS regressions	DV: Pay or not pay dividend/ dividends payout IV: Blockholders ownership	Blockholder ownership influences the decision to pay dividends negatively
Liljeblom and Maury (2016)/Russia	Shareholder protection, ownership, and dividends: Russian evidence/1998-2003/ 437 firm-year observations.	Probit and Tobit regressions	DV: Pay or not pay dividends/ dividends to sales IV: Blockholders ownership	Blockholders ownership has a negative effect on the decision to pay dividends.

Table 2.3 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Afzal and Sehrish (2011)/Pakistan	Ownership Structure, Board Composition and Dividend Policy in Pakistan/2005- 2009/42 firms	Logit and OLS regressions	DV: Pay or not pay dividends/ dividend ratio  IV: Institutional blockholders ownership	Institutional blockholders ownership is negatively related to decision to pay dividends.
Truong and Heaney (2007)/ 37 countries (International study)	Largest shareholder and dividend policy around the world/2004/8,27 9 firm-year observations	Logit regression	DV: Pay or not pay dividends  IV: Blockholders ownership	Firms with outside blockholders ownership are more likely to pay dividends.
Harada & Nguyen, (2011)/Japan	blockholders and dividend policy in Japan/1995- 2007/14,155 firm-year observations	OLS and Tobit regressions	DV: Dividends to operating income  IV: Block ownership	The study found strong evidence that block ownership decreases dividend payout in Japan.
Renneboog and Trojanowski (2011)/United Kingdom	Patterns in payout policy and payout channel choice/1992- 2004/985 firms	Multinomial Probit regressions	DV: Decision to pay dividends, dividend payout  IV: Blockholders ownership (industrial and commercial firms)	Ownership of blockholders (industrial and commercial firms) and decision to pay dividends are negatively associated.

Table 2.3 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Mehdi, Sahut, and Teulon (2017)/ GCC Countries	Do corporate governance and ownership structure impact dividend policy in emerging market during financial crisis?/2003- 2011/362 firms	Generalized method of moments (GMM) regression	DV: Dividend yield and dividend decision IV: block ownership	Block ownership have negative effect on the decision to pay dividends.
Daradkah and Ajlouni (2013)/ Jordan	The effect of corporate governance on bank's dividend policy: Evidence from Jordan/ 2001- 2009/16 firms	OLS regression	DV: Dividend payout ratio IV: Block ownership	The study revealed that block ownership has a positive impact on dividend payout.
Hu and Kumar (2004)/United States	Managerial entrenchment and payout policy/ 1992- 2000/2,081 firms	Logit, OLS regressions	DV: Decision to pay dividends, dividend yield IV: Blockholder ownership	The study documented positive association between blockholder ownership and decision to pay dividends.
Abdelsalam, El- Masry and Elsegini (2008)/Egypt	Board composition, ownership structure and dividend policies in an emerging market/2003- 2005/50 firms	Binary logistic regression	DV: Pay or not to pay dividends, dividend yield IV: Block ownership (Government)	The study suggested that block ownership (Government) positive effect on decision to pay dividends.

Table 2.3 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Fairchild, Guney and Thanatawee (2013)/Thailand	Corporate dividend policy in Thailand: Theory and evidence/ 1996- 2009/287 firms	Logit regression	DV: Change in dividend payout (increase or decrease in dividend)  IV: Block ownership	Block ownership has positive impact on dividend payout.
Farinah, (2003)/ United Kingdom	Dividend policy, corporate governance and the managerial entrenchment hypothesis: An empirical analysis/1991- 1996/693 firms	OLS regression	DV: Dividend payout ratio  IV: Institutional block ownership	Institutional blockholders ownership have positive influence on dividend payout.
Thanatawee, (2014)/China	Ownership structure and dividend policy: evidence from China/2007– 2011/ 3,500 observations	Logit regression	DV: Decision to pay dividend, dividend to earnings per share  IV: Block ownership	The study documented a positive association between block ownership and the decision to pay dividends
Mancinelli and Ozkan (2006)/Italy	Ownership structure and dividend policy: Evidence from Italian firms/2001/139 firms	Tobit and Logit regressions	DV: Dividend payout, pay or not pay divided  IV: Large shareholder; coalition of large shareholders	Largest shareholder is negatively related to dividend payout; the coalition largest shareholders has a positive influence on dividend payout.



Table 2.3 (Continued)

Author/year/ place	Title/period/ observations	Methods	Variables	Findings
Khan, (2006)/United Kingdom	Company Dividends and Ownership Structure: Evidence from UK Panel Data/1985– 1997/330	Generalised Method of Moments (GMM) regression	DV: Dividend to net income  IV: Block ownership	The study revealed that the relationship between block ownership and dividend payout has a concave shape that changes from positive to negative.
Gugler and Yurtoglu (2003)/Germany	Corporate governance and dividend payout policy in Germany/1992– 1998/736	Tobit regression	DV: Dividend payout  IV: Large shareholder (blockholder), second largest shareholder	The results show that the presence of larger shareholder in the firm reduces dividend payout while the second largest shareholder ownership is positively associated with dividend payout.
Maury and Pajuste (2002)/Finland	Controlling shareholders, agency problems, and dividend policy in Finland/ 1995–1999/131 firms	OLS regression	DV: Dividends to earnings  IV: Block ownership	The study indicated that block ownership has a significant negative effect on dividend payout.
Renneboog and Trojanowski (2007)/United Kingdom	Control structures and payout policy/ 1992– 1998/5,547 firm-years	Generalised Method of Moments (GMM) regression	DV: Dividend payout  IV: Blockholders ownership	The results show that blockholders and dividend payout are negatively related.



Table 2.3 (Continued)

<b>Author/year/ place</b>	<b>Title/period/ observations</b>	<b>Methods</b>	<b>Variables</b>	<b>Findings</b>
Chen, Cheung, Stouraitis, and Wong (2005)/ Hong Kong	Ownership concentration, firm performance, and dividend policy in Hong Kong/1995– 1998/412 firms	OLS regression	DV: Dividend payout  IV: Block ownership	The findings show a significant and negative association between dividend payout and block ownership.
Lam, Sami, and Zhou (2012)/ China	The role of cross-listing, foreign ownership and state ownership in dividend policy in an emerging market/ 2001– 2006/7519 observations	Tobit and OLS regressions	DV: Dividend payout  IV: Block ownership	The study found that block ownership is significant and positively associated with cash dividends.
Grinstein and Michaely (2005)/United States	Institutional holdings and payout policy/1980– 1996/54,508	OLS regression	DV: Dividend payout  IV: Block ownership (institutional shareholders)	The results revealed a positive association between block ownership (institutional shareholders) and dividend payout.
Miko and Kamardin (2015)/Nigeria	Ownership structure and dividend policy of  conglomerate firms in Nigeria /2001-2010/ 8 firms	OLS regression	DV: Dividend per share IV:  block ownerships	The results showed that block holders has positive effect on dividend payout

## **2.9 Summary of the Chapter**

The chapter provides an overview of dividend policy and the Nigerian environment. It discusses the underpinning theories used for the study. The chapter reviews studies on the propensity to pay dividends, empirical evidence has been offered on the relationship between board characteristics, ownership structures and dividend policy followed by a summary of the studies in tabular form.

Despite the extant literature on firm's dividend policy pattern and how other factors influence dividend policy remains a contentious issue in the accounting, finance, and management literature (Al-malkawi et al., 2010) probably as a result of its sensitivity to numerous factors (Baker & Weigand, 2015). In the light of this, evidence has shown that a firm's likelihood of paying a dividend has been reduced (Fama & French, 2001). However, the literature on the propensity to pay dividend has revolved around firm characteristics initially used in Fama and French (2001) that include profitability, firm size, growth opportunity.

Subsequent studies have included other factors such as dividend premium (Baker & Wurgler, 2004b), retained earnings (DeAngelo et al., 2006) agency costs (Denis & Osobov, 2008) and systematic and idiosyncratic risks (Hoberg & Prabhala, 2009). However, board characteristics and ownership structures have received less attention on the subject. Therefore, it is meaningful to examine how board characteristics affect the propensity to pay dividends. Likewise, the literature has indicated the importance of ownership structures of firms in determining their dividend policies. Hence, the study also included foreign, managerial and blockholders ownership.

In addition to the above, the literature also said that a firm's governance mechanisms tend to depend on its ownership structures (Bebchuk & Hamdani, 2009). The study also tests the effect of blockholders as a moderator on the relationship between board characteristics and propensity to pay dividends in the Nigerian market.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter includes the research methods employed in conducting this study. First, it discusses the research framework and the develops hypotheses based on previous evidence and supported by theories. Second, it elucidates the research design and the population of the study, sources of data, techniques of data analysis, statistical tools of analysis and the research model.

#### **3.2 Research Framework**

The propensity to pay dividends was first empirically examined by Fama and French (2001) who reported that firms in the US market were less likely to pay dividends. Other studies such as Ferris et al. (2006), Hoberg and Prabhala (2009), and Fatemi and Bildik (2012) also found similar evidence that firms exhibited less of a likelihood to pay dividends. These studies concluded that the decrease in paying dividends was largely was associated with firm characteristics that included profitability, firm size, and investments growth. However, some other literature refuted the decline in the payment of dividends (Chetty & Saez, 2005; DeAngelo et al., 2004, 2009; Eije & Megginson, 2008; Gwilym, Seaton, & Thomas, 2004; Julio & Ikenberry, 2004). They claimed that over the years the aggregate real dividends have risen. Furthermore, Andres et al. (2009) noted that no generally established explanation exists at present detailing with the propensity-to-pay dividend phenomenon or the likelihood to pay dividends.

The phenomenon has also been extended using governance and ownership structures of the firm on how it affects propensity to pay dividends. For example, Sharma (2011) investigated the influence of independent directors and their features on the propensity to pay dividends and revealed a positive correlation between the propensity to pay dividend and directors independence and tenure. McGuinness et al. (2015) showed little support for the influence of gender on dividend policy, but CEO tenure was positively associated with corporate cash dividends. Along this line, Pucheta-Martínez and Bel-Oms (2016) revealed that gender influenced the level of dividends. Subba (2015) concluded that corporate governance was positively associated with the likelihood of firm paying dividend.

Blockholders comprise shareholders who hold a significant portion of shares in the firm. The holdings provide the blockholders with an incentive to collect more information and monitor the management in addition to the monitoring role of the board. Bebchuk and Hamdani (2009) argued that interdependency was present between blockholders and the board of directors. Hence, the existence of blockholders in a firm may influence the monitoring aspect of the board. Accordingly, introducing blockholders ownership as a moderating variable will offer additional information on how a board impacts the propensity to pay dividends.

Very limited empirical findings exist on the association between the propensity to pay dividends and corporate governance around the world with no such evidence in sub-Saharan African and likewise in Nigeria. Further, the existing studies that have used governance and ownership structures do not adequately construct the propensity

to pay dividends variable as documented in the literature (Fama & French, 2001; Fatemi & Bildik, 2012).

Instead of the modelling, they tend to use a raw figure to indicate whether a firm pays dividend or not. To fill this gap, this study considers those firm specific characteristics (ROA, firm size and investment growth) that have been consistently used in the literature to predict dividend payers. The framework for the modelling of the propensity to pay dividends is shown below as Figure 3.1.

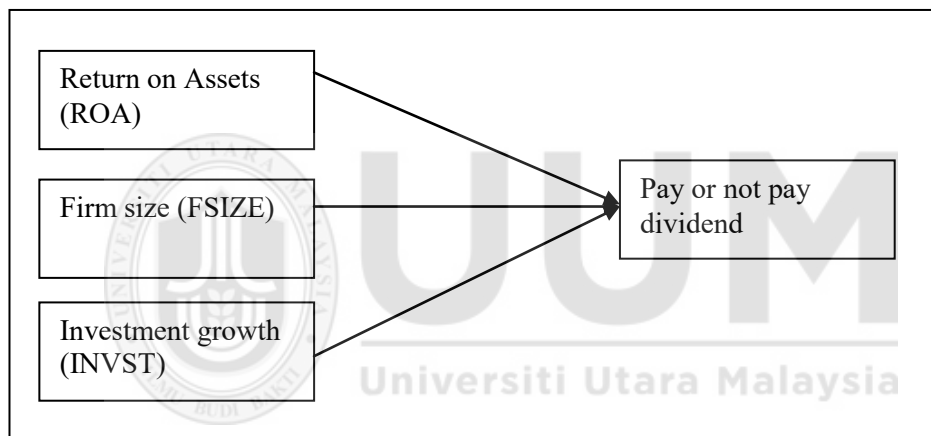


Figure 3.1 *Framework for propensity to pay dividends model*

Furthermore, the study investigates how board characteristics and ownership structures of a firm affect a company's propensity to pay dividends. Moreover, the study also examines the moderating role of blockholders ownership on the relationship between board and propensity to pay dividends. The research framework is depicted in Figure 3.2 below.

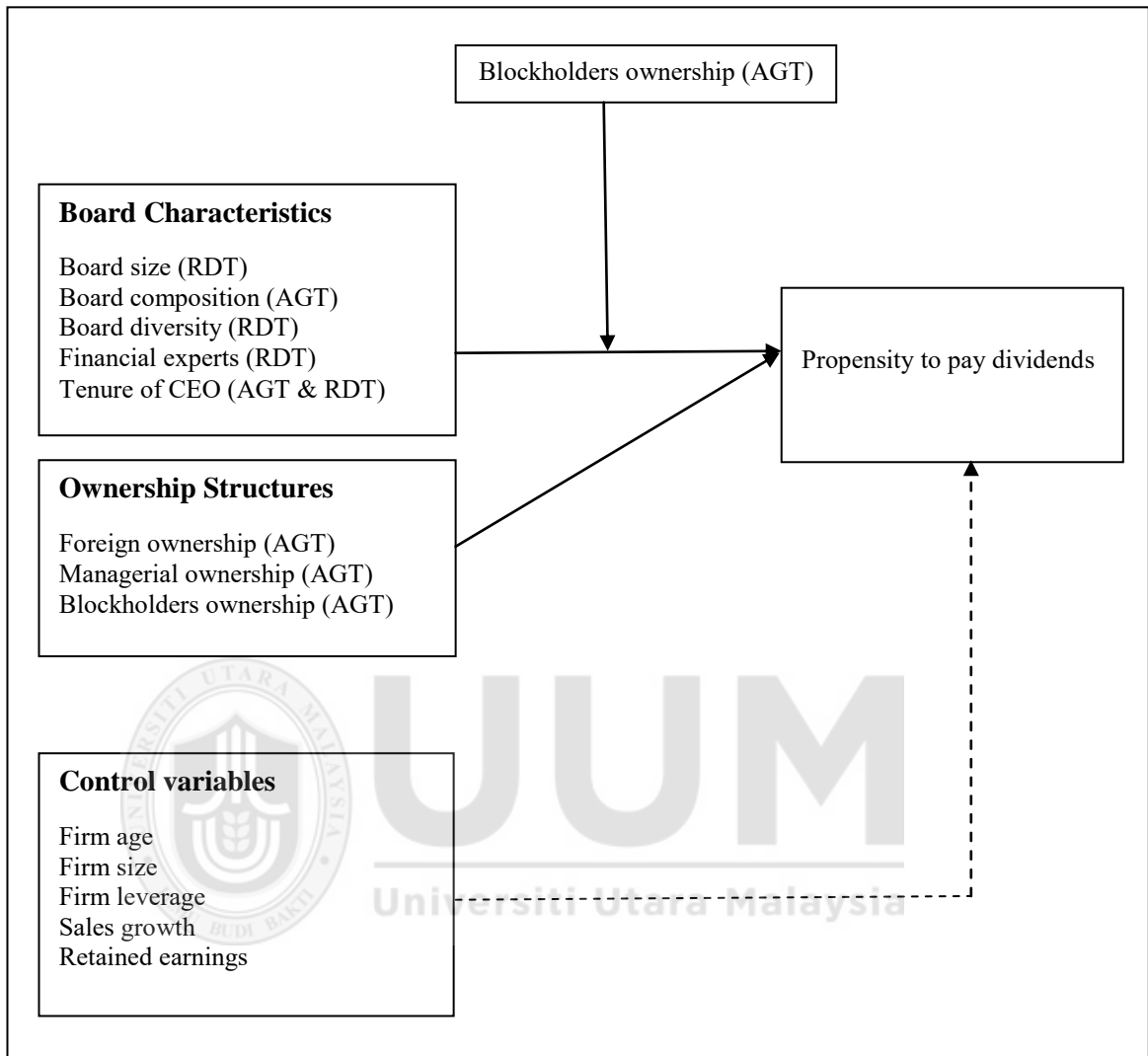


Figure 3.2 *Research framework*

The study uses resource dependence theory (RDT) and agency theory (AGT) to underpin the variables of interest. From the above framework, this study therefore, adopts resource dependence theory to underpin the relationship between board size, board diversity, financial expertise, CEO tenure and propensity to pay dividends. However, agency theory is used to explain the relationship between board



composition, CEO tenure, foreign managerial ownership, and blockholders ownership and propensity to pay dividends.

### **3.3 Hypotheses Development for the Study**

In this section, the hypotheses of the study are developed based on the gap found in the existing literature reviewed. Besides the evidence from the literature, the hypotheses development is also supported by relevant theories such as agency and resource dependence theories. The hypotheses are developed to test the effect of board characteristics and ownership structures on the propensity to pay dividends and the moderating effect of blockholders ownership on board characteristics.

### **3.4 Board Characteristics**

Corporate governance mechanisms are simply classified into internal and external mechanisms. The internal mechanisms include the characteristics of the board and ownership structures. The external mechanisms are determined by factors outside the firm such as legal protection and takeover rules (Man et al., 2013). Board characteristics fall under the category of internal governance mechanisms (Bekiris, 2013). Corporate governance mechanisms are instituted to check any abuse that are anticipated from the management or to mitigate the agency problems that are exhibited in modern corporate bodies. The board members are elected when a vacancy exists by the owners of the company known as the shareholders. The board acts on their behalf in running the activities of the company. The board members are expected to carry out their tasks effectively in monitoring the managers and providing resources to the company. Any short fall against their responsibilities

means that the board members stand a chance of being voted out, and new members will be elected (Man et al., 2013).

Wan and Ong (2005) considered a primary distinction of the board structure to be that between directors who occupy management positions in a firm and those who do not. In other words, this reflects the compositional dimension of the board that monitors the activities of the management. This role makes board characteristics to be an important mechanism in controlling managers and greater firm value (Ntim et al., 2012). The board characteristics that considered for this study are: board size, board composition, board diversity, board member financial expertise and CEO tenure.

#### **3.4.1 Board Size**

The size of the board refers to the number of directors who occupy the board of a firm, and they comprise executive, non-executive, and independent directors. Studies regarding board size are twofold. The first group of researchers considered a small number of directors (small size) to be effective, provides better monitoring role and are less likely to have free riding problems (Jensen, 1993; Yermack, 1996), which supports the agency theory. The second group favors larger boards. For example, Certo (2003), Dalton et al. (1999) and de Villiers et al. (2011) argued that larger boards may include heterogeneous directors who are rich in resources and may provide various services needed by firms.

Besides the two afore mentioned groups, there are other scholars who are in the middle of the debate. These authors claim that size of the board should depend on the

complexity of a company's operation and other activities (Boone et al., 2007; Coles et al., 2008; Linck et al., 2008).

Relationship between board size and dividend policy is somehow not clear. Studies have reported mixed findings. For instance, Subramaniam, Suppiah and Shaiban (2014) tested the dividend policy of the top market capitalized companies listed on the Bursa Malaysia. The result indicated that dividend payout is significantly and negatively associated with board size. Likewise, Abor and Fiador (2013) reported sufficient evidence from the listed Nigerian firms that negative association between size of the board and dividend policy prevails. On whether, to pay or not to pay, Abdelsalam et al. (2008) based on the Egyptian market found negative but insignificant relationship between decision pay dividends and board size. However, evidence from the Gulf Cooperation Council (GCC) markets as studied by Mehdi, Sahut and Teulon (2017) indicates that board size and firms' decision to pay dividends are negatively correlated. The authors argued that directors on board become more effective particularly during financial crisis. Hence, the directors favour investing the generated income internally rather than paying dividends and makes them to be risk averse in this scenario.

However, other studies have reported that positive association between board size and decision to pay dividends. Chen et al. (2011) analyzed the propensity to pay dividends in A-Shares Chinese listed firms. The study found that board size had a strong impact in determining the propensity of the companies to pay cash dividends. The finding is in line with Officer (2006) and Boumosleh and Cline (2015) that indicated, when the size of a board is large, then a firm shows a higher likelihood of

paying dividends. In a recent evidence from Turkish firms, Al-Najjar and Kilincarslan (2016) examined board size and propensity to pay dividends from 2003 through 2012 using unbalance panel data. Consistent with the prediction, the study indicates a strong and positive relationship between board size and the likelihood of a firm to pay dividends and is in line with Idris et al., (2017). These findings were also observed by other studies such as Prasanna (2014) and Iqbal (2013) from India and Pakistan respectively. The studies indicate that a firm with large boards have higher likelihood to pay dividends than those with a small board.

Consistent with resource dependence theory, Dalton et al. (1999) argued that larger boards may bring more skill and knowledge and provide valuable advice. However, the agency theorists argued that larger boards are associated with weak governance practices. It is evidently found that firms with larger boards are poor in terms of decision making and are less effective (Jensen, 1993; Yermack, 1996) and likely to use dividend for example, as a monitoring tool and contain the opportunistic behaviours of the management and the CEO in particular (Chang & Dutta, 2012). Thus, there is greater need to encourage the payment of dividend as the size of the board increases to complement the efforts of the directors on board. In agreement with the following findings of Al-Najjar and Kilincarslan (2016), Iqbal (2013); Prasanna (2014) and Chen et al. (2011) this study hypothesized that:

**H<sub>1</sub>:** There is positive relationship between board size and propensity to pay dividends.

### **3.4.2 Board Composition**

Board composition in the context of this study refers to the proportion of non-executive directors to the total number of directors. The agency theory suggests that the primary role of the board is to monitor the management with a view to aligning their interests with those of the shareholders (Jensen & Meckling, 1976). However, the resource dependency theory indicates, that besides the monitoring role of the board, they also provide firms with advice and linkages to the external environment (Pfeffer & Salancik, 1978). Considering these two theoretical views, the argument could be made that outside directors are hired with a view to monitor and provide resources to the firm. Firms may likely not appoint the directors based on filling up the board seats with outside directors. The outside directors must have demonstrated their competences in terms of monitoring and their abilities and, on the other hand, they are heterogeneous, which allows a firm to benefit from their expertise (Hillman & Dalziel, 2003). Outside directors are expected to be critics and bring independent opinions to the board that they serve on and contribute to the diversity in terms of skills and expertise of the directors, which, will in, turn lead to greater performance of the firm (Abdul Latif et al., 2013).

Previous studies have examined the effect of board composition (measured as the number of outside or external directors) on the board of a company and dividend policy. The findings have indicated that the presence of greater number of outside directors provides better protection to the shareholders and, hence, increases the level of dividends (Adjaoud & Ben-Amar, 2010). The implication of this is that outside directors may reinforce their monitoring activities by paying more dividends,

which could also provide them with an incentive to protect their reputations and avoid legal liabilities (Desender et al., 2013).

On the other hand, empirical evidence on the association between outside directors on board and the propensity to pay dividends is relatively little and inconsistent. Iqbal (2013) examined the effect of governance practices on the decision to pay dividends among the Pakistani non-financial listed firms. The study covers 77 firms for a period of five years. The result indicated a strong negative relationship between outside directors on board and the decision to pay dividends. The study further concluded that the finding is likely to be linked to the existing situation where the Pakistani code of corporate governance did not clearly make provisions on the expected role that the outside directors should play in monitoring the managers, therefore, resulting on their ineffectiveness. This evidence is also in agreement with the findings of Abdelsalam et al. (2008) that reported negative and insignificant relationship between outside directors on board and the probability of a firm to pay dividend among the top capitalised Egyptian firms.

In an international study from the European markets with larger sample of 6,982 firm-year observations, De Cesari and Ozkan (2014) documented statistically significant effect between board independence and firms decision to pay dividends. The result indicated that independent directors on board are substitute for dividend payout. Similarly, Al-Najjar and Hussainey (2009) who study the UK firms also revealed a negative association between the presence of outside directors on boards and decision to pay dividends. Hence, the evidence is consistent with their prediction that outside directors on board play substitution role to dividend policy. These

findings are also consistent with Benjamin and Zain (2015) who reported negative and statistically significant association between outside directors and the level of dividend payout among the Malaysian firms.

Contrary to the above findings, Hu and Kumar (2004) were pioneers in examining the association between outside directors on board and the propensity to pay dividends. The study found that outside directors on and board have positive and strong influence on the propensity to pay dividends. The study posited that outside directors that accounted for a 40% threshold of the board positively affected the likelihood of paying dividends. Further, Sharma (2011) also explored this relationship from the US market in a correlational analysis. The study revealed that a board with greater independence was positively and significantly associated with the propensity to pay dividends.

Similarly, Prasanna (2014) and Boumosleh and Cline (2015) also showed support for the previous evidence that, when a board has a greater percentage of outside directors, the firm is more likely to pay dividends. The study of Chen et al. (2011) also provided strong evidence supporting the positive association between board composition and likelihood of dividend payment among firms in Australia and China respectively. More recently, Idris, Ishak, and Hassan (2017) indicated that outside directors from non-financial listed firms in Nigeria exhibited a higher likelihood to pay dividends. Consistent with Chen et al., (2011), Hu and Kumar (2004), Idris et al. (2017), Prasanna (2014) and Sharma (2011), this study hypothesized that:

**H<sub>2</sub>:** There is positive relationship between board composition and propensity to pay dividends.

### **3.4.3 Board Diversity**

Board diversity in this study relates to the number of female directors on the board. Studies on gender diversity are also linked to agency (Pucheta-Martínez & Bel-Oms, 2016) and resource dependency theories (Ali et al. 2014; Hillman, Shropshire, & Cannella, 2007). The agency theory suggests that the management of firm may likely behave in a manner contrary to the interests of the owners (Jensen & Meckling, 1976) and may create empire building through the use of free cash flow, which opposes value-addition projects (Jensen, 1986). However, female on board can control this behavior (Pucheta-Martínez & Bel-Oms, 2016). Board diversity (female on board) has become a topical issue in many countries (Adams, Haan, Terjesen, & Ees, 2015) and could be attributed to the limited representation on the top management level despite the role that they play in mitigating agency problem.

Hwang et al. (2013) also noted the reduction of free cash flow is greatly associated with dividend payment, which could reduce the exploitation of the minorities. Pucheta-Martínez and Bel-Oms (2016) concluded that dividend payout reduces the level of retained earnings and, hence, affects the use of the retained earnings to finance firm projects. Jurkus, Park and Woodard (2011) also indicated that a greater percentage of female directors reduces agency costs when there is no strong external monitoring mechanism. The reduction of the agency problem enables firms to reduce the tendency of overinvestments.



