CORPORATE GOVERNANCE AND DIVIDEND POLICY OF NON - FINANCIAL LISTED FIRMS ON PAKISTAN STOCK EXCHANGE:

A MODERATING ROLE OF OWNERSHIP STRUCTURE

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PIDE2019FMPHILEAF06

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2021

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CERTIFICATE

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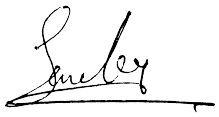

Hafiz Muhammad Saddique

ACKNOWLEDGEMENTS

بسم الله الرحمن الرحيم

Alhamdulillahi Rabbil Alamin, I express my highest gratitude to Allah SWT for the love, blessings, mercies and chance to finish my thesis. Salam and Salawat are addressed to the Highly Prophet, Muhammad SAW, the last messenger of God who has guided me from the darkness to the brightness, and from stupidity to the cleverness.

It would be an honor for me to express my gratitude and appreciation to all those who helped and support me in writing this thesis. First, I would like to devote my deepest appreciation and sincere thanks and endless love to my beloved parents, who always pray for the success of their children.

My most profound and sincere appreciation is due to Dr. Farhat Mehmood, my consultant for her valuable guidance, comment, suggestion, correction, and constructive remarks in finishing my thesis. My most profound and sincere appreciation also goes to my first examiner, Dr. Ahmed Faraz, for his valuable critics and beneficial suggestions.

My greatest thanks also go to the Muhammad Nadir Shabir (PhD Scholar) for his provided motivation, support, advice, valuable guidance, cooperativeness and enthusiasm in the study. My special thanks are given to my beloved friends that constitute our friends group named as GOC (Muhammad Nadir, Kainat and Ruqqaiya), and Sehrish Saddique who always support me in process of finishing my thesis. Thanks for the unforgettable moments, for their help, sharing, humors, and togetherness.

May the Almighty God, Allah SWT blesses and guides us to the straight path.

Hafiz Muhammad Saddique

DEDICATION

This thesis is dedicated to my parents, for their unconditional love, support, continuous encouragement and efforts for providing me well education.

ABSTRACT

The objective of this study is to assess the effect of corporate governance on dividend payout ratio for the non-financial sector of the Pakistan Stock Exchange. The research shows that certain qualities or elements have a moderating effect in organizations and industries. As a result, the ownership structure is used to limit the dividend payout ratio. The major concern of the research is to explore the association among corporate governance practices, firms' ownership structures, and firm dividend payout ratio. Moreover, focuses on the elements of corporate governance, such as the board structure and the CEO duality and a board of directors that is independent. A panel data analysis is used to examine the effects of standard accounting variables. Statistics on non-financial firms for the years 2016-2020 is used. As a result of these findings, independent boards constituted of non-resident members who pay a larger dividend have become increasingly important. The dividend payout of larger boards with independent directors is inversely related to the size of the board. There is also considerable evidence that CEO duality in the top five stockholder boards has a negative impact on dividend decisions at a significance threshold of 5 percent. There was also a moderating effect of the ownership structure; certain findings do not support the previous literature, but they do justify their implications based on present circumstances. There are two ways our analysis contributes to the literature: First, we examine corporate governance and dividend payout ratio for the non-financial sector over a longer time period; second, we employ the ownership structure as a moderator element.

Key Words: PSX, Non-financial Sector, Dividend, Corporate Governance, Ownership Structure

JEL codes: G15, G00, G35, G34, G32.

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LIST OF ABBREVIATION

BC	Board Committees
BI	Board Independence
BS	Board size
CG	Corporate Governance
DIV	Dividend payout Ratio
ED	Executive Directors
EPS	Earnings per share
FA	Firm Age
FL	Financial leverage
FS	Firm size
FEM	Fixed Effect Model
IO	Institutional Ownership
INST	Institutional
MO	Managerial Ownership
NBM	Number of Board Meetings
NED	Non- Executive Directors
OC	Ownership Concentration
OS	Ownership Structure
REM	Random effect Model
ROA	Return on assets
TAN	Tangibility
CEO	Chief Executive Officer

CHAPTER 1

INTRODUCTION

Ownership structures are vital to corporate governance, as they have a direct effect on managers' incentives, and thus organizations' efficiency. Ownership structure is regarded as an equity distribution in terms of the identity and voting power of the equity owners. When it comes to corporate governance, the structure is extremely important since it sets the incentives of managers, who then manage according to economic efficiency of organizations (Jensen & Meckling, 1976a). There is considerable impact of ownership structure on the board's significances, and all those significances will determine the board's optimal composition (Desender, 2009). The dividend payout ratios are greater in those firms as a result of effective institutional ownership (IO) pressure and are related with increased dividend payments. Dividend payout (DIV) ratio indicates the existence of an agency conflict between top-level external and internal shareholders. Insiders' managers prefer to retain for personal gain and attractive net present value projects rather than distribute to shareholders. Additionally, institutional has a strong consequence on the dividend payout ratio of enterprises due to their overwhelming ownership and voting privileges in management. Additionally, the earnings trend model[1] (SED) indicates that the institutional and dividend payout ratios have a substantial and positive association (Short et al., 2002).

To protect shareholders' interests, corporate governance manages company affairs in a way that maximizes shareholder value. These processes are influenced by a company's equity distribution, commonly identified as its ownership structure, which encourages managers to take specific actions that contribute to overall efficiency. It is important to note that ownership structure does

[1] Ford's Earnings Trend study, introduced in July 1974, has been successful in forecasting near-term stock price performance, in part because it provides an early indicator of changing earnings momentum.

not only refer to the physical distribution of equity, but it also has an impact on the level of control that each shareholder has over the organization where as a board's power to make strategic decisions for a corporation is referred to as "control." Corporate governance procedures that are effective may have an impact on strategic decisions such as finance decisions and corporate events.

A separation of control and ownership is pragmatic, as owners of an organization do not handle its business affairs, resulting in agency difficulties. The same potential conflicts exist when ownership is concentrated in the hands of a single party. By exercising their decision-making authority, controlling shareholders might act in their own interests, leaving minority owners' rights unprotected. Thus, agency theory[2] is connected to ownership structure and corporate governance which help explain how firms finance themselves. Pakistan is a developing market where the SECP[3] created a code of corporate conduct in 2002, that is not really that long ago. As a result of the codes' late adoption in the country and the concentration of ownership, the practical utility of corporate procedures is still questioned, and so an examination of the effect of ownership structure on dividend payout ratio is necessary.

Dividends given to stockholders as a percentage of total net earnings is referred to as the dividend payout ratio. The remainder of the dividends given to stockholders is retained by the corporation for future development. Dividend payout ratios will aid in addressing agency difficulties and will also perform as a signal to stockholders on the firm's estimation. The dividend payout ratio is determined by the business's ownership structure. The purpose of our study is to examine the moderating effect of ownership structure on dividend payout ratio and corporate governance. Ownership structure is a critical and influential aspect in determining the market's efficiency since

[2] a principle used to explain and settle conflicts between corporate executives and their agents.
[3] Security and Exchange Commission of Pakistan

it provides information about two critical factors. To begin, it will demonstrate the amount to which stockholders have diversified their risk. Second, it will provide information on potential agency issues that may arise during the corporation's management. Additionally, the DIV ratio has a strong correlation with the ownership structure. The corporation's ownership structure has an impact on the DIV policy, as major and prominent shareholders may produce personal gain that they may not intend to share with smaller shareholders. There are several types of shareholders, but institutional and management shareholders have a bigger influence on the dividend policies of the company than other types.

1.1. Problem Statement

There has been much debate over the relationship between agency costs and dividend payout policy in the literature of corporate finance for quite some time. According to (Khan & Ahmad, 2017), the majority of dividend pay-out studies have been conducted in developed nations around the world, but less have been conducted in Pakistan, a developing country where the relevance of dividends has not yet been widely acknowledged. Numerous research questions arise from the "dividend puzzle," which deals with the issue of a company's dividend payout. One of these issues has to do with the financial health of the companies. When it comes to publicly traded companies, dividends have a significant impact on their value generation and/or the recommendations of their investors (Carleton, Chen, & Steiner, 1998). In addition to the dividend problem, the relationship between the firm dividend policy and the operations, transfers and risk characteristics of the emerging markets is also a factor. Discussion of the "dividend puzzle" in the literature took the form of the "disappearing dividend puzzle," which is still an important problem linked to the following issues: lower transaction costs for stock sales, increasing importance of equity options for managers who prefer capital gains to dividends, and the improvement in corporate governance technologies as compared to the lower value of dividend payments in management of agency problems bet Shapiro & Zhuang, 2015). This approach is based on ideas that seek to explain managerial motivation in a setting where agency costs are becoming less relevant (Bahreini & Adaoglu, 2018). (Gul et al., 2012) assert that one strategy to minimize agency concerns and boost shareholder wealth is through distributing dividends. As dividend payouts allow primary market

investors to monitor firms' operations and performance, they're important for the overall stability of the stock market (Griffin et al., 2010). Because dividend payout decisions are part of company governance, they become crucial.

The return on assets, firm size, leverage, and earnings per share are some of the traditional accounting variables that help determine the policy related to dividend payment of the firm. These traditional accounting variables are joined by some unconventional ones, including corporate governance, which incorporates board independence, board committees, board structure and CEO duality. However, managerial ownership, institutional ownership, and ownership concentration are some of the many types of ownership structures in existence. A different issue is raised in the existence of ownership structure that includes managerial ownership, institutional ownership, and ownership concentration. A literature study shows that dividend decisions have a negative relationship with liquidity, growth, risk, and leverage. However, prior dividend patterns, current earnings, and business size have positive relationships with dividend decisions (Al-Ajmi & Abo Hussain, 2011; Cristea & Cristea, 2017; John, 2013; Kania & Bacon, 2005; Mehta, 2012b; Mohammad Reza Pourali, 2019). Evidence from dividend payout and corporate governance literature shows that board independence, institutional shareholding, CEO duality, and concentration of ownership have positive impacts on dividend decisions. (Abdelsalam, El-Masry, & Elsegini, 2008; Boyd, 1994; Fama & Jensen, 1983; Farooq & Jabbouri, 2015a; Ghosh & Sirmans, 2006; Mehar, 2003; Ullah et al., 2012) Contrary to these findings, however, (Gugler, 2003), (Mansourinia et al., 2013), and (Ullah et al., 2012) discovered a significant but negative relationship among state-governed enterprises, CEO duality and dividend payout.

In response to the issue of dividend payment policy and corporate governance, the aim of the study is to dig out the nature of relationship among those things with the moderating influence of ownership structure. This investigation will look at both traditional and nontraditional accounting

variables determining the relationship between dividend payment policy and corporate governance in the context of Pakistan's listed non-financial industry, with moderating influence of ownership structure.

1.2. Research Questions

The foremost question of the thesis is that, whether the relationship between dividend payout ratio and corporate governance is moderating by the ownership structure in listed non-financial sector firms of Pakistan? Other sub questions arise are the following:

- How conventional accounting variables (i.e. return on assets, earning per share and leverage) affect dividend payout of the non-financial Pakistani firms?
- How unconventional accounting variables (i.e. board structure, board size and CEO duality) affect dividend payout of the non-financial Pakistani firms?
- What is the role of ownership structure in the decision making of firms' dividend payout?

1.3. Objective of the Study

The key objective of this study is to explore the relationship between dividend payout ratio and corporate governance with moderating role of ownership structure on non-financial enterprises that are listed on Pakistan Stock Exchange.

1.4. Significance of the Study

In Pakistan dividend payments are not mandatory and minority shareholders are often neglected. After the introduction of Corporate Governance Code in 2002, it is expected that firms' financial decisions would be more in favor of its owners (shareholders). Pakistani firms present interesting features for examining dividend policy, such as High growth → high dividend payment and Voluntary payments → high principle-agent conflict. This means that if the management is not

controlled in some ways they can exploit the shareholders by not paying them their share and investing in even non profitable Projects for their own benefits. Therefore, the findings of this study will provide important information to the Board of the Directors as they formulate and assess the dividend policy by considering the elements that have been demonstrated to have a major effect on dividend payout. Additionally, it will benefit shareholders by assisting them in optimizing their investment plan. They can collect data on the DIV ratios of organizations created by managerially and institutionally owned enterprises in relation to their ownership.

From a financial perspective, they may finally invest in companies that will pay off more quickly or generate a profit. In addition to evaluating the DIV ratio, managers should also examine the behavior of investors when choosing rewards.

1.5. Hypothesis

In order to examine the possible relationship among dividend payout DIV ratio of the enterprises with conventional accounting factors through a moderating effect of the ownership structure as well as unconventional factors like corporate governance, following hypothesis has been created;

- **H_1:** Leverage Positively and significantly effects dividends payouts policy.
- **H_2:** Earnings per share negatively and significantly effects dividends payouts policy.
- **H_3:** Return on assets Positively and significantly effects dividends payouts policy.
- **H_4:** Board structure Positively and significantly effects dividends payouts policy.
- **H_5:** CEO duality Positively and significantly effects dividends payouts policy.
- **H6:** Firm size negatively and significantly effects dividends payouts policy.
- **H_7:** Managerial ownership Positively moderates the relationship among board structure and dividends payouts policy.

