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Ownership Structure and Dividend Policy: Empirical Evidence from Jordan

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Abstract: The impact of corporate governance on company dividend policy was investigated using a sample of 87 non-financial companies including industrial and service listed on the Amman Stock Exchange from 2011 to 2019 to explain the relationship between board size, board independence, ownership managerial, ownership foreign, and dividend policy. By Using the random-effects generalized least square (GLS) regression model. The findings reveal that foreign ownership negatively influences with dividend policy, while board size, board independence, managerial ownership positively association with dividend policy. Further, board independence did not have a direct effect on dividend policy in Jordan. In addition, these rules and regulations need to be activated by the policy makers to ensure that firms comply with their requirements. Moreover, developing countries are in need of providing better compliance with international governance standards. This can be done by adopting good governance practices, improving shareholder rights and activating laws and regulations that govern firms' performance.

Keywords: Agency Cost, Dividend Policy, Managerial Ownership, Foreign Ownership, Board Size, Board Independence

1. Introduction

The policy of paying cash dividends rather than keeping them is referred to as dividend policy. The dividend policy optimization optimizes a company's stock price by striking a balance between present dividends and future growth. Dividend policy has long been a source of debate among researchers [27]. Because dividend policy affects a company's internal funding, it is one of the most important business decisions. High dividends enhance the likelihood that a company may need to raise money from outside sources. As a result, a financially stressed company may reduce its dividend payouts [8]. According to Denis, & Sibilkov [10], whether and how much a corporation keeps its earnings is mostly influenced by investment possibilities and financial restrictions, and the external environment thus plays a significant impact in a firm's dividend policy.

Many academics have emphasized the need of effective corporate governance in making financial decisions, such as dividend policy. The main theory used to describe what factors determine dividend policy is the agency theory [15]. La Porta, Lopez-de-Silanes, Shleifer, & Vishny [21] suggested that corporate governance quality is linked to a firm's dividend policy, and that a company with superior corporate governance pays out more dividends. The stockholders will press the agents to pay dividends from the excess cash flow rather than allowing it to be used for the manager's personal gain, according to this reasoning. However, effective corporate governance may have a negative impact on dividend payouts. In the sense that a corporation with stronger governance is linked to agency cost, governance quality should be a substitute for dividend distribution. Dividend policy is one of the most common mechanisms for reducing agency costs [15]. As a result, the dividend policy serves as a mechanism for reducing transaction and agency expenses. Further, Easterbrook, [11] stated that paying dividends to shareholders causes a manager to go to the capital market more frequently to obtain cash, and that this activity improves capital market monitoring.

2. Theoretical Background and Hypothesis Development

2.1. Board Size and Dividend Policy

Corporate boards typically play an important role in monitoring and sustaining corporate management discipline, particularly when the board includes a higher percentage of nonexecutive directors chosen for their experience and independence [3]. Large boards are less efficient than smaller boards because it is more difficult to coordinate huge groups of people, and a board that is sufficiently modest and has a sufficient number of independent directors can better analyze its executive managers [16].

Elmagrhi, et al [13], examined the relationship between board size and dividend pay-out policy utilizing (UK) listed companies from 2010 – 2013. The findings revealed that board size and dividend pay-out policy have a statistically significant positive effect. In the same line, Rajput, & Jhunjhunwala [32], examined the relationship between board size and dividend policy using 1,546 Indian firms over the period of 2006-2017. The results showed that board size effect positively with dividend policy. In contrast, Kulathunga, Weerasinghe, & Jayarathne, and Mardani, & Indrawati, [20, 25] revealed a negative relationship between board size and dividend policy. However, Bolbol, & Ekanayake and Paranthaman [7, 12], finds that board size and dividend policy is not associated with leverage. As a result, the following hypothesis one is developed:

H1: The size of the board and the dividend policy have a positive association.

2.2. Board Independent and Dividend Policy

Agency problems can be managed using both internal and external procedures [6, 14, 18]. The roles played by the board of directors are internal mechanisms, whereas the markets for corporate control and shareholder activism are external mechanisms. Independent board members help in monitoring and supervising management's expropriation behavior, as well as objectively evaluating management [1].