Adams and Ferreira, (2009) documented having females on a board immensely contributes to board decisions and that females are highly committed. They tend to have a higher attendance for board meetings than male directors and occupy seats on monitoring-related committees. This indicates that their relevance and effectiveness in those areas. Hence, gender diversity provides for greater board functioning (Hillman, 2014). Similarly, the inclusion of female directors on a board could signal an improvement in the monitoring capacity in a firm on one hand. On the other hand, their presence also indicates the tendency of a firm to have greater access to information that may enhance its value and having divergent perspectives relative to issues arising within the board (Larkin, Bernardi, & Bosco, 2013; Mordi & Obanya, 2014).

The role of female directors on a board may go beyond mitigating agency conflicts between principals and agents (Bilimoria, 2000 in Huse & Solberg, 2006). The resource dependence theory suggests that the outside environment of an entity may affect its performance since there is absence of resourceful directors who could link the firm with its environment. This absence may diminish the performance of such an entity and thus affect firm outcomes (Pfeffer & Salancik, 1978). One possible way to mitigate such a problem is to have directors who can provide a link with other entities and thus bridge the gap between the two entities in obtaining resources (Hillman et al., 2007). In this sense, entities need a gender diverse board as this diversity provides for important functions such as strategic decision making, which is one of the functions of the board (Ali et al., 2014).

A board with gender diversity is also beneficial as it allows the integration of a broad range of information that will facilitate well-informed judgements among members (Hillman et al., 2000). Additionally, the behaviour of female directors may well vary from that of male directors (Adams & Ferreira, 2009). Hence, having a board with females may probably enhance corporate policies. In line with agency theory, gender diversity may serve as a tool to control managers and may tend to reduce agency costs (Adams & Ferreira, 2009; Carter, Simkins, & Simpson, 2003).

Extant evidence on gender and dividend policy are also inconsistent. McGuinness et al. (2015) using Chinese firms revealed negative correlation between two or more female directors on board and dividend policy. Jurkus et al. (2011) also indicated that gender diversity has strong negative association with dividend payout. Similarly, Florackis et al. (2015) argued that in a low leverage firms, female directors on board tend to influence dividend payout negatively. Additionally, in a recent and international study on three emerging markets conducted by Saeed and Sameer (2017) showed that female directors on board have negative impact on dividend policy. They argued that female directors are conservative when it comes to institutional uncertainty and therefore, do not deviate from the status of existing business environment. However, evidence from Malaysian listed as provided by Hamzah and Zulkafli (2014) failed to find any strong relationship between females on board and dividend payout.

Conversely, Pucheta-Martínez and Bel-Oms (2016) found women directors to have a significant positive effect on dividend policy of firms. Along this line, Byoun et al. (2016) compared gender and non-gender diverse boards and found that gender

diverse boards tend to pay higher dividends. It is expected that the female directors may display their expertise and increase the monitoring role of the board as their percentage increases. The association of female directors was also explored by Idris et al. (2017) in Nigeria.

Consistent with the previous literature, the study found a positive and strong relationship between females on board and the propensity to pay dividends. The study argued that female directors contribute immensely despite the fact of being perceived as low-status individuals. Female directors, in addition, help mitigate agency problems by advocating the payment of dividends when they are appointed to the board. Al-Rahahleh (2017) also found evidence supporting previous studies that females on the board tend to reduce agency conflicts by paying more dividends in the Jordanian firms. In line with Idris et al. (2017), Al-Rahahleh (2017), Pucheta-Martínez and Bel-Oms (2016) and Byoun et al. (2016), it is hypothesized that:

**H<sub>3</sub>:** There is positive relationship between board diversity and propensity to pay dividends.

#### **3.4.4 Financial Experts on Board**

The board of directors are topmost body that oversees the affairs of a firm. They design the policies of the firm in addition to their monitoring role and providing connections that benefit the firm (Hillman & Dalziel, 2003). According to Jensen (1993), shareholders can benefit from heterogeneous boards in the form of monitoring as well as advisory services that will improve firm resources and resolve problems faced by firms and corporate strategy development. He added that a

financial expert is particularly required by firms for corporate planning and determining issues that are likely to influence corporate value. The emphasis of agency theory on the financial expertise of an outside director is based on the premise that they are a monitoring mechanism that could reduce agency-related costs (Jensen & Meckling, 1976; Jensen, 1986). The resource dependence perspective considers a board as a network that may provide management with valuable resources for the betterment of the firm (Pfeffer & Salancik, 1978). The theorists have argued that firms are linked to the critical resources which they require by a resource based director. However, when such resource based director is absent the needed linkages may not be provided.

Empirical evidence has indicated that a director with financial expertise is valuable and able to mitigate earnings management both at the board and at committee levels (Cunningham, 2008; Kibiya et al., 2016). Jeanjean and Stolowy (2009) contended that financially expert directors could play three important roles, which are corporate monitoring, the ability to offer advice to the CEOs and providing easy to access financial resources what, in turn, provides assurance to both potential investors and creditors. Financial expertise and its related areas such as finance, investment analysis, and banking, among others, are of paramount importance to a firm. They contribute a great deal to the policies relating to finance and investments. To execute these tasks, experts in finance and related areas are needed. This is not surprising that the post Sarbanes-Oxley Act, a have created higher demand for the financial expertise (Linck et al., 2009). Similarly, Defond, Hann, Xuesong and Engel (2005)

revealed that the market reacts favorably to the stock of a firm that have appointed a new director with financial expertise.

Moreover, Güner et al. (2008) provided strong support that firms with financial expert on the board, experience a reduction of investment sensitivity to cash flow. Adams and Ferreira (2009) noted that financial experts dedicated larger parts of their time in advising a firm. Bates, Kahle, and Stulz (2009) showed that firms having financial experts tend to hold little cash mainly because of unforeseen future events. Therefore, financial expertise on a board may likely use dividend payout to address agency conflicts in the firm. Kibiya et al. (2016) showed that financial experts enhance monitoring of managers by reducing fraudulent accounting practices, which, in turn, improves the quality of financial reporting. Consequently, Custodio and Metzger (2014) found evidence that a financially expert director on a board is positively related to dividend payout.

Therefore, drawing from this, financial experts on a board may also encourage paying out dividends as a means of addressing agency conflicts because a dividend payout is one the numerous mechanisms used to address agency conflicts. Further, paying more dividends may also strengthen the monitoring role of the financial experts, which may, in turn, protect his reputational capital. Thus, consistent with the resource dependence theory. Thus, the hypothesis is stated as:

**H<sub>4</sub>:** There is positive relationship between financial expertise on a board and propensity to pay dividends.

### 3.4.5 CEO Tenure

The separation of control from ownership gives rise to agency problems between the principal and agent (Jensen & Meckling 1976). Corporate dividends are considered one of the mechanisms that can address such agency costs (Farinha, 2003). Agency theorists have suggested that the distribution of dividends will reduce the level of free cash flow available in the hands of a manager thereby making him to rely on external financing (Easterbrook, 1984; Jensen, 1986; Rozeff, 1982). Therefore, a dividend may also be used to discipline CEOs with longer tenure. Because a firm will be forced to raise funds in the market as the need arises, that CEO will be subjected to market monitoring.

Empirical evidence has revealed that a longer tenure of a CEO may be associated with governance issues. McGuinness et al. (2015) documented that CEOs with longer tenure tend to be entrenched and become more powerful influencing corporate decisions and thus aggravating the agency costs. Orens and Reheul (2013) argued that CEOs tend to influence the selection of directors to be appointed to the board and to build personal relationships that may be hard for the board to monitor or to fire a CEO because he or she has gained more power or reputation through a longer tenure with the firm (Ghosh & Sirmans, 2006; Hu & Kumar, 2004). Thus, he/she may decide that paying dividends might not decrease his/her reputation.

Similarly, Ishak et al. (2012) found CEO power to be a source of entrenchment in companies and that firing him or her on the basis of underperformance then becomes difficult. Therefore, board independence diminishes with the longer tenure of a CEO (Hermalin & Weisbach, 1998) and may provide managers the opportunity to waste

free cash flow. The longer CEO stayed in his/her position, the lower are chances to actively respond and react to changes within his external environment (Hambrick & Fukutomi, 1991).

In an examination of CEO tenure and dividend payout, Boumosleh and Cline (2015) and Boumosleh (2012) revealed that CEO tenure influences dividend payout negatively. Along this line, Sharma (2011) found a negative but statistically insignificant association between CEO tenure and the propensity to pay dividends. However, evidence revealed by Ghosh and Sirmans (2006) suggested that CEO tenure and dividend were positively and significantly related. In line with this evidence, McGuinness et al., (2015) and Feng et al. (2007) documented positive and significant evidence on the relationship between CEO tenure and probability to pay dividend. They indicated that a CEO having longer tenure may pay more dividends to entrench themselves.

CEO with longer tenure, CEO with longer tenure, are rich in resources and provide better services needed by firm (de Villiers et al., 2011). This is because the CEO are more likely to handle environmental contingencies. For example, the greater the CEO developed contacts and ties with element of the environment the higher the skill the CEO has in handling environmental contingencies that may affect the firm (Finkelstein, 1992; Hillman, Withers, & Collins, 2009). Hence, consistent with the resource dependency theory (Pfeffer & Salancik, 1978) that longer tenure provides avenues for directors to acquire more firm specific knowledge that enable them to discharge their duties effectively. Based on the theoretical and empirical findings, the study hypothesized that:

**H<sub>5</sub>:** There is positive relationship between CEOs tenure and propensity to pay dividends.

### **3.5 Ownership Structures**

Ownership structures became a topical issue shortly after the work of Berle and Means (1932). They described the basis of agency problems in modern corporations as ownership and control become separated. In this regard, a mechanism such as a dividend payout is required to control agency costs. In addition, investors tend to show their preference for a firm that pays dividends (Grinstein & Michaely, 2005; Hassan, 2015). Brav, Graham, Harvey, and Michaely (2005) in their survey indicated that managers tend to pay dividends to attract institutional investors. In this section, the study considers the second research question and hypothesizes the relationship between foreign, managerial, and blockholders ownership and the propensity to pay dividends.

#### **3.5.1 Foreign Ownership**

Foreign ownership according to Yoshikawa and Rasheed (2010) is the ratio of shares held by foreign investors of the total outstanding shares of a firm. Researchers have used several theories in an attempt to understand various classes of investors regarding corporate dividend policy in firm settings (Baker & Wurgler, 2004a; Bhattacharya, 1979; Jensen, 1986; La Porta et al., 2000). However, Gedajlovic, Yoshikawa and Hashimoto (2005) argued that the objectives or motives of the investor need to be considered in explaining their behaviour towards dividends. They added that there may be significant differences regarding the motives of market



investors because of tax and regulatory treatments. The market investors comprise investment trust, foreign investors and pension funds (Gedajlovic et al., 2005).

The relationship between foreign shareholdings and dividend is explained by agency theory. The theory suggested that a dividend payout is used to align the interests of shareholders with those of managers. Foreign shareholders are considered as market investors as their primary investment motive is to obtain equity return Gedajlovic et al. (2005). Thus, these market investors may demand that a firm pays a dividend.

Empirically, the relationship between foreign ownership and the propensity to pay dividends has also been tested. Jeon et al. (2011) indicated support for the preferences for dividends by foreign investors. The studies documented a positive and significant correlation between foreign ownership and the propensity to pay dividends in Korean markets. The study suggested that foreign shareholders have a strong incentive to monitor management in firms given their large holdings and investment styles.

The findings above also lend support to prior evidence documented by Baba (2009) that foreign ownership and the propensity to pay dividends are positive and strongly related. The study suggested that, because of the greater information asymmetry that a foreign investor may face, there is a greater tendency for them to pressure management to pay dividends. Consistent with the monitoring role, foreign shareholders could exact pressure on the firm management to disgorge free cash flow because of fear for empire building by the management (Jensen, 1986). Consistent

with this argument and the findings documented by Baba (2009) and Jeon et al. (2011), it is, therefore, predicted that:

**H<sub>6</sub>:** There is positive relationship between foreign ownership and propensity to pay dividends.

### **3.5.2 Managerial Ownership**

Managerial ownership refers to the fraction of interest held by the executive directors (Ishak, 2010; Pucheta-Martínez & López-Zamora, 2017). Managerial ownership tends to alleviate agency problems, which are common among firms (Florackis et al., 2015). Evidence has revealed that the shareholding level of management may go a long way to align with the interests of outside owners (Al-Gharaibeh et al., 2013). Hence, this suggests that managers can engage in advancing policies that are beneficial to all shareholders of the firm. Therefore, this study considers managerial ownership as a stake control by executives who are board members and are referred to as executive directors.

Gedajlovic, Yoshikawa, and Hashimoto (2005) asserted that the positive association between managerial shares and dividends payout is a result of the fact that insider owners have an interest in residual income, which, therefore, may compel them to favour a greater cash dividend policy. Vo and Nguyen (2014) also showed that managerial ownership and dividends were positively related and claimed that, when managers are exposed to risk due to debt, it is likely that they will compensate for the risk by influencing financial policies such as dividends through acquiring more shares in the firms. Kumar (2006) documented evidence from the Indian market that

directors' ownership was significant and positively correlated to dividends. Likewise, Renneboog and Trojanowski (2011) found that, when executive directors hold large stakes, they tend to exact more influence on the propensity to pay dividends.

Evidence from Europe has revealed that shares held by executive directors are positively related to the likelihood of paying dividends (De Cesari & Ozkan, 2014). The result suggests that executive managerial shareholding affects payout policies of firms and, hence, plays a greater role in aligning the interests of managers and owners of the firm. Therefore, managerial ownership leads to an increase in the likelihood of paying dividends, which support bonding relationship (agency theory). Based on the empirical evidence from Renneboog and Trojanowski, (2011), Vo and Nguyen (2014) and De Cesari and Ozkan (2014), this study hypothesized that:

**H<sub>7</sub>:** There is positive relationship between managerial ownership and propensity to pay dividends.

### **3.5.3 Moderating Role of Blockholders Ownership on Board Characteristics**

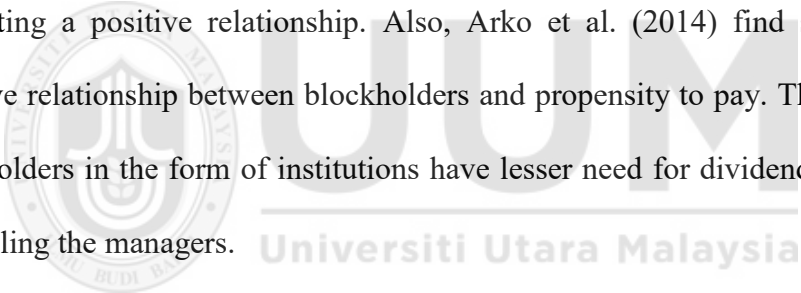
Consistent with Ishak (2010); Thomsen et al. (2006) and Sanda et al. (2010), this study considered block holding ownership to be the percentage of stocks held by individual or corporate entities with a minimum of 5% shareholding. Block ownership and ownership concentration are used interchangeably (Thomsen et al., 2006). The conflict of interest subsides between principal and agent in modern corporate settings because control and ownership are separated, (Jensen & Meckling, 1976). In a widely held corporations, there is less likelihood for the owners to exact

control on insider because of the free riding problem (Rozeff, 1982). However, the interest of blockholders in a firm provide an incentive which necessitates the need to critically monitor managers and therefore, mitigate agency problems. Bozec and Bozec (2007) argued that the best way to control agency costs is when large blockholders emerge in a firm. They added that investors tend to gain more influence on management when their holdings are block.

In contrast, Goergen, Renneboog, and Correia da Silva (2005) noted agency costs that become higher in firms in which the controlling owner is government compared to the settings in which the family or others have a block holding. They concluded that in government-controlled firms, the source of higher agency costs is due to indirect control by citizens; thus, the payment of higher dividends will mitigate such a problem. Conversely, agency costs tend to be lower when there are blockholders in the firm indicating a substitution effect between blockholders and dividends payout (Arko et al., 2014).

Blockholders may control for opportunistic managers in the firm and serve as substitute for other monitoring tools. Consistent with this view, Renneboog and Trojanowski (2007) found a negative relationship between dividends and blockholders ownership indicating that large blockholders reduce the payment of dividends in firms. Similarly, Harada and Nguyen (2011) from Japan, investigated blockholders and dividend policy and showed that blockholder ownership is negatively related to the decision to pay dividends.

Additionally, Gugler and Yurtoglu (2003) reveals that the stakes of the largest owner are associated with a decrease in dividend payout. Similar evidence is also documented by Maury and Pajuste (2002) in that shareholders with significant holdings are associated with a lower dividend payout. The evidence is also in line with Renneboog and Trojanowski (2011) that firms with blockholders are less likely to pay dividends. In international evidence, Truong and Heaney (2007) revealed a non-linear relationship between the largest share holdings and dividend payout. The study indicated that at lower level of ownership (that is below 10%) there is less need for a dividend as monitoring tool. When the shares held by the largest shareholders increase dividends become a complementary monitoring mechanism suggesting a positive relationship. Also, Arko et al. (2014) find support for the negative relationship between blockholders and propensity to pay. They posited that blockholders in the form of institutions have lesser need for dividends to be used in controlling the managers.



In recent evidence, Liljeblom and Maury (2016) and Mehdi, Sahut, and Teulon (2017) found a negative association between the propensity to pay dividends and blockholders ownership. These studies suggest that the negative findings may be the result of lower agency costs. Chang, Kang, and Li (2016) suggest that the heterogeneity of the blockholders may be the main effect that drives the negative association. The blockholders may have different incentives and vary in their trading and monitoring. The study added that blockholders may not use dividends to monitor the firm with a view to mitigating the agency conflict when there are other strong monitoring mechanisms in the firm when they engage in monitoring directly.

Consistent with the previous studies (Arko et al., 2014; Hu & Kumar, 2004; Liljeblom & Maury, 2016; Mehdi et al., 2017; Renneboog & Trojanowski, 2011).

**H<sub>8</sub>:** There is relationship between blockholders ownership and propensity to pay dividends.

Dividend policy is important because it involves a substantial amount of cash layout and has attracted the attention of various firm stakeholders. Baker and Weigand (2015) argued that no set of universal factors affecting dividend policy is appropriate for all firms. This made dividend policy a fertile area of investigation because the puzzle has not yet been solved. However, evidence regarding the effect of board characteristics on dividends is inconclusive (Al-Najjar & Hussainey, 2009) because other firm-specific factors are neglected; one of them could be blockholders. In their study, Desender et al. (2013) suggested further investigation on the interaction of blockholders and corporate governance practices. Previous studies have documented reasons for including moderating variable(s). These factors include the complexity of behavior, a manipulation check, specificity of effects (MacKinnon, 2011), and inconsistency (Baron & Kenny, 1986).

Bebchuk and Hamdani (2009) argued that the effect of various key governance mechanisms largely depends on a firm's ownership structure. Drawing from Bebhuk and Hamdani (2009) the association of board characteristics and the propensity to pay dividends may be affected by firm's blockholders. Evidence has shown that blockholders have an effect on corporate governance in either mitigating or exacerbating agency problems (Reddy & Locke, 2014; Setia-Atmaja, 2009). In

countries with weak investor protection, block shareholders have a vital role in alleviating agency costs by the forcing management to pay dividends (Truong & Heaney, 2007). This is because blockholders have greater incentives and the power to monitor management (Setia-Atmaja, 2009).

Evidence from Nigeria have also been established on monitoring role of blockholders (Abdulmalik & Che-Ahmad, 2016; Arowolo & CheAhmad, 2017; Sanda et al., 2010). Blockholders ownership is considered to be of importance as it allows the controlling shareholders take the responsibility of monitoring the firm which will in turn help in addressing agency related problems between managers and the owners of the firm (Sanda et al., 2010).

In a study by Arowolo and Che-Ahmad (2017) reported that blockholders ownership in Nigeria are dominated by institutional and individuals. The institutional blockholders have the largest stake in the listed firms. Therefore, dominating most of the listed firms on the NSE. The study further revealed that the institutional blockholders in the market has a mean value of 47.41% compared with individual blockholders scoring a value of 8.44%. In this regard, it is expected that the institutional blockholders may have more influence on firms than the individual. Also, Arko et al. (2014) found that majority of the shareholders in the Nigerian market are the institutional and account for a mean value of 53.36%.

Given the amount of block holdings in firms, it is therefore, expected that these shareholders may play enormous role in dealing with agency conflict. In doing so, they may institute stronger monitoring tool to safeguard their interest in the firm and

promote good corporate values that will increase performance of the firm. Constituent with this view, Arowolo and Che-Ahmad (2017) shows that blockholders are significantly related to the monitoring mechanisms. The study added that institutional blockholders in Nigeria are more likely to institute more monitoring mechanisms than the individual blockholders. This is because the institutional blockholders tends to be more knowledgeable as compare with individual.

Additionally, Farouk and Bashir (2017) documented inverse association between blockholders and earnings management in Nigeria. The finding implied that blockholders reduces manipulative accounting by participating actively in the monitoring of the managers and therefore, mitigating agency problems. consequently, evidence has also been found on the strong monitoring of blockholders in firms. Abdulmalik and Che-Ahmad (2016) revealed that blockholders are related to the enhancement of board monitoring and reduction of audit fees among the listed firms in Nigeria. The results further suggested that the monitoring of blockholders could lead to the reduction of agency problem between owners and the managers.

The agency theory can explain the association between blockholders and boards of directors. The theory suggested that agency conflicts are minimized when the interests of managers and principals are aligned through managerial ownership (Jensen & Meckling, 1976). Likewise, the presence of blockholders in a firm may improve corporate governance monitoring because they hold a sizable portion of the firm's shares. Thus, having greater holdings may enable blockholders to have more power to influence a firm's governance and exact pressure on the management to act



in accordance with the interests of the shareholders (Setia-Atmaja, 2009). However, some studies have indicated that blockholders might expropriate the minority shareholders (How, Verhoeven, & Wu, 2008; Lv et al., 2012). How et al. (2008) suggested further that the intensity of lowering the propensity to pay dividends is greater with shareholders controlling larger number of shares.

However, the incentive to maintain their reputations means that blockholders could negate the expropriation of the wealth of the firm at the expense of the minority shareholders. Moreover, the consequences of their actions could affect the entire firm, and, therefore, the wealth of blockholders could adversely be affected. Hence the blockholders may engage in monitoring the management.

Evidences revealed have shown blockholders may influence board characteristics (Bekiris, 2013; Boone et al., 2007; Dahya, Dimitrov, & McConnell, 2008; Hu & Kumar, 2004; Lasfer, 2006). Thus, the argument can be made that blockholders can moderate the role played by the board in firm corporate governance. Lasfer (2006) revealed a negative association between blockholders and board size. However, Bekiris (2013) indicated that board composition and blockholders is positively related demonstrating that a firm with a higher number of independent directors is likely to attract blockholders. Similarly, Dahya et al. (2008) documented a positive association between the composition of a board and blockholders particularly in countries with weak investor protections. Therefore, suggesting that the blockholders could compensate weak legal shareholder protection through a board with independent members.

However, evidence regarding the effect of board characteristics on dividends is inconclusive (Al-Najjar & Hussainey, 2009) because other firm-specific factors are neglected; one of them could be blockholders ownership. Based on the previous studies and from the perspectives of agency theory and resource dependence theory, blockholders is expected to moderate board characteristics and therefore, discussed and hypothesized in the following paragraphs.

Extant literature has unveiled that more investigation is required regarding the relationship between board size and propensity to pay dividends. Abdelsalam et al. (2008) from Egypt found negative but insignificant relationship between decision pay dividends and board size. Evidence from the GCC markets as studied by Mehdi, Sahut and Teulon (2017) indicates that board size and firms' decision to pay dividends are negatively correlated. In contrast, the findings of Officer (2006) and Boumosleh and Cline (2015) indicated that when the size of a board is large, then a firm shows a higher likelihood of paying dividends. So the study from Turkish firms by Al-Najjar and Kilincarslan (2016) also documented that board size and likely to pay dividend are positively related. Studies on corporate governance have shown that good corporate governance practices is associated with paying more dividends (Jiraporn et al., 2011). Therefore, it is expected and consistent with Baron and Kenny (1986) that the mixed results could be resolved with the introduction of a moderating variable for instance, blockholders ownership. This is because the blockholders have more incentive to monitor the firm and ensure good corporate governance practices. This study thus, hypothesized that:

**H<sub>9</sub>:** Blockholders moderates the relationship between board composition and propensity to pay dividends.

It is conceivable from the theory and previous study that agency conflict could be addressed when greater control is put in place and when blockholders have monitoring role in the firm (Abdulmalik & Che-Ahmad, 2016; Arowolo & Che-Ahmad, 2017). Consistent with this view, the current study employed blockholders ownership to moderate the mixed evidence revealed by extant literature on board composition and propensity to pay dividend. For instance, Iqbal (2013) and Al-Najjar and Hussainey (2009) reported a strong negative relationship between outside directors on board and the decision to pay dividends from Pakistan and UK respectively. Further, Abdelsalam et al. (2008) found insignificant relationship between board composition and decision to pay dividends. However, Hu and Kumar (2004) and Sharma (2011) found that outside directors on and board have positive and strong influence on the propensity to pay dividends. In line with the finding of Idris et al. (2017) who indicated that the presence of outside directors from non-financial listed firms in Nigeria increases the higher likelihood of a firm to pay dividends. In this regard, blockholders ownership could strengthen and reinforce the monitoring role of outside directors on board that are primarily hired to protect the interest of the shareholders and other firm stakeholders. Thus, this study hypothesized that:

**H<sub>10</sub>:** Blockholders moderates the relationship between board size and propensity to pay dividends.

Studies have indicated that paying dividends reduces the intensity of the agency conflict between owners and managers (Saeed & Sameer, 2017). It is worth noting that the managers should be influenced to pay more dividends in such a situation where firms can withstand to pay but the firms exhibit less likely to pay the dividends to shareholders. To encourage such payment of dividends is to provide opportunity to some specific directors to be among the board members with distinct features and experience among others. These types of directors for instance female can be rich in resources and thus, impact on various financial decisions the board may consider in which dividend payout is one of them. On the other hand, blockholders has been considered very useful in addressing agency conflict particularly in Nigeria (Abdulmalik & Che-Ahmad, 2016; Arowolo & Che-Ahmad, 2017). They documented that blockholders demand higher monitoring which help in reducing the opportunistic behavior of managers in firms. In addressing the opportunistic behavior female directors on board has been considered to provide such services (Pucheta-Martínez & Bel-Oms, 2016).

