The Examination of Relation between Corporate Governance and Dividend Payment Policy of the Listed Companies on Tehran Stock Exchange

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ABSTRACT: The main purpose of this study is to examine the relation between corporate governance and dividend payment policy of the listed companies on Tehran stock exchange. The current research method is practical and its design is semi-empirical and is done through post event approach (via past information). Spatial domain of the study covers the listed companies of Tehran stock exchange and its time domain is ranged from 2008 to 2012. Also, three hypotheses are provided to examine the relation between each variables of the study. Hence, the independent variables are board of directors' size, duality of executive manager and ownership of institutional shareholders and dividend payment policy had been regarded as dependent variable. Of course, 4 control variables of firm size, firm growth, financial leverage and return on assets have been used. Ordinary Least Squares (OLS) method is used to testing hypothesis by EVIEWS 7 software. The research result demonstrated that there is a relation between boards of director's size, ownership of institutional shareholders and dividend payment policy of the listed companies on Tehran stock exchange, and there is no relation between duality of executive manager and dividend payment policy of the listed companies on Tehran stock exchange.

Keywords: Board of director's size, Corporate governance, Dividend payment policy, Duality of executive Manager, Institutional shareholders.

INTRODUCTION

Economist had been long assumed that all related groups to a stock company are operating for a common goal. But there has been proposed various conflicts of interests between groups and how they face with these conflicts by economists over 30 past years. These issues, generally, are stated as "agency theory in accounting" (Chung & Shiu, 2002). Agency relationship is a contract on which an employer or owners appoints a representative or agent and delegate to him/her a decision-making authority. In agency relationships, the owners' aim is to maximize their wealth, thus they monitor on representatives' activities and examine their performance to reach the goal (Khanchel, Lozato & Rimbey, 2007). Managers' activities are guided or somehow limited by some factors. These factors should be proposed and deployed more suitably for corporate governance and the companies must observe many rules and regulations by doing their duties and many institutions should monitor on the process of economical units activities. These factors include the items such as board of directors (that have the right to hiring, dismissal and rewarding), rules and regulations, labor contracts, market and even competitive environment. Generally, the above factors can be regarded as two groups of external control mechanisms (such as a market), and internal control mechanisms (such as board of directors) (Karami, Mehrani & Eskandar, 2010).

On the other hand, dividend distribution policy is one the considerable subjects of financial literatures in recent years. There has not been yet clearly demonstrated why companies distribute some of their earnings as dividend payment between shareholders and why dividend payment is important for shareholders. So this issue is posed as a riddle of dividend payment of financial literature. Miller & Modigliani (1961) have stated that dividend payment management cannot results in increasing (decreasing) stakeholders' interest in a complete and effective market. However, capital markets are not completely efficient. According to the rational expectations theory, the shareholders have special expectations about dividend payment from companies (Aharoni & Javid, 2001).

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If dividend announcement be corresponded with what the market expects, the prices will not change. But if shareholders recognized the unexpected changes occurred in distributed dividend, they would wonder what the goal of the managers about these changes is. Companies have various policies about dividend distribution, but managers try, regardless of special policies in each company, to distribute dividends in a way that avoid negative changes on shareholders by the help of information about future (Mehrani, Moradi & Eskandar, 2010). In this study, we are seeking to examine the relation between corporate governance and dividend payment policy of the listed companies on Tehran stock exchange. There have been done many researches about this field. Hence, Kumar (2003) concluded that there is a relation between ownership structure and dividend payment policy. Also, Wi & Chang (2003) results demonstrated that there is a nonlinear relationship between dividend distribution policy and ownership structure and state companies tend more to pay cash dividends and public companies prefer to pay higher dividends. Fourugh, Saeedi & Azhdar (2009) results showed that the company's management shares amount have meaningful and positive influence on dividend distribution policy, while institutional shareholders have no influence on dividend distribution policy. Khodadadi & Aghajari (2009) logistic model test results have showed that ownership structure has meaningful influence on dividend distribution policies. According to the obtained evidences from Karami et al., (2010), on the other side, there is a meaningful and positive relationship between institutional concentration and dividend payment which is based on agent theory. Mansourinia, Hasani & Sadegh (2013) results have demonstrated that there is a considerable and positive relationship between board of director size and dividend payment policy. But the considerable relation between board of director's independence factors and management duality with dividend payment policy has not been seriously regarded.

Afzal and Souherish (2013) believed that board of director's size, individual ownership, firm size and investment opportunities have positive and considerable relationship with dividend amount. On the other hand, internal ownership and profitability of the company have an extremely negative impact on dividend payment. Institutional ownership and leverage have a negative impact, while board of director's independence had positive relationship with payment ratio. Their Logit and Probit models had demonstrated that individual ownership, internal ownership and profitability have negative, positive and considerable relationship with dividends, respectively. Investment opportunities have positive-but insignificant- relationship with dividend-related decisions.

