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BOARD COMPOSITION, OWNERSHIP STRUCTURE AND DIVIDEND POLICY IN PAKISTAN

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ABSTRACT

The aim of this study was to examine the impact of board composition and ownership structure on dividend policy of the firms listed in Karachi stock exchange. For this purpose, the data of 150 non-financial firms from 2008 to 2012 was employed. This study used descriptive as well as fixed effect and logit models for the estimation purpose. Results showed that CEO Duality and ownership concentration have an insignificant impact on dividend policy. Profitability measures and institutional ownership showed a positive significant impact on both dividend payout ratio and dividend decision. Board independence showed a significant positive impact on dividend payout ratio; however, it remained insignificant in case of dividend decisions.

INTRODUCTION

The world has become a global village where every firm, either financial or non-financial, is trying to become profitable. The profitability of a firm depends upon many factors out of which the indicators like corporate governance and board composition are important. The firms hold a set of contracts between the shareholders and the management. The relationship as a result of this contract is known as an agency relationship. In this relationship, one party is known as an agent and second is known as a principal. Agent, usually known as management team, is a party who works on behalf of their principal, and principal, also known as shareholders of the firm, are actually the owners. It's the moral responsibility of the management that they should work in the best interest of shareholders of the firm. So, as a result, shareholders maximize their wealth. Sometimes, due to difference of interest and future prospective, the agent does not work for their principals and use firm's discretionary resources for their own benefits. Under this condition shareholders of the firm monitor the management's behavior, and for that they bear cost known as the agency cost.

Corporate governance is an effective tool to control the agency cost. It is the combination of management strategies, policies to manage the organization and its employees; thus, mitigating agency costs. Firms having good corporate governance can give incentives to their boards of directors and management for acknowledging their efforts, as a result of which the overall shareholders wealth maximizes. For safeguarding the shareholders' interest, corporate governance is considered as an effective tool (Kowalewski, Stetsyuk, & Talavera, 2007). Under the effective control of corporate governance, the management will not be able to misuse the organizational resources, because of low cash available to them. So, as a result, the dividend payout decreases. Corporate governance includes board of directors, CEOs, auditors, senior management, and shareholders of the firm. For aligning the interest of both parties, shareholders vote for the board of directors. These boards set the company vide policies, advise the CEO and senior management, hire and fire the management in case of negligence. Firms have different ownership structures. These structures include managerial ownership, ownership concentration, individual ownership, foreign ownership, private ownership, state ownership etc. These structures exercise specific techniques towards monitoring of management, so that they have a contribution towards dividend. In Pakistan, due to family owned businesses, our study includes relatively dominating variables such as managerial ownership and ownership concentration for a proxy for ownership structure. Profitability variables are controlled in order to assess the true relative impact of independent variables upon the dependent variable.

Besides corporate governance, dividend is also a tool to control agency costs. Dividend is the payment given by a company to its equity holders, usually after a company earns a profit. Dividends are not considered as a business expense but as a distribution of recognized assets among the shareholders. Dividend policy is an important decision made by the board of the directors and this decision is no doubt, one of the fundamental components of corporate policy. So, in this way, it has become the most debatable matter in literature of corporate finance. According to financial economists, explaining of corporate dividend policy is not an easy task, as more we try to investigate, more it seems to be confusing (Black, 1976).

Developed capital markets like Japan and USA provided more than enough literature on dividend policy. However, in case of Pakistan, the researchers majorly explored the determinants of dividend policy (Afza & Hamza, 2010; Ahmad & Attiya, 2010; Naeem & Nasir 2007). Moreover, Mehar (2005) and Afzal and Saba (2010) explored the effect of corporate governance on the dividend payouts, but the results were somewhat inconsistent. The purpose of this study is to investigate the impact of board composition and ownership structure on dividend policy non - financial firms listed on Karachi Stock Exchange (KSE), Pakistan, during the period of 2008 to 2012.

REVIEW OF LITERATURE

The work on dividend policy was initiated by Miller and Franco (1961) who argued that dividend policy is irrelevant in determining firm value and share price. Therefore shareholders can adopt any desired stream of payment by purchasing and selling equity. According to this theory, under the assumption of perfect capital market such as freely and easily available information, investors are assumed to be rational, and thus act accordingly. Moreover, capital budgeting policy is not dependent of its dividend policy (Friend & Phuket, 1964; Black & Scholes, 1974). Litner (1962) and Gordon (1963) argued regarding the bird in the hand theory that in the presence of imperfect information and increasing of uncertainty, the higher dividends are linked with higher firm performance. So, investors prefer dividend to the risky future capital gains. Other researchers found out that dividend can reduce the information asymmetries that exist between the agent and the owners, by giving a signal regarding the future expected cash flows of the firm, and reduce the agency problems between the agent and the owner of the firm (Bhattacharya, 1979; Miller & Rock, 1985). Some theories have built up the opinion that due to the presence of taxes in the market, dividend policy is not irrelevant (Litzenberger & Kraishna 1980). Similarly, Jensen and Meckling (1976) argued that agency theory originates due to the division between the management and control. Sometimes management exploits discretionary resources of the organization by giving preference to their own benefits, so for effective monitoring of the management actions, the shareholders of the firm bear a monitoring cost which is known as agency cost. As a result of dividend payouts, the free cash available to management decreases, so dividends mitigate the shareholders-managers conflicts and agency cost is reduced Rozeff (1982) and Easterbrook (1984). Similarly, Rozeff (1982) argued that for dividend, when a firm raises external capital, it becomes necessary for a firm to release new information. So, we can say that dividends help to monitor management whereas the other effective monitoring mechanism becomes inactive.