Evidence on board diversity and dividend policy remains unclear and mixed. McGuinness et al. (2015) using Chinese firms, documented negative correlation between directors on board and dividend policy. Similarly, Jurkus et al. (2011) found evidence that gender diversity and dividend payout are negative related. Saeed and Sameer (2017) also concur these findings from three emerging economies. Suggesting that female directors reduces the level of dividend payout. Contrarily, Pucheta-Martínez and Bel-Oms (2016) and Pucheta-Martínez and López-Zamora (2017) found women directors to have a significant positive effect on dividend

policy of firms. Also, Byoun et al. (2016) reported that boards with female directors tend to have higher likelihood of paying dividends. Consequently, Idris et al. (2017) revealed strong evidence that the probability of paying dividends tends to be higher as female directors is among the board members. From these findings, it could be seen that the association of gender and dividend policy is mixed. However, Baron and Kenny (1986) have suggested the use of moderating variable that can solve the existing inconsistency. Therefore, introducing blockholders on the relationship as moderator may provide additional information. The study thus, hypothesises that:

**H<sub>11</sub>:** Blockholders moderates the relationship between board diversity and propensity to pay dividends.

As noted in the paragraph above on gender, that including directors on the board with peculiar experience, for instance, directors with financial expertise is likely to change the way other board of directors handles financial issues including those that relate to dividend payout. In line with resource dependence theory, directors with financial expertise may plays major role in monitoring the managers since he or she is rich in resources (Pfeffer & Salancik, 1978) and may like to demonstrate his expertise in executing the services for which he or she was appointed for. Consistent with this argument, empirical findings have indicated that a director with financial expertise is valuable and able to mitigate earnings management both at the board and at committee levels (Cunningham, 2008; Kibiya et al., 2016). Jeanjean and Stolowy (2009) reported that financially expert directors are associated with greater corporate monitoring, valuable advice to the CEOs and access financial resources. The monitoring effectiveness of financial expert directors may likely to be superior in

firms controlled by large owners. This is because blockholders may not require much of other monitoring mechanisms (Desender et al., 2013) for instance, dividends since they are likely to be engaged in direct monitoring with a view to mitigate agency problems (Arowolo & Che-Ahmad, 2017). Support has been found from the US market that blockholders are positively related with directors financial expertise (Jeanjean & Stolowy, 2009). Also, the abilities and incentive of the board members are likely to be influenced by the blockholders (Desender et al., 2013).

However, the presence of financial expert directors may use more other monitoring mechanism (for example, dividends) to reinforce his or her monitoring role which will in turn protect his reputational capital. Thus, consistent with the resource dependence theory. Consequently, it is unclear as to how the financial expert directors will influence likely to pay dividends in firms with blockholders of different classes of shareholders with a view to protect his reputational capital and address agency conflict. Therefore, the study hypothesized that:

**H<sub>12</sub>:** Blockholders moderates the relationship between financial expertise on board and propensity to pay dividends.

Support for the relationship between CEO tenure and propensity to pay dividends is inconclusive. For example, Boumosleh and Cline (2015) revealed that CEO tenure influences dividend payout negatively. Consistent with their study, Sharma (2011) found negative but statistically insignificant association between CEO tenure and the propensity to pay dividends. Nevertheless, evidence revealed by Ghosh and Sirmans (2006) suggested that CEO tenure is associated with an increase dividend payment.

The finding agrees with McGuinness et al., (2015) who documented positive and significant evidence on the relationship between CEO tenure and likely to pay dividends. They indicated that CEO having longer tenure may pay more dividends to entrench themselves from shareholders threat that include firing.

However, from the resource dependence theory perspective, evidence has revealed that longer tenure may provide CEO with greater advantage to offer better services that the firm need (de Villiers et al., 2011; Finkelstein, 1992; Hillman et al., 2009). Thus, capable of dealing with contingent environmental matters that pose challenge to the success of the firm and enhancing greater firm value.

Given these inconsistent evidence as discussed above, it could be possible that these studies disregard the role of controlling shareholders in the firm. Bebchuk and Hamdani (2009) posited that the firms' corporate governance practices may be destructive if the role of the blockholders within the firm are ignored. One the roles could be providing monitoring services as they have strong incentive to do so. In line with this view, Renneboog and Trojanowski (2011) found strong evidence that blockholders are less likely to use dividend in addressing agency problems. Arko et al. (2014) supported this evidence and posited that blockholders in the form of institutions have lesser need for dividends to be used in controlling the managers. Therefore, it possible that blockholders can enhance the monitoring role of dividends therefore, resolving the inconsistency of the previous findings (Baron & Kenny, 1986). Hence, the study hypothesized that:

**H<sub>13</sub>:** Blockholders moderates the relationship between CEO tenure and propensity to pay dividends.

### **3.6 Control Variables**

To have a clear view on the influence of the predicting variables on the outcomes, the study employs control variables that include firm age, firm size firm leverage, sales growth and retained earnings. The selection is based on their suitability to the issue at hand, which is the propensity to pay dividends, and these control variables had been tested in the previous literature of dividends payout.

#### **3.6.1 Firm Age**

Firm age is measured as the number of years that a firm has been on the floor of a security market. Nnadi, Wogboroma, and Kabel (2013) found evidence relating to the importance of business age in the African markets. In line with their hypothesis, they showed that the age of the firm is positive and significantly correlated with dividend payout. They pointed out that as the firm reached a matured stage, its growth tends to shrink, and this leads to a reduction in the firms' capital expenditures. Therefore, this necessitates that a firm makes dividend payments. Jo and Pan (2009) noted that a likely likelihood to distribute dividends to their shareholders is more prevalent in matured firms rather than in growing firms.

Consistent with this view, von Eije and Megginson (2008) and Hu and Kumar (2004) showed age of the firm to be significant and positively correlated to the probability of companies paying dividends. Similarly, Fama and French (2001) argued that



dividend-paying firms are likely to be older and more matured. In contrast, Bokpin (2011) found a negative association between dividend and age of the firm. He argued that younger and new businesses have greater chances of paying dividends in Ghana.

### **3.6.2 Firm Size**

Firm size is also among the key determinants of dividend policy and is regarded as a one of the agency cost variables and could be higher in firms that are classified as being large (Farinha, 2003; Lv et al., 2012). Firm size could be measured as the logarithm of total assets (Al-Najjar & Hussainey, 2009; Sharma, 2011) or the logarithm of market capitalization (Farinha, 2003). Both agency conflict related type issues are likely to dominate larger firms, which may induce the continuous distribution of dividend (Benito & Young, 2003) which can help in controlling agency conflict.

Chen et al. (2011) found firm size to be significantly and positively related to dividends. The result is in line with some prior findings (Ferris et al, 2006; Ho, 2003). In addition, Yarram and Dollery (2015) tested Australian data and showed that firm size affected dividend policy positively. Adjaoud and Ben-Amar (2010) also revealed positive association between dividend payout and firm size using Canadian data. The result indicated that larger firms have a greater tendency to pay dividends than small firms.

### **3.6.3 Firm Leverage**

Prior studies have also examined the relationship of firm leverage on corporate payout and suggested an inverse relationship between leverage and dividend policy. In accordance with the prediction, Al-Najjar (2009) and Eije and Megginson (2008) supported the negative relationship between leverage and dividend policy. The results show that investors received fewer dividends when the level of a firm's indebtedness increases. Benito and Young (2003) showed that an increase in the level of leverage may likely affect the tendency of a firm to omit its dividend.

### **3.6.4 Sales Growth**

Another important factor in dividend decision is sales growth. The dividend policy literature has established the relationship between dividends and investment opportunity or sales growth (DeAngelo et al., 2006; Fama & French, 2001; Grullon et al., 2011). The studies have argued that firms in their early lifecycle experience growth and, thus, pay little or no dividend because of their cash requirements to finance new projects. Grullon et al. (2011) and DeAngelo et al. (2006) also showed that growth in sales was negatively related to the propensity to pay dividends. This indicates that firms with a higher growth in sales are less likely to pay dividends to shareholders. However, Arko, Abor, Adjasi and Amidu (2014) found growth firms to be positively related to propensity to pay dividends. The study contended that growth firms may likely use dividends to make their equity issues more attractive.

### **3.6.5 Retained Earnings**

The dividends of a firm may be affected by the availability of its retained earnings (Francis et al., 2011). Matured firms are believed to have more abundant amount of cash than non-matured ones. Matured firms are more generous than others regarding cash distributions in the form of dividends. DeAngelo et al. (2006) examined the tendency of a firm to pay dividends using retained earnings as measure of a firm's life cycle. They documented that matured firms had a greater tendency to be a dividend payer than less-matured firms. Again, Francis et al. (2011) noted that retained earnings measured as retained earnings to total capital is a powerful proxy when analysing the likelihood dividend payment.

### **3.7 Research Design**

This study is quantitative in nature and employs a correlational research design to investigate the direct effect of board characteristics and ownership structures on propensity to pay dividends and moderating effect of blockholders ownership on the relationship between board characteristics and propensity to pay dividends. The predictive relationship between the variables was the focus during the analysis. This is because merely a statistical association among variables may not have much value as this association is likely to lead to spurious findings (Antonakis, Bendahan, Jacquart, & Lalive, 2014).

### **3.8 Population of the Study**

The study population comprises all non-financial firms listed on the NSE Market spanning from the years from 2009 to 2015. The choice of 2009 was encouraged

because there was substantial decline in the payment of dividends in Nigeria (Abdulkadir, 2015). Moreover, the period was also chosen to ensure that all firms used in the study had data available for the consecutive period and last, 2009 marked the year when the committee of the NCCG submitted its final reports on the new code. The ending year, which is 2015, is due to the fact that the study uses probability models (logit regression) which requires large data set (Pallant, 2011) and to obtain data from recent annual reports.

The study focuses only on non-financial firms listed on the NSE for the following reasons. Firstly, studies have established that for example Baker, Dutta, and Saadi (2008) have found that factors affecting dividend policy vary from financials and non-financial firms likewise, in terms of industry classifications. Therefore, they suggested that the investigating dividend policy should consider partitioning firms by industry and their firm specific characteristics. Doing this classification, will permit a clearer view on the phenomenon under investigation.

Secondly, financial listed firms in Nigeria have a separate code administered by the CBN and Nigerian Insurance Commission (NAICOM) and the provisions therein differs. For example, the NCCG 2011 provides that each firm should have at least 5 directors on the board and no upper limit. On the other hand, the CBN code of corporate governance requires banks to have a minimum of 5 and maximum of 20 directors seating on board. Moreover, the NCCG requires firms to have at least one director as independent whereas, CBN code of corporate governance requires at least 2 independent directors on board.

Thirdly, CBN requires financial firms to adequately make some provisions with regards to; minimum capital adequacy ratio; meet up with cash reserve either low or moderate and a non-performing loan ratio not exceeding 5% before it will be allowed to pay dividend by the CBN. However, for the non-financials listed firms, there is no such provisions. Lastly, none of the prior studies on propensity to pay dividends (for example, DeAngelo et al., 2004; Fama & French, 2001; Fatemi & Bildik, 2012; Jiraporn et al., 2011; Kim & Kim, 2013; Sharma, 2011) combines financial and non-financial firms in their studies. Among the non-financial firms, only firms with available information on financial, board characteristics and ownership structures required for the analysis were selected for the ten sectors<sup>2</sup> of the NSE.

Corporate governance and ownership variables were collected from annual reports filed with NSE at the corporate offices in Kaduna and Kano. Information regarding the financial variables were also extracted from the published annual reports of the various firms used in this study.

### **3.9 Data Collection Sources and Methods**

The primary source of data used in this study was the published annual reports of the listed firms. These data were hand collected from the published annual reports of the firm filed with the NSE and the website of the sampled firms. All the variables for board characteristics and ownership structures variables used in the study were hand collected. For the board, these variables are board size, board composition, board

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<sup>2</sup> Agriculture, Conglomerates, Construction/Real Estate, Consumer Goods, Healthcare, ICT, Industrial Goods, Natural Resources, Oil and Gas and Services sectors.

diversity, financial expertise on the board, CEO tenure, and, for the ownership variables, they include, foreign, managerial and blockholders ownership. Likewise, the financial variables that were used for modelling the propensity to pay dividends and control variables were also hand collected. The financial variables include dividend payout, return on assets, market to book value of an equity as a proxy for investment growth, firm age, firm size, firm leverage, sales growth and retained earnings.

### **3.10 Techniques for Data Analysis and Statistical Tools**

Several techniques are used in the analysis of the data. In the first place, the study employs descriptive statistics, which comprise the mean, the minimum, the maximum, and the standard deviation of the sample variables. The study also uses Pearson correlation in examine the bivariate relationship among the variables under investigation. This is done to have preliminary information about the relationship of the variables. The correlation is also used to detect any form of statistical significance and correlations that may lead to the issue of multicollinearity within the explanatory variables (Yarram & Dollery, 2015).

Additionally, diagnostic tests are also conducted using variance inflation factors (VIF) to test for multicollinearity. The study also uses t-tests to analyze the differences between dividend and non-dividend payers consistent with the propensity to pay dividends literature (for example, Fatemi & Bildik, 2012; Jiraporn et al., 2011).

This research uses logit regression analysis to investigate the propensity to pay dividend. Previous studies have used panel logit or pool logit regression models in their analysis (Chang, Kang, & Li, 2016; Fatemi & Bildik, 2012; Hoberg & Prabhala, 2009; Kim & Kim, 2013).

However, this study used panel regression for the binary logit model because the data was collected from various firms across different period of time. The panel regression analysis has numerous advantages over pooled regression analysis. The panel data accounts for the individual heterogeneity of the firms. Baltagi (2005) contended that panel data control for heterogeneity and seem to be more informative, account for more reliability and degrees of freedom, have increased efficiency and have less collinearity among the variables under investigation.

Conversely, pooling the data that was obtained from different firms and across different time may lead to bias due to unobserved firms' individual heterogeneity. This is because the pooled regression ignores any differences that may arise due the characteristics of unit in the sample. Although some procedures have been offered for instance, to test for the equality of the coefficients as to whether to pool the data or not to pool. Nevertheless, this procedure (pooled coefficients) has been criticized by some scholars. For example, Andres, Golsch, and Schmidt (2013) and Maddala, Trost, Li, and Joutz (1997) contended that it is not realistic to assume that the slope of the coefficients in the pooled regression is homogeneous as the differences in the features of individual entity in this case firms with regards to panel data cannot be disputed. Thus, according to Podestà (2002) the conclusion that may be drawn from the use of pooled coefficients estimates may be unjustified. Consequently, panel data

models can address those shortcomings that surround the use of the pool regression model (Baltagi, 2005). Therefore, the current study uses panel data regression models to account for the unobserved individual firms' heterogeneity.

Basically, Baltagi (2005) stated that there are two commonly approaches to panel data analysis, fixed effects and random effects models. The fixed effects models consider the fact that every cross section has distinct features that are correlated with the regressors. This distinct feature of each cross-section is depicted by a subscript  $i$  on the intercept. The subscript  $i$  provides that a difference exists across the firms or entities under investigation only and do not extends across the timing. Hence, the fixed effects model in this case control for the time in-variant of entity's characteristics (Gujarati, 2004). This means that the intercept of fixed effect models varies whereas the slope coefficients do not change across entities or firms.

On the other hand, the assumption of random effects models is that the regressors of the model are uncorrelated with the individual specific effects. A time invariant observation is also included in the random effects model. However, random effects model negates to consider the model's intercept as static as it is obtainable in the fixed effects model. The intercept here is considered as a random variable having a mean value of  $(\beta)$  beta. The difference in the intercept value for the individual entity or firm is reflected in the error term of the model instead of the subscript. Accordingly, beta  $(\beta)$  and error term are used to show the cross-sectional mean value of the intercepts and deviation of the intercept from its mean value respectively.



To select between fixed effects and random effects model, a test is conducted known as Hausman test. This test allows the researcher to decide on the appropriate model to be reported with consistent estimates between fixed and random effects models. Greene (2012) noted that the rationale of using the Hausman test in panel regression model is to detect whether the results are inconsistent with the assumption on random effects model. The null Hypothesis of the Hausman test is that the estimated random and fixed effects coefficients are consistent. If the p-value is statistically insignificant that is having probability greater than 5% then it is better and safer to use random effects results. However, if the result from Hausman test shows that the probability is statistically significant, in this scenario, the fixed effects results is the appropriate and it should be the result to reported.

Conversely, for the cleaning of the data, this study winsorizes all the continuous variables at 1% and 99% levels to mitigate the potential effect of outliers and is in line with Grullon, Paye, Underwood, and Weston (2011). Regarding the statistical tool of analysis, the study uses Stata in conducting the various tests and for the panel logit regression analysis. For robustness check, the study uses random panel logit throughout the binary estimation models. Except for the linear model, in which the study uses dividend to total assets as an alternative measure of the dependent variable. In this case, panel corrected standard error (PCSE) estimation is used which allows for addressing any potential threat of heteroscedasticity and autocorrelation in the disturbances (Beck and Katz, 1995).

### **3.11 Univariate Analysis**

In examining the propensity to pay dividends, univariate analysis was conducted using board characteristics, ownership structures, and firm characteristics. The analysis allows the study to examine whether firms may be classified based on their dividend status, that is dividend payers and non-dividends payers, and whether they differ from each other based on firm characteristics, governance and ownership structures.

### **3.12 Dependent Variable Estimation**

The study constructs the dependent variable by adopting the Fama and French (2001) propensity to pay dividends model and is shown as Model 1. The sample firms used during the construction of the dependent variable is 89 firms every year. The following steps explained the process the current study follows to construct the dependent variable.

First, the study identifies three firm characteristics that were previously used in the literature of the propensity to pay dividends (Fama & French, 2001; Fatemi & Bildik, 2012; Ferris et al., 2006; Tangjitprom, 2013). These characteristics include return on assets, firm size, and growth opportunities. Return on assets is measured using profit before interest and tax scaled by total assets. Firm size is obtained by taking the logarithm of total assets whereas, investment growth opportunities are measured by the market value of the total capital to the book value of total assets (the market value of total capital is determined as book value of total assets less book

value of equity plus market value of equity). The model that incorporated these three variables is shown as Model 1.

Second, annual logit regressions are run over the sample period of 7 years. The dependent variable is 1, if a firm pays dividend in a year and 0 if otherwise. The explanatory variables are return on assets, firm size, and growth opportunities. In line with previous literature such as Tangjitprom (2013) and Ferris et al. (2006), the coefficients are then averaged based on the sampling period (7 years).

Third, to identify a payer, the values of the firm characteristics for each year are fitted into Model 1 that has average coefficients and therefore, computed by summing together such that the values of  $y^*$  can be obtained.

Fourth, following Hu and Kumar (2004), Officer (2006) and Tangjitprom (2013) a probability score is obtained for every firm in each year with the help of excel sheet in estimating the probability function ( $\text{Prob.} = e^{y^*} / (1 + e^{y^*})$ ). Further and consistent with the propensity to pay dividends literature, a firm is predicted to be a dividend payer when its predicted probability score is equal to or greater than to 50% and if it did pay a dividend in that year this is coded as  $\_1$ ; and otherwise  $\_0$ . Following this process will allow the study to ascertain the effectiveness of the board characteristics and the type of ownership used in the study. Therefore, the logit regression model is adopted from Fama and French (2001) and is depicted as follows:

$$Y_{it} = \beta_0 + \beta_1 \text{ROA}_{it} + \beta_2 \text{FSIZE}_{it} + \beta_3 \text{INVST}_{it} + E_{it} \dots \dots \dots (1)$$

Where Y = an indicator variable one if firm pays a dividend and zero otherwise

ROA = Return on Assets

FSIZE = Firm size

INVST = Investment growth

$\beta_0 - \beta_3$  = Coefficients of the logit model

E = error term

### 3.13 Research Model

This study investigates the relationship between propensity to pay dividends, board characteristics and ownership structures in non-financial firms listed on NSE. The variables for the study comprise dependent, independent, moderating and control variables. The dependent variable is the predicted probability score is equal to or greater than 50% and if it did pay a dividend in that year this is coded as  $\_1$ ; and otherwise  $\_0$  which is obtained from Model 1. This measurement is in line with the previous empirical studies on the propensity to pay dividends (Denis & Osobov, 2008; Fama & French, 2001; Fatemi & Bildik, 2012; Hu & Kumar, 2004; Kim & Kim, 2013; Tangjitprom, 2013).

Model 2 is designed to answer research question one and two of the study, and it is shown as follows:

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 FAGE_{it} + \beta_{10} FSIZE_{it} + \beta_{11} FLEV_{it} + \beta_{12} SGWRT_{it} + \beta_{13} RETE_{it} + E_{it} \dots \dots \dots (2).$$

This study also investigates the interaction effect of blockholders on the relationship between the propensity to pay dividends and board characteristics in non-financial

listed firms. Thus, Model 3 of this study is set to answer research question three and is depicted as follows:

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 BSIZE * BLOCKH_{it} + \beta_{10} BCOMP * BLOCKH_{it} + \beta_{11} BDIVER * BLOCKH_{it} + \beta_{12} FINEXP * BLOCKH_{it} + \beta_{13} CEOT * BLOCKH_{it} + \beta_{14} FAGE_{it} + \beta_{15} FSIZE_{it} + \beta_{16} FLEV_{it} + \beta_{17} SGWRT_{it} + \beta_{18} RETE_{it} + E_{it} \dots \dots \dots (3).$$

Following Baron and Kenny (1986) the interaction terms were constructed by obtaining the product of the independent variables values of interest (board size, board composition, financial expert on board and CEO tenure values) and the moderating variable values (blockholders ownership). For example, if the value of board size for a period is 5 and for blockholders ownership is 0.45, the product result will be 2.25 (5\*0.45). The same procedure was followed to obtain the values of the other interaction terms used in this study.

Table 3.1 below contains the full information of the acronyms used in the models as well as the measurement of each variable in addition to the source of each variable.

Table 3.1  
*Variable Definition and Measurement for the Study*

<b>Acronym</b>	<b>Definition</b>	<b>Variable measurement</b>	<b>Prior Studies</b>
PPD	Propensity to pay dividends	The dependent variable is the predicted probability score is equal to or greater than to 50% and if it did pay a dividend in that year this is coded as <u>1</u> , and otherwise <u>0</u> . $Y_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FSIZE_{it} + \beta_3 INVST_{it} + E_{it}$	Fama & French, 2001; Fatemi & Bildik, 2012; Ferris et al., 2006; Hu & Kumar, 2004; Kim & Kim, 2013

Table 3.1 (Continued)

<b>Acronym</b>	<b>Definition</b>	<b>Variable measurement</b>	<b>Prior Studies</b>
BSIZE	Board size	Total number of directors on the board	Roy (2015) Al-Najjar and Kilincarslan (2016) de Villiers et al. (2011)
BCOMP	Board composition	Percentage of outside directors on the board	Abor and Fiador (2013)
BDIVER	Board diversity	Percentage of female directors on board	Pucheta-Martinez and Bel-Oms (2016)
FINEXP	Professionals on the board	Percentage of financial experts on the board (accounting, finance and business)	Güner et al. (2008) Jeanjean and Stolowy (2009)
CEOT	CEO Tenure	Number of years spent as CEO in the firm	Feng et al. (2007) McGuinness et al. (2015) Ishak et al. (2012)
FOREO	Foreign ownership	Proportion of shares held by foreign investors to the total number of shares in issue	Jeon et al. (2011), Min and Bowman (2015)
MANO	Managerial ownership	The proportion of the number of shares held by executive directors divided by the total number of firms shares	Ishak (2010), Burg, Scheinert, and Streit (2001) and Pucheta-Martínez and López-Zamora (2017)
BLOCKH	Blockholders	The owners of at least 5% shares of the firm	Thomsen et al. (2006), Sanda et al. (2010)
BSIZE*BLOCKH	Interaction term of board size	Board size value multiply by the value of blockholders ownership	Baron and Kenny (1986)
BCOMP*BLOCKH	Interaction term of board composition	Board composition value multiply by the value of blockholders ownership	Baron and Kenny (1986)

Table 3.1 (Continued)

<b>Acronym</b>	<b>Definition</b>	<b>Variable measurement</b>	<b>Prior Studies</b>
BDIVER*BLOCKH	Interaction term of board diversity	Board diversity value multiply by the value of blockholders ownership	Baron and Kenny (1986)
FINEXP*BLOCKH	Interaction term of financial experts	Financial experts value multiply by the value of blockholders ownership	Baron and Kenny (1986)
CEOT*BLOCKH	Interaction term of CEO tenure	CEO tenure value multiply by the value of blockholders ownership	Baron and Kenny (1986)
FAGE	Firm age	The number of years the firm has been listed on the stock exchange	Hu and Kumar (2004)
FSIZE	Firm size	The logarithms of total assets at the end of firm's accounting year	Sharma (2011)
FLEV	Leverage	Total debt divided by total assets	DeAngelo, DeAngelo and Stulz (2006)
SGWRT	Sales growth	Current sales less previous sales divided by previous sales	Ferris et al. (2009), DeAngelo, DeAngelo and Stulz (2006)
RETE	Retained earnings	Retained earnings to total capital	Francis, Hasan, John and Song (2011), Bulan and Tanlu (2007)
ROA	Return on assets	Return on assets is measured using profit before interest and tax scaled by total assets.	Fama and French (2001), Fatemi and Bildik (2012)
INVST	Investment growth opportunities	Market value of the total capital to the book value of total assets	Fatemi and Bildik (2012), Jiraporn et al. (2011)

### **3.14 Summary of the Chapter**

The chapter discusses the research framework and the research methodology. The hypotheses developed are based on the association between board characteristics, ownership structures and the propensity to pay dividends in the Nigerian setting moderated by blockholders ownership. The board characteristics used in this study comprise board size, board composition, board diversity, financial expertise on board and CEO tenure. Regarding the ownership structures, the variables under consideration are foreign and managerial ownership as the independent variables while blockholders is used as a moderating variable. The hypotheses in this study are based on agency and resource dependency theories findings from the previous literature. The chapter also discusses the control variables that are used in the study.

The study uses a correlational research design, focusing on non-financial sectors as the population. The study period covers the years from 2009 to 2015 based on the availability of relevant information needed to test the model. The chapter also provides information on the techniques and tools of analysis and the measurement of the independent, dependent and control variables.



## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the data analysis and discusses the results of the study. At the beginning, it provides the population and sample classification in detail. Following this are descriptive statistics of the study and multivariate analyses for testing the research hypotheses. It also presents the results from diagnostic test relevant to the focus of study. The last part of the discussion presents the summary of the chapter.

#### 4.2 Population of the Study

The total number of listed firms on the main market of the NSE market during the period of study was found to be 158 firms. Of this figure, 53 firms are financial firms representing 33.5% and 105 firms are the non-financial firms listed representing 66.5%. From the total of 105 non-financial listed firms, 16 firms were further excluded due to missing information. This exclusion scaled down the sample size of the study to only 89 non-financial firms, which represents 53.6% of the total listed firms. The details of the sample size are shown in Table 4.1.