The relationship between board independence and dividend policy has a mixed impact. Kulathunga, Weerasinghe, & Jayarathne, [20], find that board independent affect dividend policy positively. In line with this, Rajput, & Jhunjhunwala and Mardani, & Indrawati, and Uwuigbe, Olusanmi, & Iyoha [32, 25, 36] who also found positive association between board independence and dividend policy. In contrast, [34] used Malaysia listed companies to investigate the association between board independence and dividend policy from 2004 - 2006. The findings revealed that board independence and leverage had a statistically significant negative effect. In addition, Benjamin & Zain and Mehdi, Sahut & Teulon [5, 26], revealed a negative relationship between board independence and dividend policy. However, Nwindobie, and Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori, and Paranthaman [30, 24] find that dividend policy are not related to board independent. As a result, the second hypothesis is constructed as follows:

H2: Board independent positively affects dividend policy.

2.3. Managerial Ownership and Dividend Policy

The level of share ownership of management who actively participates in decision making, such as directors and commissioners, is the managerial ownership variable [37, 23] the higher the percentage of management ownership in a company, the more motivated the management is to work for the benefit of the shareholders, who are also shareholders, implying that managerial ownership has the ability to influence dividend policy. Chen, & Steiner, [9], found a significantly negative association between the managerial ownership and dividend policy.

In contrast, Pujiati, [31] excessive managerial ownership causes the asset to be under-diversified since the managers seek to maximize their return on investment, which is a higher dividend payment. Mardani, & Indrawati, [25], investigated Indonesia financial firms in 2014 to 2016 and reported a positive and significant link between managerial ownership and dividend policy. Moreover, Zaitul, [38], explored the effect of managerial ownership on dividend policy among the firms listed on the Indonesian capital market from 2009 to 2014. Managerial ownership and dividend policy were found to have a positive and significant relationship in the study. Finally, study by Nasih, Gumilang, Nurrohmah, & Endah, [29], found that managerial ownership is not associated with dividend policy. Due to the mixed results on managerial ownership, the following hypothesis is proposed:

H3: There exists a positive and significant relationship between managerial ownership and dividend policy.

2.4. Foreign Ownership and Dividend Policy

Jeon et al. [17], argue that foreign investors have more effective control and supervision because of their worldwide norms and practices, which allow the company to promote stronger governance practices. However, foreign investors require greater dividends to compensate for increased risk due to higher informational asymmetry than domestic investors.

Al-Najjar & Kilincarslan, [3], examined the relationship between foreign ownership and dividend policy utilizing Istanbul listed companies from 2003 – 2012. The findings revealed that foreign ownership and dividend policy have a statistically significant negative effect. Their findings revealed that increasing ownership of foreign investors in general reduces the need for paying dividends in the Turkish market. In the resent study, Bataineh, [5], examined the relationship between foreign ownership and dividend policy using 66 executives in Jordanian industrial and service firms listed on the Amman Stock Exchange (ASE) for the period 2014–2017. The results showed that foreign ownership and dividend policy have a significant negative effect. However, Kowerski & Wypych [19], found a positive relationship between foreign ownership and dividend payments because dividends are a desirable source of income for foreign investors. In the same context, Setiawan, Bandi, Phua, & Trinugroho [33], examined the relationship between foreign ownership and dividend policy using 710 observations over the period, 2006 – 2012. The findings revealed that foreign ownership and dividend policy have a statistically significant positive influence. Their findings revealed that foreign owners urge firms to pay more in dividends, as foreign owners prefer to earn higher returns in dividend form than to reinvest. In the same line Jeon, Lee, & Moffett, and

Musallam, & Lin, [17, 28], finds that a positive and significant link between foreign ownership and dividend policy. As a result, the following four hypotheses are developed:

H4: The association between foreign ownership and dividend policy is positive.

3. Methodology

3.1. Population and Sampling

This study examines the relationship between corporate governance (board size, board independence, managerial ownership and foreign ownership) on dividend policy of Jordanian listed companies from the Amman Stock Exchange has been used from 2011 to 2019. First, because the financial industry is governed by distinct rules, it was left out of the sample. Second, due to a lack of data from some companies, the sample has been further decreased.