- **H8:** Institutional ownership significantly moderates the relationship among board structure and dividends payouts policy.
- **H9:** Managerial ownership significantly moderates the relationship among CEO duality and dividends payouts policy.
- **H10:** Institutional ownership significantly moderates the relationship among CEO duality and dividends payouts policy.
- **H11:** Ownership concentration significantly moderates the relationship among board structure and dividends payouts policy.
- **H12:** Ownership concentration significantly moderates the relationship among CEO duality and dividends payouts policy.

1.6. Organization of the Study

The study is comprised on six chapters. The first chapter include the introduction about the Corporate Governance, dividend policy and the moderating role of ownership structure. The second chapter is based on literature review. The third and fourth chapter of this study comprises Data and variables description and methodology required to find the accurate results for the research respectively. The fifth chapter of this study comprises Empirical Results, and last chapter six is based on Conclusions, Policy Recommendations and Future Research.

CHAPTER 2

LITERATURE REVIEW

2.1. Historical Background of Corporate Governance in Pakistan

2.1.1. Evolution of Corporate Governance

The evolution of corporate governance took place in three phases. The first phase (1999-2002) was the phase of structural formation. The salient features of the phase are: (a) Conversion of Corporate Law Authority (CLA) into SECP; and (b) Board reformation. The first draft of the code was developed in 1999. It had participation from the public sector and also involved various stakeholders like Institute of Cost and Management Accountants of Pakistan (ICMA), Institute of Chartered Secretaries, academicians and listed companies. During the first phase, one option was to bring a law and implement it. However, there was a financial obstacle to receiving tranche from donors such as Asian Development Bank. In the same phase, listing regulations were promulgated, and under Section 34 of listing regulations, all companies listed on Karachi Stock Exchange (KSE) required fulfillment of corporate governance practices and inclusion of non-member directors. The second phase (2002-2006) was about creating awareness and acceptability of the code. The Institute of Corporate Governance was formally established. The law required the implementation of the code in public sector enterprises and in banking sector. The third phase (2006-till date) is the phase when the code of corporate governance was implemented in the non-listed companies. However, this phase is still incomplete as the principles of corporate governance are not enforced in true spirit and meaning.

2.1.2. Corporate Governance Practices in Pakistan

Corporate governance initiative started after much groundwork in Pakistan. A seminar was held in Sheraton in 1998 by the Institute of Chartered Accountants. However, at that time, efforts for

preparing a code of governance were a mere paper work. Gradually, the task of formulating corporate governance principles was assigned to the SECP, which was formed in 1999. Before SECP, the Corporate Law Authority existed to provide a regulatory framework. The Securities and Exchange Commission of Pakistan (SECP) was set up in pursuance of the Securities and Exchange Commission of Pakistan Act, 1997. The SECP was initially responsible for the regulation of corporate sector and capital market. Over time, its mandate has expanded to include supervision and regulation of insurance companies, non-banking finance companies and private pensions. The SECP has also been entrusted with oversight of various external service providers to the corporate and financial sectors, including chartered accountants, credit rating agencies, corporate secretaries, brokers, surveyors etc.

2.1.4. Role of Regulatory Bodies

The regulatory bodies played a very positive role. They helped in developing the program and in educating and creating awareness about the code of corporate governance. These regulatory bodies directed the stock exchange. If some company wanted a relaxation, they approached SECP (however, it was more appropriate to contact the respective regulatory bodies under whose domain they operated). Banks had adopted the same code with a few additional clauses. By the year 2002, the code was applied to commercial banks only. Nevertheless, companies like Pak Kuwait and Pak Oman were not listed and not covered under the code of governance. Rizvi was the chairman of SECP at that time. They had a meeting with SBP and tried to convince them that non-listed companies should also be brought under the scrutiny of the code. Similarly, some listed and unlisted insurance companies had directives issued by SECP.

2.1.5. Implications of the Code of Corporate Governance

The purpose of the code is to have better governance, fairness to all stakeholders, protection of employees, government, minority shareholders and common good for all. The code will not be able to achieve its objectives unless it is understood by the practitioners and the regulators and unless they adhere to the three C's—comprehension, commitment and capacity. As far as theory is concerned, basic principles and procedures are the same for both public and private sectors.

2.1.6. Challenges to Corporate Governance Implementation

There are numerous challenges to the implementation of corporate governance in Pakistan; the major ones are: (a) Enforcement of the code with sincerity in its true spirit and sense; (b) Accountability from the regulators' point of view; (c) Failure of corporate governance is the failure of the regulators in the proper execution of their job; (d) Many requirements of corporate governance were already present in the company law but still not practiced. According to Rizvi, corruption is always a joint venture. It is always a result of either malfunctioning of the software or the hardware. The most important thing is lack of personal ethics. There are people in Pakistan who have accepted positions as head of public sector organizations for all the wrong reasons. They may be experts in other fields, but nonetheless they grab the opportunity in totally different domains just on the basis of their connections, close political alliance and networking efforts.

2.1.7. The Listed Companies (Code of Corporate Governance) Regulations, 2019

On September 25, 2019, the Securities and Exchange Commission of Pakistan (SECP) issued the Listed Companies (Code of Corporate Governance) Regulations, 2019 ("2019 Code") under the powers conferred under section 156 read with section 512 of the Companies Act 2017, superseding the Listed Companies (Code of Corporate Governance) Regulations, 2017 ("2017 Code"). The 2019 Code is based on a 'comply or explain' approach which is a new governance regime in

Pakistan. Since the introduction of the corporate governance in Pakistan for listed companies in 2002 and subsequent revisions in 2012 and 2017 the specific provisions were mandatorily required to be implemented with any exception reported as a 'non-compliance'. Resultantly, the corporate governance implementation and monitoring has been based on the "mandatory" approach. It is believed that the corporate governance in this new regime will be more driven by principles than rules, therefore, decision making process of listed companies would be under the spotlight. We believe that this new regime would be providing the companies the opportunity to learn and improve the governance parameters, while explaining the progress towards compliance of a provision. Further, the flexibility allows organizations to think out of the box as an alternate course of action could be followed, while ensuring transparency. This approach recognises that what works well in one company, for one investor or a particular stakeholder may not necessarily be generally applicable to companies, investors and stakeholders that operate in another context and under different circumstances. The 2019 Code requires that it shall be the responsibility of board of directors of listed companies (the Board) to use 'comply or explain' principle wisely and of investors to assess differing company approaches thoughtfully. The significant changes brought in by the 2019 Code to the corporate governance applicable in Pakistan up to September 24, 2019 via the 2017 Code are set out in this study (see Appendix). It is understood that the complete regulations covering the 2019 Code and 2017 Code shall be referred to where detailed understanding of the changes is required. Further, through this study it is not intended to address the questions of law that may arise and therefore, a formal legal advice may be sought where necessary or the SECP may be approached to obtain the necessary clarification.

2.2. Theoretical literature

Prior to the emergence of the Miller and Modigliani's (MM) Theory, many experts believed that the more a corporation pays out in dividends, the higher its value will be. Under the (Miller & Rock, 1985) capital structure assumption, which is called the perfect market assumption, a firm's financing decision is unrelated to the capital structure. This means that internally and externally financing are perfect substitutes, and the firm's dividend is meaningless in determining the value of the business.

2.2.1. MM model

(Modigliani & Miller, 1963) thesis serves as the cornerstone for current corporate finance theory. MM Model stated that in a world without transaction costs (taxes), dividend policy has no impact on the cost of capital and firm's value. They proved that while investors can create an income pattern by purchasing and selling shares, the expected value of return required to attract them to maintain the company's shares is unrelated to how well the company bundles dividend payments with new share issuance.

2.2.2. Managerial Ownership and Financial Policies

It is argued by (Grossman & Hart, 1980; M. Jensen, 1986; Stulz, 1988) that leverage can be used as a means of making commitments without regard to the ramifications, or "agency" difficulties. In firms where management ownership is relatively high, firms should employ less debt, and vice versa. In this view, management ownership and the level of debt a company takes on are linked because management ownership influences the degree of debt a company goes for. Decreased dividends make it easier for companies to own and manage businesses, while agency fees go down. It is plausible that dividend reduction will make managerial ownership more likely, which runs counter to the stated goal. This would be advantageous in decreasing agency expenses. The theory

that companies' dividend policy is intended to reveal profits expectations to investors has been strongly supported by (Bhattacharya, 1980; Lintner, 1956; Miller & Rock, 1985)**.** Theoretical work indicates that stock dividend policies are intended to disclose profit expectations to investors.

2.2.3. Signaling theory

Signaling theory was created by (Leland & Pyle, 1977; Lindenberg & Ross, 1981)**.** Managers know more about the company than investors in general, but they are never transparent about this information. Usually, equity holders try to keep information hidden from competing equity suppliers. So, the dividend policy is viewed as a signal of future projections, i.e., it functions as information. According to (Leland & Pyle, 1977), Managers have superior access to insider information about their companies and can transmit this information to shareholders through an appropriate dividend policy, such as if a perpetual or increasing dividend sends a stronger signal about the firm, or the converse may be true.

2.2.4. Agency theory

(Jensen & Meckling, 1976a) advanced the agency theory, arguing that conflicts arise when owners appoint agents to perform some of their obligations. Because of the conflicting interests of managers and owners, agency expenses arise. Dividend policy is critical in mitigating agency concerns resulting from the parties' conflicting interests, according to (Short et al., 2002). Similarly, (Rozeff, 1982) viewed dividend payment as a cost-control mechanism for agencies. (Brown & Caylor, 2004) Corporate governance systems contribute to the resolution of such agency issues. Firms that follow sound corporate governance are shown to be more lucrative, valued, and able to pay higher dividends to shareholders.

The agency problem occurs when the principal's and agent's objectives are not identical, i.e., when ownership and control are distinct and knowledge is not symmetrical between the two parties. The

theory proposes that a principal delegate responsibility to an agent, with the expectation that the agent will accomplish the work that maximizes value for the firm, rather than a single party. When an agent attempts to maximize his or her own interests, an agency dilemma arises. (Jensen & Meckling, 1976b) Agency cost theory demonstrates the importance of excellent corporate governance in resolving the primary conflict (agency costs resulting from asymmetrical knowledge between shareholders and management, as well as creditors and shareholders.

2.2.5. Free Cash-Flow Theory

According to free cash flow theory[4], because managers have access to the organization's assets, if the firm has any excess cash after completing all necessary payments and investments, it can invest it in other projects. Additionally, this additional investment gives positive sign about the firm's performance. However, managers may occasionally invest in projects with a negative net present value, sending negative signals to the market. The free cash flow theory predicts that if a corporation begins paying dividends instead of overinvesting, it will generate positive anomalous returns. The rent extraction concept postulates that dominant shareholders profit from minority shareholders' payments. They advocate for firms with fewer investment possibilities to increase dividends in order to reduce free cash flow.

2.2.6. Fiduciary Theory

The fiduciary theory of corporate governance argues that the primary party delegates control of the principal party's property or assets to the trusted person or party. The primary party is the "shareholders," who are the real owners of the business, while the fiduciary is the firm's management. However, it is noted that fiduciaries are often more concerned with their personal

[4] The agency costs of free cash flow hypothesis proposed by Jensen (1986).

interests than with the welfare of shareholders (Easterbrook, 1984; Grossman & Hart, 1980; M. C. Jensen, 1986). They all agree that dividends serve as a privilege to shareholders by preventing management from receiving all of the 'free cash flow'. In other respects, they imply that dividends act as a form of' regulation' for shareholders' rights. Because managers are less inclined to eliminate rewards of their own choosing from the business.

2.2.7. Takeover Premium Argument

When combined with the claim that managerial ownership increases corporate performance, this argument implies that ownership structure (managerial structure) is linked to better company performance. According to (Stulz, 1988), the raiders who attempt to purchase control of corporate entities in a market controlled by corporate raiders will have to pay a higher price for their acquisitions.

2.2.8. Stulz's Integrated Theory

(Stulz, 1988) discusses the roof-shaped relationship between managerial ownership and corporate performance using a model. This model includes the takeover premium and entrenchment hypotheses under single theory.

2.2.9. Entrenchment Argument and Incentive Alignment

It is supported by (Morck et al., 1988), who conclude that both incentives alignment and entrenchment are occurring. The incentive alignment effect predominates when there is lower level of managerial ownership exist. The inverse relationship between financial performance and managerial ownership is found once again when additional levels of ownership are introduced (e.g., up to 30 percent). For this reason, only medium concentrations of managerial ownership exert a dominant effect.

2.2.10. Monitoring Argument

The relationship between financial performance and management ownership is supported by another proponent. Block owners have the capabilities to better supervise and oversee the operations of management, thereby leading to improved company performance(Shleifer & Vishny, 1986; Shleifer & Vishny, 1997).