Table 4.1  
*Population and Sample for the Study*

<b>Population during the period 2009-2015</b>	<b>Unit</b>	<b>%</b>
Total listed firms in Nigeria Stock Exchange	158	100
Less: Financial firms	53	33.5
Total non-financial firms	105	66.5
Less: Firms with missing information	16	15.2
Total Sample for the study	89	53.3

Table 4.2 shows the total of 89 firms obtained from 10 different sectors of the NSE. The consumer goods sector has the highest number of firms with 18 firms representing 20.2%. Next is the services sector with 16 firms, which accounts for 18% followed by industrial goods with 14 firms, which accounts for 15.7%. The rest are oil and gas having 9 firms representing 10.1%; healthcare 8 firms representing 9%; ICT has 7 firms representing 7.9%; conglomerate 5 firms representing 5.6%; agriculture, construction and natural resources with 4 firms each, which accounts for 4.5% each.

Consequently, the firm-year observations of this study are 623 for the 7-year period (2009-2015). During the filtering process, the study uncovered 27 observations, which were categorized as outlier cases and are excluded from the analysis. Finally, this left the study with 596 firm-year observations. Table 4.2 present the details of the sample.

Table 4.2  
*Sectorial Classification of the Firms*

<b>Sectorial classification</b>	<b>NSE code</b>	<b>No. of Firms</b>	<b>%</b>	<b>Obs.</b>
Agriculture	1	4	4.5	28
Conglomerates	2	5	5.6	35
Construction/real est.	3	4	4.5	28
Consumer goods	4	18	20.2	126
Healthcare	5	8	9	56
ICT	6	7	7.9	49
Industrial goods	7	14	15.7	98
Natural resources	8	4	4.5	28
Oil and gas	9	9	10.1	63
Services	10	16	18	112
Total firms/observations		89	100	623
Less: Outlier cases				27
Final observations for the study				596

### 4.3 Descriptive Statistics

The descriptive statistics in this study includes the mean, the standard deviation, the minimum and the maximum values of variables used in this study. These statistics give a brief description of the propensity to pay dividends, which is the dependent variable. The rest includes a description of board structures, ownership and the control variables adopted for the study. Table 4.3 presents the descriptive statistics.

Table 4.3  
*Descriptive Statistics for the Sample Firms*

<b>Variable</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
PPD	0.52	0.50	0.00	1.00
BSIZE	8.62	2.15	5.00	15.00
BCOMP	0.69	0.12	0.33	0.90
BDIVER	0.08	0.09	0.00	0.40
FINEXP	0.44	0.16	0.17	1.00
CEOT	7.55	6.80	1.00	33.00
FOREO	0.25	0.29	0.00	0.87
MANO	0.07	0.15	0.00	0.63
BLOCKH	0.56	0.21	0.05	0.97
FAGE	21.30	12.86	1.00	44.00
FSIZE (Naira)	39.30	85.40	124.66	592.00
FLEV	0.53	0.21	0.14	0.90
SGRWT	0.12	0.30	-0.88	0.88
RETE	0.55	0.19	-0.04	0.95

Note: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP= financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital.

From the Table 4.3 the average and the standard deviation of the propensity to pay dividends are 52% and 50% respectively. The minimum value is zero while the maximum is 1. The board size, which is a count variable has a mean value of 8.6 and standard deviation of 2.1. The table also shows a minimum of 5 members sitting on the board with a maximum of 15 members. This means that the sample firms comply with the 2011 NCCG that requires firms to have five directors as minimum sitting on

the board. Regarding the board composition, the mean value and standard deviation are 69% and 12% respectively. The mean value of board composition is slightly lower as compared to the mean of 70.4% documented from the United States (Sharma, 2011). The minimum value for the outside directors on board is 33%. This implies that some firms do not comply with the NCCG 2011 that mandates firms to have a majority of outside directors occupying the board. Females on the average account for only 8% with a variability of 9%. However, the statistics here indicates that non-financial firms in Nigeria have a higher score of female directors on board compared with the mean value of 7.8% reported from Spanish listed firm (Pucheta-Martínez & Bel-Oms, 2016). However, some Nigerian firms had 0% with regard to female representation on the board whereas, some firms had a remarkable female representation their boards of up to 40%.

Financial expertise on board of the sample firms has a mean value of 44% relative to board size with a standard deviation of 16%. The minimum value for financial experts on board is 17% whereas the maximum value is 100% implying that all firms within the sampling period have financial experts on their board. The results of this statistic is in agreement with the previous findings of Jeanjean and Stolowy (2009) from France and Chan, Faff, Khan, and Mather (2013) in Australia that reported a maximum value of 100% with respect to financial experts. The result suggests that financial experts on a board are important to the firm because they provide financial services to the firm among other contributions. This is consistent with the literature that notes that financial experts have an important role for instance addressing agency problems (Jeanjean & Stolowy, 2009).

CEO tenure, which is measured in years in this study, has an average of 7.55 and standard deviation of 6.8 years since the appointment as CEO. Using data from the United States, Hu and Kumar (2004) reported the mean and standard deviation of CEO tenure to be 8.7 and 7.5 years respectively. These figures are slightly higher than what is found in this study. Moreover, Sharma (2011) presented 15 and 11 years of the CEO tenure as the mean value and standard deviation respectively. His findings implied CEOs in the United States have a longer tenure than those in Nigeria.

The first variable on the ownership structures is foreign ownership. The mean value of foreign ownership is 25% and standard deviation of 29% indicates that foreign investors have some controlling shares in the sample study. Thus, the minimum and maximum value range from 0% to 87% respectively. This mean shows that foreign ownership may have a considerable influence on all the firm decisions.

Managerial ownership accounts for 7% on the average with a standard deviation of 15%. The minimum in this case is also 0% while the maximum value is 63%. These statistics have important implications with respect to agency theory such that firms with reasonable ownership are likely to pursue activities in line with the interests of other shareholders. However, in Malaysia, the mean and maximum values of managerial holdings are 20.9% and 88.9% respectively (Ishak, 2010). This is higher than those of Nigerian managers. From the descriptive statistics, blockholders scored a mean of 56% on the average with a minimum of 5% and a maximum of 97%. The mean of this study is considerably higher than the mean of 36% documented by Liljeblom

and Maury (2016) and 32.94% by Harada and Nguyen (2011) from Russia and Japan respectively.

Firm age has an average of 21.3 years with a standard deviation of 12.86 and the age runs from 1 to 44 years for the minimum and maximum value respectively. Hence, this indicates a relatively high variability of the sample firms with a high of 44 years of listing and a low of 1 year prior to the study period.

Firm size is the natural log of total assets. However, for the descriptive statistics, the untransformed figure of the total assets is used. In this regard, the mean value of the total assets is 39.30 billion Naira, further, the maximum is figure among the sample firms is 592 billion Naira.

Firm leverage is the ratio of total debt to total assets. The study reveals a mean of 53% with a standard deviation of 21%. The leverage ratio ranges from a low value of 14% to a high value of 90%. These statistics indicate that the sampled non-financial firms are highly indebted. This is true when compared with a mean value of 22% as reported by Jiraporn, Kim and Kim (2011) from the United States.

Sales growth which is the change in sales between a period, is used as a proxy for investment growth in Model 2 and Model 3. The statistics show that on the average the firms have a mean value of 12% as compared with Amidu and Abor (2006) that shows sales growth among firms in Ghana to be 35.2%. Furthermore, some firms in the sample reported a decline in their sales of up to 88% while others have an increase in their sales of up to 88%.

The last control variable of this study is ratio of retained earnings to capital. The statistics for this variable accounts for a mean of 55% remarkably that is higher than the 11.7% reported for US firms (Jiraporn et al., 2011). Sample firms of this study show a minimum negative of 4%, implying accumulated losses over a period. Conversely, the maximum value is considerably higher having a value of 95%.

This study also provides the descriptive statistics for the dividends payers and non-dividend payers separately. This is presented in Table 4.4. Prior studies have reveal that dividend paying and non-paying firms have distinctive features both in financial governance and characteristics (Fatemi & Bildik, 2012; Jiraporn et al., 2011; Kim & Kim, 2013).

Table 4.4  
*Descriptive Statistics for the Dividend Payers and Non-dividends Payers Firm*

Variable	Dividends payers: PPD = 1			Non-dividends Payers: PPD = 0			P-value
	Obs.	Mean	St D	Obs.	Mean	St D	
BFSIZE	308	9.12	2.11	288	8.03	2.04	0.00
BCOMP	308	0.69	0.12	288	0.69	0.13	0.66
BDIVER	308	0.10	0.09	288	0.07	0.09	0.00
FINEXP	308	0.47	0.16	288	0.41	0.17	0.00
CEOT	308	5.79	5.03	288	9.44	7.87	0.00
FOREO	308	0.31	0.29	288	0.20	0.28	0.00
MANO	308	0.41	0.12	288	0.11	0.18	0.00
BLOCKH	308	0.57	0.21	288	0.56	0.22	0.42
FAGE	308	23.14	13.19	288	19.34	12.2	0.00
FSIZE(Naira)	308	68.50	110.0	288	8.04	13.1	0.00
FLEV	308	0.53	0.19	288	0.54	0.23	0.70
SGRWT	308	0.27	0.17	288	-0.03	0.35	0.00
RETE	308	0.57	0.17	288	0.54	0.21	0.105

Note: PPD=propensity to pay dividends; BFSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital.

The statistics in Table 4.4 show that dividend paying firms have a large board size with a mean of 9.12 directors and higher proportion of gender diversity of 10% than

the non-paying firms. Regarding the presence of financial experts, the dividend payers have also a higher value of 47% compared with non-dividends paying firms with a value of 41%. CEOs in non-dividend paying firms have longer tenure with a mean value of 9.44 years than paying firms whose mean value of CEO tenure is 5.79 years.

On the other hand, the statistics of the ownership variables indicate that foreign shareholders focus more on dividend payers. The statistics show that the payers have on average a mean of 31% compared with non-payers that scored a mean of 20%, and this difference is statistically significant. Furthermore, the dividend payers continue to show higher percentages in the holdings of managers and blockholders respectively. Consistent with Jiraporn et al. (2011), this study shows a percentage of managerial ownership in dividend payers of 41%, which is considerably higher than the 11% of the non-paying firms.

Conversely, the statistics on firm financial characteristics in Table 4.4 also shows that dividend paying firms are more matured than non-paying firms as the mean age of paying firms is 23.14 years compared to non-dividend paying firms with a mean age of 19.34 years. The dividend payers are also larger in size as measured by total assets of 68.5 billion Naira and have a higher change in sales of 27% and retained earnings of 57% than the non-dividend paying firms with mean total assets 8.04 billion Naira, change in sales of -3% and retained earnings of 54%. These statistics confirm the findings revealed by previous studies (DeAngelo et al., 2006; Fama & French, 2001; Fatemi & Bildik, 2012; Ferris et al., 2006).



Regarding the firms' leverage, the current study found non-dividend paying firms to be more indebted than the dividend paying firms. The result is in line with Sharma (2011) who documented that non-dividend paying firms are relatively more indebted and accounted for 54% compared to payers whose mean value was 53%. This implies that non-paying firm uses debt to finance their assets and are more likely to be subjected to dividend payment restrictions. Thus, they reserve more cash for debtholders.

#### **4.4 Correlation Analysis**

The correlation analysis is conducted to show the association between the dependent and independent variables as well as the relationship among the independent variables. The correlation analysis of the independent variables is to enable the study to ascertain the direction and strength of relationship. All the independent variables are continuous; hence, Pearson correlation is used for this study.

Table 4.5 shows the correlation between all the variables. According to Pallant (2011) correlation can be regarded as small when ( $r=0.10$  to  $0.29$ ), or medium ( $r=0.30$  to  $0.49$ ) or large ( $r=0.50$  to  $1.0$ ). With respect to this rule of thumb, none of the variables exhibited high correlations amongst them and that will require further attention.

The variables with the highest correlation of 48% is between foreign ownership and blockholders ownership; this is followed by foreign ownership and firm age with 43%. Meanwhile, other variables with a moderate correlation irrespective of the direction include board size and financial experts on the board 41%, board size and

firm size 42%, managerial ownership and firm age 39%, CEO tenure and managerial ownership 39%, board composition and managerial ownership 30% as shown in Table 4.5. All these values of the correlation are within the medium range of  $r=0.30$  to  $0.49$  and do not pose a multicollinearity threat.

The lowest correlation is 0.11%, which is between CEO tenure and retained earnings. Based on these analysis, the correlation between explanatory variables confirmed the absence of a perfect association. Overall and in accordance with the threshold documented by Gujarati, (2004) and Hair, Black, Babin, and Anderson (2010), the argument may be made that no multicollinearity issue exists in the study because none of the correlation coefficients has a value greater than 0.80.

Apart from the magnitude, Table 4.5 also shows the direction of the association between the variables used in this study and whether they are positive or negative. Firms with a large number of board members have a higher portion of female directors on the board and are more likely to pay dividends, and the result is statistically significant at 1%. However, this result needs to be validated using causal analyses. In addition, firms that are controlled by foreign shareholders also have the tendency to pay dividends. Furthermore, large and matured firms among the non-financial firms in the NSE market have a higher sales growth and are more likely to pay dividends.

The correlation between the propensity to pay dividends and firm size is found to be positive and statistically significant at 1%. This shows that larger firms are more likely to be a dividend paying firm. Conversely, the correlation of CEO tenure and

propensity to pay dividends is negative and significant at 1%. This means that firms that have CEOs with longer tenure and have considerable managerial ownership are less likely to pay dividends. As noted earlier, the findings from the correlation is not a causal relationship between the dependent and the independent variables.

The correlation among the independent variables is also discussed. Board size and foreign shareholders are positively correlated indicating that firms with a higher number of directors tend to be controlled by foreign investors. From the correlation analysis, the results reveal that firms with larger boards have lower financial expertise on boards with shorter CEO tenure and less managerial ownership. The results are statistically significant at 1%, and the results may imply that these variables are substitutes for each other. The correlation results also show that, among the samples firms, matured firms are more likely to have higher sales growth.

Outside directors on board is negatively correlated with CEO tenure and managerial ownership. This correlation result suggests that firms with more outside directors may shorten the tenure of CEOs. On the other hand, the firms may be less matured and with lower debt to finance its assets and have a lower tendency in the profit retention rate. This is an indication that outside directors on board and debt are substitutes for each other.

For firms with a higher proportion of female directors on board may result in a higher percentage of financial experts on board. Thus, indicating that the firms may be more diverse in terms of gender and financial expertise. Further, the firms could be matured and may experience a higher sale growth rate. However, these firms may

have a lower tendency to have CEOs with longer tenure. Likewise, firms with a considerable portion of females on the board may be less controlled by foreign and managerial ownership. Moreover, firms with more female directors on the board may have lower blockholders. The result may be inferred that firms with blockholders are less likely to be a diverse firm in terms of females. Furthermore, the result may indicate that blockholders are less likely to support hiring of a female director.

The result of the correlation of this study also shows that matured firms may have more financial experts on the board that were hired to advise the CEO and serve the firms in general. This result implies that matured firms require the services of more financial experts to properly manage their accumulated funds.

The last variable among the board characteristics variables is CEO tenure. CEO tenure is positively associated with managerial ownership. The correlational result of this variable revealed that firms with a CEO serving for a longer period may be controlled by executive directors. therefore, reducing the intensity of agency problems. This is because the CEO may be less likely to be entrenched. The result also indicated firms with longer CEOs tenure may have low foreign ownership, have less debt and be less matured. CEO tenure and firm leverage are negatively correlated. The result shows that firms with longer CEO tenure are less levered indicating that the firms may finance their assets with few debts.

The results from the correlational analysis of the ownership variables shows that foreign and blockholders ownership are positively correlated. The result is

statistically significant at 5%. The results also indicate that foreign investors prefer more matured and larger firms with a higher growth rate. The correlation result also shows that firms with a large percentage of foreign ownership may have a considerable number of shares that are controlled by blockholders. In addition, the firms could be matured firms that finance their assets through debt and have a higher growth rate. Thus, these matured firms may have more access to debt that can be employed for asset financing. However, the result from the correlation of foreign and managerial ownership is negative. This suggest that executive directors on the board may be less interested in investing in firms controlled by foreign investors. It is also possible that foreign owners do not use executive directors for control with respect to agency theory.

Like the foreign controlled firms, the results of the correlation also show that managerial controlled firms are positively correlated with blockholders indicating that the firms tend to have more blockholders ownership. In contrast, the managerial-controlled firms are less matured and have less sales growth as compared to the foreign-controlled firms.

The correlation result between blockholder ownership and firm size is positive and significant. The results show that the larger the firm the more the blockholders in the firm. Therefore, blockholders may have more control in larger firms. The result also revealed that the blockholder-controlled firms have a higher tendency to finance their assets using debts. The correlational result between blockholders and size of the firm, may also indicate that the firms have more access to debt financing and, therefore, may use debt for their operations.

Table 4.5  
Correlation Matrix for all Variables

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.PPD	1													
2.BSIZE	0.269***	1												
3.BCOMP	-0.017	0.058	1											
4.BDIVER	0.160***	0.057	0.015	1										
5.FINEXP	0.179***	-0.389***	-0.049	0.177***	1									
6.CEOT	-0.269***	-0.180***	-0.163**	* -0.028	-0.045	1								
7.FOREO	0.185***	0.112**	-0.022	-0.187***	0.070	-0.228***	1							
8.MANO	-0.219***	-0.171***	-0.303***	-0.087*	-0.066	0.393***	-0.178***	1						
9.BLOCKH	0.032	-0.001	0.015	-0.240***	0.066	-0.140***	0.482***	0.097*	1					
10.FAGE	0.148***	0.104*	-0.029	0.120**	0.090*	-0.292***	0.439***	-0.385***	-0.025	1				
11.FSIZE	0.562***	0.419***	-0.088*	0.049	0.108**	-0.183***	0.233***	-0.235***	0.158***	0.092*	1			
12.FLEV	-0.015	0.002	-0.160***	-0.063	0.023	-0.115**	0.080*	-0.002	0.083*	0.187***	0.174***	1		
13.SGRWT	0.473***	0.094*	0.014	0.101*	0.079	-0.141***	0.110**	-0.142***	0.070	0.140***	0.190***	0.075	1	
14.RETE	0.066	0.064	-0.090*	-0.005	-0.036	0.001	0.027	0.056	0.005	-0.003	0.147***	0.076	0.004	1

Notes: \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significance at the 1%, 5% and 10% levels respectively. PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV= firm leverage; SGRWT=sales growth; and RETE= retained earnings to total capital.

## **4.5 Multivariate Analysis**

This section discusses the results for the multivariate analysis applied in this study that aimed at investigating the effect of board characteristics and ownership structures on the decision to pay dividends as well as the interaction effect of blockholders among the listed non-financial firms in Nigeria. The section is rearranged as follows: first, the study discusses the underlying assumption of logit regression, second, the study discusses the results of panel logit regression, and third, the additional sensitivity analysis.

### **4.5.1 Assumptions of Logistic Regression**

The econometrics process suggests some diagnostic tests depending on the nature of the dependent and independent variables. Because the dependent variable of this is binary in nature, the diagnostic checks for this model differ from those used for continuous variables as dependent variables. Hair et al. (2010) Pallant (2011) and Tabachnick and Fidell (2013) stated that logistics regression considers three critical assumptions that include sample size, multicollinearity and tests for outliers. Studies that use a binary number as the dependent variable are obliged to consider these assumptions. The following discuss the assumption of logit regression.

#### **4.5.1.1 Sample Size**

The first assumption is the sample size or the number of cases to be examined. According to Pallant (2011) argument in a logit regression when the independent variables are large, the data set also is required to be large. In specific terms, Roscoe (1975) as cited in Sekaran and Bougie (2016), provides that the set of data needed

for a single independent variable should range from 10-20. Hence, the data set in this study contains 596 cases with a minimum of 13 explanatory variables and it represents a ratio of 45:1. This ratio meets the requirement as suggested by Roscoe (1975) and Pallant (2011).

#### **4.5.1.2 Multicollinearity Assumption**

Before conducting a logistic regression analysis, it is imperative to ensure that the logistic regression model has little or no multicollinearity. This means that the independent variables are expected to be independent. Multicollinearity occurs when an explanatory variable is strongly associated with one or more of the other explanatory variables ( $r > 0.90$ ) (Tabachnick & Fidell, 2013).

The test of multicollinearity for the explanatory variables is presented in Table 4.6. The results from the test indicates that the variables do not go beyond the acceptable limit. According to Gujarati (2004), the acceptable range of variance inflation factors (VIF) values should not be greater than 10 as this may pose a problem of multicollinearity. In other words, multicollinearity exists when the tolerance value is less than 0.01 (Hair et al., 2010; Pallant, 2011). In line with this suggestion, none of the variables has a tolerance value of less than 0.01 or a VIF value of more than 10. The highest VIF value in this study is 1.9 for foreign ownership, followed by board size, firm age and firm size for 1.72, 1.69, 1.60 respectively. On the other hand, the least is 1.06 for retained earnings followed by sales growth with a VIF value of 1.09 as shown in Table 4.6. Thus, the second assumption of logistic regression is also met.



Table 4.6  
*Multicollinearity Diagnostic Test*

<b>Variable</b>	<b>VIF</b>	<b>Tolerance</b>
BSIZE	1.69	0.5928
BCOMP	1.22	0.8195
BDIVER	1.2	0.8364
FINEXP	1.43	0.7013
CEOT	1.31	0.7632
FOREO	1.91	0.5244
MANO	1.60	0.6242
BLOCKH	1.56	0.6418
FAGE	1.72	0.5828
FSIZE	1.64	0.6096
FLEV	1.17	0.8546
SGRWT	1.09	0.9133
RETE	1.06	0.9466
MEAN VIF	1.43	

Note: BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital

#### 4.5.1.3 Outliers Test

Hair et al. (2010) stated that outliers are observations with a peculiar combination of characteristics and distinctively different from other observations. Furthermore, Pallant (2011) denotes that cases with a standardised residual of greater than 3.3 or less than -3.3 are regarded as outliers. This study employed residuals during the cleaning of the data to ensure that it is free from outliers. Accordingly, in this study, the maximum standardized residual is 2.68 and the minimum is -3.10. In this regard, there is no outlier cases in this study. Details are presented in Table 4.7.

Table 4.7  
*Outlier Test Using Residual Statistics*

Variable	Obs.	Mean	Std. Dev.	Minimum	Maximum
Residuals (r)	596	-0.01	0.74	-3.12	2.63
Std. residual (rs)	596	-0.01	0.76	-3.10	2.68

#### 4.6 Panel Logit Regression Results

The models for estimating the propensity to pay dividends is developed to include board characteristics and ownership structures variables. Model 1 is used to construct the dependent variable. The independent variables in that model are ROA, firm size and investment growth with a binary number as the dependent variable, and the model along with the results are shown in Table 4.8

$$Y_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 FSIZE_{it} + \beta_3 INVST_{it} + E_{it} \dots \dots \dots (1)$$

Table 4.8  
*Yearly Regression and Average Statistics from Model 1 for PPD Modelling*

Year	ROA	FSIZE	INVST	CONS	LR Chi Sqr
2009	7.89	1.40	-1.28	-9.02	29.29***
2010	17.18	0.64	-0.55	-5.25	34.11***
2011	10.87	0.83	1.20	-6.79	26.15***
2012	3.74	0.85	-0.85	-5.04	13.34***
2013	12.59	1.10	-0.25	-7.43	25.13***
2014	4.79	1.67	-3.26	-9.69	28.33***
2015	3.37	1.49	-3.11	-8.80	28.16***
Average coef.	8.63	1.14	-1.16	-7.43	26.36***
Average Std. Err.	3.054	0.416	1.457	2.765	
Average z	2.612	2.721	-0.742	-2.675	
Average P>z	0.016	0.014	0.206	0.009	

Notes: \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively. ROA=return on assets; FSIZE=firm size; INVST=investment growth opportunities; CONS=constant; and LR Chi sqr=likelihood-ratio chi-square.

Table 4.8 contains the results of annual logit regressions that explain the probability of firms to pay dividends. For each year from 2009 to 2015 the separate logit regressions were run for all the sample firms. The table also reported average

coefficients, standard errors, z-values and the probability values that are used for the estimation of annual logit regressions using Model 1. In agreement with Tangjitprom (2013), the current study also examines the overall significance of the models based on the likelihood ratio statistic results in Table 4.8. Evidently, the results from each of the estimates is statistically significant at 1%. Furthermore, the sign of the coefficients are consistent with the literature (Fama & French, 2001; Fatemi & Bildik, 2012) suggesting that more profitable and larger firms tends to pay dividends as oppose to loss and smaller firms. Whereas, highly growth firms are less likely to be among the dividend payers.

However, except in 2011 for which investment growth (market to book value of equity) is found to be positive. This finding contradicts (Fama & French, 2001; Fatemi & Bildik, 2012) but is in line with Tangjitprom (2013) and partially in agreement with Ferris et al. (2006) that also reported a positive association between growth opportunities and dividends from Thailand and the United Kingdom respectively. The result may be interpreted because of the backdrop that the equity market suffered. In this, some firms in the NSE may have attempted to entice investors by paying more dividends. Alternatively, it may be argued the result is driven by the unique features of the Nigerian market.

#### **4.7 Model Fitness**

The fitness of the model is tested using likelihood ratio chi-square and Wald test. The results from these statistics are show in Table 4.9.

Table 4.9  
*Model Fitness of Panel Logit Regression*

<b>Model</b>	<b>Obs.</b>	<b>Wald <math>\chi^2</math></b>	<b>DF</b>	<b>LR for rho</b>	<b>Rho value</b>
Two (2)	596	44.87***	13	46.33***	0.633
Three (3)	596	47.63***	18	37.82***	0.603

\*\*\*, \*\*, and \* indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

Table 4.9 shows the result from the fitness test of the two models in the study direct model (Model 2) and the moderating model (Model 3) which are used to answer the following research questions:

1. Do board characteristics (composition, size, diversity, financial expertise on the board and CEO tenure) affect the propensity to pay dividends in Nigeria?
2. Do ownership structures (foreign, managerial, and blockholders ownership) influence the propensity to pay dividends in Nigeria?
3. Do blockholders moderate the relationship between board characteristics (composition, size, diversity, financial expertise on the board and CEO tenure) and the propensity to pay dividends in Nigeria?

The Wald chi-square is reported in Table 4.9 provides statistical test for assessing the model fitness in other words, the difference between the base and proposed model. According to Hair et al. (2010) having a statistically significant Wald chi-square, is an indication of the fact that the model is fit which is similar to overall F test in linear regression. Based on this fact, the Wald chi-square statistic for the current study has a value of 44.87 with 13 degrees of freedom, and is statistically significant at the 1% level. Hence, suggesting the fitness of the model in this case Model 2.

Conversely, Model 3 contains five different interaction terms, and the results from the fitness test reveal Wald chi-square statistics of 47.63 with degrees of freedom of 18, and the model is statistically significant at 1%.