METHODOLOGY

Research design

The research design of the study is semi-empirical and is done based on post-event approach (via past information). On the other hand, the current study is descriptive-correlational research. This investigation is a kind of quantitative research based on data natures and is regarded as practical research based on the goals. And in order to examine the research hypothesis and given nature of information, the research data is based on past quantitative and real information.

Research hypothesis

• There is a significant relation between size of board of directors and dividend payment policy of the listed companies on Tehran stock exchange.
• There is a significant relation between executive manager duality and dividend payment policy of the listed companies on Tehran stock exchange.
• There is a significant relation between institutional shareholders ownership and dividend payment policy of the listed companies on Tehran stock exchange.

Participants

The statistical population of the study is the listed companies on Tehran stock exchange during 2008 to 2012. In order to selecting the sample, the companies were selected which limited to the three following conditions:
1) They have been listed on Tehran stock exchange before 2008.
2) Their fiscal year should be the Esfand 29th.
3) Their data should be available.
4) They must not be or part of investment companies, leasing, banks, insurance and etc.

On the other hand, Cochran is a common formula for estimating sample volume:

\[ n = \frac{Nz^2pq}{Nd^2 + z^2pq} \]

In the above formula, usually, the MAXIMUM PERMISSIBLE ERROR (d) is equivalent with 0.05, confidence coefficient 0.95, t=1.96 and the amounts of p & q are 0.5, and population volume is regarded as N. P value is regarded 0.5, because if p=0.5, n would find its possible maximum value and it may cause the sample to be large enough. According to this formula, the population number is 83 in this study.
Method of data collection

In this study, financial information has been provided of financial statement and explanatory related companies under investigation and to assistance of CDs regarding Tehran stock exchange, the organization of stock website and Tadbirpardaz and Rahavard novin software.

Research conceptual model

In this study, the conceptual model is as following:

\[
DP_{it} = \alpha_0 + \alpha_1 BRD\text{SIZE}_{it} + \alpha_2 CD_{it} + \alpha_3 IO_{it} + \alpha_4 FS_{it} + \alpha_5 ROA_{it} + \alpha_6 FL_{it} + \varepsilon_{it}
\]

\[
DP_{it}: \text{dividend payment policy}
\]

\[
BRD\text{SIZE}_{it}: \text{board of director size}
\]

\[
CD_{it}: \text{CEO duality}
\]

\[
IO_{it}: \text{institutional shareholders ownership}
\]

\[
FS_{it}: \text{firm size}
\]

\[
ROA_{it}: \text{return on assets}
\]

\[
FL_{it}: \text{financial leverage}
\]

\[
FG_{it}: \text{firm growth}
\]

Operational definitions of research variables

<table>
<thead>
<tr>
<th>Variable type</th>
<th>Variable name</th>
<th>Manner of measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent</td>
<td>Board of director size</td>
<td>Board of directors number</td>
</tr>
<tr>
<td></td>
<td>Executive manager duality</td>
<td>If executive manager, be CEO too (1), otherwise it is (0)</td>
</tr>
<tr>
<td></td>
<td>Shareholders’ institutional ownership</td>
<td>Percent of maintained shares by institutional shareholders</td>
</tr>
<tr>
<td>Dependent</td>
<td>Dividend payment policy</td>
<td>Dividend per share average during 2006-2010</td>
</tr>
<tr>
<td></td>
<td>Firm size</td>
<td>Natural logarithm of total assets</td>
</tr>
<tr>
<td></td>
<td>Return on assets</td>
<td>Net income divided by total assets</td>
</tr>
<tr>
<td>Control</td>
<td>Financial leverage</td>
<td>Total liabilities divided by total assets</td>
</tr>
<tr>
<td></td>
<td>Firm growth</td>
<td>(Current year sales - last year sales) dividend by last year sales</td>
</tr>
</tbody>
</table>

Data analysis

In this paper, combined data are used for testing hypothesis. Time series data (reviewed years) and sectional series data (studied companies) are combined in this method. Combined data are further used to increase observations, enhancing freedom degree, decreasing variance heterogeneity and dynamic study of changes. To estimate the efficiency of a regression model using combined data, common effects, fixed effects or random effects model are selected using suitable tests. One of these tests is F limber test that is used for selecting common effects or fixed effects models. If fixed effects model is selected, Housman test is used for selecting fixed effects and random effects models. So autocorrelation will be examined except disturbance of modal, heterogeneity of variance and normality of data. To determine the explanatory power of descriptive variables (Adjusted R²), to examine the variables significance and to investigate the overall adequacy of the model, Fisher F statistics are used. Also, statistical analysis is performed by Excel and Eviews software.