2.3. Empirical Literature

(Ullah et al., 2012) discovered that dividends were indirectly related to managerial ownership, but foreign and institutional ownership were connected directly. As foreign ownership increases, more dividends will be paid out, and so shareholders' money will be emigrated. (Ararat et al., 2015), researched the impact of Demographic Board Diversity on Firm Performance and discovered a favorable correlation between the Indices Age, Gender, Nationality, Education, Independence and Firm Performance. In their analysis of the literature on board diversity, (Kagzi & Guha, 2018) commented on how amazing and essential board diversity is for research. Maturity and experience obtained as a board of directors age contribute in the selection of successful management teams, hence boosting the company's performance (Kang et al., 2007). The authors discovered that older or retired executives are seen to be the greatest candidates for non-executive positions on the governance body, rather than less experienced or younger persons.

Further, research on the association between company dividend payout and ownership structure policies in developing countries like India is not substantial. The quantitative research on the instances of corporate expropriation, as well as the kinds of corporate expropriation present in Europe and Asia. A positive relationship was observed between institutional ownership and dividend, whereas a negative relationship was found between dividend and management ownership. This analysis was made on firms based in the UK. Indian researcher (Narasimhan &

Vijayalakshmi, 2002), evaluated the correlation between business ownership structure and dividend payouts in the manufacturing sector, according to which they found a strong correlation. Since they could measure promoters' effect on dividend payout, they found that there is no promoters' impact on dividend payout (for the period of study from 1997 to 2000).

Study by (Thanatawee, 2013) found that Chinese businesses that are listed on the Shanghai Stock Exchange have dividend policy dependent on company ownership structure. When looking at the dividend payment percentage of different kinds of ownership, he found that businesses with larger shareholder holdings, majority shareholder holdings, and government ownership had a favorable influence on dividend payout percentage whereas institutional ownership has a negative effect. In conclusion, it has been determined from the analysis above that there may be both different kinds of expected correlations between dividend policy and ownership structure, and these are predicted by the DIV ratio.

In line with (Bekiris, 2013) who used a large collection of Greek-listed firms to examine the correlation between the presence of outside directors and block holder ownership, suggests that Chief Executive Officers are also chairs of the board of directors, and tend to have fewer outside directors and lower block holder ownership. While it is noted that independent boards are more common in companies with high external block holder ownership and that large boards are more common in companies with high external block holder ownership and that larger board sizes are associated with more external block holder ownership and share ownership, the study also finds that smaller boards are more common in firms with smaller external block holder ownership and fewer share owners. These findings suggest that the ownership structure of a business has a significant impact on the membership of its board of directors.

Theoretical investigations suggest that outside block holders have a monitoring function to play (Shleifer & Vishny, 1986)**.** Especially in a developing country like India, where insiders control the board of directors, as is the situation with FRC[5]. Also, when foreign investors acquire a majority stake in a company, they act as good monitors (Majumdar & Chhibber, 1999)**.** Foreign institutional investors provide a more accurate picture of the situation than development finance institutions when it comes to institutional investing (Khanna & Palepu, 1999). Changes in dividend policy can be explained by agency costs, according to(Easterbrook, 1984). The level of dividend distributions is decided in part by shareholder preferences as executed by its management.

Foreign and state ownership, according to (Al-Najjar & Kilincarslan, 2016), are linked with a lower chance of dividend payments, whereas other ownership factors (family participation, local financial institutions, and minority shareholders) had no effect on dividend payments. Dividend ratio and dividend yield are negatively impacted by all ownership factors. (Thanatawee, 2013) concluded that firms with the largest share of INST tend to pay higher dividends than those with other ownerships, whereas this is not the case for Chinese firms, which tend to pay lower dividends when they have the largest share of INST in comparison to the government and the largest shareholder-owned businesses. Numerous studies have also been conducted on the importance of the largest shareholder in the business, the family influence, and their overall impact on the business (Changjiang & Xianhua, 2005; Connelly et al., 2010; Dai, 2007).

A significant effort has been put in place to take into consideration the size of the Board as a significant element impacting the managerial control's quality. Prior research reveals that board size has a variable effect on dividend policy. Although two different findings are reported previously about the influence of board size, there are actually two distinct outcomes. Larger

[5] Non-govt Indian company incorporated in 1985 involved in variety of wholesale goods.

boards provide managers with the opportunity to specialize. As a result, lower payouts are required to maintain the monitoring function, because greater specialization can result in better monitoring. Another way to think about it is that the signal theory promotes large board sizes, which lead to a better signaling to the market. Consequently, dividends do not need to be kept at a minimum to maintain a low agency cost. Large boards are far less effective than smaller ones because coordinating large groups is problematic (Jensen, 1993).

The principle of board independence is recognized as an important facet of board structure. An independent director is said to be an integral part of the firm's internal control and monitoring mechanisms, according to (Gregory, 2000)**.** A truly independent board director should be appointed to all three of these committee roles. It is imperative that he do this function since he is here to make sure that financial statement exposes are complete and safeguard proper internal control in the organization. The experience of independent directors is invaluable when it comes to supervising and disciplining management, especially given they have no financial stake in the company. Dividend policy is utilized by shareholders when managerial control mechanisms are insufficient.

The research in the paper by (Borokhovich et al., 2005) looks at the connection between dividend policy and board independence for U.S. corporations throughout the 1992-1999 period. His finding suggests that dividend policy has a detrimental effect on the independence of the board of director. Dilution of shareholders' control power gives dividend disbursements less power.

Duality represents the board's power structure and is a fundamental variable in the board's effectiveness. This means that the board of directors, which is there to facilitate the CEO's tasks, is impeded by the same CEO heading both the board and the company. The internal control will be quite weak in this instance, which will enable the CEO to exercise much greater influence over

the board of directors. Board independence is weakened. The CEO can now focus on pursuing his personal interests, but he can no longer pursue the interests of all shareholders. According to (Baliga et al., 1996), the board of directors is less successful in control mechanisms when the Chairman and chief executive officer have separate roles.

A study done by (Mak & Li, 2001) demonstrates a correlation between board structure, managerial ownership, government ownership, and board size and the percentage of outside directors. However, block holder ownership is associated with a dual leadership system (CEO duality). (Booth et al., 2002) investigated whether agency conflicts are controlled for by internal monitoring measures in a business. In a study performed by (Booth et al., 2002), 100 of the largest non-financial companies on Fortune's Custom Ranking in 1999 showed that the percentage of outside directors is adversely associated to management ownership and CEO duality. A substantial positive association between dividend payout and CEO duality was established by (Micah, 2006) and (Ghosh & Sirmans, 2006). While in South Africa and Ghana, dual roles of CEO/Chairman do not have a significant detrimental effect on dividend decisions, in Nigeria, they do. Other studies have also found that the correlation between CEO and dividend payout dualism is insignificant (Mansourinia et al., 2013).

To illustrate,(Mitton, 2004) points out that developing market corporations with good governance factors tend to increase their dividend payments. Generally speaking, the amount of money paid when there are few investing alternatives increases. Both (Claessens & Djankov, 1999) and (Maury & Pajuste, 2002) demonstrate that firms have lower overall value and decreased dividend payouts as ownership concentration increases. Controlling owners are alleged to privately gain at the cost of minority shareholders, which helps explain the paltry dividend payouts of majority-controlled enterprises in Germany (Gugler, 2003). They also have ramifications for the level of dividends

paid, and this idea about rent extraction may be extended to cover dividends as well. What's somewhat surprising is that having more of the concentrating the company's capital in the hands of the largest shareholder reduces the dividend payout ratio, while increasing it in the hands of the second-largest shareholder.

(Uwuigbe et al., 2015) argued that, dividend policy refers to the type and amount of cash distributed to a business's owners over time. The dividend payout and its consistency are two of the most critical corporate decisions that management must make. According to (Kania & Bacon, 2005), Dividend policy has a strong inverse link with profitability, risk, growth, liquidity, and leverage. According to (Mehta, 2012a), firm size has a positive correlation with dividend decisions, whereas risk and profitability have a negative correlation. (John, 2013) discovered that the previous dividend trend, recent earnings, alternative sources of capital available, liquidity limitations, and investment opportunities all had a substantial impact on Nigerian enterprises' payout decisions. (Al-Ajmi & Abo Hussain, 2011) discovered that the dividend distribution pattern of Saudi enterprises is influenced by their profitability, capital flows, and life cycle. (Cristea & Cristea, 2017; Short et al., 2002) investigated the dividend payout determinants discovered a substantial negative correlation between firm size, leverage, and dividend distribution.

In their study of dividend distributions in Egyptian enterprises, (Abdelsalam, El-Masry, & Segini, 2008) examined the association between the membership of the ownership structure and board of directors on dividend payouts. This study discovered that firms with a greater degree of institutional ownership (e.g., ownership stakes) are more likely to pay dividends than enterprises with a lesser degree of institutional ownership (e.g., stock ownership). In this study (Gugler, 2003), state-governed corporations are more likely to make dividend reduction if wanted than privately-governed firms. Companies in Saudi Arabia fail to show dividend flexibility. When the profit drops,

they cut payouts, and when the losses increase, they refrain from paying dividends. Additionally, (Mehar, 2003) shown that increasing ownership concentration has a favorable effect on dividend payouts. According to (Farooq & Jabbouri, 2015b)**,** prudently applied corporate governance policies are associated with dividend distribution. Debt is also cheaper since creditors demand a smaller return on their money.

Dividends are important because they provide valuable information to investors. Empirical research in this field has established that dividend announcement has significant impact on price as, increase announcements are accompanied by big price increases, whereas dividend decrease announcements are accompanied by decline in price (Allen et al., 1998; Asquith & Mullins, 1986) (dividend initiations) and (Michaely et al., 1995) (omissions of dividends) demonstrated that the market reacts to such announcements. Empirical investigations revealed conflicting findings; nevertheless, the data used in these studies are comprised on developed countries such as the United States of America, Japan, and Singapore. Numerous researchers have discovered a positive correlation between stock price and dividend payments (Kato & Loewenstein, 1995), whereas others discovered a negative correlation (Easton & Sinclair, 2009). Dividends can also be utilized to tell the market about private information. Estimates of Future profit estimates based on dividend data may be superior to forecasts made without dividend data. Several researches have been conducted to determine the significance of dividends' informative content (Michaely et al., 2002).

(la porta et al., 2001) revealed that concentrated ownership around the world is regarded as rule rather than the exemption. Concentrated ownership and its effect on the governance structure of Asian and European businesses have been documented by (Barca & Becht, 2001; Faccio et al., 2001; Lins, 2003). Block holdings of company shares by the promoters' family members and associates related firms constitute a kind of concentration of ownership. Companies set a target

dividend level and aim to stick to it, according to (Fama & Babiak, 1968) theory. The dividend policy and agency costs may also be related (Easterbrook, 1984; Jensen & Meckling, 1976a). In addition, the ownership structure has a substantial impact on the board's relevance, which will determine the optimal arrangement of the board (Desender & Aguilera, 2009)**.**

Diverse claimants bear the burden of dividend payments, though, when it comes to dividend decisions, (Kalay, 1982) looked at a wide sample of bond agreements, with an emphasis on the dispute between bondholders and shareholders. This is supported by empirical research, which shows dividends shift transfer of business assets to the shareholders' sole ownership. Under studies by (la porta et al., 2001) (Shleifer & Vishny, 1997) as a result, debt holders are less secure in their debt claims. Consequently, efficient shareholder monitoring should be connected with larger dividends. It was determined by (Renneboog & Trojanowski, 2005) that the relationship between dividends and ownership structures is rather limited, and empirical research indicates a negative correlation between insider ownership and dividends. Limited and conflicting evidence exists on financial institution holdings as well as dividend policy. The connection between dividends and financial institution shareholdings was found to be positive by (Short et al., 2002), while it was shown to be negative by (Renneboog & Trojanowski, 2005).

In accordance with conventional theories, since dividends are distributed from after-tax profits, tax issues are irrelevant to the paying business. However, with the introduction of the corporate dividend tax in India, the situation has altered significantly (henceforth CDT). Since CDT is imposed on the company, its dividend decision has a corresponding cash flow. In industrialized countries, tax policy is said to be a significant factor in dividend distribution (Short et al., 2002). Because stock prices decrease following dividend payments, the tax-preference hypothesis

suggests that dividend payouts may be beneficial if used to offset tax obligation against a capital loss.

According to (Yarram & Rath, 2005) tax-preference theory and the impact of dividend tax on company financial decisions were not supported by any data. If you look at a large sample of equities listed on Indian exchanges, (Yarram & Rath, 2005) will show you that the percentage of companies paying dividends has fallen from over 57% in 1991 to only 32% in 2001, and that just a few corporations pay regular dividends. Growth prospects did not appear to have a major impact on dividend policy.