Equally, the likelihood-ratio tests for Model 2 and Model 3 are all significant at the 1% level signifying that the amount of the total variance that has been contributed by ( $\rho$ ) the panel-level variance component. Similarly, the values of the  $\rho$  from the results are consistently significant and different from zero for Model 2 and Model 3 at 0.633 and 0.603 respectively. The results thus, suggest that the panel random effects models are better than the pooled models.

#### **4.8 Testing of Hypothesis and Discussion of Findings**

The results of the estimated panel logit regression are discussed in the following subsections in detail. The discussions are centred on the predicted signs as well as the significance of each of the estimated parameters. Further, the study discusses the results of the two models separately. As mentioned earlier, Model 2 is a direct model whereas Model 3 is with interaction terms. All the two models were also re-estimated using robust panel logit regression by clustering the standard error at the panel level.

#### **4.9 The Effect of Board Characteristics and Ownership Structures on the Propensity to Pay Dividends**

Table 4.10 provides the results from Model 2 using panel logit regressions to test the effect of board characteristics and ownership structures on the propensity to pay dividends. The model also included five different firm specific characteristics as

control variables. The result is based on panel random estimation. This is because the post estimation conducted using Hausman specification test shows a chi-square statistic of 9.06 with a probability of 0.7686. Thus, this suggests that the random effect model serves as the best model for the analysis. The model employed in conducting the analysis is shown below as Model 2.

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 FAGE_{it} + \beta_{10} FSIZE_{it} + \beta_{11} FLEV_{it} + \beta_{12} SGRWT_{it} + \beta_{13} RETE_{it} + E_{it} \dots \dots \dots (2).$$

Table 4.10  
*Results from the Direct Panel Logit Regression Model*

Variable	Expected Sign	Coef.	Std. Err.	z	P>z
BSIZE	+	-0.08	0.16	-0.52	0.60
BCOMP	+	0.08	2.18	0.04	0.97
BDIVER	+	8.62	3.41	2.52**	0.01
FINEXP	+	2.77	1.58	1.75*	0.08
CEOT	+	-0.17	0.05	-3.03***	0.00
FOREO	+	5.95	1.76	3.38***	0.00
MANO	+	5.64	2.43	2.32**	0.02
BLOCKH		-6.97	1.96	-3.55***	0.00
FAGE		-0.07	0.03	-2.02**	0.04
FSIZE		6.11	1.03	5.89***	0.00
FLEV		-2.82	1.36	-2.07**	0.03
SGRWT		12.97	2.20	5.90***	0.00
RETE		-0.533	0.95	-0.56	0.57
_CONS		-38.90	6.99	-5.56***	0.00
Chi-square		44.87*** (df=13)			
LR test of rho		46.33***			
Rho Value		0.633			
Hausman test:					
Chi-square		9.060			
Probability		0.769			

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on the board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistically significant at the 1%, 5% and 10% levels respectively.

#### **4.9.1 Board Size and Propensity to Pay Dividends**

It was hypothesized that board size affects the propensity to pay dividends positively. The result of the logit regression reported in Table 4.10 shows that board size and the propensity to pay dividends are negatively related, which means that the greater the board size the lower the probability for the firm to pay a dividend, although the result is not statistically significant. Nonetheless, when the sign of the association between the board size and propensity to pay dividend is considered, the inference can be made that the result is in line with the notion that a small board may be better in terms of monitoring and may not be easily manipulated by the managers as compared to a large board.

Consequently, the result suggests that board size has no impact on the propensity to pay dividends. This finding is in line with the previous evidence (Abdelsalam et al., 2008; Arshad et al., 2013; Prasanna, 2014; Setia-Atmaja et al., 2009; Yarram & Dollery, 2015) that board size does not influence decision to pay dividends and in contrast with the findings several scholars (Boumosleh & Cline, 2015; Idris et al., 2017; Jiraporn & Ning, 2006) who revealed that a firm with a larger number of directors on board has more likelihood to affect the payment of dividends. Therefore, the finding contradicts the proposed hypothesis ( $H_1$ ) that suggests a positive association between board size and the propensity to pay dividends. The negative and insignificant findings might be due to the sampling period of the study as it covers period immediately after the financial crisis which occurred between 2007 to 2009 (Abdulkadir, 2015) hence, may impact on the result of board size.

#### **4.9.2 Board Composition and Propensity to Pay Dividends**

Board composition is the percentage of outside directors on board. The study predicted a positive association between board composition and the propensity to pay dividends. Hypothesis two (H<sub>2</sub>) suggests that the board composition is positively related to the propensity to pay dividends. However, the results of the current study as shown in Table 4.10 failed to establish a strong association between board composition and the decision to pay dividends. This result may imply that outside directors on the boards of non-financial listed firms are not influencing corporate payout. The findings is consistent with previous studies (Abdelsalam et al., 2008; De Cesari & Ozkan, 2014; Yarram & Dollery, 2015) that found no significant relationship between likely to pay dividends and board composition. However, contradicts Idris et al. (2017) that revealed a significant positive association between outside directors on board and decision to pay dividends from the NSE market.

Some possible reasons for this outcome are the following. First, there are instances in some of the firms where previous executive directors having served the board who have retired are elected to the board again with non-executive status in other words continuation of directorship after retired as an executive director in the firm. Although the NCCG has advocated the need of the board of a firm to have most of its directors to be from outside, the NCCG did not expressly distinguish between a retired executive director who is appointed as an outside director and another outside director who has never worked in the firm. Therefore, this allows the firm to hire a retired executive director and classify him or her as an outside director. Thus,



according to Ofo (2011), this type of director may lack independent in character and judgment.

Second, the management may have some degree of influence on who is to be appointed to the board irrespective of whether he or she has qualifications or does not have them (Okpara, 2011). Therefore, having connections with the top management may grant the candidates for the directorship to secure the position. Moreover, when these type of outside directors are appointed they may not be committed to the board activities such that they consider some important decisions that might affect shareholders' interests in the firm. Okpara (2011) noted that outside directors remain a challenge in Nigeria because of the inadequate skills and familiarity with board roles as well as the fiducial responsibilities. Hence, the board may become an avenue for meeting with friends rather than for discussing matters that relates to the firm and shareholders as well.

Third, the outside directors may not be properly evaluated. Inadequate or the lack of proper techniques for evaluating the performance of outside directors may also pose a serious challenge to the enhancement of the corporate governance practices. This issue may, in turn, affect financial decision of which dividend payout decision is one of them.

Fourth, in addition to the above reasons that may have affected the outcome of the association between board composition and propensity to pay dividend, may be the overstay of directors. This makes members fall short in their monitoring and resource provision roles in the firm.

### **4.9.3 Board Diversity and Propensity to Pay Dividends**

Gender diversity represent the percentage of female directors relative to board size. Hypothesis 3 (H<sub>3</sub>) predicts a significant and positive relationship between board diversity and the propensity to pay dividends among non-financial listed firms in Nigeria. Gender diversity is considered important on a corporate board as it helps in reducing conflicts between owners and managers (Pucheta-Martínez & Bel-Oms, 2016). From a different perspective, Ali et al. (2014) argued that females on the board represent a heterogeneous board that the firm requires in achieving its strategic decision. They added that board diversity creates linkages and connections with external stakeholders, for instance, with suppliers and customers.

Board with a gender diversity is regarded as something that may enhance corporate strategic decisions and broaden networks. It also promotes talent discourse that support organizations in becoming more productive and more financially stable.

Consistent with the hypothesis, the relationship of board diversity with the propensity to pay dividends is positive and significant at 5% as shown in Table 4.10 from Model 2. The result matches the documented findings in the previous studies (Al-Rahahleh, 2017; Byoun et al., 2016; Chen, Leung, & Goergen, 2017; Idris et al., 2017; Pucheta-Martínez & Bel-Oms, 2016; Pucheta-Martínez & López-Zamora, 2017). The finding of the current study suggests that shareholders are likely to benefit when there is female director on the board since they may influence propensity to pay dividends. This is because the female director on board is expected to be competent and knowledgeable (Ali et al., 2014; Carter et al., 2010). Their competency and knowledge would translate to offering credible services and

impartial advice, as well as connections. Thus, consistent with the resource dependence theory which suggested that the appointment of a director for instance, female will result in supporting the firm by providing unique services that will uproot the firm from its problems (Jeffery Pfeffer & Salancik, 1978). The finding of the current study is also agreement with Byoun et al. (2016) who argue that female on board will bring unique perspectives as well as resources needed by the firm. On the other hand, a female director considers paying dividends as a means of reducing conflicts between managers and owners of a firm and, therefore, disciplining the manager by influencing the decision to pay dividends. Thus, the female directors play a dual role on the board that include resource provision and monitoring the managers.

Furthermore, the existence of a female director in the board room is a breakthrough particularly in the Nigerian market where males have dominated corporate boards (Mordi & Obanya, 2014). The inclusion of a female director on the corporate board is an indication of a gender-diverse board and the adoption of good corporate governance practices. The results of the current study are also consistent with the argument that this inclusion might lead to a comprehensive pool of talent directors, and it is likely that the effectiveness of the board could be improved in ways ranging from monitoring to resource provision (Larkin et al., 2013). Consequently, the strong positive association of the between gender and propensity to pay dividends might also suggest that female directors on the board contributed toward mitigating agency problems.

#### **4.9.4 Financial Expertise on Board and Propensity to Pay Dividends**

Hypothesis 4 (H<sub>4</sub>) concerns the proportion of financial expertise on board relative to board size. The study predicts that a positive association exists between financial expertise and the propensity to pay dividends. Consistent with the hypothesis, the result as reported in Table 4.10 reveals a significant and positive relationship at 10% indicating the likelihood that having financial experts on the board will create a higher propensity to pay dividends. The result agrees with the evidence documented by Custodio and Metzger (2014). Therefore, the study supports Hypothesis 4.

The results from the study may be infer that financial experts do not allow the accumulation of cash in a firm when a firm could pay dividends. Hence, they may use dividends to mitigate agency problems between managers and owners of the firm. In addition to the use of dividends as a means of controlling the managers, financial experts on a board may likely consider paying a dividend as a reinforcement of his or her monitoring so that they protect their reputational capital and avoid legal liability that a reduction or elimination of a dividend may cause. In this regard, financial experts on a board and likelihood of paying dividend play a complementary role with respect to monitoring managers in a firm.

The finding is consistent with several other studies based on the monitoring and resource provision view. For instance, Desender et al. (2013) posited that outside directors in a firm's boardrooms may employ more audit services as a tool for controlling opportunistic managers. In this regard, outside director and audit services thus play a complementary role in a firm. Moreover, Kibiya et al. (2016) also suggested that financial experts play a greater monitoring role in a firm, which

results in providing firms with better earnings quality. Likewise, Cunningham (2008) showed that financial experts on a board have a greater tendency to minimize aggressive accounting practices.

Moreover, in line with the resource dependence theory, it could be argued that directors with financial expertise may demonstrate his or her skills as well as expertise and in turn would enhance the board's monitoring roles. Adams and Ferreira (2009) indicated that, because financial experts on board are rich in resources, they spent more time while advising the firms. Thus, consistent with the resource dependence theory which considers the appointment of a director rich in resource will result in the advancement and addressing the challenges the firm is facing (Pfeffer & Salancik, 1978).

Further, it is likely that such advice could include issues that relate to dividend policy (Florackis & Sainani, 2016). Güner et al. (2008) also noted that financial experts tend to exact considerable influence on the firms through which they increase financing inflows and ease the securing credit on behalf of the firm. Consequently, directors with financial expertise on a board are associated with better governance, and the firm has higher probability of extracting economic benefits from the his or her services. Therefore, the results from the current study may not be surprising as previous studies have noted the provision of the monitoring and resource roles of financial expert directors. Suggesting that the financial expert serve a dual role consistent with agency and resource dependence theory.

#### **4.9.5 CEO Tenure and Propensity to Pay Dividends**

CEO tenure is the number of years that a CEO has been in his position. Table 4.10 provides the results of CEO tenure and the propensity to pay dividends. The results show that a longer tenured CEO has the probability to decrease the likelihood of dividend payments. The result suggests that firms with a CEO who has longer tenure tend to be less likely to pay dividends. This result does not agree with the Hypothesis 5 (H<sub>5</sub>) but supports the findings of Boumosleh (2012) and Boumosleh and Cline (2015) that suggest a longer-tenured CEO tends to pay less dividends. They argued that a longer-serving CEO may not use dividends to entrench him or herself. The finding, however, contradicts the results of other previous studies such as Feng et al. (2007), Hu and Kumar (2004), Jo and Pan (2009), and McGuinness et al. (2015) that found CEO tenure to be positively associated with the likelihood of paying dividends.

The current finding may suggest that a CEO may have own a considerably large number of shares, which provides an opportunity to align his interests with the those of other shareholders in the firm, hence, resulting in less likelihood to pay dividends. This argument agrees with agency costs viewed by Rozeff (1982) that insider holdings are negatively associated with dividend payout.

It may also suggest that a CEO who served for a longer term may not have an incentive to influence the likelihood of paying dividends bearing in mind that paying dividend will make subject him or her to market monitoring. Thus, retaining the profit may make him to avoid this type of monitoring.

Another reason could be that a CEO may have built a strong reputation with the shareholders. Therefore, the shareholders may not be afraid of the fact that the CEO may waste the cash available in a firm or that may result in perquisite consumption and empire building. In other terms, the purpose of monitoring the CEO is to ensure that free cash flow is not wasted and the CEO's capability in pursuing value-added projects. When the shareholders are satisfied with a CEO's performance, there may be less need for dividend to be used as a means of discipline the CEO because of the costs associated with its payment.

One other reason for the result may be because of weak governance practices because the literature has suggested that strong governance is associated with higher dividends (Jiraporn et al., 2011; Sharma, 2011). Given the corporate governance practices in Nigeria, the owners may have to follow extended protocols before firing a CEO. Hence, a CEO who stays longer is likely to have more influence on the selection of directors who may have little or no support for the decision to pay dividends. Therefore, a dividend decision becomes lower when a CEO has longer tenure. Moreover, the result also may provide an insight that a CEO may retain more profits for his or her personal wealth or to use such funds for acquiring new firms, which are not of importance to the shareholders. This is because the protection and enforcement of shareholder rights in Nigeria is at a low level (Adegbite, 2015).

Lastly, the result may also highlight the probable effect of high CEO turnover among the listed firms in this study. Some of the firms had a high degree of CEO turnover within the sample period due to either searching for higher compensation or firm's outcomes, for example, performance-related issues. This could have a considerable

negative effect on a firm's financial policies such that the new CEO may need to carefully analyse the existing financial policies of the firm prior to considering whether to pay or not to pay a dividend. Another issue that may explain the negative association between CEO tenure and the propensity to pay dividends is that a CEO with longer tenure could be more prevalent in the non-dividend paying firms than in dividend paying firms. Evidently, Table 4.4, which shows the descriptive statistics of the dividend paying and non-dividend paying firms, indicates that the non-dividend paying firms have more CEOs with longer tenure than the dividend paying firms. The mean value for the non-dividend paying firms is 9.44 as compared with 5.79 for the dividend paying firms.

#### **4.9.6 Foreign Ownership and Propensity to Pay Dividends**

Foreign ownership is measured as the percentage of the holdings of foreign investors in a firm. The study hypothesized that foreign ownership has positive and significant association with the propensity to pay dividends. The results in Table 4.10 show a strong positive relationship between foreign shareholding and the likelihood of paying dividends at the 1% level of significance. The result lends support to the predicted Hypothesis 6 ( $H_6$ ). The finding also confirms the evidence from the correlation analysis documented in Table 4.5, which shows a positive and significant correlation between the propensity to pay dividends and foreign ownership holdings at the 1% level of significance.

The result implies that the presence of foreign shareholders with a greater number of shares could influence the decision that leads to the payment of dividends to the



shareholders. The result is consistent with agency theory, which suggests that foreign owners may use dividends as a tool to monitor managers because it may be costly and difficult for them living outside the country to take full responsibility for monitoring managers. The findings also imply that foreign investors have more preference for receiving dividends because of the fear of managerial abuse. The finding matches the results of Ghosh (2010), Jeon et al. (2011) and Prasanna (2014) that found a strong and positive relationship between foreign shareholdings and dividends policy. Therefore, the findings lend support to agency theory that dividend payment may constrain the managers from wasting the available cash.

Furthermore, the result is in line with the view that foreign investors have a considerable number of investments in emerging economies particularly those that have liberalized their markets (Jeon et al., 2011) and are institutional and, hence, are subjected to the prudence man rule. For this reason, they are likely to request dividends. This is also the case of the Nigerian market, which allowed more foreign ownership after the amendment of the NEPD of 1972 in 1989 and the Nigerian Investment Promotion Commission Act in 1995. The 1995 Act removed all restrictions regarding foreign investment and considered their features including the fact that some of them are institutional owners who may likely demand dividends.

Accordingly, the result from the panel logit regressions of this study also confirms the correlational analysis at the 1% level of significance. Similarly, the result of the foreign ownership also confirms findings from the descriptive statistics, which suggest that foreign investors have more preference for dividend-paying firms than for non-dividend paying firms. This result also shows support to previous evidence,

for instance, Baba (2009) who documented that foreign owners are more inclined to invest in dividend-paying firms and, therefore, are positively related.

#### **4.9.7 Managerial Ownership and Propensity to Pay dividends**

Managerial ownership is regarded in this study as the percentage of holdings owned by executive directors who occupy seat on the board. Managerial ownership may go a long way in addressing agency problems. The study hypothesized that managerial shares may impact the propensity to pay dividends positively, (H<sub>7</sub>). The results from Table 4.10 indicate that a significant and positive association exists between managerial ownership and the propensity to pay dividends at the 5% level of significance. Hence, the result is consistent with the prediction that a positive relationship exists between managerial ownership and the propensity to pay dividends. This means that as managers acquire more shares in a firm, there is greater likelihood of the firm to pay cash dividends to shareholders. The result is in agreement with previous evidence that managerial ownership is associated with a higher propensity pay dividends (Burg et al., 2001; De Cesari & Ozkan, 2014; Jo & Pan, 2009; Renneboog & Trojanowski, 2011; Vo & Nguyen, 2014).

The finding from this result may highlight the managers' intention to communicate their commitment to shareholder protection such that securing funds in the market and when the needs arise, it could be on favorable terms (Florackis et al., 2015). In other words, the evidence may suggest a strategy employed by managers with a view to establishing a good reputation in the market, which may enable a manager to secure funds with less difficulties to finance projects.

Alternatively, this result might also be interpreted in terms of managers from another perspective. It is obvious that as the managers have made substantial investment in their firm, it is probable that they are going to support a decision to pay dividends. This is because the investment in equity constitutes a significant amount of their wealth. This argument can be supported by the statistics documented in Table 4.3 of this study. The managerial ownership has mean value of 7% and a maximum of 63% which is a block, and firms are mandated by the corporate law to disclose any shareholding that is equal to or more than 5% in the annual reports.

The results may be interpreted as a form of managerial entrenchment. According to the entrenched view, a manager may use dividends to safeguard his position (Farinha, 2003). Therefore, he or she may more be more likely to pay greater dividends so that he/she portrays an identity as a good manager who protects or aligns his interests with those of the other shareholders.

However, this view might be weak from the agency theory when the implications of paying dividends are considered. One of them is that paying dividends requires a substantial amount of cash and, therefore, if it is being paid, the outstanding cash balances of a firm could be reduced. The reduction of the cash available may constrain a manager in pursuing wasteful projects or in empire building (Jiraporn et al., 2011). Moreover, making dividend payments could enhance monitoring by market participants. This is because a manager could be subjected to scrutiny as he or she intends to raise capital in the market for investment projects (Rozeff, 1982). Consequently, the finding is in line with agency theory that suggests that dividend payout aligns the interests of the managers with those the shareholders.

#### **4.9.8 Blockholders Ownership and Propensity to Pay Dividends**

The relationship between blockholders ownership and the propensity to pay dividends is predicted to be negative. Based on the results depicted in Table 4.10, blockholders ownership has a negative and significant effect on the propensity to pay dividends in the non-financial listed firms in Nigeria. The result supports the prediction (H<sub>8</sub>) of the study at the 1% level of significance.

The result indicates that blockholders ownership is less likely to influence the propensity to pay dividends and is consistent with the monitoring role of the blockholders in the firm. The blockholders have an incentive to closely monitor the managers considering their interest in the firm, and, therefore, they may require less dividends as a tool for monitoring managers (Khan, 2006; Setia-Atmaja et al., 2009). This evidence agrees with the findings previously documented (Afzal & Sehrish, 2011; Chang et al., 2016; Gugler & Yurtoglu, 2003; Harada & Nguyen, 2011; Hu & Kumar, 2004; Liljeblom & Maury, 2016; Maury & Pajuste, 2002; Renneboog & Trojanowski, 2011; Truong & Heaney, 2007) that revealed a negative association between blockholders and the decision to pay dividends. Likewise a recent international study by Mehdi, Sahut, and Teulon (2017) also provided a strong negative relationship between dividend decision and blockholders ownership. Thus, the current study also lends support to the international evidence.

First, the findings of the current study imply that blockholders prefer no dividends because it is less important as a signalling mechanism in the market that the managers are committed to shareholder protection. This is because the blockholders are committed to monitoring the managers and the firm more closely than others due

to their stake in the firm. The stake of the blockholders may constitute a substantial portion of their wealth, which provides them with an incentive to closely monitor the investment and the firm.

Second, theory suggests that agency costs and insider ownership are inversely related to dividends (Rozeff, 1982). Hence, blockholders and the propensity to pay dividends will be negatively related (Hu & Kumar, 2004). The negative association between blockholders and the propensity to pay dividends may be inferred as an indication that the blockholders are more inclined to support value-addition projects rather than expropriating minority interests.

Third, several factors may result to negative association between blockholders ownership and propensity to pay dividends. For example, Hu and Kumar (2004) argued that board representation and tax considerations, may allow blockholders to have less need for dividend as a monitoring mechanism in the firm. Board representation is a feature that was noticed in the ownership structures of the listed firms on the NSE. Some of the large blockholders have at least one director on board representing their interest and therefore, may allow greater opportunity to carefully monitor the managers directly with less dividend to be used in the monitoring process. Thus, the negative association between blockholders ownership and propensity to pay dividends may not be surprising.

Fourth, as Renneboog and Trojanowski (2011) noted, firms with a substantial number of blockholders in a commercial and industrial firm could exhibit a lower need for dividend as a monitoring mechanism. This characteristic of the blockholders

could be obtainable in the Nigerian market and, therefore, justifies the negative association between blockholders and the propensity to pay dividends.

#### **4.10 Results of Control Variables for the Direct Model**

The result of the control variables used in this study from the direct model are also discussed in the following paragraphs. The control variables are, firm age, firm size, firm leverage, sales growth and retained earnings.

Firstly, firm age is expected to be positive related to propensity to pay dividends. However, the result from this study shows that firm age is negatively and statistically significant. Thus, implying that older firms are less likely to pay dividends. The evidence concur with the findings of Bokpin (2011) from Ghana and argued that older firms have lower chances of paying dividend in the market. However, the result of the current is inconsistent with Sharma (2011); Eije and Megginson (2008) and Hu and Kumar (2004) who indicated that older firms have more likely to pay dividends as they are matured firms with limited or no investment opportunities.

Secondly, firm size is also used as a control variable in the study. The study predicts that firm size measured by logarithm of total asset is positively correlated with the firms' propensity to pay dividends. Interestingly, the result is consistent with the prediction and thus, agrees with Yarram and Dollery (2015) and Sharma (2011) that larger firms have more likely to pay dividends compare with small and growing firms with more investment opportunities.

Thirdly, extant literature on propensity to pay dividend have consistently found firm leverage to be negatively associated with dividend decision (Al-Najjar, 2009; Byoun et al., 2016; Eije & Megginson, 2008; Jiraporn et al., 2011; Sharma, 2011). This is because debtholders may likely sanction financial policies that will at their detriment for example decision to pay dividends. In line with this argument, the present study found evidence that firm leverage and propensity to pay dividends are negatively related.

Fourthly, sales growth or investment opportunity is also relevant in the propensity to pay dividends literatures. Previous studies have indicated that growth firms may be less likely to pay dividends because they are experiencing growth and therefore, require large cash to finance new project (Fama & French, 2001; Grullon et al., 2011). Contrarily, the finding from the present study reveals that growth firms are positively correlated with propensity to pay dividends. The result implied that high growth firms in the Nigerian market can withstand the payment of dividends. It is possible that these firms may pay the dividend such that they attract more investors to invest in their new equity listing and in turn use such funds to undertake new projects. This finding is in line with Arko et al. (2014) who revealed that growth opportunities are positively associated with decision to pay dividends. They suggested that firms in the Sub-Saharan Africa are using dividends to make their shares more attractive.

Fifthly, retained earnings to total equity is the last control variable used in this study. The coefficient of this variable is negative and statistically insignificant. When the sign of the coefficient is considered the result could be interpreted as, firm may be

less likely to pay dividend when it depends on earned capital. This is because firms may have borrowing constrain and therefore, may consider using other source of revenue for example retained earnings to finance its investment projects instead of paying dividends to shareholders. The result of this variable negates other findings previous that shows retained earnings to be positively associated with decision to pay dividends (Francis et al., 2011 and DeAngelo et al. 2006). The next section discusses the results of the moderating effect of blockholders on the relationship between board characteristics and the propensity to pay dividends based on Model 3.

#### **4.11 Moderating Role of Blockholders Ownership on the Association Between Board Characteristics and Propensity to Pay Dividends**

This study adopts a panel logit analysis, and the model was estimated using random effects based on Model 3. The current study performs a Hausman test to determine whether to choose random effects or fixed effects model for the analysis. The result shows a chi-square statistic of 13.74 and probability of 0.7459, thus, indicating that the random effect estimates are preferred to fixed effect estimates. Hence, the results are discussed based on the random effects estimates, which are documented in Table 4.11.