RESULTS

Descriptive statistics

<table>
<thead>
<tr>
<th>The variable type</th>
<th>The variable name</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>Dividend payment policy</td>
<td>0.075242</td>
<td>0.42158</td>
<td>0.21659</td>
<td>0.32658</td>
</tr>
<tr>
<td></td>
<td>Size of the board</td>
<td>0.05996</td>
<td>0.62309</td>
<td>0.37458</td>
<td>0.18547</td>
</tr>
<tr>
<td>Independent</td>
<td>Institutional shareholders’ ownership</td>
<td>3</td>
<td>14</td>
<td>6.59</td>
<td>1.22409</td>
</tr>
</tbody>
</table>

Table 2. Description of statistical data.
Examination of variance heterogeneity

In order to examine the variance heterogeneity, disturbing statements in ARCH-LM test is done in this paper. The results of Arch-LM test variance heterogeneity are as follow table:

Table 3. Arch-LM test.

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics value</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistics</td>
<td>0.748541</td>
<td>0.1050</td>
</tr>
<tr>
<td>Obs*R-squared</td>
<td>1.26598</td>
<td>0.1050</td>
</tr>
</tbody>
</table>

As respects to this statistics is not significant at 5% level, so homogeneity of variance is verified and heterogeneity of variance is rejected in disturbing statements.

F statistics tes

Table 4. The result of F statistics test

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics value</th>
<th>df</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>1.226528</td>
<td>82</td>
<td>0.012</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
<td>142.220696</td>
<td>82</td>
<td>0.015</td>
</tr>
</tbody>
</table>

*5% error level

Housman test

Table 5. The result of Housman test

<table>
<thead>
<tr>
<th>Description</th>
<th>Statistics value</th>
<th>Freedom degree</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section F</td>
<td>6.096552</td>
<td>11</td>
<td>0.021</td>
</tr>
</tbody>
</table>

*5% error level

According to the results of two performed tests (F and Housman), the obtained probability was less than 5% in both tests, so fixed effects method should be used for related regression model.

Multiple linear regresions

Table 6. Regression test for the first hypothesis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Not-standardized coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>SE</td>
<td></td>
</tr>
<tr>
<td>Fixed</td>
<td>0.322</td>
<td>0.174</td>
<td>2.325</td>
</tr>
<tr>
<td>Board of director size</td>
<td>0.181</td>
<td>0.311</td>
<td>2.202</td>
</tr>
<tr>
<td>CEO’s duality</td>
<td>0.102</td>
<td>0.255</td>
<td>0.957</td>
</tr>
<tr>
<td>Amount of institutional shareholders’ ownership</td>
<td>0.442</td>
<td>0.121</td>
<td>2.001</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.032</td>
<td>0.185</td>
<td>0.921</td>
</tr>
<tr>
<td>Return on assets</td>
<td>-0.009</td>
<td>0.102</td>
<td>-1.302</td>
</tr>
</tbody>
</table>
...these findings, it is recommended that investigators to develop their portfolio take into account corporate governance mechanism (size of the board, CEO’ duality and amount of institutional shareholders’ ownership) as well as dividend payment, because opportunistic managers would use distributed dividend as an instrument to cover existence weakness in corporate governance. By detecting this relation, it is necessary that the exchange officials formulate regulations and legal requirements to implement principles of corporate governance companies listed on the stock. Also the existence of labor force market for efficient and active management plays an important role to observe and control the managers, so it seems necessary that such market be made in the country.

**CONCLUSION**

The study aimed to examine the relationship between corporate governance and dividend payment policy of firms listed on Tehran stock exchange. The results show that the relationship of amount of institutional shareholders’ ownership, size of the board and dividend payment policy of firms listed on Tehran stock exchange is significant. These findings are consistent with the findings in Jirapong & Ning (2006), Miton (2004), Blu (2008), Fakhari & Yousefitabar (2010), (2013), Mansourinia et al., (2013), Kowalewski, Stetsyuk & Talavera (2007) and Afzal et al., (2013). Also the results show that there is no significant relationship between CEO’s Duality and dividend payment policy of firms listed on Tehran stock. These findings of the research are consistent with Kumar (2003), Wi et al., (2003), Harad and Negoun (2006), Jahankhani & Ghorbani (2005), Khodadadi et al., (2009) and Karami et al., (2010). Given the research findings, it is recommended that investigators to develop their portfolio take into account corporate governance mechanism (size of the board, CEO’ duality and amount of institutional shareholders’ ownership) as well as dividend payment, because opportunistic managers would use distributed dividend as an instrument to cover existence weakness in corporate governance. By detecting this relation, it is necessary that the exchange officials formulate regulations and legal requirements to implement principles of corporate governance companies listed on the stock. Also the existence of labor force market for efficient and active management plays an important role to observe and control the managers, so it seems necessary that such market be made in the country.

**REFERENCES**