To determine dividends, (Mahapatra & Sahu, 1993) looked at cash flows, followed by net earnings. After surveying managers' opinions of dividend decisions, (Bhat & Pandey, 1993) found that current earnings were seen as the most important element. Business Today 500 companies in India were interviewed in 2001, and 81 CFOs were surveyed to determine the factors that influence the dividend policy decisions of Indian corporations, according to (Anand, 2004), dividend policy is a signaling tool for CFOs that impacts the market value of the business. After considering the investors' demand for payouts and the clientele impact, managers create dividend policies.

The ownership structure of a corporation had a considerable impact on the dividend policy of a company when it came to financing decisions (Gugler, 2003). As a result of its link with ownership structure, capital structure decisions also attract a great deal of attention. The link between a company's ownership structure and its capital structure was argued to be positive by (Lubatkin & Chatterjee, 1994).

On the other hand, in countries where firms are largely family-owned, ownership structure plays a significant role in financing decisions. (Wiwattanakantang, 1999) the drivers of capital structure

were examined, and it was discovered that profitability, tangibility, taxation, and growth all had an effect on financing decisions. According to this report, family-owned firms rely heavily on debt to stay afloat. According to (Romano et al., 2001), in small and medium-sized businesses, the impact of ownership structure on financing decisions is complex and may entail social, behavioral, and other characteristics (SMEs).

(Miller & Modigliani, 1961) irrelevance thesis serves as the cornerstone for current corporate finance theory. (Modigliani & Miller, 1963) Model stated that in a world without transaction costs (taxes), dividend policy has no impact on the cost of capital and firm's value. They demonstrated that when investors acquire and sell shares to create an income pattern, the expected value of return necessary to entice them to keep the business's shares is unrelated to how well the firm bundles its dividend payments and fresh share issuance.

According to Romano, (Romano et al., 2001), in small and medium-sized businesses, the impact of ownership structure on financing decisions is diverse and may include social, behavioral, and other factors dimensions such as stock exchange and industry as well as gearing ratio and development prospects were examined in (Dhanani, 2006) research. Other variables included private ownership, INST and managerial ownership (MO)... The study revealed that all of the elements had an impact on a company's DIV decisions.

(Moon & Tandon, 2007) examined the association for both capital and ownership structure that was found to be significant. Additionally, it was found that leverage levels are substantially associated with MO and negatively proportional to INST. Directors tend to favor debt-financing over equity financing. However, institutional investors will lower agency costs by limiting the amount of debt financing a firm can utilize. (Driffield et al., 2007) investigated various financing options and company valuation with regard to shareholders, control, and ownership mix, especially

since corporate governance has become increasingly important. Their study investigated capital structure decisions and found that family-owned companies and non-family organisations had a greater connection.

According to (Adelegan, 2003) there are substantial effects on cash flows and dividend payments caused by changes in company growth, the firm's capital structure, the size of the firm, and economic policy. (Lintner, 1956) in earlier research limited the present and historical profits as being the primary contributors to dividend increases. One theory holds that corporate management dictates dividend adjustments based on current profitability and a payment rate that has already been established. The irrelevance hypothesis of Miller and Modigliani is one of the pillars of contemporary corporate finance theory. Miller and Modigliani Model proposed that dividend policy is completely immaterial for calculating cost of capital and firms' value. Modigliani and Miller dividend irrelevance hypothesis (also known as the dividend irrelevance theory) is put to the test by (Richardson et al., 1986). His approach was designed to show the price-to-earnings ratio for dividends. Investors prefer cash dividend payments today to reduce uncertainty, and they prefer capital gains to dividends for the long term.

Dividends and retained earnings have an impact on stock prices in both the banking and non-banking industries of Nepal during fiscal year 2010–2011, according to (Joshi, 2012). There were only 163 samples to choose from, but the majority of them were focused on the banking industry because 46 of them concerned non-banking sectors. His research concluded that retained earnings and dividend explain the differences in share price among the financial and non-financial industries. Dividend and retained earnings both have an influence, but dividend has a larger one. Dividends and retained earnings have a beneficial effect on the share price in all instances.

(Bebchuk et al., 2009; Khatab et al., 2011) have both argued that corporate governance serves to lower shareholder risk by safeguarding shareholder rights, while also providing avenues for firm management to implement controls to ensure that investment is put to use. To sum up, corporate governance is deemed to be critical in helping owners to secure their rights and profits and by carrying out well-thought-out policies that enhance performance and yield wealth.

In their study, the researchers (Amran & Che Ahmad, 2009) looked at 896 firms listed on Bursa Malaysia between the years of 2000 and 2003 as their research sample, with the goal of determining which governance mechanisms are critical and how their influences differ between family-businesses and non-family businesses. According to the findings, board size and leadership structure have a significant impact on a company's value for every sample. The results show that business enterprises with a separate leadership structure outperform those with a duality leadership structure.

According to the findings of a study conducted by (Fauzi & Locke, 2012) the size of the board of directors, the composition of the board committees, and managerial ownership all have a substantial impact on business performance. According to (Fauzi & Locke, 2012) larger boards of directors result in greater monitoring, which is why it is claimed. Meanwhile, the presence of non-executive directors, female members of the board of directors, and concentrated ownership all contribute to the company's underperformance, executive directors assist the overall management and strategic planning. The results of the study by (Sulong & Nor, 2008) indicate that dividends, ownership structure, and board governance are all associated with company performance among Malaysian publicly traded companies. As a result, as per (Conger et al., 1998) successful judgments can only be made if directors have well-organized periods of time. (Laksmana, 2007) also agrees with the theory that regularly scheduled meetings, with a defined process, can produce

a well-functioning board. He illustrates that the amount of time directors devote to the role might be considered a proxy for their level of activity.

In the past, research has found inconsistent results on the link between directors' compensation and stock ownership.(Aswadi & Rahman, 2009) studied 434 companies that were listed on the Malaysian Stock exchange between the years of 1999 and 2003, and they found a negative correlation between the proportion of shares owned by institutions and director compensation, suggesting that this relationship stems from institutional monitoring effectiveness. (Huafang & Jianguo, 2007) tested the association between board composition, ownership structure, and voluntary disclosure by using an OLS regression model. Their findings suggest that more ownership of equity and fixed-income securities by block holders is connected to greater disclosure. Ownership can take several forms, although legal-person ownership, managerial ownership, and state ownership are unrelated to transparency. Increased independent board members are connected to increased corporate transparency, whereas CEO duality is related to reduced corporate transparency. Larger firms were found to have more disclosure in their papers.

From a contrary viewpoint, researchers (Fauzi & Locke, 2012) found that enterprises listed in the New Zealand stock exchange exhibit significant variation in board committees, the board size, and managerial equity ownership. The larger boards are believed to provide better supervision for corporations (as reported by (Fauzi & Locke, 2012). Other things being equal, however, the non-executive directors, female directors on the board, and a high concentration of ownership can each affect a company's financial success. Malaysian listed firms that the (Sulong & Nor, 2008), research team studied revealed that dividends, stock ownership structures, and board governance characteristics are all related to company success. An examination of 81 organizations from nine European nations showed that companies with greater institutional ownership of the board and

greater representation of independent directors had higher profitability ratios. But when it comes to these 81 European companies, there is no significant correlation between the percentage of inside directors and the managerial ownership level in terms of profitability.

(Short et al., 2002) have used signal theory to conclude that the existence of institutional investors reduces usage of dividend as an indication of performance. A management by the name of (M. C. Jensen, 1986) believed that it was better to hold on to earnings rather than spend them on shareholders since this ensured the company's growth and gave managers personal rewards. There is further evidence supporting the idea that managerial control leads to decreased dividend payout policies and increased debt for the corporation. In order to find out more about the results found by (Eckbo & Verma, 1994), who conducted an investigation into whether dividends correlate with the growing management ownership power, we will look into this data. According to their findings, organizations where the management have complete voting power tend to pay lower cash dividends since the managers are supreme decision-makers.

A study by (Wen & Jia, 2010) examines the association between management ownership, dividends, institutional ownership, and a some additional factors that assess the amount of agency costs, in order to determine whether dividends have a role to play in the reduction of agency costs. According to their findings, managerial and institutional ownership of bank holding companies have a negative relationship with the dividend policy of the companies. (Fama & Babiak, 1968) found that net income produces a stronger dividend proxy than either net income or cash flows and depreciation. In their analysis of 1000 of the nation's largest corporations, (Pruitt & Gitman, 1991) found that profit and previous years' earnings are both significant variables in dividend distributions. In addition, they discovered that firms' annual risk-adjusted profit (i.e., year-to-year variation in earnings) determines the amount of dividends paid by the firm.

According to (D'Souza & Saxena, 1999), although there was a positive, insignificant association between growth and market to book value, the same holds true in the inverse case as well. Other studies have shown that dividends are more strongly influenced by cash flows than by current earnings. In other studies, the irrelevance thesis was also challenged and it was studied whether financing decisions and investments were related to dividends. The studies have demonstrated that dividend decisions are also made alongside decisions about investment and financing, as well as the company's own investment decisions.

(Arnott & Asness, 2003) focused their research on US stock markets (S&P500) that examined the effects of dividend payout ratios (DPRs) on future growth. They concluded that DPRs that are higher are related with greater future growth. Dividend payments might affect future earnings growth (Zhou & Ruland, 2006)**.** The test included all equities with positive non-zero payout ratio firms during the study period of 1950 to 2003, as well as those with negative payouts. Results demonstrated a strong positive correlation between future earnings growth and payout ratio. In direction to get an improved understanding of the link between corporate ownership structure and dividend policy, the study looked at 139 firms listed on the Italian exchange. In contrast to these findings, research conducted by their group revealed that the DIV is inversely related to the voting rights of the biggest investors. Later, M&M went on to conduct a thorough study of the dividend policy's influence on the stock price. To illustrate that firms' dividend policy does not impact the value, researchers determined that it doesn't matter whether or not firms pay dividends. To put it simply, their thesis goes as follows: you can choose the best investments for a given company's overall value.

After consulting numerous economists, (Dhiraj, 2007) tested for dividend behaviors in a sample of Indian companies listed on the BSE from 1990 to 2005. The research aimed to determine

either dividends still had relevance or not in India in light of the country's current tax legislation. However, research have shown inconsistent and inconclusive data about tax theory, demonstrating that there are no significant differences in dividend behavior amongst corporations that modify their tax structure.

(Al-Malkawi, 2007) claims that, according to his research, a relationship exists between a company's age and dividend payouts. The relationship is apparently linear at first, but then takes a turn for the worst and become non-linear. (Collins et al., 2011) asserts that firms with payout ratios higher than those of average, lower than the level of risk, and lower than insider holdings enjoy greater growth, while companies with payout ratios below those benchmarks experience lower earnings growth, additional risk, and diminished insider holdings. A positive impact of development prospects accessible to the corporation on dividends is reported by (Khawar, 2003).

According to (Mansourinia et al., 2013), there is no statistically significant association between CEO duality and dividend policy among publicly traded companies listed on the Tehran Stock Exchange. According to the agency problem, the primary function of the board of directors is to prevent the possibility of a conflict of interest between the principal and the agent, to minimize agency costs, and to preserve stockholder investment (Eisenhardt, 1989).

According to (Alshabibi & Ramesh, 2011), corporate governance issues do influence dividend policy, but under most critical elements, board of director is top of the list, that motivate companies to pay dividends. Additionally, they claim that certain firm characteristics affected the dividend policy decisions of nonfinancial UK firms.

(Ahmed & Javid, 2009; Haleem & Javid, 2011) show that dividend-decision enterprises are interested in historical dividends, profitability, and depreciation when computing their future

dividend payments. In industrial sector of Pakistan, the Lintner model correlates quite well. However, according to(Nazir et al., 2012) 72% of Pakistan's banks pay dividends and profitability are linked, and also size and expansion. (Chaudhry, 2004) has shown that when firms alter their dividend policies, there is a large variation in share price, which is attributable to the two variables of dividend yield and dividend payment ratio. Even when restricting company asset growth or leverage, this relationship is still constant.

Dividends are paid less often in Pakistani companies yet minority shareholders still choose to own shares. Companies that employ a large board are likely to pay a high dividend since they elect to pay a monthly dividend and also distribute a significant payout. There is no correlation between board independence and payout ratio. For a substantiated answer, empirical research shows that dividend payments are not so much important than payment of loan's costs. In their article "Capital Structure and CEO Duality in Pakistan", (Nazir et al., 2012) undertake a specific example for Pakistan and attempt to check CEO duality in capital structure. Their findings show that CEO duality has no relevance for debt and equity financing in Pakistan, as stated by (Iqbal, 2013; Nazir et al., 2012) discovers that in Pakistan, enterprises with a CEO who holds multiple positions have a greater possibility of paying dividends.

2.4. Conclusion

Historically, the relationship between dividend policy and agency costs has been a source of discussion in the corporate finance literature for quite some time. After reviewing literature, it is discovered that the majority of dividend pay-out studies have been conducted in developed countries of the world, with only a small number of studies being conducted in developing countries such as Pakistan, where the significance of dividend pay-out is still not well recognized. Dividend payout is regarded as one method of mitigating agency concerns while simultaneously

increasing shareholders' wealth. This is due to the fact that dividend payout allows the primary market to more easily monitor the operations and performance of the companies. Decisions on dividend payouts become an essential element of company governance as a result of these circumstances.