However, on the moderating role of a variable, scholars have provided scenarios for meaningful interactions. According to Cohen, Cohen, West, and Aiken (2003) theoretically, there are three meaningful interaction patterns (enhancement, buffering and antagonistic interaction) between two continuous independent variables and each depends on the regression coefficient of beta values. The first pattern of an interaction is referred to as enhancing or synergistic. This is a situation where the



predictor variables and the interaction term affect the dependent variable in the same direction, either all of them are in positive or negative direction. An example of this is when  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  in a model are all positive or negative (where,  $\beta_1$ = coefficient of the first independent variable;  $\beta_2$  is the coefficient of the second independent or moderating variable and  $\beta_3$  = coefficient of the interaction term). The second interaction pattern is buffering interaction. This pattern suggests that the predictors are in opposite directions and the interaction term support either direction, for instance,  $\beta_1$  is positive while  $\beta_2$  is negative and the  $\beta_3$  is in either way. The third pattern is antagonistic interaction where the predictors are in the same direction and the interaction term takes the opposite direction. For example, if  $\beta_1$ ,  $\beta_2$  are positive, then  $\beta_3$  is negative and vice versa. Consequently, the pattern of signs is important in determining the type of an interaction (Cohen et al., 2003). The model used for the estimation is provided as follows:

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 BSIZE * BLOCKH_{it} + \beta_{10} BCOMP * BLOCKH_{it} + \beta_{11} BDIVER * BLOCKH_{it} + \beta_{12} FINEXP * BLOCKH_{it} + \beta_{13} CEOT * BLOCKH_{it} + \beta_{14} FAGE_{it} + \beta_{15} FSIZE_{it} + \beta_{16} FLEV_{it} + \beta_{17} SGWRT_{it} + \beta_{18} RETE_{it} + E_{it} \dots \dots \dots (3).$$

Table 4.11

*Results from Panel Logit Regression with Blockholders as Moderator*

Variable	Coef.	Std. Err.	z	P>z
BSIZE	-0.90	0.44	-2.05**	0.04
BCOMP	9.62	5.73	1.68*	0.09
BDIVER	-7.52	8.61	-0.87	0.38
FINEXP	-0.36	4.93	-0.07	0.94
CEOT	-0.41	0.13	-2.98***	0.00
FOREO	6.05	1.71	3.53***	0.00
MANO	4.88	2.39	2.03**	0.04
BLOCKH	-17.12	9.34	-1.83*	0.06
BSIZE_BKH	1.49	0.74	1.99**	0.04
BCOMP_BKH	-17.42	9.08	-1.92**	0.05
BDIVER_BKH	31.50	15.84	1.99**	0.04
FINEXP_BKH	5.92	7.74	0.76	0.44
CEOT_BKH	0.46	0.21	2.13**	0.03
FAGE	-0.07	0.03	-2.15**	0.03
FSIZE	6.32	1.05	6.00***	0.00
FLEV	-3.01	1.41	-2.13**	0.03
SGRWT	13.47	2.22	6.06***	0.00
RETE	-0.50	0.98	-0.51	0.60
_CONS	-34.80	8.60	-4.05***	0.00
Chi-square	47.63***			
Degrees of freedom	(df=18)			
Rho Value	0.603			
LR test of rho	37.82***			
Hausman test:				
Chi-square	13.74			
Probability	0.7459			

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO= managerial ownership; BLOCKH= blockholders ownership; BSIZE\*BLOCKH= interaction term between board size and blockholders ownership; BCOMP\*BLOCKH=interaction terms between board composition and blockholders ownership; BDIVER\*BLOCKH=interaction term between board diversity and blockholders ownership; CEOT\*BLOCKH=interaction term between CEO tenure and blockholders ownership; FINEXP\*BLOCKH=interaction term between financial experts on board and blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV= firm leverage; SGRWT=sales growth; RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistically significance at the 1%, 5% and 10% levels respectively.

#### 4.11.1 Board Size, Blockholders Ownership and Propensity to Pay Dividends

The study hypothesized that blockholders ownership moderates the relationship between board size and the propensity to pay dividends (H<sub>9</sub>). The result as reported

from Model 3 reveals an interesting finding. Adding the interaction term reverses the direction (sign) of the association between board size and the propensity to pay dividends changes from negative to positive. The result in Table 4.11 supports the predicted hypothesis at the 5% level of significance. Theoretically, the regression result indicates that blockholders ownership moderated the relationship. Moreover, the form of the interaction according to Cohen et al. (2003) is antagonistic interaction because the independent and moderating variable are all negative (same direction) whereas, the interaction term is positive. Therefore, the evidence suggests that firms with blockholders ownership may have larger board and more likelihood to influence dividend payment.

Like other studies that found that a firm with a larger board tends to pay more dividends in addressing agency conflict (Al-Najjar & Kilincarslan, 2016; Belden et al., 2005; Boumosleh & Cline, 2015; Jiraporn & Ning, 2006), this study documents a similar result from the Nigerian market only when a firm is controlled by blockholders. The result is consistent with the finding of Setia-Atmaja et al. (2009) who show that, when family control at least 5% of a firm's shareholdings, the board size is likely to have positive effect on dividend payout. Therefore, the presence of both blockholders ownership and a larger board produces a greater likelihood to disgorge cash to the shareholders.

The result may imply that, the board may be large because in addition to the other directors on the board, blockholders may have director(s) representing their interest as this characteristic is common among the non-financial listed firms on the NSE. Therefore, these directors may agree to reinforce their monitoring role in the firm

with paying more dividends and protect their reputational capital which is consistent with the resource dependence theory. Lastly, result is consistent with the literature that firms with large boards are more likely to pay dividends (Chen et al., 2011; Iqbal, 2013).

The result may also suggest that larger boards due to the existence of blockholders in the firm might offer better monitoring services. This is because within the board there are more directors who could pose more questions to managers when they perceive that a decision that is not in line with the interests of the owners of the firm. Therefore, the board may use dividends as a controlling tool.

Consequently, the finding shows that of board size and blockholders in non-financial firms interact together towards enhancing corporate accountability and fairness. The positive relationship on the interaction term between blockholders ownership and board size may also provide an explanation for the importance of blockholders ownership in corporate governance practices. Bebchuk and Hamdani (2009) argued that a considerable number of important governance mechanisms largely depend on the existing ownership structure of the firm.

#### **4.11.2 Board Composition, Blockholders Ownership and Propensity to Pay Dividends**

From the regression result in Model 3, reveals a positive coefficient for board composition, while the coefficient of the moderating variable negative. Furthermore, the coefficient of the interaction term is found to be negative and statistically significant, hence, interaction occurs and the form of the interaction pattern is

referred to as buffering (Cohen et al., 2003). This means that blockholders ownership weakens the effect of board composition. Therefore, the result of the interaction term is consistent with predicted hypothesis H<sub>10</sub> that blockholders moderates the relationship between board composition and propensity to pay dividends. The result therefore, means that the present of blockholders would have an effect on the percentage of outside directors on board such that they would have lower likelihood on dividend payment decisions and the finding agrees with prior study (Hu & Kumar, 2004).

The result may suggest that, subject to the existence of blockholders in the firm, outsider director on the board are likely to use dividend in monitoring managers. It is also possible that blockholders have taken the lead in the selection and appointment process of outside directors. In this case the blockholders may consider outside directors with greater monitoring abilities and with the required board experience, hence, require less dividend to be used as a monitoring tool in the firm. This argument opposes to the instances obtainable in Nigeria in which some outside directors are appointed without the requisite qualifications (Okpara, 2011).

Another possible reason for this result may be the type or feature of the blockholders in the firm. When blockholders are those that are more inclined to cash dividends as a return on their investment, they probably support such a decision either directly or indirectly. Renneboog and Trojanowski (2011) documented that blockholders in the form of industrial and commercial firms are less likely to impact dividends. This may imply that, when the blockholders are not industrial and commercial or do not

form part of the majority, for instance institutional investors in the firm, they may influence the firm to pay dividends (Abdelsalam et al., 2008; Short et al., 2002).

Additionally, the blockholders may have more incentive to monitor the firm as compared to non-blockholders. Therefore, the managers may not require dividend payment as a form of commitment that builds a reputation for raising funds in the market soon (Harford et al., 2008). The presence of blockholders may suffice as a control mechanism, and, hence, the firm may be less likely to pay dividends. Previous studies have shown that blockholders have a negative effect on board composition (Kang et al., 2007; Yeh & Woitke, 2005) and may have an impact on their monitoring role in the firm.

On the other hand, the blockholders may have board representation such that they are viewed as insiders, thus, being consistent with agency theory that suggests a negative association between insiders and dividend payment (Farinha & López-de-Foronda, 2009; Jensen et al., 1992; Rozeff, 1982; Truong & Heaney, 2007). In this regard, dividend payout may be lowered when insider holdings increase, thus, a dividend becomes less important as a monitoring tool in a firm (Farinha & López-de-Foronda, 2009).

#### **4.11.3 Board Diversity, Blockholders Ownership and Propensity to Pay Dividends**

Board diversity as mentioned earlier refers to the existence of a female director on the board. The study hypothesizes that blockholders moderate the relationship between board diversity and the propensity to pay dividends ( $H_{11}$ ). With regards to

this hypothesis, the result in Table 4.11 shows strong positive and statistically significant relationship between board diversity and propensity to pay dividends in the presence of blockholders in the firm at the 5% level. However, with regard to pattern of the interaction as suggested by the theory is antagonistic interaction (Cohen et al., 2003) since both board diversity and blockholders are on the same direction (negative) and the insignificant of board diversity may not effect on the form of the interaction. Since the variable of interest is the interaction term which is statistically significant.

The result is in agreement with the previous evidence documented by Byoun et al. (2016), Idris et al. (2017), Pucheta-Martínez and Bel-Oms (2016), and Pucheta-Martínez and López-Zamora (2017) that female directors are positively related to propensity to pay dividends.

The result of the current study may mean that firms are more likely to pay dividends when female directors and blockholders are jointly presence in the firm. Furthermore, female directors on board do not hesitate to ratify the decision to pay dividend when blockholders are likely to play a monitoring role in the firm. In other words, the female directors are more willing to protect their reputations and, therefore, disgorge cash to the shareholders given the presence of blockholders in the firm.

The result could also be interpreted from the view of promoting good governance in the firm. The 2011 NCCG has stated that blockholders should facilitate good corporate governance practices. In this regard having a female director is considered

as one way for corporate monitoring and for facilitating well informed decision making (Mordi & Obanya, 2014). Similarly, the paying of a dividend to shareholders is an indication of strong governance in a firm because managers have lower tendencies for abusing the available cash in the firm (Jiraporn et al., 2011). Therefore, the interaction of female directors on board with blockholders is likely to result in good governance and, hence, paying dividends to the shareholders.

It could also possible to infer from the result that firms with blockholders may encourage more diversity in terms of gender with considerable board experience and monitoring skills and hence, supporting the resource dependence theory. A female director in this regard is likely to demonstrate her expertise and ensure that managers do not deviate from the interests of their principals, thus, influencing the decision to pay dividends to mitigate agency problems that may arise.

#### **4.11.4 Financial Expertise on the Board, Blockholders Ownership and Propensity to Pay Dividends**

The result from Model 3 as reported in Table 4.11 indicates a positive association between financial experts on the board and the propensity to pay dividends when there are blockholders but is not statistically significant. This result, therefore, does not find sufficient evidence to support hypothesis (H<sub>12</sub>). But then, the interaction form is antagonistic as financial experts on board and blockholders ownership have negative impact on propensity to pay dividends and the interaction term is on the opposite direction of the two variables (financial experts on board and blockholders ownership).



From the evidence, it could be deduced that blockholders and financial expertise on board are not compatible in terms of monitoring, therefore, resulting in an insignificant association as they interact together on decision to pay dividends. The result from Model 3 also confirmed the findings from the correlation statistic, which shows an insignificant relationship between financial expertise on the board and blockholders ownership.

Another plausible explanation of the finding may be related to overall and individual effectiveness. The presence of financial experts may lead other members of the board to be reluctant in monitoring or less watchful because of his expertise. Based on this notion, when a director with financial expertise on the board become less effect in monitoring as he/she spends little time, this may impact the effectiveness of other members on the board. Consequently, his/her influence on the decision to pay dividends may be less pronounced. A financial expert may also have little or no experience in board processes or is elected as a board member merely to meet the regulatory requirements by NCCG 2011.

A further explanation for the insignificant result could be due to the tendency that the financial experts may be a rubber stamp in which a manager has control over them given the size of the board as evidenced by Jensen (1993) and Yermack (1996). They found that the CEO has control over a large board, and firms with larger boards including financial experts as members tend to have free rider problems.

#### **4.11.5 CEO Tenure, Blockholders Ownership and Propensity to Pay Dividends**

Table 4.11 shows the result of the interaction between blockholders and CEO tenure using Model 3. Interestingly, with the introduction of blockholders as a moderator, the direction of influence between CEO tenure and propensity to pay dividends changes from negative to positive. Furthermore, the interaction is positively and statistically significant at 5%, which indicates that subject to the presence of blockholders in the firm, CEO with longer tenure would be more likely to pay dividends. According to the theory the interaction pattern is antagonistic interaction as found on board size, board diversity and financial expertise on board. Hence, Hypothesis 13 ( $H_{13}$ ) is supported, and the finding also contrasts with previous evidence (Hu & Kumar, 2004; McGuinness et al., 2015) that indicate a strong positive association between CEO tenure and the decision to pay dividends in the absence of blockholders. This result implies that as the CEO tenure gets longer, blockholders may likely institute further control by paying more dividends. Thus, deflating cash that may be wasted by the CEO.

Further, the CEO may also be a shareholder giving additional power to entrench himself/herself by paying more dividends when there are blockholders in the firm or make use of managerial discretion to consume excess cash flow. The result may also be interpreted by the managerial inertia argument that a longer-tenured CEO tends to loss creativity that will enrich the firm and, therefore, result in distributing cash as dividends (Cheng et al., 2010; Hambrick & Fukutomi, 1991).

#### **4.12 Results of Control Variables for the Interaction Model**

The study also uses five control variables (firm age, firm size, firm leverage sales growth and retained earnings) that were previously included in the direct model. The results for these control variables are consistently like those reported in the direct model in terms of direction and significance level. Therefore, the discussions made on these variables suffices. The only difference in on the coefficient, the result of the coefficient of firm age remains intact as previous reported on the direct model. Whereas, firm size has increased from 6.11 to 6.32. Similarly, firm leverage has also increased from -2.82 to -3.01 and lastly, sales growth coefficient has changed from 12.97 to 13.47. Conversely, retained although insignificant, the coefficient shrinks from -0.53 to -0.50.

#### **4.13 Robust Standard Error Estimation**

It is possible that an observation may not be lacking independence because of the serial correlation threat as firms may appear more than one time, which may have a considerable effect on the reported z-statistics and influencing the statistical significance (Rogers, 1993). To address the issue, the study re-ran both the direct and interaction models and clustered them at the pane lid, thus, correcting heteroskedasticity and potential time series autocorrelation.

The results are show in Tables 4.12.1 and 4.12.2 Comparing the two results of the direct model reported in Table 4.12.1, are small changes exist in the coefficient of board size and financial expertise on the board and the two control variables of sales growth and retained earnings.

However, changes occur across all the variables when the normal otherwise known as default standard errors is compared with the robust standard errors. For instance, the normal standard error of the financial expertise on board is 1.58 whereas the robust standard error is found to be 1.76. The greater standard error from the financial experts on the board renders its coefficient to be statistically insignificant. This larger standard error may not be surprising as panel logit regression takes the firm cluster effect into account and autoregressive correlation within the firm clusters (Hauser, 2013). Except for financial expertise on board, the other variables reported with the default standard errors that are statistically significant remain intact. Even though, the level of significance for board diversity and CEO tenure variables has increased from 10% to 5%.

This estimation is reported in Table 4.12.1 and the model used for the estimation is also given; Model 2 is written as:

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 FAGE_{it} + \beta_{10} FSIZE_{it} + \beta_{11} FLEV_{it} + \beta_{12} SGWRT_{it} + \beta_{13} RETE_{it} + E_{it} \dots \dots \dots (2).$$

Table 4.12.1

*Panel Logit Regression with Robust Standard Error for Direct Model*

Variable	PPD=1	Exp. Sign	Normal standard errors			Robust standard errors		
			Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
BSIZE		+	-0.08	0.16	0.60	-0.09	0.18	0.63
BCOMP		+	0.08	2.18	0.97	0.08	2.37	0.97
BDIVER		+	8.62	3.41	0.01***	8.62	3.53	0.02**
FINEXP		+	2.77	1.58	0.08*	2.78	1.76	0.11
CEOT		+	-0.17	0.05	0.00***	-0.17	0.06	0.01**
FOREO		+	5.95	1.76	0.00***	5.95	1.85	0.00***
MANO		+	5.64	2.43	0.02**	5.64	2.46	0.02**
BLOCKH			-6.97	1.96	0.00***	-6.97	2.03	0.00***
FAGE			-0.07	0.03	0.04**	-0.07	0.04	0.05**
FSIZE			6.11	1.03	0.00***	6.11	0.98	0.00***
FLEV			-2.82	1.36	0.03**	-2.82	1.17	0.02**
SGRWT			12.97	2.2	0.00***	12.98	2.03	0.00***
RETE			-0.53	0.95	0.57	-0.54	1.03	0.60
_CONS			-38.9	6.99	0.00***	-38.90	6.45	0.00***
Chi-square				44.87***			44.87***	
Degree of freedom				(df=13)			(df=13)	
Rho Value				0.633			0.633	
LR test of rho				46.33***			46.33***	

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

The results from Table 4.12.2, which is on the interaction model, show again that the coefficient of the regression on the independent variables exhibit few changes. With reference to the interaction terms which are the variables of interest in the model, only the interaction term of board composition has an increase of 0.01 when the default and model with robust standard errors are compared. Conversely, equating the estimations on the basis of their standard errors, changes have been occurred in all the explanatory variables. The largest changes among the interaction terms is on board diversity with a value of standard error of 14.55. This is followed by the board composition interaction term with a value of 9.16 against 9.08 for robust and default result respectively. The CEO tenure interaction term has the least scored with a value

of 0.21 for both default and robust standard errors respectively. Interestingly, none of the interactions of interest become insignificant with the robust standard errors estimations. However, the interaction of board composition has dropped from a 5% percent level of significance to a 10% level of significance. But this does not affect the conclusion derived from the findings.

The result of the estimation is reported in Table 4.12.2, and the model used for the estimation is also given as;

$$PPD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BCOMP_{it} + \beta_3 BDIVER_{it} + \beta_4 FINEXP_{it} + \beta_5 CEOT_{it} + \beta_6 FOREO_{it} + \beta_7 MANO_{it} + \beta_8 BLOCKH_{it} + \beta_9 BSIZE * BLOCKH_{it} + \beta_{10} BCOMP * BLOCKH_{it} + \beta_{11} BDIVER * BLOCKH_{it} + \beta_{12} FINEXP * BLOCKH_{it} + \beta_{13} CEOT * BLOCKH_{it} + \beta_{14} FAGE_{it} + \beta_{15} FSIZE_{it} + \beta_{16} FLEV_{it} + \beta_{17} SGWRT_{it} + \beta_{18} RETE_{it} + E_{it} \dots \dots \dots (3).$$



Table 4.12.2

*Panel Logit Regression with Robust Standard Error for Interaction Model*

Variable PPD=1	Normal standard error			Robust standard error		
	Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
BSIZE	-0.90	0.44	0.04**	-0.90	0.42	0.03**
BCOMP	9.62	5.73	0.09*	9.63	5.69	0.09*
BDIVER	-7.52	8.61	0.38	-7.52	8.27	0.36
FINEXP	-0.36	4.93	0.94	-0.37	4.85	0.94
CEOT	-0.41	0.13	0.00***	-0.41	0.14	0.00***
FOREO	6.05	1.71	0.00***	6.05	1.63	0.00***
MANO	4.88	2.39	0.04**	4.88	2.35	0.04**
BLOCKH	-17.12	9.34	0.06*	-17.12	9.77	0.08*
BSIZE_BKH	1.49	0.74	0.04**	1.49	0.72	0.04**
BCOMP_BKH	-17.42	9.08	0.05**	-17.43	9.16	0.06*
BDIVER_BKH	31.50	15.84	0.04**	31.50	14.55	0.03**
FINEXP_BKH	5.92	7.74	0.44	5.92	8.47	0.49
CEOT_BKH	0.46	0.21	0.03**	0.46	0.21	0.02**
FAGE	-0.07	0.03	0.03**	-0.08	0.03	0.02**
FSIZE	6.32	1.05	0.00***	6.33	0.89	0.00***
FLEV	-3.01	1.41	0.03**	-3.02	1.20	0.01**
SGRWT	13.47	2.22	0.00***	13.48	1.87	0.00***
RETE	-0.50	0.98	0.60	-0.50	1.09	0.64
_CONS	-34.80	8.60	0.00***	-34.81	8.13	0.00***
Chi-square		47.63***			47.63***	
Degree of freedom		(df=18)			(df=18)	
Rho Value		0.603			0.603	
LR test of rho		37.82***			37.82***	

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO= managerial ownership; BLOCKH=blockholders ownership; BSIZE\*BLOCKH= interaction term between board size and blockholders ownership; BCOMP\*BLOCKH=interaction terms between board composition and blockholders ownership; BDIVER\*BLOCKH=interaction term between board diversity and blockholders ownership; CEOT\*BLOCKH=interaction term between CEO tenure and blockholders ownership; FINEXP\*BLOCKH=interaction term between financial experts on board and blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE= retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Furthermore, using the robust standard error estimation for both direct and interaction model, the fitness of the two models remains intact and is statistically significant. Thus, this indicates the absence of heteroscedasticity and serial correlation threats in the models. Summarily, the results from these two models

confirms the robustness of the results reported in Table 4.10 and 4.11. Besides using the robust standard error specifications, the study also conducts other sensitivity tests, which are discussed in the following sub-sections.

#### **4.14 Additional Analysis**

The aim of the sensitivity analysis is to ascertain whether the results obtained in Models 2 and 3 holds when subjected to different estimations. This study conducts several robustness checks using different model specifications. An alternative definition of the dependent variable is used for checking the robustness of the previous estimation reported in Table 4.11. First, a raw number, 1 if the firm pays dividends and 0 if otherwise called PPD\_DUM is assigned to the dependent variable. The second robustness estimation is conducted by employing a continuous variable called dividend to total assets (DVTOASST) as the dependent variable in lieu of binary number. Lastly, the study adopts the actual number for three independent variables that includes board composition, board diversity and financial experts on board instead of the proportion or percentage.

##### **4.14.1 Alternative Measure of Dependent Variables**

In the first estimation, the dependent variable for Model 2 and Model 3 is replaced with a raw binary number (0,1). The dependent variable is defined as 1 when a firm pays dividends, and otherwise 0. There is a distinction between the primary dependent variable (PPD), which is used in the entire analysis and the dependent variable that is used for the sensitivity analysis. The primary dependent variable is constructed using ROA, firm size and growth opportunities. A payer is selected



based on probability as discussed in Chapter Three. However, the dependent variable (PPD\_DUM) used for the sensitivity analysis is a raw number ignoring the three firm characteristics mentioned in the previous chapters. A value 1 is assigned for a firm in a year if it pays a dividend and 0 if otherwise. The result is reported in Table 4.13.1 and Table 4.13.2 for the direct and interaction models.

Table 4.13.1  
*Robustness Check using DV: PPD\_DUM (Raw Number) for Direct Model*

Variable	Exp.Sign	DV = PPD			DV = PPD_DUM		
		Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
PPD=1							
BSIZE	+	-0.08	0.16	0.60	0.06	0.13	0.61
BCOMP	+	0.08	2.18	0.97	0.36	1.84	0.84
BDIVER	+	8.62	3.41	0.01**	10.88	2.86	0.00***
FINEXP	+	2.77	1.58	0.08*	1.94	1.35	0.15
CEOT	+	-0.17	0.05	0.00***	-0.10	0.04	0.01**
FOREO	+	5.95	1.76	0.00***	4.65	1.30	0.00***
MANO	+	5.64	2.43	0.02**	3.53	1.90	0.06*
BLOCKH		-6.97	1.96	0.00***	-4.62	1.43	0.00***
FAGE		-0.07	0.03	0.04**	-0.02	0.03	0.29
FSIZE		6.11	1.03	0.00***	4.03	0.66	0.00***
FLEV		-2.82	1.36	0.03**	-2.51	1.10	0.02**
SGRWT		12.97	2.20	0.00***	9.20	1.35	0.00***
RETE		-0.533	0.95	0.57	-0.83	0.87	0.33
_CONS		-38.90	6.99	0.00***	-27.07	4.78	0.00***
Chi-square			44.87***			61.58***	
Degree of freedom			(df=13)			(df=13)	
Rho Value			0.633			0.499	
LR test for rho			46.33***			33.17***	
Hausman test:							
Chi-square			9.06			6.72	
Probability			0.7686			0.916	

Notes: PPD\_DUM=1 if a firm pays dividend and 0 if otherwise in a year; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Based on the output as reported in Table 4.13.1 from the direct model, the Wald chi-square is 61.58, which is higher than 44.87 for the model with PPD but the fitness of

the model is not affected. The overall result of the model fitness is statistically significant at 1% and is comparable the results reported using PPD as the dependent variable.

Likewise, a comparison on whether the panel is superior to pool logit is also made. This is done through examining the intra-class correlation known as rho. When the value of the rho is zero, it implies that the component of panel-level variance is unimportant and vice versa. The result for this test shows that the rho has a value of 49.9% with Chi-square value of 33.17 and is statistically significant at 1%. This is also the case for the main model even though there is slight difference for the statistics results. A Hausman test is also performed to determine whether the random effects or fixed effects model is appropriate for the analysis. The result from the Hausman test reveals a chi-square statistic of 6.72 and a probability of 0.916. This statistic suggested that random effect estimates should be used instead of fixed effect estimates.

Furthermore, a comparison between the two model PPD and PPD\_DUM is also made on the direction and significance of the independent variables. Among the board characteristics variables, board diversity is statistically significant, but the level of significance dropped from 5% to the 10% level. Financial expert on board becomes insignificant with the introduction of a different dependent variable PPD\_DUM, but the sign remains positive as it was in the model with PPD. CEO tenure remains negatively and statistically significant. The level of significance has increased from the 10% to the 5% level of significance.

On the other hand, the ownership structures variables of foreign and managerial ownership are positively and statistically significant as predicted earlier. Although the level of significance for managerial ownership drops from the initial 5% level in the model with PPD to the 10% percent level when PPD\_DUM is used. The last ownership variable is blockholders holdings. The level of significance level as well as the direction for this variable is similar to the previous results of PPD which were reported in Table 4.13.1.

Consequently, the result from the model with PPD\_DUM is relatively consistent with the one with PPD as its dependent variable. Therefore, the result is qualitatively similar. The next paragraph compares the results from the interaction model based on the PPD\_DUM.

The result from the interaction model based on PPD\_DUM is shown in Table 4.13.2. There is a slight difference on the Wald statistic between the PPD and PPD\_DUM models. The previous model with the PPD measurement has a Wald statistic value of 47.63 and is lower than 63.86 for the PPD\_DUM model. Interestingly, the significance level of the model fitness does not change in both the two models despite their differences in terms of dependent variable measurement.

The intra-class correlation ( $\rho$ ) is reported to be different from zero for the two models. The  $\rho$  value for PPD\_DUM model is found to be 45.9% with the likelihood ratio Chi-square of 20.79 statistically significant at 1%. This statistic is the same as reported for the PPD model with small variability on the Chi-square. These statistics provide evidence that the random panel model is favourable as opposed to

the pool model in both PPD and PPD\_DUM models. Likewise, the Hausman test is also conducted, and the result shows a Chi-square value of 10.94 with probability of 0.896 indicating the preference of random effect estimates over fixed effect estimates.