3.2. Model Specification

To investigate the influence of corporate governance on dividend policy, the following regression model is employed.

$$CASHit \ = \beta_o + \beta_1 BSIZ_{it} + \beta_2 BIND_{it} + \beta_3 MOWN_{it} + \beta_4 FOWN_{it} + \varepsilon_{it}$$

Table 1. *Summary statistics.*

variable	Obs.	Min	Max	Mean	S.D	Prob.	Skewnes	Kurtos
DIV	783	0	1	0.4827	0.5002	0	0.0690	1.0047
BSIZ	783	4	13	7.8569	2.1342	7	0.33522	2.3765
BIND	783	0	1	0.3385	0.1166	0.3333	0.9470	9.7627
MOWN	783	0	0.9545	0.1584	0.2115	0.0651	1.7776	5.7310
FOWN	783	0	0.9872	0.1111	0.2238	0	2.2132	7.1019

Table 2. *Correlation matrix results.*

Variable	DIV	BSIZ	BIND	MOWN	FOWN
DIV	1				
BSIZ	0.0540	1			
BIND	-0.0322	-0.1238	1		
MOWN	0.6612	0.0089	-0.0000	1	
FOWN	-0.1719	-0.0898	0.0632	-0.0977	1

Table 3. *GLS regression results of dividend mode.*

VARIABLE	FIXED-EFFECT		ROUND-EFFECT		GLS	
	COEFFICIENT	PROB.	COEFFICIENT	PROB.	COEFFICIENT	PROB.
BSIZ	-0.0044	0.270	-0.0037	0.345	0.0049	0.052
BIND	0.0361	0.588	0.0287	0.668	0.0053	0.928
MOWN	0.0226	0.000	0.1076	0.000	0.8313	0.000
FOWN	-0.0948	0.518	-0.1907	0.077	-0.140	0.000
VIF	1.02					
F - Stat	Prob-f	0.0000				
Hausman	chi2 =	0.0000				
Homo	No Hetero					

4. Empirical Results

This study predicts a positive relationship between board size and dividend policy. Table 3 shows that the board size has a significant and positive relationship with dividend policy (β = 0.0049, p=0.052). This result is consistent with the previous study by Elmagrhi, Ntim, Crossley, Malagila, Fosu, & Vu, and Rajput & Jhunjhunwala [13, 32], who found that there is a positive and significant relationship between board size and dividend policy. Hence, hypothesis one (H1) is accepted.

This study assumes that there is a positive relationship between the board independence and dividend policy. Table 3, shows that the direction of the relationship between board independence and dividend policy is positive and insignificant (β =0.0053, p=0.928). The result is consistent with our expectation and empirical study by Nwindobie, and Paranthaman [30, 12] who found that there is a positive and insignificant relationship between board independence and dividend policy. This finding demonstrates that in a country like Jordan, where corporate governance is lacking, institutional investors are the driving force behind companies' reduced dividend policies. Hence, hypothesis second (H2) is not accepted.

Dividend policy is expected to be linked to managerial ownership. Table 3 reveals a significant positive association between managerial ownership and dividend policy (β =0.8313, p=0.000). The findings are consistent with Pujiati and Zaitul [31, 38], who discovered a significant relationship between managerial ownership and dividend policy. A high level of managerial ownership may encourage managers to operate in the best interests of shareholders and serve as a positive monitoring replacement for reducing agency conflicts [15]. Hence, hypothesis third (H3) is accepted.

This study expected a negative relationship between foreign ownership and dividend policy. As shown in Table 3, foreign ownership has a negative and significant relationship with dividend policy (β = -0.140, p=0.000). This result suggests that foreign ownership and contributes negatively to the dividend policy. This result is consistent with Al-Najjar & Kilincarslan, and Bataineh, [2, 4] who found that dividend policy negatively influences foreign ownership. According to Lin & Shiu, and Sulong & Nor, [22, 35], foreign investors with big shareholdings play a key role in reducing agency costs and the requirement for high dividend payments in emerging economies by using their experience to dissuade opportunistic conduct by managers. Hence, hypothesis four (H4) is accepted.

5. Conclusion

Dividend policy and effective corporate governance mechanisms are critical for raising the firm's value and generating shareholder wealth. As a result, this study focused on 87 non-financial companies listed on the Amman Stock Exchange, using a random-effect generalized least square (GLS) regression model to investigate the impact of internal monitoring mechanisms (board size, board independence, managerial and foreign ownership) on the dividend policy of a firm.

The findings of this study show that there are various elements that influence dividend policy. The results show board size, board independence and managerial ownership positively influences with dividend policy, while foreign ownership has a significant and negative association with dividend policy. The results also indicate a non-significant relationship between board independence and firm complexity as well as dividend policy in Jordan.

The research recommends that more studies be conducted, including more variables and such as CEO duality, board diversity family ownership and other measurements to measure the dividends.

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