According to past studies and literature, it has been found that there is negative relationship of dividend decision with some accounting variables, i.e., liquidity limitations, risk, growth, liquidity and leverage. However, there are also exist positive relationship of dividend decision with prior dividend patterns, current earnings, and business size. Incorporating findings from dividend payout and corporate governance literature, we may conclude that institutional shareholding, board independence and ownership concentration all have positive effects on dividend decision making. In contrast to these findings, however, researchers observed a statistically significant but negative link between state-owned firms, CEO duality, and dividend payments.

There is need to investigate the relationship between dividend payout (DIV) ratio and corporate governance, with the role of ownership structure acting as a moderator in this relationship. By introducing the ownership structure as a moderator, further investigation is required on the empirical influence of corporate governance on dividend payout DIV ratio for non-financial companies. Moreover, there is need to determine the strengthens or weakens the effect of corporate governance on dividend payout for non-financial companies.

According to the research, CEO duality has a different impact on dividend policy in emerging markets. In particular, CEO duality's impact is moderated. Last but not least, when dividends are moderated, there is also lacking at part of literature for findings a relationship between CEO duality, board size, and board meeting frequency by using moderation.

For analysis the availability of the good corporate governance assessment index has resulted in an improvement in the corporate governance of Pakistani firms, which is a positive development. Second, when comparing managerial ownership of Pakistani companies listed on the stock exchange floor to institutional ownership, the former is far lower than the latter.

CHAPTER 3

DATA AND VARIABLE DESCRIPTION

A generalized model was first built utilizing all of the variables reported in the literature, but the final optimized model was obtained by investigating the effect of corporate governance and conventional accounting variables (Financial Leverage, Return on Assets, and Earning per share). Ownership structure, defined as managerial ownership, institutional ownership, ownership concentration, and the top five stockholders, has been used as a moderator. Tangibility, firm age, and firm size are additional control variables.

3.1. Sample and Data Collection

Initially, the data for 300 firms is derived from the State Bank of Pakistan's Balance Sheet Analysis of non-financial sector PSX listed firms and the annual reports of included companies covering the five years from 2016 to 2020. Nevertheless, it was dependent on the Data availability of firms, so some firms do not have the data of respective years during the extraction of data. Finally, the data of 250 firms are selected for the analysis. The following Table 1 contains a list of variables, their definitions and description.

Table 1: Description of Variables

Variable	Description
Dependent Variable	
D_Payout_Ratio	Dividends Payout Ratio (cash dividend to profit / loss after tax)
Moderating Variable (Ownership Structure)	
Inst_Own	Institutional Ownership (The firm's shares held by institutions in percentage)
Conc	Concentration of ownership (Dummy variable; equal one if the percentage of shares owned by largest shareholder are equal/over 50 percent, zero otherwise)
Top5_Share	Top 5 shareholders (the sum of shares owned by the largest five shareholders)
Mang_Own	Managerial Ownership (The firm's shares held by managers, directors, spouse and children's in %)
Independent variables	**Corporate Governance (unconventional)**
Board_committes	The total (number of board committees)
Board_size	Board size (the total number of board members)
Duality	CEO Duality (a dummy equal to one if the CEO is also the board chair and zero otherwise)
Board_indep	The ratio of Board independence (The number of independent board members on the corporate board) and Total Board Members
Non_executive	The ratio of total (number of nonexecutive directors on the board) and Total Board Members
Executive	The ratio of total (number of executive directors on the board) and Total Board Members .
	Corporate Governance (conventional)
Financial_Leverage	Proxy variable (ratio of total assets current, previous year to average current, previous year shareholders equity)
Earnings_Per_share	(profit / loss after tax to no. of shares)
Return_on_Assets	(Profit/loss after tax as a % of total assets)
Control Variables	
Firm_age	Listing age in this study employed the age of the listing (AGE) as a proxy for firm age rather than the year of incorporation to control for firm maturity)
Firm_size	The natural logarithm of total assets
Tangibility	Ratio of fixed assets to total assets)

3.2. Theoretical Frame Work

The below Figure 1 presenting the theoretical framework used in this research work with final target at the Dividend payout ratio. Corporate Governance (Conventional and Unconventional Accounting Variables) are used as independent variables. The Ownership Structure has been used as the moderating variable. Basically the relationship between dividend payout and Corporate governance has been established having the moderating effect of ownership structure and some control variables.

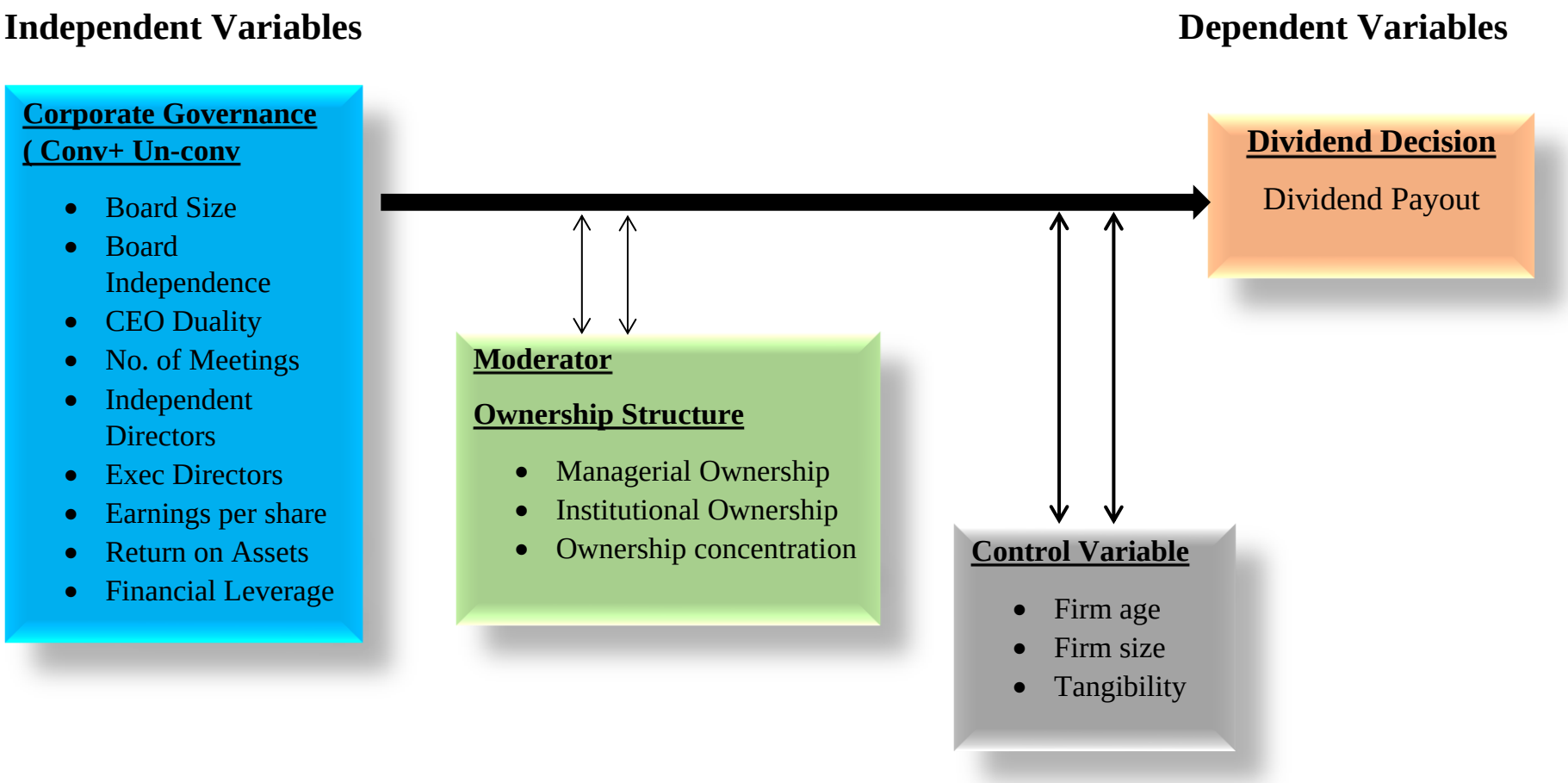

Figure 1: The Study Framework

CHAPTER 4

METHODOLOGY

4.1. Model Specification

4.1.1. Panel Data and Models:

A panel data set (also known as longitudinal data) has two dimensions: a cross-sectional dimension and a time series dimension, with all cross-sectional units being observed throughout the entire time span.

xit, i=1,.....,N, t=1,...,T. T is usually small.

We can distinguish between panels that are balanced and panels that are unbalanced.

The repetition of observations results in the creation of potentially very large panel data sets.

When N units and T time periods are used, the result is the total number of observations is NT.

– An advantage is the large sample size. Excellent for estimating.

– Disadvantage: Reliance on others! Observations are most likely not independent of one another.

When modelling the potential dependence, different models are generated.

A fixed panel is a type of balanced panel that is a special case of the balanced panel. We require that all individuals be present at all times in this situation.

An unbalanced panel is one in which individuals are observed a different number of times than they should be, for example, as a result of missing data. We are only interested in panels that are balanced and fixed.

Overall, panel data models outperform cross-sectional data models in terms of 'efficiency,' because the observation of a single individual over a longer period of time reduces variance when compared to repeated random selections of individuals.

4.1.2. Panel Data Set:

The National Longitudinal Survey of Youth (NLS) is an example of a longitudinal study. From 1979 to 1994, the same respondents were interviewed on a year-to-year basis. Since 1994, they

have been interviewed every two years, and this has continued until today. Panel data enables a researcher to investigate cross section effects – that is, variation across firms along the N-axis – and time series effects – that is, variation across time along the T-axis.

Cross Sections

$$\text{Time Series} \begin{bmatrix} y_{11} & y_{21} & \cdots & y_{i1} & \cdots & y_{N1} \\ y_{12} & y_{22} & \cdots & y_{i2} & \cdots & y_{N2} \\ \vdots & \vdots & \ddots & \vdots & & \vdots \\ y_{1t} & y_{11} & \cdots & y_{it} & \cdots & y_{Nt} \\ \vdots & y_{11} & & \vdots & \ddots & \vdots \\ y_{1T} & y_{2T} & \cdots & y_{iT} & \cdots & y_{NT} \end{bmatrix}$$

Notations of Panel Data Sets:

$$y_1 = \begin{bmatrix} y_{11} \\ y_{12} \\ \vdots \\ y_{1t} \\ \vdots \\ y_{1T} \end{bmatrix}; \ldots . y_i = \begin{bmatrix} y_{i1} \\ y_{i2} \\ \vdots \\ y_{it} \\ \vdots \\ y_{iT} \end{bmatrix} X_1 = \begin{bmatrix} x_{11} & x_{21} & \cdots & x_{k1} \\ x_{12} & x_{21} & \cdots & x_{k2} \\ \vdots & \vdots & \cdots & \vdots \\ x_{1t} & x_{2t} & \cdots & x_{kt} \\ \vdots & \vdots & \vdots & \vdots \\ x_{1T} & x_{2T} & \cdots & x_{kT} \end{bmatrix}; \ldots . X_i = \begin{bmatrix} w_{11} & w_{21} & \cdots & w_{k1} \\ w_{12} & w_{21} & \cdots & w_{k2} \\ \vdots & \vdots & \cdots & \vdots \\ w_{1t} & w_{2t} & \cdots & w_{kt} \\ \vdots & \vdots & \vdots & \vdots \\ w_{1T} & w_{2T} & \cdots & w_{kT} \end{bmatrix}$$

A standard panel data set model stacks the y_i's and the x_i's:
$y = X\beta + c + \varepsilon$
X is a $\Sigma_i T_i x k$ matrix.
β is a kx1 matrix
c is $\Sigma_i T_i x 1$ matrix, associated with unobservable variables.
y and ε are $\Sigma_i T_i x 1$ matrices.

4.1.3. Panel Data Models:

With panel data we can study different issues:

- Cross sectional variation (unobservable in time series data) vs Time series variation (unobservable in cross sectional data)
- Heterogeneity (observable and unobservable individual heterogeneity)
- Hierarchical structures (say, zip code, city and state effects)
- Dynamics in economic behavior
- Individual/Group effects (individual effects)
- Time effects

The current study is based on panel data, a combination of both "cross-sectional and time-series data". Panel data gives more degree of freedom, less collinearity, more information, and more

efficiency. Panel data employed three basic techniques and these models talk about intercept behavior. These techniques include the common effect model, the fixed-effect model, and the random effect model.

4.1.3.1. Common Effect Model

The common Effect Model is also known as the pooled OLS method. In this model, both slope and intercept remain constant over the time series and cross-section.

4.1.3.2. Fixed Effect Model

Fixed Effect Model (FEM) is applied when there is a possibility that the issue of association may arise between the individual-specific intercept and the other regressors.

$$\boldsymbol{Cov}\,(\,\boldsymbol{\alpha_i},\,\boldsymbol{X_{i,t}}) \neq \mathbf{0}$$

This model uses fixed dummies to solve the problem of heterogeneity.