Table 4.13.2

*Robustness Check using DV: PPD\_DUM (Raw Number) for the Interaction Model*

Variable	Model 3: DV= PPD			Model 3: DV=PPD_DUM		
	Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
PPD =1						
BSize	-0.90	0.44	0.04**	-0.68	0.38	0.07*
BCOMP	9.62	5.73	0.09*	4.46	4.59	0.33
BDIVER	-7.52	8.61	0.38	8.55	6.73	0.20
FINEXP	-0.36	4.93	0.94	0.12	4.16	0.97
CEOT	-0.41	0.13	0.00***	-0.30	0.10	0.00***
FOREO	6.05	1.71	0.00***	4.91	1.31	0.00***
MANO	4.88	2.39	0.04**	3.18	1.88	0.09*
BLOCKH	-17.12	9.34	0.06*	-16.58	8.13	0.04**
BSize_BKH	1.49	0.74	0.04**	1.36	0.64	0.03**
BCOMP_BKH	-17.42	9.08	0.05**	-7.42	7.30	0.30
BDIVER_BKH	31.50	15.84	0.04**	4.32	12.41	0.72
FINEXP_BKH	5.92	7.74	0.44	3.77	6.52	0.56
CEOT_BKH	0.46	0.21	0.03**	0.38	0.17	0.02**
FAGE	-0.07	0.03	0.03**	-0.03	0.03	0.19
FSIZE	6.32	1.05	0.00***	4.01	0.66	0.00***
FLEV	-3.01	1.41	0.03**	-2.70	1.13	0.01***
SGRWT	13.47	2.22	0.00***	9.22	1.35	0.00***
RETE	-0.50	0.98	0.60	-0.78	0.89	0.37
_CONS	-34.80	8.60	0.00***	-20.37	6.37	0.00***
Chi-square		47.63***			63.86***	
Degree of freedom		(df=18)			(df=18)	
Rho Value		0.603			0.459	
LR test for rho		37.82***			20.79***	

Notes: PPD\_DUM=1 if a firm pays dividend and 0 otherwise in a year; BSize=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO= managerial ownership; BLOCKH=blockholders ownership; BSize\*BLOCKH=interaction term between board size and blockholders ownership; BCOMP\*BLOCKH=interaction terms between board composition and blockholders ownership; BDIVER\*BLOCKH=interaction term between board diversity and blockholders ownership; CEOT\*BLOCKH=interaction term between CEO tenure and blockholders ownership; FINEXP\*BLOCKH=interaction term between financial experts on board and blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Comparing the two models with different dependent variables PPD and PPD\_DUM, the results shows no changes in the directions of the interaction terms. Conversely, there are changes on the level of significance of the moderator and the interaction terms. The moderator, which is blockholders ownership, is negative and significant. The level of the significance increased from 10% in the PPD to 5% when PPD\_DUM is employed.

Out of the three interaction terms with a strong positive effect on the propensity to pay dividends, only two of them are reported to match the PPD model. The interaction of board size and CEO tenure are statistically significant at the 5% level of significance. These findings are not different from the result reported when PPD is used in estimating the model. However, the use of PPD\_DUM as the dependent variable renders the interaction of board diversity to be statistically insignificant but the direction remains unchanged. Likewise, board composition interaction also becomes insignificant with this sensitivity test. Collectively, the results from the model suggest the importance of blockholders shareholding in the firm with regards to the propensity to pay dividends.

#### **4.14.2 Robustness Check using Continuous Dependent Variable**

The study further, checks for the robustness of the propensity to pay dividends model using a continuous variable and the use of the variable is consistent with the literature (Al-Najjar & Kilincarslan, 2016; Jiraporn et al., 2011; Sharma, 2011). In doing so, the current study uses total cash dividends scaled by total assets and is in line with Francis et al. (2011), Jiraporn and Chintrakarn (2009), and Jiraporn et al.

(2011). Among the advantage of this measurement of total cash dividends scaled by total assets is the stability of book value of assets over time (Barclay, Holderness, & Sheehan, 2009).

The regression analysis for the robustness check is conducted using panel corrected standard error. This is because linear models may have potential threats of heteroscedasticity and autocorrelation in the disturbances (Beck & Katz, 1995). This allows the present study to obtain efficient estimators that are robust and hence is consistent with previous studies (Habib & Jiang, 2012; Montalvan, Barilla, Ruiz, & Figueroa, 2017; Nakano & Nguyen, 2012). The dependent variable is dividends to total assets whereas the independent variables are those used in the probability model. The result from the estimate is shown in Table 4.14.1.

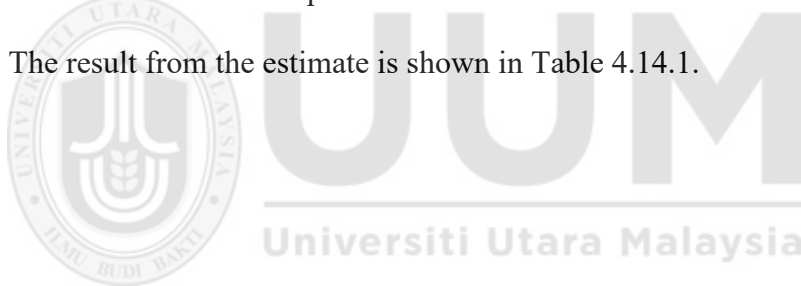


Table 4.14.1  
*Alternative Measure of DV- dvtoasst for Direct Model*

Variable	Exp Sign	DV=PPD			DV= DVTOASST		
		Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
BSIZE	+	-0.08	0.16	0.60	0.0016	0.0004	0.000***
BCOMP	+	0.08	2.18	0.97	-0.0100	0.0066	0.132
BDIVER	+	8.62	3.41	0.01**	0.0218	0.0121	0.071*
FINEXP	+	2.77	1.58	0.08*	0.0245	0.0055	0.000***
CEOT	+	-0.17	0.05	0.00***	-0.0005	0.0001	0.000***
FOREO	+	5.95	1.76	0.00***	-0.0038	0.0028	0.177
MANO	+	5.64	2.43	0.02**	-0.0123	0.0056	0.029**
BLOCKH		-6.97	1.96	0.00***	-0.0024	0.0045	0.599
FAGE		-0.07	0.03	0.04**	0.0001	0.0001	0.308
FSIZE		6.11	1.03	0.00***	-0.0131	0.0037	0.000***
FLEV		-2.82	1.36	0.03**	0.0065	0.0013	0.000***
SGRWT		12.97	2.20	0.00***	0.0277	0.0043	0.000***
RETE		-0.533	0.95	0.57	-0.0034	0.0050	0.490
_CONS		-38.90	6.99	0.00***	-0.0334	0.0105	0.001***
Chi-square			44.87***			Chi-square = 262.12***	
Degree of freedom			(df=13)			(df=12)	
LR test of rho			46.33***			R-squared= 0.3075	
Rho Value			0.633			-	

Notes: DVTOASST=dividend to total assets; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH=blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

The study further conducts a sensitivity analysis using dividend to total assets. The result of the model is reported in Table 4.14.1 and is compared with the initial result of PPD as the dependent variable measurement based on the direct relationship as reported using Model 2. The model with DVTOASST measurement is also found to be fit with a Chi-square of 262.12 and is statistically significant at 1%. The likelihood ratio test is also conducted to further ascertain the fitness of the model. The result of the explanatory power of the shows a R-squared value of 30.75%, thus implying that 32.75% variance in the dependent variable is explained by the independent variables.

However, on the coefficient and standard errors, there are considerable changes on all the variables. These changes are expected because the model is subjected to different measurements on the dependent variable that is changed from a binary to continuous variable and is consistent with previous evidence on the decision to pay dividend (Francis et al., 2011; Jiraporn et al., 2011; Sharma, 2011).

When examining the direction and level of significance, unlike, in the PPD model, board size become positive and statistically significant at 1%. Board diversity, financial experts on board and CEO tenure remain unchanged. Although the level of significance of board diversity was reduced from 5% in the PPD model to 10% in the second model with a continuous dependent variable. On the other hand, the significance level of financial experts on board has increased from its existing level of 10% to 1% from the PPD to DVTOASST models respectively.

Furthermore, two of the ownership structures variables reported in Table 4.12.1 become statistically insignificant. The direction of foreign and managerial ownership also changes from positive in the PPD model to negative with the DVTOASST variable although blockholders ownership remain negative as it is in the PPD model. Only managerial ownership is found to be statistically significant at 5%.

Consequently, the results of the board characteristics variables from these two models are similar whereas, the ownership structures result is not. However, when the sign of blockholders ownership is taken into consideration, it could be said to be partially similar. The interaction result DVTOASST dependent variable is also compared and discussed.



Table 4.14.2

*Alternative Measure of DV- dvtoasst for the Interaction Model*

Variable	DV=PPD			DV=DVTOASST		
	Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
BSIZE	-0.90	0.44	0.04**	-0.0009	0.0007	0.219
BCOMP	9.62	5.73	0.09*	-0.0056	0.0119	0.640
BDIVER	-7.52	8.61	0.38	-0.0429	0.0170	0.011**
FINEXP	-0.36	4.93	0.94	0.0242	0.0144	0.093*
CEOT	-0.41	0.13	0.00***	-0.0011	0.0002	0.000***
FOREO	6.05	1.71	0.00***	0.0000	0.0031	0.997
MANO	4.88	2.39	0.04**	-0.0149	0.0059	0.012**
BLOCKH	-17.12	9.34	0.06*	-0.0610	0.0130	0.000***
BSIZE_BKH	1.49	0.74	0.04**	0.0044	0.0014	0.001***
BCOMP_BKH	-17.42	9.08	0.05**	-0.0131	0.0221	0.552
BDIVER_BKH	31.50	15.84	0.04**	0.1224	0.0308	0.000***
FINEXP_BKH	5.92	7.74	0.44	-0.0006	0.0208	0.976
CEOT_BKH	0.46	0.21	0.03**	0.0011	0.0004	0.003***
FAGE	-0.07	0.03	0.03**	0.0000	0.0001	0.561
FSIZE	6.32	1.05	0.00***	-0.0128	0.0039	0.001***
FLEV	-3.01	1.41	0.03**	0.0063	0.0014	0.000***
SGRWT	13.47	2.22	0.00***	0.0267	0.0041	0.000***
RETE	-0.50	0.98	0.60	-0.0027	0.0051	0.596
_CONS	-34.80	8.60	0.00***	0.0021	0.0131	0.872
Chi-square		47.63***		Chi-square = 1872.12***		
Degree of freedom		(df=18)		(df=17)		
LR test of rho		37.82***		-		
Rho Value		0.603		R-squared = 0.322		

Notes: DVTOASSTN=dividend to total assets; BSIZE=board size; BCOMP=board composition; BDIVER=board diversity; FINEXP=financial experts on board; CEOT=CEO tenure; FOREO=foreign ownership; MANO= managerial ownership; BLOCKH=blockholders ownership; BSIZE\*BLOCKH= interaction term between board size and blockholders ownership; BCOMP\*BLOCKH=interaction terms between board composition and blockholders ownership; BDIVER\*BLOCKH=interaction term between board diversity and blockholders ownership; CEOT\*BLOCKH=interaction term between CEO tenure and blockholders ownership; FINEXP\*BLOCKH=interaction term between financial experts on board and blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Based on the interaction Model 3, as reported in Table 4.14.2 using dividend to total assets as a measure of the dependent variable (DVTOASST), the study found the model also to be fit. From the table the model scores a Chi-square value of 1872.12 and is statistically significant at 1%. The value of the Chi-square changes because it

is a linear model, and the estimation method differs. However, the level of significance remains unchanged when the two models are compared with each other. Unlike, the probability model, the linear model has a reported R-square. This R-square provides information with regards to the explanatory power of the model. From Table 14.14.2, the R-square of the model is 0.322. This means that it explains 32.2% of the variability in the dependent variable.

A further comparison on significance and directions of the interaction terms presented in Table 14.4.2 indicates that three of the terms are not sensitive to the changes made in the dependent variable from a binary to a continuous variable. Evidently, the moderator, which is blockholders ownership, retains its significance and direction whereas, the three interaction terms, board size, board diversity and CEO tenure, are positively and statistically significant. Thus, the findings indicate that the result are not different from those reported in the probability model.

Consequently, comparing the direct and interaction models based on R-square, it could be seen that the addition of the interaction terms has improved the linear model. The reported R-square of the direct model is 30.75% whereas, the interaction has an R-square of 32.2%. Hence, the interaction model has more explanatory power than the direct model.

#### **4.14.3 Alternative Measure of Independent Variables**

In the last the robustness checks, the study adopts alternative measures of board composition, board diversity and financial experts on the board. Following Byoun et al. (2016) this study uses the actual number of outside directors on the board, female

directors on the board and financial experts on the board instead of ratios to test whether they are sensitive to PPD. The result of the estimation is provided in Table 4.15.1.

The existing model with ratios is on the left-hand side of the Table 4.15.1 while the new re-estimated model is on the right side of the table. Evidence from Table 4.15.1 shows the explanatory power of the direct model by using alternative measurement for the three independent variables mentioned above. Both the two models are similar in terms of their fitness although there are differences when the value of the statistics is compared but it has no effect on the model fitness. For instance, the alternative model has a Chi-square of 46.57 for the model fitness whereas, the main model (PPD) reported a Chi-square of 44.87 both are statistically significant at 1%.

Furthermore, both the two models suggest the preference for panel and based on random effects estimates despite the slight difference on value of the Chi-square for the intra-class correlation and Hausman test statistics. From the result as reported in Table 4.15.1, 63.3% of the variance is because of the differences across panels which is higher than 61.7% for the main and alternative model respectively. However, these differences do not pose an issue to the overall fit of the alternative model.

This alternative measure does not change the association between the propensity to pay dividends and board diversity and financial expertise on board. All these independent variables remain positive and statistically significant as reported in the main model. However, the level of significance for the board diversity has dropped from 5% to 10% while financial expertise on board has increased from 10% to 5%

for the existing and alternative models respectively. Other variables that include CEO tenure and the three ownership structures variables indicate no difference exists between the two models in terms of direction and the level of significance.

Table 4.15.1  
*Robustness Check using Alternative Measures of Independent Variables for the Direct Model*

Variables	Exp Sign	DV=PPD			DV=PPD		
		Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
PPD=1							
BFSIZE	+	-0.08	0.16	0.60	-0.28	0.25	0.24
BCOMP	+	0.08	2.18	0.97	-0.01	0.26	0.95
BDIVER	+	8.62	3.41	0.01**	0.75	0.40	0.06*
FINEXP	+	2.77	1.58	0.08*	0.43	0.21	0.03**
CEOT	+	-0.17	0.05	0.00***	-0.16	0.06	0.00***
FOREO	+	5.95	1.76	0.00***	5.58	1.71	0.00***
MANO	+	5.64	2.43	0.02**	5.36	2.36	0.02**
BLOCKH		-6.97	1.96	0.00***	-6.87	1.91	0.00***
FAGE		-0.07	0.03	0.04**	-0.06	0.04	0.05**
FSIZE		6.11	1.03	0.00***	5.89	0.99	0.00***
FLEV		-2.82	1.36	0.03**	-2.81	1.34	0.03**
SGRWT		12.97	2.20	0.00***	12.61	2.12	0.00***
RETE		-0.533	0.95	0.57	-0.44	0.94	0.63
_CONS		-38.90	6.99	0.00***	-35.83	6.10	0.00**
Chi-square			44.87***			46.57***	
Degrees of freedom			(df=13)			(df=13)	
LR test of rho			46.33***			44.09***	
Rho Value			0.633			0.617	
Hausman test:							
Chi-square			9.060			10.90	
Probability			0.769			0.619	

Notes: PPD=p propensity to pay dividends; BFSIZE=board size; BCOMP=board composition, measured in number; BDIVER=board diversity, measured in number; FINEXP=financial experts on board, measured in number; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH= blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE= retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Regarding the interaction terms as reported Table 4.15.2, the alternative measure of the independent variables does not change the fitness of the alternative model. The alternative model is significant at 1% likewise the rho value different from zero and its likelihood ratio test is also statistically significant at 1%. Thus, this suggests that

the panel model is superior over pool for the analysis. Furthermore, the result from the Hausman test also indicates the preference of random estimates over fixed effect models. This evidence is also applicable to the main model with ratios.

The new measurement of board composition, board diversity and financial expertise on board does not result in changes in the association of the interaction terms of these variables with the PPD, although some slight variations exist in the significance level. The level of significance of blockholders ownership increases from 10% in the previous main model to 5% in the alternative check. Similarly, the significance level of two interaction terms, the board size and board composition, dropped from 5% to 10% with the new measurement in the alternative model. The level of significance of the interaction terms of board diversity, financial expertise on board and CEO tenure remain unchanged.

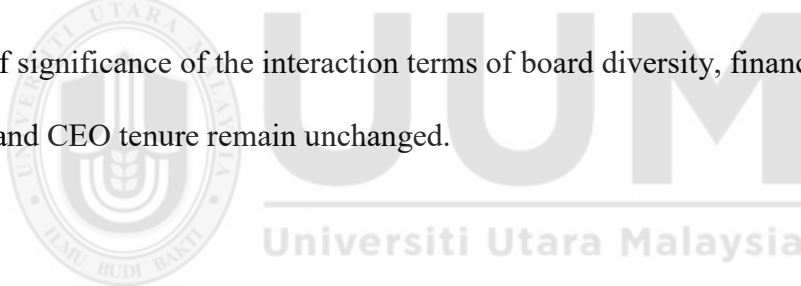


Table 4.15.2

*Robustness Check using Alternative Measures of Independent Variables for the Interaction Model*

Variable PPD=1	Main model			Alternative measure of four IVs		
	Coef.	Std. Err.	P>z	Coef.	Std. Err.	P>z
BSIZE	-0.90	0.44	0.04**	-1.46	0.67	0.02**
BCOMP	9.62	5.73	0.09*	0.95	0.64	0.13
BDIVER	-7.52	8.61	0.38	-0.98	0.94	0.29
FINEXP	-0.36	4.93	0.94	0.11	0.63	0.85
CEOT	-0.41	0.13	0.00***	-0.40	0.13	0.00***
FOREO	6.05	1.71	0.00***	5.70	1.65	0.00***
MANO	4.88	2.39	0.04**	4.81	2.33	0.03**
BLOCKH	-17.12	9.34	0.06*	-23.64	7.47	0.00***
BSIZE_BKH	1.49	0.74	0.04**	2.13	1.11	0.06*
BCOMP_BKH	-17.42	9.08	0.05**	-1.76	1.07	0.09*
BDIVER_BKH	31.50	15.84	0.04**	3.47	1.75	0.04**
FINEXP_BKH	5.92	7.74	0.44	0.64	0.99	0.51
CEOT_BKH	0.46	0.21	0.03**	0.44	0.21	0.03**
FAGE	-0.07	0.03	0.03**	-0.07	0.03	0.03**
FSIZE	6.32	1.05	0.00***	6.05	1.00	0.00***
FLEV	-3.01	1.41	0.03**	-2.96	1.38	0.03**
SGRWT	13.47	2.22	0.00***	13.01	2.12	0.00***
RETE	-0.50	0.98	0.60	-0.41	0.97	0.66
_CONS	-34.80	8.60	0.00***	-27.70	6.61	0.00***
Chi-square		47.63***			49.69***	
Degrees of freedom		(df=18)			(df=18)	
Rho Value		0.603			0.586	
LR test of rho		37.82***			35.56***	
Hausman test:						
Chi-square		13.74			13.47	
Probability		0.7459			0.7627	

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition, measured in number; BDIVER=board diversity, measured in number; FINEXP=financial experts on board, measured in number; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH= blockholders ownership; BSIZE\*BLOCKH=interaction term between board size and blockholders ownership; BCOMP\*BLOCKH=interaction terms between board composition and blockholders ownership; BDIVER\*BLOCKH=interaction term between board diversity and blockholders ownership; CEOT\*BLOCKH=interaction term between CEO tenure and blockholders ownership; FINEXP\*BLOCKH=interaction term between financial experts on board and blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV= firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

Summarily, equating the main results to the additional analysis, the findings of this study are robust. Based on the direct model, board diversity and financial experts on board have been consistently significant and according to the predicted hypothesis of

the study. The exception was for dividend to total assets as an alternative measure for dividend where financial expertise on board is statistically insignificant. Although CEO tenure results does not support the hypothesis of the study, the negative association persists throughout the estimations.

The ownership structures variables also reveal strong and consistent results and are according to the hypothesis in all the estimations. But when dividend to total assets was introduced in the model these variables became insignificant. Foreign and managerial ownership became negative and statistically insignificant. In contrast, blockholders ownership retained its negative sign even though not statistically significant.

Finally, the reported results indicate the importance of block owners in the non-financial firms listed on the NSE. Interestingly, the interaction terms for all the estimations were also statistically significant and moderated three of the five board structures variables. Accordingly, the findings on board diversity, financial experts on board and the ownership structure are important in explaining the propensity to pay dividends in the Nigerian market. The findings are also supported by estimating the average marginal effect used in the study which is discuss in the following section.

#### **4.14.4 Marginal Effects of Propensity to Pay Dividends**

The current study also supports the findings of the panel logit results with marginal effects, which is shown in Table 4.16. According to Williams (2012), the marginal effect, otherwise referred to as economic significance, is another way by which the

effects of variables in nonlinear models such as logit regression analysis can be made more meaningful. In other words, the marginal effect provides a representative value for variables in nonlinear models. In the words of Cameron and Trivedi (2009) –A marginal effect (ME), or partial effect, most often measures the effect on the conditional mean of  $y$  of a change in one of the regressors, say,  $x_j$ . In the linear regression model, the ME equals the relevant slope coefficient, greatly simplifying analysis. For nonlinear models, this is no longer the case, leading to remarkably many different methods for calculating MEs”.

Table 4.16  
*Analysis of Marginal Effects for Direct Model*

<b>Variables</b>	<b>Exp.Sign</b>	<b>dy/dx</b>	<b>Std. Err.</b>	<b>P&gt;z</b>
BSIZE	+	-0.06	0.17	0.73
BCOMP	+	-0.25	2.32	0.92
BDIVER	+	10.33	3.60	0.00***
FINEXP	+	2.99	1.66	0.07*
CEOT	+	-0.15	0.06	0.01**
FOREO	+	6.05	1.71	0.00***
MANO	+	4.88	2.40	0.04**
BLOCKH		-7.41	2.04	0.00***
FAGE		-0.08	0.04	0.03**
FSIZE		6.33	1.05	0.00***
FLEV		-3.02	1.42	0.03**
SGRWT		13.48	2.23	0.00***
RETE		-0.50	0.99	0.61

Notes: PPD=propensity to pay dividends; BSIZE=board size; BCOMP=board composition, measured in number; BDIVER=board diversity, measured in number; FINEXP=financial experts on board, measured in number; CEOT=CEO tenure; FOREO=foreign ownership; MANO=managerial ownership; BLOCKH= blockholders ownership; FAGE=firm age; FSIZE=firm size; FLEV=firm leverage; SGRWT=sales growth; and RETE=retained earnings to total capital. \*\*\*, \*\*, and \* indicate that the parameter estimates are statistical significant at the 1%, 5% and 10% levels respectively.

This study uses the average marginal effect in determining the impact of the independent variable on the probability of paying a dividend. This is because of the advantage average marginal effect has over other techniques. For instance, using the average marginal effect will allow the researcher to use all the data, but not their



means and the average marginal effect provide a superior estimates compared to others (Williams, 2012) and authors such as Cameron and Trivedi prefer it (2009). Moreover, previous studies on the decision to pay dividend (Al-Najjar & Kilincarslan, 2016; Kuo et al., 2013) also used the average marginal effect in determining the impact of the independent variable on the probability outcome.

Furthermore, the study assesses the marginal effect of the independent variables in the direct model that is Model 2. However, Model 3 has interaction terms and, therefore, estimating the marginal effect for the model is not possible. Williams (2012) posited that “The value of the interaction term cannot change independently of the values of the component terms, so you cannot estimate a separate effect for the interaction”. Additionally, the absence of a categorical variable is also a constrain for estimating the marginal effect of the interaction terms. Based on this notion, the discussion of the economic significance is only on Model 2.

Table 4.16 indicates that board diversity accounts for a higher marginal effect on the propensity to pay dividends among the variable of interest in the table. This means that it has more influence on the propensity to pay dividends. The positive marginal effect as reported from Table 4.16 shows that, if board diversity changes by 10%, then the likelihood of paying a dividend increases by 103.3%.

Similarly, the result reveals that an increase in 10% of financial expertise on board may result in a 29.9% increase in the probability of paying a dividend and it is statistically significant at 10%, thus, supporting the hypothesis of the study. However, the last board structure used in this study is CEO tenure. The association

between CEO tenure and the propensity to pay dividends is found to be negative and statistically significant. Therefore, the marginal effect of this relationship indicates that as the tenure of CEO is increased by 10%, the likelihood of dividend payment may be reduced by 1.5%. This result contradicts the hypothesis of the current studies. Consequently, only two of the board structures variables are consistent with the hypothesis of the studies and have a strong average marginal effect on the likelihood of dividend payment. But the three ownership structures variables are statistically significant and consistent with the hypothesis.

The result as reported in Table 4.16 further shows that the marginal effect of foreign ownership is 6.05. This implies that a 10% increase in the number of shares held by foreign investors may lead to more likelihood of the firm to pay dividends by 60.5%. The result is statistically significant at the 1% level. The marginal effect of shares held by executive directors on a board reveals that the propensity to pay dividends may be increased by 48.8% because of 10% increase in the executive shareholdings. Conversely, blockholders ownership is associated with a decrease in the probability of paying dividends. From the Table 4.16 the result shows that a 10% increase of blockholders ownership may reduce the propensity to pay dividends by 74.1%.

Summarily, the marginal effect presented in this study provides additional information with regards to investment decision. This is because the level at which a variable influences the likelihood of dividend payment is been understood with the help of marginal effect analysis.

#### 4.15 Summary of Hypotheses Testing

The summary of findings of this study for the direct and interaction models are tabulated in Table 4.17.

