

# **Corporate Governance practices and Dividend policy: Study of Pakistan KSE-100 index**

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## Abstract

Purpose of this study is to investigate the impact of the corporate governance elements on dividend decisions. To check this relationship, effect of the five variables; i.e. board independence, board size, CEO duality, Governmental or Institutional shareholding and insider shareholding; was analyzed on dividend payout decisions. For this purpose, secondary data collected from Pakistan stock exchange (PSX) and company annual reports for analysis. This study used 54 dividend-paying large cap companies listed on KSE-100, for the period of 2011-2016. Large cap companies of benchmark index KSE100, where top 100 companies were taken and sorted by market capitalization from largest to smallest. However, in order to balance the data, 46 companies that did not pay dividend consistently were excluded from data. Fixed effects model as panel-data analysis technique, indicates significant relation between Insider and institutional shareholding with dividend payout decision-making, suggesting Managerial shareholders and institutional shareholders prefer paying dividends rather than retaining earnings. Study also observed that Board size and CEO Duality has negatively significant impact on dividends, which indicates that larger board results in no dividend payments as well companies where CEO is also the chairperson would act in the interest of the company by retaining earnings instead of paying dividends. Board independence has a positive relation with dividend payments as they represent the interest of minority shareholders. The results of this study will help the policy makers of Pakistan as well as individual firms to review their dividend payout decisions based on the status of governance prevailing in these firms. Moreover, knowledge of the relationship between these corporate governance practices with dividend can address agency problems. Resultantly, level of the corporate governance and confident level of shareholder will increase.

*Keywords:* Corporate governance, dividend payout, institutional shareholding, insider shareholding, CEO duality, board size, Board Independence.