The equation for the fixed effects model is as follow:

$$\boldsymbol{Y_{it}} = \boldsymbol{\beta_o} + \ \boldsymbol{\beta_1 X_{1it}} + \boldsymbol{\beta_2 X_{2it}} + \cdots + \ \boldsymbol{\beta_k X_{kit}} + \boldsymbol{\alpha_i} + \ \boldsymbol{u_{it}}$$

Where, Y_{it} is a dependent variable, β_o is intercept, X_{1it} is the first independent variable, X_{2it} is the second independent variable, α_i is unobserved heterogeneity, and u_{it} is a combined cross-section and time-series error term. In FEM, α_i is an individual-specific intercept.

Financial Data Estimation: In order to investigate the relationship between corporate governance and dividend payouts, we used panel regression modelling with ownership structure as moderating variables to conduct our research. Here the firm ownership structure has been used as the moderating variable for Dividend policy and corporate governance.

The basic econometric model is divided into three equations. The first model is integrating the effect of Ownership Structure (OS), Corporate Governance (CG) on the dividend payout of firms. The second model is giving the estimation of CG with Moderating effect of ownership structures. This model is established to estimate the pure moderating role of ownership structure on the dividend payout ratio. The final model elaborates the linear with integrated factors of CG and OS in a single model to evaluate the moderating Effect of OS on dividend payout in the non-financial sector of Pakistan.

$$D_{it} = \alpha_0 + \Sigma_i \alpha_1 CG_{it} + \Sigma_{it} \alpha_2 OS_{it} + \Sigma_{it} \alpha_3 Control_{it} + \varepsilon_{it} \qquad (1)$$

$$D_{it} = \alpha_0 + \Sigma_{it}\, \alpha_1 OS_{it} * CG_{it} + \varepsilon_{it} \qquad (2)$$

$$D_{it} = \alpha_0 + \Sigma_i \alpha_1 CG_{it} + \Sigma_{it} \alpha_2 OS_{it} + \Sigma_{it} \alpha_3 OS_{it} * CG_{it} + \Sigma_{it} \alpha_4 Control_{it} + \varepsilon_{it} \qquad (3)$$

D_{it} is the dependent variable indicating the dividend policy of the firm, equal to DPS/EPD = Dividend per share / Earning per share.

OS_{it} denotes variables about the ownership structure. This analysis makes use of four different measures of ownership structure. Institutional ownership is quantified as in percentage terms, the total number of shares held by institutions. The term Mang_Own is an acronym for managerial ownership and refers to the percentage of equity capital held by managers and directors.

CG_{it} denotes variables relating to board governance. This analysis makes use of four different indicators of board governance. These are the board's size, independence, CEO duality, and board

committees. The term "board independence" refers to the percentage of independent directors on a corporation's board of directors. The term "board size" refers to the total number of members on the board. Duality is a dummy variable that has a value of one if one of the CEOs is also the chairman of the board of directors and a value of zero if the CEO is not also the chairman of the board of directors.

Control are variables that can be controlled. This paper makes use of three control variables: firm size, firm assets, and tangibleness.

Model 1 explains the only direct effect on Dividend Payout ratios of CG, OS, and the other control variable. Model 2 is only depicting the moderating effect of CG and OS to analyses the pure moderating impact of OC. Finally, the model 3 is the combination of model 1 and model 2 showing the both direct impact of CG and OS on Dividend payout ratio with moderating role of OS.

4.2. Econometric Methods

It's possible to estimate panel data using two methods: the fixed-effect model and the random effect model. It is necessary to perform the F test in order to compare the Random Effect model with that of Fixed Effect. A random effect model with equal constant terms and a fixed effect model with distinct intercepts were both calculated separately for this purpose. The F test is then performed to assess if there is no difference between the random effect and fixed-effect models using the random effect model. In order to compare fixed-effects versus random effects models, the Hausman test is performed. These statistics are asymptotically distributed as chi-squares when we assume the stochastic error term and explanatory factors have no association. The random effect model should be used instead of the fixed effect model in this circumstance. It appears that fixed effects models outperform random effect models, based on the data.

4.2.1. Redundant Fixed Effect Test:

An example of a fixed effects model is one in which the model parameters are either constants or non-random quantities. Random effects and mixed models, on the other hand, are models in which the model parameters are all or part of which are random variables. The term "Redundant Fixed

Effects Test" appears to simply refer to the process of determining whether or not a certain fixed effects term should be included in one's model.

The Fixed Effect Model is reprimanded on the grounds that it catches individual-explicit impacts utilizing fixed dummies, it includes countless boundaries with a large cross-section set. "Because of this, the issue of loss of a degree of freedom happens. The intercept term is the random effect model that communicates time-variation dummy factors."

This model is suitable to utilize where the regressor's are uncorrelated with the intercept of each cross-sectional unit.

$$\boldsymbol{Cov}\left(\boldsymbol{\epsilon_i},\ \boldsymbol{X_{i,t}}\right) = \mathbf{0}$$

The equation for the random-effects model is as follow:

$$\boldsymbol{Y_{it}} = \boldsymbol{\beta_o} + \ \boldsymbol{\beta_1 X_{1it}} + \boldsymbol{\beta_2 X_{2it}} + \cdots + \ \boldsymbol{\beta_k X_{kit}} + \boldsymbol{\epsilon_i} + \ \boldsymbol{u_{it}}$$

Where, Y_{it} is a dependent variable, β_o is intercept, X_{1it} is the first independent variable, X_{2it} is the second independent variable, ϵ_i is unobserved heterogeneity, and u_{it} is the error term of cross-sectional and time-series data. In REM, ϵ_i is a random firm-specific error term. Individual unit intercept values are obtained from a much larger population having a constant mean in REM, with individual means treated as departures from the constant mean. Because of the problem of "collinearity" of these variables with the subject-specific intercept in FEM, time-variant regressors' are achievable in REM but not in FEM.

4.2.2. Hausman Test:

Detection of endogenous regressors (predictor variables) in a regression model is accomplished using the Hausman Test (also known as the Hausman specification test). Endogenous variables are variables whose values are determined by the values of other variables in a system. Because one of the assumptions of ordinary least squares estimation is that there is no correlation between a

predictor variable and the error term, the presence of endogenous regressors in a model will cause ordinary least squares estimators to fail. In this situation, instrumental variables estimators can be used as an alternative to traditional estimators. Prior to determining which regression method is the most appropriate for your situation, you must first determine whether your predictor variables are endogenous. This is exactly what the Hausman test will accomplish.

In addition to the DWH test, this test is also known as the augmented regression test for endogeneity or the augmented regression test for endogeneity.

4.2.3. Choice among FEM and REM through "Hausman Test":

For the selection between the fixed-effect model and random-effect model, various criteria are mentioned in the literature. However, this study follows Hausman (1978), a statistical test for the selection between both models. This statistical test is advantageous over any other judgmental criteria.

The Hausman statistical test for the selection of "fixed effect" and "random effect" follows the following model.

$$\boldsymbol{w = (\tilde{\beta}_{FEm} - \tilde{\beta}_{REM})'\left[v(\tilde{\beta}_{FEM}) - v(\tilde{\beta}_{REM})\right]^{-1}(\tilde{\beta}_{FEm} - \tilde{\beta}_{REM}) \approx \chi^2}$$

The above equation checks both models statistically to explain the better one. The selection criteria follow the model with more consistent results and a statistical approach of chi-square.

CHAPTER 5

RESULTS AND DISCUSSION

5.1. Descriptive Statistics

This section summarizes the statistics and correlation coefficients for the variables considered in the study. For each variable, there is a mean and standard deviation as well as percentile data in Table 2. The average dividend decision between 2016 and 2020 is 0.316, which means that more than 31 percent of companies paid dividends. While this value is a little higher than the value reported by (Abdelsalam, El-Masry, & Elsegini, 2008).

According to our preliminary data, duality is a distinctive feature characteristic of emerging-market firms, which our findings support. Moreover, 4.9 percent of businesses are led by a CEO and chaired by a chairman. This is congruent with the findings of duality in emerging economies by (Hewa Wellalage & Locke, 2011) and (Elsayed, 2007). However, this proportion is lower than that provided by (Faleye, 2007; Sindhu et al., 2016) for developed countries. East Asian countries appear to have a higher prevalence of dual leadership (7.968 percent)[6].

Furthermore, as shown in Table 2, more than a quarter of the ownership structures of the companies in our sample are highly concentrated. Approximately 327.2 percent of the total sample is taken up by the concentration on average. Last but not least, the study's sample covers both small and large organizations (with a mean and standard deviation of 15.42 and 1.95, respectively, for firm size) as well as low- and high-profit enterprises (with a mean and standard deviation of 3.512 and 21.29 for ROA, respectively).

[6] http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.196.7720&rep=rep1&type=pdf

Table 2: Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
DIV	0.316	0	31.6	-6.4	1.266	1250
ED	0.226978	0.25	0.625	0	0.100569	1250
EPS	14.907	2.705	659.8	-166	55.63	1250
FA	40.772	36	153	6	18.07	1250
FL	2.308	2	72.79	-45.9	5.821	1250
FS	15.420	15.47	20.57	8.785	1.95	1250
IO	34.691	24.79	98.28	0	29.59	1250
MO	28.023	18.53	99.98	0	29.36	1250
NB	2.334	2	8	1	0.844	1250
NED	0.559533	0.571429	1	0.142857	0.133774	1250
OC	0.272	0	1	0	0.445	1250
ROA	3.512	2.648	337.9	-160	21.29	1250
T5	63.945	67.14	98.91	4.98	20.04	1250
TAN	54.171	53.6	99.99	0.01	23.64	1250
CEO	0.049	0	1	0	0.216	1250
BS	7.863	7	14	5	1.35	1250
BI	0.214516	0.142857	0.769231	0	0.124711	1250

Note: This table summarizes the descriptive statistics for the variables included in the model for non-financial firms traded on the PSX Pakistan, from2016 to 2020. These are the values assigned to the variables annual Dividend payment(DIV),Executive directors(ED), Earning per share(EPS), Firm age(FA), Firm leverage(FL), Firm size(FS), Institutional ownership(IO), Managerial ownership(MO), Number of Board meetings(NB), Non Executive Directors(NED), Ownership concentration(OC), Return on assets(ROA), Top 5 share holders (T5), Tangibility(TAN), CEO duality(CEO), Board size(BS, Board independence(BI).

5.2. Correlation Statistics

Significant factors in the study were correlated using Pearson correlation coefficients summarized in Table 3, along with their degrees of significance. (Alan & Duncan, 1997) recommend that the Between independent variables, the Pearson correlation coefficient should not exceed 0.80; otherwise, a coefficient greater than 0.80 may suggest multicollinearity.

Numerous fascinating connections can be made. To begin, at the 5% level, the correlation coefficients between dividend payout and dividend yield are positive and statistically significant. Second, All board variables have a strong positive association with DIV, with the exception of Inst_Own, which has a significant negative correlation with DIV. Third, with the exception of TOP_5 Shar and Mang_Own, variables exhibit a considerable inverse relationship with DIV (Sindhu et al., 2016). These observations, taken together, provide preliminary support for our theoretical predictions. CG and control variables tend to be adversely and insignificantly connected

with dividend distributions, non-contrast to size and profitability variables (FS and ROA), which appear to be negatively correlated with DIV.

Table 3: Correlation Matrix

	DIV	ED	EPS	FA	FL	FS	IO	MO	NB	NED	OC	ROA	T5	TAN	CEO	BS
ED	0.026															
EPS	0.004	0.006***														
FA	-0.003	0.031	0.27***													
FL	0.162***	0.049**	0.01	-0.014												
FS	-0.033	-0.036	0.188***	0.134***	0.107***											
IO	-0.05**	-0.17***	0.174***	0.058**	0.042	0.365***										
MO	0.028*	0.19***	-0.095***	-0.060**	-0.012	-0.284**	-0.632***									
NB	0.081***	-0.14***	0.069***	0.066***	0.014	0.399***	0.162***	-0.22***								
NED	-0.025	-0.3***	0.178***	0.018	-0.010	0.144***	0.154***	-0.134**	0.093***							
OC	-0.026	-0.11***	0.140***	0.123***	0.006	0.273***	0.343***	-0.304***	0.146***	0.04						
ROA	-0.013	-0.008	0.353***	0.025	0.002	0.066**	0.078***	-0.011	0.049**	0.078***	0.024					
T5	-0.018	-0.07***	0.101***	0.129***	0.001	0.145***	0.279***	-0.051**	0.055	0.034	0.558***	0.060**				
TAN	0.027	-0.024	-0.209***	0.020	0.006	-0.05**	-0.224***	0.126***	-0.13***	-0.06**	-0.04	-0.195***	-0.16***			
CEO	-0.028	-0.06**	-0.045	-0.058**	-0.037	0.03	-0.053**	-0.049**	-0.024	0.146***	0.095***	-0.033	0.058**	0.194***		
BS	-0.013	0.158***	0.245***	0.179***	0.066**	0.303***	0.07**	-0.118***	0.292***	0.526***	0.033	0.064**	-0.016	-0.15***	0.026	
BI	0.005	-0.17***	0.014	0.168***	0.057**	0.22***	0.025	-0.127***	0.337***	-0.281***	0.074***	-0.008	-0.008	-0.08***	-0.09***	0.478***

Source: Author's own Calculations

Note: This table presents the correlation matrix among the dependent, independent, and control variables. It indicates the direction in which the variables are related. This correlation is among annual Dividend payment(DIV),Executive directors(ED), Earning per share(EPS), Firm age(FA), Firm leverage(FL), Firm size(FS), Institutional ownership(IO), Managerial ownership(MO), Number of Board meetings(NB), Non Executive Directors(NED), Ownership concentration(OC), Return on assets(ROA), Top 5 share holders (T5), Tangibility(TAN), CEO duality(CEO), Board size(BS, Board independence(BI).