Table 4.17  
*Results of Tested Hypotheses*

<b>HYPOTHESIS</b>	<b>E. Sign</b>	<b>Findings</b>	<b>Decision</b>
<b>H<sub>1</sub></b> : There is positive relationship between board size and the propensity to pay dividends.	+	Insign.	Not supported
<b>H<sub>2</sub></b> : There is positive relationship between board composition and the propensity to pay dividends.	+	Insign.	Not supported
<b>H<sub>3</sub></b> : There is positive relationship between board diversity and the propensity to pay dividends.	+	+	Supported
<b>H<sub>4</sub></b> : There is positive relationship between financial expertise on board and the propensity to pay dividends.	+	+	Supported
<b>H<sub>5</sub></b> : There is positive relationship between CEO tenure and the propensity to pay dividends.	+	-	Not supported
<b>H<sub>6</sub></b> : There is positive relationship between foreign ownership and the propensity to pay dividends.	+	+	Supported
<b>H<sub>7</sub></b> : There is positive relationship between managerial ownership and the propensity to pay dividends.	+	+	Supported
<b>H<sub>8</sub></b> : There is relationship between blockholders ownership and the propensity to pay dividends.			Supported
<b>H<sub>9</sub></b> : Blockholders moderates the relationship between board size and the propensity to pay dividends.			Moderated
<b>H<sub>10</sub></b> : Blockholders moderates the relationship between board composition and the propensity to pay dividends.			Moderated

Table 4.17 (Continued)

<b>HYPOTHESIS</b>	<b>E. Sign</b>	<b>Findings</b>	<b>Decision</b>
<b>H<sub>11</sub></b> : Blockholders moderates the relationship between board diversity and the propensity to pay dividends.			Moderated
<b>H<sub>12</sub></b> : Blockholders moderates the relationship between financial expertise on board and the propensity to pay dividends.			Not Moderated
<b>H<sub>13</sub></b> : Blockholders moderates the relationship between CEO tenure and the propensity to pay dividends.			Moderated

#### 4.16 Summary of the Chapter

This chapter provides the empirical results and discussions on the effect of board characteristics, ownership structures on propensity to pay dividends and the moderating effect of blockholders on the relationship between board characteristics and propensity to pay dividends in Nigeria. The tool of analysis used in the study include, descriptive statistic, t-test, correlation and panel logit regression to address the questions raised.

The empirical results indicate that among the board characteristic variables used in the study, gender diversity and financial expertise on board play a vital role in explaining how propensity to pay dividends is influenced by these corporate governance variables. The study also found strong evidence that foreign, managerial and blockholders ownership affect propensity to pay dividends among the non-financial listed firms on NSE. Similarly, the results from the interaction of blockholders ownership with board characteristics also indicates the relevance of blockholders ownership on propensity to pay dividends. board size, board diversity,

financial expertise and board and CEO tenure have antagonistic interaction pattern. Whereas, the pattern of interaction for board composition is buffering. However, the interaction terms of board size, board composition, board diversity and board CEO tenure were statistically significance. Thus, suggesting that blockholders could increase and decrease the propensity to pay dividends.

Finally, the study conducted some additional analysis by altering the dependent variable as well as the measurement of three independent variables from the board characteristics used in the study to see if they are sensitive to the changes made. Interestingly, the results from these analyses did not change significantly. Thus, suggesting the findings from the study to be robust.



## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

The main objective of the study is to investigate the effect of board characteristics, ownership structures on propensity to pay dividends in Nigeria. The sub-objectives were: 1) to examine the effect of board characteristics on the propensity to pay dividends; 2) to investigate the influence of ownership structures on propensity to pay dividends and 3) to investigate the moderating role of blockholders on the association of board characteristics and the propensity to pay dividends.

The study examined non-financial firms listed in the NSE for a period of seven (7) years with 596 firm-year observations. The dependent variable was constructed using three firm characteristics that included firm size, ROA, and growth opportunities consistent with the literature and this is referred to as the propensity to pay dividends. The study uses board characteristics and ownership structures as independent variables. The board characteristics variables included are board size, board composition, board diversity, financial experts on board and CEO tenure. Whereas, the study used foreign, managerial and blockholders ownership as proxies for ownership structures.

#### **5.2 Overview of the Research Results**

Given the nature of the constructed dependent variable PPD, the study uses panel logit regression based on random effects because the outcome from Hausman's test

suggested the use of random effects models. The study also re-estimated the model using standard robust error by clustering the standard error at the panel lid. The study also conducted a robustness check using two different variables PPD\_DUM and dividends to total assets as alternative measures of the dependent variable. In addition to this, the study also uses actual numbers of three independent variables, which include board composition, board diversity and financial experts on board.

The results from the estimations suggest that firm characteristics are important when considering the decision to pay or not to pay dividends in the NSE market. These characteristics are firm size, ROA, and growth opportunities. Cumulatively, the firm characteristics highlighted the likelihood of a firm to pay dividends. The results from the descriptive statistics shows that 52% of the sampled firms did pay dividends. The result also shows that dividends payers tend to be distinct from the non-payers in terms of board characteristics and ownership structures. The dividend-paying firms have larger boards with a higher percentage of female on board, higher financial expertise and less CEO tenure. On top of that, dividend-paying firms have a higher percentage of foreign investors, and the firms are more matured than the non-dividend paying firms.

From the regression results, positive relationship between board diversity and propensity to pay dividends emerges. The result indicates that firms with a higher number of the female directors have more likelihood to pay dividends in Nigerian market. Further, the findings suggest that a female director tends to play an important role in the board. A female director may use dividends as a tool in

mitigating conflicts between managers and owners of the firm and, therefore, discipline the manager by influencing the decision to pay dividends.

The study also found strong evidence with respect to financial expertise on board. The result reveals a significant and positive relationship indicating more likelihood of dividend payment when a financial expert is on the board. Therefore, it may be deduced that financial experts may not allow the accumulation of cash in a firm as this may lead to overinvestment or perquisite consumption. Hence, financial experts may use dividends to eradicate agency problems between managers and shareholders of a firm.

The ownership structures also provide strong and sufficient evidence on the likelihood of dividend payment. The findings suggest that dividends may be paid by firms when foreign investors and executive directors hold a portion of the shares in a firm. In contrast, the presence of blockholders in a firm indicates that they are less likely to influence the decision to pay more dividends. Therefore, they act as a substitute for dividend to be used as a mechanism to control managers. This could mean that blockholders may monitor a firm because they have an incentive to do so and managers need not signal their commitments to the market by paying dividends.

Additionally, in the second stage of the study, blockholders ownership is used as a moderating variable on the association between board characteristics and the propensity to pay dividends. The results reveal that blockholders positively moderate board size, board diversity and CEO tenure and negatively moderate board composition. The results are statistically significant. The findings imply that the



Previous studies have found evidence that blockholders are less likely to influence the payment of dividends. Thus, directors acting on their behalf may be more conservative on the use of dividends as control mechanism. Further, he or she may be willing to demonstrate his or her expertise in monitoring the managers without employing dividends as an additional mechanism for monitoring.

board of a firm is more likely to be large in the presence of blockholders, and there is a higher probability of a firm to pay dividends. Similarly, the presence of the blockholders may lead to a greater percentage of female on the board, and the tenure of the CEO may be longer and consequently the firm may more likely to pay dividends. However, the study found that a firm may be less likely to pay a dividend when there is higher percentage of outside directors on board in the presence of blockholders.

The findings from the interaction may be argued in the following paragraphs. Previous studies have found evidence that blockholders are less likely to influence the payment of dividends. Thus, appointing directors to act on their behalf may be more conservative on the use of dividends as control mechanism and may be willing to demonstrate his expertise in monitoring the managers without considering another tool such as dividend to be used as a monitoring tool.

The literature has established that independent directors on board are negatively related to dividend. Conversely, the NCCG 2011 has explicitly recommended that the blockholders should contribute to the good governance practices in the firm. Therefore, the blockholders might engage or appoint independent directors on their

behalf or as their representative on board who are considered as good monitors. In this case, such independent directors might be less likely to pay dividends.

However, the scenario may change when the independent directors are in contact with other type of directors on board (outsider or insider). This is because some scholars have criticised the independent directors that they lack required time to study the firm and this may affect their monitoring services in firm. Therefore, the other directors may have greater impact on the board decisions particularly when it comes to financial issues. The outside directors for example, may have been fully aware of the firm and the type of the CEO the firm is having because some of them were previous officers of the firm more than the independent directors. Hence, they may convince other directors (representative of blockholders on the board e.g. independent directors) to use dividends in addition to other monitoring tools available. Consequently, board characteristics and ownership structures are important in determining the propensity to pay dividends in the Nigerian market.

### **5.3 Contributions of the Study**

The study contributes to the body of existing literature both on resource dependency and agency theories through board characteristics comprising of board diversity, financial experts on board and partly contributions were also made on size of the board and CEO tenure. Additionally, the study also made contributions to ownership structures variables such as foreign, managerial and blockholders ownership likewise on the moderating role of blockholders on the decision to pay dividends. In specific

terms, the research has theoretical implications coupled with policy implications, and these are discussed in the following sub-sections.

### **5.3.1 Theoretical Implications**

This study is an extension of the propensity to pay dividends literature. This is because it replicates the propensity to pay dividend model in the Nigerian market, which is an entirely different environment compare to previous studies conducted in the United States and other countries such as the United Kingdom, Korea and India. Therefore, it is expected that the findings of this research could be of importance to the Nigerian market.

Considerable number of the previous research refers to their dependent variable of dividend payer and non-dividend payer in a straightforward manner. This study however, used ROA, firm size, and investment opportunities to construct the dependent variable. In doing so, a logit regression was estimated annually from 2009-2015 (sampling period), and the results for every variable (ROA, firm size, and investment opportunities) were summed and divided by seven years of study. The annual values of the ROA, firm size, and investment opportunities for every firm were fitted into the propensity model. Therefore, a firm is said to be a dividend payer when it has a predicted probability of 50% or more and did pay a dividend in that year. However, if a firm that did not satisfy these two conditions (having a predicted probability of 50% and paid a dividend in that year), it was referred to as non-dividend paying firm.

This study also contributes to the body of knowledge by investigating how board characteristics and ownership structures affect a firm's propensity to pay dividends. The approach is entirely new in sub Saharan Africa particularly in Nigeria.

Based on individual variable, the study offers incremental evidence on board diversity as it affects the propensity to pay dividends. The evidence supports agency and resource dependence theories that female directors on a board mitigate agency problems using dividends payment. Similarly, from the perspective of resource dependence theory, female directors on board are resourceful directors given their commitment to their role on the board and their experience in the industry and in the firm. Female directors are likely to offer diverse opinions and contribute to wider discussions that may result in better decisions, which may enhance the performance of the firm and monitoring effectiveness. Further, female directors may use more dividends to fortify their monitoring role in the firm. The use of dividends could help in protecting their reputational capital and against legal liabilities that may arise as board directors may fall short of their responsibilities as enshrined by law.

This study also contributes to the existing literature on how directors with financial expertise on board impact the propensity to pay dividends. Previous research has focused on financial reporting quality and addressing earnings management. This study widens the knowledge by examining the role of financial experts on board on the propensity to pay dividends. Moreover, the present study is among the first to explore the relationship between financial expertise on the board and the propensity to pay dividends particularly in the context of the Nigerian market.

A heterogeneous board is expected to bring about improvements in a variety of firm outcomes. Shareholders are the prime beneficiaries from the services offered by a heterogeneous board of directors. The services range from a monitoring role to resolving problems faced by firms and in corporate strategy development. Financial experts, in particular, are required by firms for corporate planning and determining issues that are likely to influence corporate value. Financial expert directors, moreover, are regarded as being rich in resources, which are very useful to an entity as they provide expert advice to the CEO and the board on issues relating to cash management such as dividends.

Agency theory emphasizes the importance of the financial expertise of a director based on monitoring opportunistic managers and, hence, in reducing agency related costs. Conversely, the resource dependence view of point considers the ability of directors as a condition for providing the required monitoring services. A financial expert director (insider or outsider) may have the incentive to protect his/her reputation and will, therefore, provide services that will protect the interests of shareholders such as influencing the propensity to pay more dividends.

Apart from the governance practices of a firm, ownership structures equally have effect on a firm's financial policies. This study also shows that the existing ownership structures of a firm have an impact on the propensity to pay dividends. Managers and foreigners who own shares in a firm tend to influence firms to consider a decision to pay dividends. The findings also contribute to the agency theory in that managers may like to build a reputation in the market through dividend

payments so that the managers may not encounter difficulties in the markets when raising capital in the future.

Foreign investors also have impact on the propensity to pay dividends in Nigeria. The findings indicate that the foreign owners may have a preference for dividends such that the payment of the dividends could be used to control opportunistic managers. The foreign owners could find dividend payments to be less expensive because there may be considerable distance between their residence and the country in which they hold investments. Moreover, their support for paying more dividends may be explained from the tax perspective. It is likely that there is a bilateral agreement on tax-related matters between an investor's country of origin and the hosting country. The agreement could be that the foreign owners may be subject to less tax and, in return, the host country may be allowed to export its natural resources while being taxed at a lower rate. Therefore, such type of agreement may lead foreign owners to exert more influence on firms to pay dividends because they have less tax burden.

This study adds to prior studies on dividend policies through offering new evidence on the dividend payout decisions of listed firms on the NSE. The study provides an explanation to the unexplored decline in the payment of dividends. The study revealed that an increase level of blockholders ownership may likely contribute strongly to the decline in dividend payments among the non-financial listed firms in Nigeria. This study also found agency theory to explain the decision of whether to pay or not to pay dividends. This is because blockholders have a strong monitoring incentive given their holdings in a firm and, therefore, may use less dividends as a

mechanism for control. The findings further suggest that blockholders may not use dividends to control managers in a firm.

On the other hand, the study also contributes to a less explored area, which is the interaction between blockholders and board structures and its effect on the propensity to pay dividends among non-financial listed firms in Nigeria. This is consistent with the view that any governance mechanisms that may put in place for investor protection should also consider the presence of blockholders. This is because the blockholders could be useful in mitigating managers owners related agency problems. This study incorporated blockholders as a moderator in the study, which is yet another area that has received less attention in the propensity to pay dividend framework. The results from the interaction is appealing as they provide more information in explaining the decision to pay dividends in the NSE market. Considerable blockholdings in a firm comes with a greater incentive to closely monitor a firm's financial policies, and dividend payout is part of these financial policies. The interaction effect of board size, board diversity and CEO tenure with blockholders provides a strong influence on the propensity to pay dividends.

Given the role of blockholders as moderator, this study supports and further explains the resource dependence theory. It states that, when the board is large, there is tendency to have members who are resourceful with much experience. They provide diverse opinions, which will contribute to greater deliberations that may result in better decisions, enhanced performance and improved monitoring functions.

Moreover, the study also finds strong evidence on the moderating role of blockholders on the association between board diversity and CEO tenure on the propensity to pay dividends. The evidence, hence, suggests that a female director serving on the board may contribute more to the decision to pay dividends in the presence of blockholders. Therefore, this lends support to the resource dependence theory perspective that a heterogeneous board has higher level of performance and, in turn, affects a firm's financial policies. In this regard, a female director may perhaps influence the decision to pay dividends and use dividends as a mechanism to control agency conflict in the firm. It could also be viewed that a female director is appointed to the board because of her qualities in terms of qualification, skills, and experience (board capital). Therefore, a female director is likely to use dividends as an additional control mechanism because free cash flow in a firm may be wasted by managers, and this may affect her reputation as resourceful director.

The study also provides a strong relationship between a longer-serving CEO and the propensity to pay dividends, which depends on blockholders ownership in a firm. It is likely that blockholders consider a CEO with longer tenure to be more beneficial to the firm, for example, because of acquiring of more experience. Thus, blockholders may insist on extending a CEO's tenure in the firm and, in turn, pay more dividends as a way of rewarding the shareholders. Therefore, this research adds to agency theory by suggesting that paying dividends will perhaps align the interests of managers with those of the shareholders.



### **5.3.2 Contribution to Practice**

The findings of this study also show the relevancy of corporate governance mechanisms in the alignment of the interests of the principal and agent in relation to dividends. Accordingly, the study is expected to benefit regulators in the capital markets, current and potential shareholders, and researchers. The study also widens the view of dividends policy decisions among the non-financial listed firms in NSE.

The contributions from this study are timely given the provision made on the structures of board of directors in the NCCG by the SEC, which requires listed firms to have diversity in terms gender and financial expertise. Thus, this study provides an insight into the roles played by these directors on corporate dividends. This finding is vital to the SEC with reference to their monitoring and enhancing good governance practices among the listed firms.

The present study documents empirical evidence that a board of a firm with females and directors with financial expertise may result in an increased likelihood to pay dividends. The result may help in evaluating firms that have consistently failed to pay a dividend. Therefore, the SEC and NSE as a regulator of the capital market may increase their understanding from this finding.

The findings of this study also indicate the greater influence of blockholders on the dividend policy of firms. The study shows that blockholders are less likely to support the payment of dividends; hence, both SEC and NSE may benefit from this study by re-examining the pool of blockholders role in relation to the use of dividend as a monitoring tool in the firm and on the enforcement of good corporate governance

practices. This is because the pool of blockholders in the firm are attributed to decrease in the propensity to pay dividends. This may have implication for other investors who preferred dividends than capital gains.

The study further suggests that the regulatory authorities consider stipulating the upper limit of shares to be acquired by existing managers in a firm. This can help in reducing the intensity of agency problems because having a large number of shares in the firm may likely provide an avenue for managers to become entrenched. In turn, firms with entrenched managers are likely to exacerbate agency problems particularly in country like Nigeria in which other control mechanisms such as corporate takeovers and shareholder activism are very weak.

Overall, the study has added to the previous literature on dividends and corporate governance. It is worth mentioning that the existing 2011 NCCG code provisions need to be expanded to fully address agency related conflicts. Therefore, more rules and clear explanations should be provided. This could boost the confidence of the shareholders and other stakeholders of the capital market because the reputation of the regulatory authorities is determined by making adequate provisions, which are aimed at protecting the interests of the investors in the market. Likewise, full disclosure of ownership that may capture various classes of owners such as foreign, institutional retail, domestic institutional and retail. Additionally, providing information regarding whether an institution is tax exempt or otherwise is strongly recommended. This classification will allow for informed judgements prior to investing or after the investment decision has been considered.

The study further suggests that regulatory authorities, shareholders, and other users of accounting information demand a standardize and consistent way of reporting the status of every board member as to whether he/she is an executive director, a non-executive director or an independent director. This may permit the ascertaining of the level of compliance among other things. Accordingly, a detailed classification of the holdings of various shareholders in a firm is also recommended. Many firms tend to use different ways of reporting the classes of shareholders holdings on a yearly basis. This habit may portray a negative image of the firms and regulatory bodies to the investors.

Furthermore, the findings of this study indicate the importance of blockholders to a firm. Their interactions with the board structure variables provide a substantial outcome on the propensity to pay dividends. Alternatively, the combination of blockholders who may have directors on board representing their interest with other directors have resulted in an increase of likely to pay dividends. This is an interesting finding but further control need to be put in place particularly on the directors representing the interest of blockholders such that conflict of interest between majority and minority holders may be avoided while attempting to address agency problems between owners and managers.

The 2011 NCCG recommends that a firm to decide on a percentage of holding that may qualify a shareholder to have a directorship on the board representing his or her interest. However, existing and potential shareholders may drive benefit if the regulatory bodies could consider specifying the proposition of shares that permits block owners to have a director on board that represents their interests in the firm.

This provision is lacking in the 2011 NCCG. Moreover, the percentage of holdings should be provided and with detailed responsibilities for directors representing the block owners to avoid conflict of interest.

Potential and existing investors who have a preference on dividend will find this study useful as it will allow them to consider whether to invest in firms with more blockholders because blockholders are less likely to influence paying dividends. In contrast, foreign and managerial owners are more likely to make a firm consider dividend payment. Therefore, potential investors that are incline to dividends may also invest in foreign and managerial controlled firms.

Gender diversity is vital as it has distinct features, which are monitoring and resource provision. However, some firms examined in this study do not have any female director on their boards. In this regard, it is of relevance if regulatory authorities consider stipulating a percentage dedicated for the female directors. On the other hand, the shareholders are encouraged to support the election of female directors in their firms as they can enhance monitoring and resource provision in the firm.

#### **5.4 Limitations of the Study**

This study focused on the non-financial firms listed in NSE market. Therefore, its findings may not be extended to other area of corporate governance practices for example, board meeting and multiple directorship. Similarly, the findings cannot be extended to financial firms or firms listed on the other markets of the NSE known as the Alternative Securities Market (ASeM). The ASeM is a market for small and

medium sized firms, which raise long-term capital at a low cost for their future growth and investments.

Furthermore, the study is also constrained with the availability of data. Some firms within the non-financial sector were not included as they did not have complete data to carry out this research. Among the causes of this constraint is the late filing of returns to the regulatory bodies. Other offences that are sanctioned by SEC and NSE, for instance, unauthorized publication and the non-disclosure of material information among others, also constrained the number of firms included in the study. Hence, only 89 firms had a complete set of data for the seven-year study period.

Regarding the ownership structures, the study takes account of the shareholdings of executive directors who are appointed to the board and did not include other officers in a managerial capacity in a firm that do not form part of the board of directors. Furthermore, the study does not distinguish between foreign institutional or foreign individual ownership because of data limitations.

Despite the limitations, the validity of the results prevails as the study underwent rigorous statistical processes for achieving its objectives. These processes make the research outcomes important and valuable.

### **5.5 Further Research Areas**

Considering the findings of this research as well as its limitations, the study proposes avenues for further investigations that are highlighted in the following paragraphs. First, future study should consider variables such as board meeting; multiple

directorship and inside directorship among others. It will also be interesting if studies are to be conducted on other classes of ownership e.g. CEO ownership; institutional and family ownership. Similar study may be carried out in listed financial firms with a view to determine whether similar conclusions could be reached on propensity to pay dividends. Likewise, examining the firms under the Alternative Securities Market (ASeM) could also be interesting because not all investors are interested in the firms listed on main market of the NSE. Another fruitful area worth investigating is a cross-country study in sub-Saharan Africa. This will enhance the understanding of the propensity to pay dividends and may represent the African point of view of the phenomenon.

Second, on the measurement of the dependent variable, this study utilizes a binary number with two dimensions; pay dividends  $-1$  and not to pay dividend  $-0$ . Future study may consider the use of multinomial model to capture other firms for example that are predicted to pay but did not pay; predicted not to pay but pay; in addition to the predicted payers that did pay a dividend. Using a multinomial variable may provide further information on the propensity to pay dividends that are not captured by a binary regression.

Third, future studies may further examine board composition by disintegrating the outside directors into various categories such as outside directors who have not been an executive director in the firm previously and outside directors who have been a director in the firm as well as identifying independent directors in the firm.

Fourth, classifying the blockholders ownership into various group may add value to the current literature and its impact on the likelihood to pay dividends in Nigerian market. This is because previous studies have found blockholders in the form of commercial and industrial do affect dividend policies differently.

## **5.6 Concluding Remarks**

This thesis is centered on board characteristics and ownership structures and how they affect the propensity to pay dividends. A lack of study in the Nigerian market that combines the propensity to pay dividends model with board characteristics and ownership structures variables motivated the research. The evidence indicates that firm characteristics are important determinants of the propensity to pay dividends. The findings from the study show that firm governance structures that include board diversity and financial experts on board have impacts on a firm's likelihood to pay dividends.

Similarly, the study also found the existing ownership structures to have a significant effect on the propensity to pay dividends in Nigeria. The study shows that foreign and managerial ownerships are more likely to influence the decision to pay dividends whereas, investors with block holdings in the firm have less of a likelihood to affect the dividend payment decision in non-listed financial firms. Moreover, this study contributes to the area of corporate governance with reference to monitoring and resource provision. On the other hand, the study has contributed to dividend policy particularly to the growing literature on the propensity to pay dividends.

Interestingly, the current study provides statistically and significant evidence on the interaction effect of blockholders ownership, on the relationship between board size, board diversity and CEO tenure and the propensity to pay dividends. Consequently, the results indicate that, when the board of a firm is large, with a female director and a CEO with a longer tenure, in the presence of blockholders, firms exhibit a higher likelihood of paying dividends. Evidently, the results have revealed the importance of the blockholders in the governance structures of a firm regarding the decision to pay dividends.

Finally, this study may be of benefit to the regulators and shareholders in light of firm governance and the decision to pay dividends by the firms. The study suggests that shareholders, particularly those with a higher preference for dividends, closely monitor their boards when firms are controlled by blockholders as it may lead to decrease in the payment of dividends. In conclusion, this study should serve as another foundation for the enhancement of the corporate governance practices in the Nigeria market by encouraging larger board that may consist of experienced and well-informed female directors since the presence of blockholders is prevalent among the non-financial listed firms on the NSE. Moreover, having larger boards, presence of female directors on board, CEO with a longer tenure, and blockholders appears to jointly relate well as they encourage propensity to pay dividends.

The study should also serve as a basis for further examination of propensity to pay dividends in Nigerian market by extending the Fama and French propensity to pay dividends model. In doing so researchers may consider incorporating some important variables pertinent to the Nigerian market. It will also be interesting that future



should consider other corporate governance and ownership structures variables in their studies. This will further increase the understanding of corporate governance practices with regards to monitoring and it will affect propensity to pay dividends.



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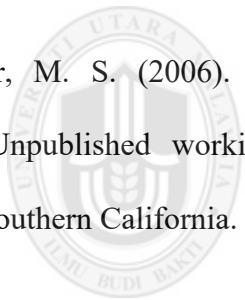
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**Appendix A**  
**Sampled of Non-Financial listed on the NSE**

<b>S/N</b>	<b>FIRM</b>	<b>S/N</b>	<b>FIRM</b>	<b>S/N</b>	<b>FIRM</b>
1	FTNCOCOA	35	MAYBAKER	71	MRS
2	LIVESTOCK	36	MORISON	72	OANDO
3	OKOMUOIL	37	NEIMETH	73	TOTAL
4	PRESKO	38	PHARMDEKO	74	ACADEMY
5	AGLEVENT	39	UNIONDIAGN	75	AFROMEDIA
6	CHELLARAM	40	CHAMS	76	AIRSERVICE
7	SCOA	41	COURTVILLE	77	ABCTTRANS
8	TRANSCORP	42	COMP W-HOUSE-GRP	78	CILEASING
9	UACN	43	ETRANZACT	79	CAPHOTEL
10	ARBICO	44	NCR	80	CAVERTON
11	JBERGER	45	OMATEK	81	INTERLINK
12	ROADS	48	AVONCROWN	82	LEARNAFRCA
13	UAC-PROP	49	BERGER PAINTS	83	NAHCO
14	7UP	50	BETAGLAS	84	RTBRISCOE
15	CADBURY	51	CAP	85	REDSTAREX
17	DANGFLOUR	53	CUTIX	86	TANTALIZER
18	DANGSUGAR	55	DANGOTE CEMENT	87	TOURIST
19	FLOURMILL	56	GREIF NIG	88	TRANSEXPR
20	GUINNESS	57	WAPCO	89	UNIVERSITY PRESS
21	HONYFLOUR	58	PAINTCOM		
24	NASCON	59	PORTPAINT		
25	NESTLE	60	PREMPAIRS		
26	NB	61	ALUMINIUM EXTRUSION		
27	ENAMELWA	63	MULTIVERSE MINING		
28	PZ	64	THOMAS WYATT NIG.		
29	UNILEVER	65	BECO PET PRODUCT		
30	UNIONDICON	66	CONOIL PLC		
31	VITAFOAM	67	ETERNA PLC		
32	EVANSMED	68	FORTE OIL		
33	FIDSON	69	JAPPAUL OIL		
34	GLAXOSMITH	70	MOBIL		