5.3. Regression Analysis and Discussion

In panel data analysis, three types of models are used: random effects, fixed effects, and random effects with fixed effects. To determine which model is the most suited, two statistical tests are performed. The first method is used to compare the models with random effects and those with fixed effects.

Due to multicollinearity, the variable non-executive directors have been removed from the first linear model, and the interaction term Board_ind has been removed from the second and third models.

To choose the test, we must either use a fixed-effect model or a random effect model. We run the Redundant Fixed effect test for the fixed-effect model, which is significant; for the random effect model, the test is insignificant. As a result, we are going to use a fixed effect panel model in this case.

5.3.1. Redundant Fixed Effects Tests

Table 4: Cross Section FE Test

Model	Effect test	Statistic	DF	Prob
1	Cross-section F	16.059962	249,985	0.0000
2	Cross-section F	19.671930	249,980	0.0000
3	Cross-section F	18.348928	249,965	0.0000

Source: Author's own Calculations

Note: A Huasman test has been used to identify the model, either it is fixed effect or random effect model.

5.3.2. Random effect Hausman Test

Table 5: Cross Section RE Test

Model	Effect test	Chi^2 Statistic	DF	Prob
1	Random Effect Hausman	0.0000	15	1.0000
2	Random Effect Hausman	0.0000	20	1.0000
3	Random Effect Hausman	0.0000	35	1.0000

Source: Author's own Calculations

The second method compares fixed effects and random effects models using Hausman's method. If the model is adequately defined and the independent variables are uncorrelated with the individual effects, the fixed and random effects must be identical.

In our econometric specification, the Hausman test is used to evaluate the fixed effect. The null hypothesis establishes that the preferred model contains random effects, but the alternative fixed effects model does not. According to the regression results, the F statistic's p-value is equal to 0.000. As a result, the random estimation method is abandoned. The Hausman statistic P-value indicates that we should estimate our specifications using the fixed effects method. If the Chi-square value is significant, the fixed effects model is used for further processing; if the random-effects model is insignificant for the test, the random-effects model is used.

Table 6: Regression Results

The results of models with the firm ownership structure and without Ownership structures using as the moderating variable for Dividend policy and corporate governance. Equation 1 is showing the impact of corporate governance and ownership structure simultaneously by separately on dividend payout. Eq 2 is only showing the moderating effect of ownership structure having Corporate governance with Dividend payout. And the most important the final model is elaborating the both impacts (Simultaneous, and Moderating) impact of CG and OS on dividend payout.

$$D_{it} = \alpha_0 + \Sigma_i \alpha_1 CG_{it} + \Sigma_{it} \alpha_2 OS_{it} + \Sigma_{it} \alpha_3 Control_{it} + \varepsilon_{it} \qquad (1)$$

$$D_{it} = \alpha_0 + \Sigma_{it}\, \alpha_1 OS_{it} * CG_{it} + \varepsilon_{it} \qquad (2)$$

$$D_{it} = \alpha_0 + \Sigma_i \alpha_1 CG_{it} + \Sigma_{it} \alpha_2 OS_{it} + \Sigma_{it} \alpha_3 OS_{it} * CG_{it} + \Sigma_{it} \alpha_4 Control_{it} + \varepsilon_{it} \qquad (3)$$

	Model 1		Model 2		Model 3	
Variables	**Coefficient**	**T stat**	**Coefficient**	**T stat**	**Coefficient**	**T stat**
Leverage	0.018626*** (0.0019)	0.0000			0.018785*** (0.001804)	0.0000
Earn_ per_ share	0.000392 *** (9.08E-05)	0.0000			0.000636*** (0.000114)	0.0000

Return on Asset	-0.000824 *** (0.0002)	0.0000			-0.000555 *** (0.000152)	0.0027
Board Size	0.035509 *** (0.0009)	0.0000			0.018980 (0.014516)	0.1913
Board Indep	-0.153074*** (0.0242)	0.0000			-0.499311 *** (0.094665)	0.0000
Exec Director	0.151611** (0.0738)	0.0000			-0.307214 (0.356444)	0.3889
No. board meetings	0.112141 *** (0.0125)	0.0000			0.414911 *** (0.032240)	0.0000
CEO Duality	0.062749 *** (0.0042)	0.0000			0.310979 (0.076638)	0.0000
Mang own	0.000339 (0.0002)	0.1597			0.018257** (0.007332)	0.0129
Ins Own	-0.000840*** (0.0003)	0.0020			0.039393 (0.033661)	0.2421
Own conc	0.026112 *** (0.0095)	0.0060			0.268385 *** (0.070122)	0.0001
Top 5 share	0.001121 *** (0.0003)	0.0002			0.012345 *** (0.002406)	0.0000
CEO*IO			-0.000287 (0.001234)	0.9314	0.002005 *** (0.001227)	0.0000
CEO*MO			-0.000531 (0.000754)	0.4813	-0.001851 *** (0.000673)	0.0002
CEO*OC			-0.098018 *** (0.034506)	0.0046	-0.193572 (0.040951)	0.4654
CEO*T5			-0.000893 (0.000649)	0.1685	0.004423 (0.000861)	0.1026
NBM*IO			0.000482 *** (8.25E-05)	0.0000	-0.000902 *** (7.66E-05)	0.0061
NBM*MO			0.000218 (0.000880)	0.8043	-0.002124 *** (0.000685)	0.0000
NBM*OC			-0.258460 *** (0.032840)	0.0000	-0.079555 *** (0.026141)	0.0000
NBM*T5			0.002000 *** (0.000449)	0.0000	-0.003350 *** (0.026141)	0.0000
BS*IO			0.000298* (0.000180)	0.0991	0.005667 *** (0.004069)	0.0020
BS*MO			0.000682 ** (3.58E-05)	0.0357	0.002806 *** (0.000881)	0.0024
BS*OC			0.045769*** (0.006466)	0.0000	0.054857 *** (0.089765)	0.0000
BS*T5			-0.000692*** (0.000122)	0.0000	-0.004240 (0.002037)	0.1640
ED*IO			0.004219*** (0.001441)	0.0035	-0.005974 *** (0.004190)	0.0015
ED*MO			-0.004822 ** (0.002517)	0.0557	-0.014718** (0.007358)	0.0457
ED*OC			0.113727 (0.148939)	0.4453	-0.731171 (0.705463)	0.3002
ED*T5			0.007420*** (0.001302)	0.0000	0.032802** (0.015956)	0.0400
NED*IO			0.000152 (0.001369)	0.9115	-0.005690 ** (0.004035)	0.0603

NED*MO			-0.005746 ** (0.002415)	0.0175	-0.020174*** (0.007999)	0.0091
NED*OC			0.331692 ** (0.143530)	0.0210	-0.053021 ** (0.084323)	0.0239
NED*T5			0.000416 (0.001877)	0.8244	0.003345 (0.002085)	0.1587
R2	**0.351543**		**0.249803**		**0.367510**	
F- Stat	**46.38679*** **	**0.0000**	**16.99601*** **	**0.0000**	**17.99772*** **	**0.0000**
Other control	**Yes**		**Yes**		**Yes**	
Frim product Year FE	**Yes**		**Yes**		**Yes**	
Observations	**1250**		**1250**		**1250**	

* is significance level at 10%
** is significance level at 5%
***is significance level at 1%
Source: Author's own Calculations
Note: This table summarizes the regression results for fundamental approach variables calculated using the Dividend payment(DIV),Executive directors(ED), Earning per share(EPS), Firm age(FA), Firm leverage(FL), Firm size(FS), Institutional ownership(IO), Managerial ownership(MO), Number of Board meetings(NB), Non Executive Directors(NED), Ownership concentration(OC), Return on assets(ROA), Top 5 share holders (T5), Tangibility(TAN), CEO duality(CEO), Board size(BS, Board independence(BI). The static panel indicates that the Hausman (1978) test is highly significant at the 1% level, indicating that the estimation of the fixed-effect model is valid; This table includes the interaction term of the Ownership, and corporate governance factors having the role of moderator for the dividend decision.

We have used the Fixed effect GLS model to avoid the issue of heteroskedasticity and autocorrelation. Model 1's GLS fixed effects panel estimation results are reported. Institutional ownership, as expected, in both locations, it has a negative and considerable impact on corporations' dividend policy and distributions. This research reveals that the presence of an institutional shareholder was not regarded as a favorable signal of the firm's managerial efficiency by the market. Furthermore, in model 3, after including the moderating effect of ownership structure, the negative relationship between managerial ownership and dividend is established; but still it is insignificant because when a company is already involved in a managerial ownership structure, dividend distribution leads to control agency concerns. (Crutchley & Hansen, 1989; Jensen et al., 1992; Taleb, 2012) all reached the same conclusion. (Shahab u & Javid, 2011) also reached the same conclusion. In Pakistan, the majority of businesses in financial distress rely heavily on leverage. The positive coefficient of leverage is not consistent with (Grossman & Hart, 1980) and (Stulz, 1988). (Stulz, 1988) findings**,** but it is significant and positive relationship between leverage and DIV ratio in both model 1 and 3 because according to cash flow theory, all

earnings must be distributed among shareholders while favorable NPV projects must be availed through debt financing (Sindhu et al., 2016).

Similarly, Jensen and Meckling (1976) argue debt covenants and limits imposed by debt holders have a negative impact on dividends for enterprises with a higher level of leverage.

The ownership concentration is positively significant in model 1 and positively significant in model three with moderating effect of ownership structure. (Claessens et al., 2002; Samad, 2004) indicated that many publicly traded companies in Malaysia are owned or controlled by family members and appear to be inherited by their descendants. There are two theoretical perspectives on the role of family ownership (Anderson & Reeb, 2003; Jiraporn & Dadalt, 2007; Lam & Lee, 2008; Pindado & Requejo, 2014**).** First, founding families' firms will constrain managers' ability to manage earnings; additionally, there is a risk that controlling families will engage in the expropriation of minority shareholders' interests, resulting in lower performance. For instance, Members of the governing family often hold positions of authority in the organisation. A majority of minority shareholders have the ability to exert control over the board of directors, which may present them with opportunity to expropriate minority shareholders. (Sulong & Nor, 2008) investigated the relationships between dividends, different ownership structures, and variables relating to board governance and get the insignificant effect of ownership concentration on firm performance.

CEO duality is found to have a significant positive impact on dividend payout in model 1 and a positive impact on dividend policy and payouts in model 3. This is true in both regions, with model 1 and 3 showing a significant positive impact on dividend policy and payouts. Model 1 came to the same conclusion as we did, which confirms our initial premise, but after including the moderating effect, the results follows our initial hypothesis. This means that companies where the

CEO and chairman are the same people, tend to have a high dividend payout policy. This result can be explained by combining the chairman and CEO positions in emerging markets is not a viable strategy for mitigating expropriation risk. As a result, shareholders require increased dividend payouts to compensate for negative free cash flow. This argument corroborates the assertion made by (Baliga et al., 1996) that CEO duality is ineffective as a control mechanism in developed countries.

A conclusive finding is that dividend policy in emerging countries does not depend on the same set of factors for firms with and without CEO duality. There are distinctions between ownership concentration and, more specifically, the Top5_shar variables. Thus, we find that dividend policy is significantly and positively related to the Top5_shar for firms with dual CEOs in both models with and without the moderating effect of ownership structure. This finding may be especially relevant for emerging economies. Significant shareholders in emerging markets seek to accumulate earnings that they do not wish to share with minority shareholders to exert more significant influence over firms with CEO duality's dividend decision.

Small businesses pay out more dividends than large businesses because of the inverse relationship between business size and dividend payout (Cristea & Cristea, 2017; Zhang & Fu, 2014). This could be because smaller firms are required to pay higher dividends to address information asymmetry (Uittenbogaard, 2016).

Board independence appears to have a materially negative effect on dividend payouts and decision-making about dividends. This shows that corporations with a higher proportion of external directors may pursue policies of low dividend distribution. Additionally, we estimate a statistically significant positive association between board involvement and dividend disbursements. As a

result, we can argue that an active board can assist align managers' and shareholders' incentives by exercising influence over compensation policies.

In model 3, the moderating variable, ownership concentration, and corporate governance factors are significant due to the CEO and ownership concentration. Additionally, board size indicates significant results due to the integration with OS factors.

The findings demonstrate for the first time that Ownership Structure (IO, MO, OC, T5) acts as a moderator in the relationship between Corporate Governance (Board Independence, Board Size, and CEO Duality) and dividend decisions. The findings underscore the critical nature of independent boards comprised of non-resident members who pay a higher dividend. There is a significant inverse relationship between the dividend payout of larger boards with ind_directors and the size of the board. At a 5% significance level, CEO Board independence appears to have a materially negative impact on dividend payouts and dividend decisions. This shows that corporations with a higher proportion of external directors may pursue low dividend payout strategies. Furthermore, our calculation shows a statistically significant positive link between board activity and dividend disbursements. As a result, we can conclude that a highly active board can assist align the incentives of management and shareholders by exerting influence over compensation policies.

CHAPTER 6

CONCLUSION AND POLICY RECOMMENDATIONS

Between 2016 and 2020, this study investigates the relationship between corporate governance and ownership structure and dividend distribution policies at 250 non-financial firms in Pakistan. This study makes a contribution by examining whether or not ownership structure, in conjunction with corporate governance, has a moderating effect on dividend payout. Our findings demonstrate unequivocally that corporate ownership structure and board characteristics significantly influence dividend policy behavior. We demonstrate that enterprises with a greater number of institutional investors pursue larger dividend payout ratios, which has a moderating effect on OS. By studying the influence of CEO duality in dividend policy, we demonstrate that, in emerging markets, dividend policy does not affect dividend distributions in the same way in firms with and without CEO duality, despite the fact that both firms have CEO duality. Specifically, when CEO duality is moderated, its effect is altered.

Finally, the findings indicate that Dividend decisions are inversely connected to Board Indep, Return on assets, and institutional ownership when moderation has not used. However, when moderation is used, the relationship between institutional ownership and board meetings shifts in the opposite direction.

Because dividend payment adds to control agency difficulties, the moderating impact reveals that the positive association between institutional ownership and dividend is formed and managerial ownership is insignificant; however, when the firm is already involved in a managerial ownership structure, this instrument becomes less effective. The similar conclusion was obtained by (Crutchley & Hansen, 1989; Jensen et al., 1992; Taleb, 2012).(Shahab u & Javid, 2011) came to the same result as well. The bulk of financially distressed enterprises in Pakistan rely largely on

leverage. The findings of (Grossman & Hart, 1980; Stulz, 1988) contradict the positive coefficient of leverage However, there is a large and positive link between leverage and DIV ratio since, according to cash flow theory, all earnings must be given to shareholders, while favorable NPV projects must be financed through debt (Sindhu et al., 2016).

6.1. Policy Recommendations and Future Research

From policy point of view, the study findings can be used to assist firms in determining which types of ownership structures, and corporate governance practices will benefit them the most and help them achieve a competitive edge. Two aspects of this study deserve special mention. First, a change in ownership is inextricably linked to a change in sample data; the model is built on the premise that there is no perfect substitute for shareholding redistribution. The analysis will demonstrate that an integrated and non-integrated firm has equal access to performance measures. Second, this study assesses the significance of alternative corporate governance components in non-financial firms in Pakistan. Unlike previous research on the effects of corporate governance on firm performance, this model can identify the effects of various corporate governance components.

This study serves shareholders by allowing them to optimize their investment strategy. They can learn about the DIV ratio of organizations designed by managerially owned and institutionally owned firms in relation to their ownership. Ultimately, they can put the money in similar businesses that offer greater short-term perks or capital gains from an investor's perspective. Managers should also consider investor behavior when determining the DIV ratio, as well as the rewards available to investors. This analysis is based on a sample size of only non-financial listed firms. Portfolios are not classified according to their capitalization level (high, medium, or low). The same model can be validated in additional markets to ensure its generalizability. This study

also advises policymakers, such as the Securities and Exchange Commission of Pakistan, to adopt regulations that promote diversity on boards of directors in order to stimulate better decision-making through more vision and uniqueness of ideas. Furthermore, policy will be developed to make it essential for listed businesses to include information about the observable and unobservable qualities of directors in their final reports, allowing investors to gain a better understanding of board diversity.

It is possible to do future research with a larger sample size, a longer sample period, or with international enterprises from the Asia-Pacific area, developed countries, and developing countries.

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Appendix

Annexure specifying the mandatory provisions of the 2019 Code

Following are the mandatory provisions of the 2019 Code:

Regulation No.	Requirements
3	**Number of Directorship** Subject to the requirements of section 155 of the Companies Act, 2017, it is mandatory that no person shall be elected or nominated or hold office as a director of a listed company including as an alternate director of more than seven listed companies simultaneously: Provided that the said limit on directorship shall be effective when the Board shall be reconstituted not later than expiry of its current term.
6	**Independent Director** ➢ It is mandatory that each listed company shall have at least two or one third members of the Board, whichever is higher, as independent directors. ➢ Explanation — For the purposes of this sub-regulation, a listed company shall explain the reasons, in the compliance report, if any fraction contained in such one-third number which is not rounded up as one. ➢ For the purpose of electing independent director, the Board shall be reconstituted not later than expiry of its current term. ➢ It is mandatory that the independent director shall submit his consent to act as director, along with declaration to the company that he qualifies the criteria of independence notified

under the Companies Act, 2017 and such declaration shall be submitted to chairman of the Board at first meeting which is held after election of directors as well as on an event of any change affecting his independence.

7 **Female Director**

Subject to section 154 of the Companies Act, 2017, it is mandatory that the Board shall have at least one female director when it is reconstituted after the expiry of its current term.

8 **Executive Director**

- It is mandatory that the executive directors, including the chief executive officer, shall not be more than one third of the Board.
- For the purpose of compliance with the requirement of the above sub-regulation (1), the Board shall be reconstituted not later than expiry of its current term.
- Explanation I — For the purposes of this regulation, a listed company shall explain the reasons, in compliance report, any fraction contained in such one-third number which is rounded up as one.
- Explanation II – Executive director means a director who devotes the whole or substantially the whole of his time (whether paid or not) to the operations of the company.

27 **Audit Committee**

- It is mandatory that the audit committee shall be constituted by the Board keeping in view the following requirements:
- the Board shall establish an audit committee of at least three members comprising of non-executive directors and at least one independent director;

- chairman of the committee shall be an independent director, who shall not be the chairman of the Board;
- the Board shall satisfy itself that at least one member of the audit committee shall be
    - ‘financially literate’;
    - Explanation: - for the purposes of this clause the expression, “financial literate” means a person who, -
    - is a member of a recognized body of professional accountants; or
    - has a post graduate degree in finance from a university or equivalent institution, either in Pakistan or abroad, recognized by the Higher Education Commission of Pakistan; or
    - has at least ten (10) years of experience as audit committee member; or
    - at least twenty (20) years of senior management experience in overseeing of financial, audit related matters.
    - The Audit Committee of a company shall appoint a secretary of the committee who shall either be the company secretary or head of internal audit.
- It is mandatory that meetings of the audit committee shall be held as per the following requirements, -
    - the audit committee of a company shall meet at least once every quarter of the financial year. These meetings shall be held prior to the approval of interim results of the company by its Board and after completion of external audit;

- a meeting of the audit committee shall also be held, if requested by the external auditors, head of internal audit or by chairman of the audit committee;
- the head of internal audit and external auditors represented by engagement partner or in his absence any other partner designated by the audit firm shall attend meetings of the audit committee at which issues, if any, relating to accounts and audit are discussed:

Provided that chief executive officer and the chief financial officer shall not be members of the audit committee but should be available to attend its meetings at the invitation of the chairman of audit committee:

Provided further that at least once a year, the audit committee shall meet the external auditors without the chief financial officer and the head of internal audit being present:

Provided also that at least once a year, the audit committee shall meet the head of internal audit and other members of the internal audit function without the chief financial officer and the external auditors being present.

- It is mandatory that the Board of every company shall determine the terms of reference of the audit committee.
- It is mandatory that the Board shall provide adequate resources and authority to enable the audit committee to carry out its responsibilities effectively and the terms of reference of the audit committee shall be explicitly documented which shall also include the following,
    - determination of appropriate measures to safeguard the company's assets;

- review of annual and interim financial statements of the company, prior to their approval by the Board, focusing on,
    - major judgmental areas;
    - significant adjustments resulting from the audit;
    - going concern assumption;
    - any changes in accounting policies and practices;
    - compliance with applicable accounting standards;
    - compliance with these Regulations and other statutory and regulatory requirements; and
    - all related party transactions;
- review of preliminary announcements of results prior to external communication and publication;
- facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- review of management letter issued by external auditors and management's response thereto;
- ensuring coordination between the internal and external auditors of the company;
- review of the scope and extent of internal audit, audit plan, reporting framework and procedures and ensuring that the internal audit function has adequate resources and is appropriately placed within the company;
- consideration of major findings of internal investigations of activities characterized by fraud, corruption and abuse of power and management's response thereto;

- ascertaining that the internal control systems including financial and operational controls, accounting systems for timely and appropriate recording of purchases and sales, receipts and payments, assets and liabilities and the reporting structure are adequate and effective;
- review of the company's statement on internal control systems prior to endorsement by the Board and internal audit reports;
- instituting special projects, value for money studies or other investigations on any matter specified by the Board, in consultation with the chief executive officer and to consider remittance of any matter to the external auditors or to any other external body;
- determination of compliance with relevant statutory requirements;
- monitoring compliance with these Regulations and identification of significant violations thereof;
- review of arrangement for staff and management to report to audit committee in confidence, concerns, if any, about actual or potential improprieties in financial and other matters and recommend instituting remedial and mitigating measures;
- recommend to the Board the appointment of external auditors, their removal, audit fees, the provision of any service permissible to be rendered to the company by the external auditors in addition to audit of its financial statements, measures for redressal and rectification of non-compliances with the Regulations. The Board shall give due consideration to the recommendations of the audit committee and where it acts otherwise it shall record the reasons thereof;
- consideration of any other issue or matter as may be assigned by the Board;

It is mandatory that the secretary of audit committee shall circulate minutes of meetings of the audit committee to all members, directors, head of internal audit and where required to chief financial officer prior to the next meeting of the Board:

Provided that where this is not practicable, the chairman of the audit committee shall communicate a synopsis of the proceedings to the Board and the minutes shall be circulated along with the minutes of the meeting of the Board.

32 **Terms of appointment of external auditor**

- It is mandatory that no company shall appoint an external auditor, a firm of auditors, which has not been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan and registered with Audit Oversight Board of Pakistan under section 36I of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997).
- It is mandatory that no company shall appoint as external auditors, a firm of auditors which or a partner of which is non-compliant with the International Federation of Accountants' Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan.
- It is mandatory that the Board of a company shall recommend appointment of external auditors for a year and its remuneration, as suggested by the audit committee and such recommendations shall be included in the Directors' Report and in case a recommendation for appointment of an auditor is other than the retiring auditor, the reasons for the same shall be included in the Directors' Report.
- It is mandatory that no company shall appoint its external auditors to provide services in addition to audit except in accordance with these Regulations and shall require the

auditors to observe applicable International Federation of Accountants guidelines in this regard.

- It is mandatory that the company shall ensure that the auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the company.
- It is mandatory that no company shall appoint a person as an external auditor or a person involved in the audit of a company who is a close relative (spouse, parents, dependents and non-dependent children) of the chief executive officer, the chief financial officer, the head of internal audit, the company secretary or a director of the company.
- It is mandatory that every company requires the external auditors to furnish a management letter to its Board within 45 days of the date of audit report:
- Provided that any matter deemed significant by the external auditor shall be communicated in writing to the Board prior to the approval of the audited accounts by the Board.

33 **Rotation of auditors**

- It is mandatory that all listed companies in the financial sector shall change their external auditors every five years:

Provided that all inter related companies/ institutions, engaged in business of providing financial services shall appoint the same firm of auditors to conduct the audit of their accounts.

Explanation: - Financial sector, for this purpose, means banks, non-banking financial companies (NBFCs), modarabas and insurance or takaful insurance companies.

- It is mandatory that all listed companies other than those in the financial sector shall, at the minimum, rotate the engagement partner after every five years:

Provided that in case the audit firm is a sole proprietorship then after completion of five years such audit firm shall be changed.

36 **Compliance Statement and Auditor Review**

- It is mandatory that the company shall publish and circulate a statement, as given under Annexure A to these Regulations, along with their annual reports to set out the status of their compliance with the requirements of these Regulations and the said statement shall be specific and supported by necessary explanations.
- It is mandatory that the company shall ensure that the statement of compliance is reviewed and certified by statutory auditors as per relevant Regulations specified by Commission.
- It is mandatory that the statutory auditors of company shall highlight any non-compliance with these Regulations in their review report.