Institutional Ownership and Dividend Policy

Institutional ownership maintains check and balance upon management activities and provides incentives for shareholders against their value maximization mechanism strategies such as reducing utilization of funds in low return projects, and distributes free cash flow as a dividend. Hence, it has a positive relationship with dividend payouts (Al-Gharaibeh, Zurigat, & Khaled, 2013). This result is also supported by Manos (2002), Han, Lee, & Suk (1999), and Abdulsalam, Sabri, & Ahmed (2008). However, Guizani & Kouki (2009) argued that there is an inverse association between the dividend payouts and institutional ownership, as many times banks also play a role of institutional owner as a shareholder. So, they give preference to paying interest to themselves rather than to distribute dividend to shareholders. Hence, the following hypothesis can be developed:

Hypothesis 1. There is a significant effect of institutional ownership on the dividend policy

Ownership Concentration and Dividend Policy

Ownership concentration increases the tendency of firms to announce low dividend payout, as they extract their private benefits in improving low dividend policies, (Khan, 2006). Similarly, other researchers argued that as the ownership concentration increases, the dividend payouts decrease (Shleifer & Vishny, 1986); Harada & Pascal, 2011; Gugler & Yurtoglu, 2003). As larger stockholders exploit the interest of minority shareholders for their own benefits, and they omit the dividend announcements; hence, concentration of ownership has an inverse influence on dividend payouts. Hansen & Kumar (2010) explored the dividend policy and corporate monitoring and described that inverse relationship exists between dividend payouts and ownership concentration, flotation cost, growth rate in total assets. As large shareholders have enough resources to monitor the management actions, they announce high dividend payouts. As a result, incentive for shareholders increases, free rider problems decreases and value and profitability of the firm improves (Shleifer & Vishny, 1986; Harada & Pascal, 2006, Ahmad & Attiya, 2010; Mehar, 2005). Similarly, Leng (2007) explored that ownership concentrations does not have a significant effect on dividend payouts .The result indicated that an ownership concentration does not have a necessary skills to give a valuable impact towards dividend policy. They can exploit the resources of the shareholders upon their own benefits. This finding is consistent to those found by Sanda & Rubani (2001), Mat-Nor & Redzuan (1999) and Faizah (2002).

Hypothesis 2. There is a significant effect of ownership concentration on the dividend policy.

Board Independence and Dividend Policy

Rozeff (1982) and Farinha (2003) argued that for controlling agency problems, dividend is used as a monitoring mechanism. The presence of non-executive independent directors may also play a role of monitoring mechanism. So, they both substitute each other. We can say that when monitoring by outside independent directors becomes insufficient, higher dividend payouts can be for the same purpose. Similarly, Boumosleh & Cline (2013) investigated that outside directors follow a check and balance approach, and accurately monitor managers for reputational concerns. Use of stock option may attract qualified directors, and as a result of that they can work in the favor of shareholders of the company. Therefore, we don't have to sustain another monitoring check such as dividend. We can say that an inverse relation exists between board independence and dividend policy. Similarly, Fosberg (1989); Harris and Raviv (2008) argued that when inside directors are more skillful as compared to the outside directors, outside directors will not be able to perform monitoring check. Hence, higher dividend is used to reduce agency problems. Sharma (2008) explored a positive relationship between firm tendency to pay dividend and (1) board independence (2) director tenure, and an inverse relationship between firm tendency to pay dividend and (1) busy directors (2) greater equity incentive in director pay. Afzal and Saba (2010) argued that independence of board has shown an insignificant effect on dividend payout ratio, as roles of non-executive directors are not accurately defined according to the code of corporate governance of Pakistan, or the board includes non-executive directors who are not capable, and they fail to bring objectivity on board. Similarly, Abdulsalam et al. (2008) found out an insignificant association between independence of board and dividend ratio.

Hypothesis 3. There is a significant effect of board independence on the dividend policy.

CEO Duality and Dividend Policy

In CEO Duality, the decision to control their management and implementation remains restricted to one person only. As a result, exploitation increases and performance is affected. Thus, dividend is used as a monitoring mechanism. Researchers investigated positive associations exists between CEO Duality and dividend payouts (Hu & Praveen, 2004; Ghosh & Sirmans, 2006). Ghosh and Sirmans (2006) explored that strong positive relationship exists between CEO entrenchment level and dividend payouts without a nomination committee, because under this circumstance, CEO has a complete control over nomination and selection process, and CEO duality and tenure make him more entrenched and powerful. As a result, agency cost increases. As entrenched CEOs want to save their position, they declare higher dividends and make resistance against hostile takeover and build up shareholders trust and confidence. Similarly, with nomination committee, CEO entrenchment is less result producing towards dividend policy. Leng (2007) found out that CEO Duality and chairman of audit committee do not have any significant effect on dividend payouts due to shortage of necessary expertise and skill. These results were supported by the results of Reehner and Dalton (1989), Baliga, Moyet, & Rao (1996), and Brickley et al. (2002). Mansoutinia and Milad (2013) argued that CEO Duality has an insignificant effect on dividend policy. This result was also supported by Abdulsalam, et al. (2008).

Hypothesis 4. There is an insignificant effect of CEO duality on the dividend policy.

EPS and Dividend Policy

Turki and Ahmed (2013) studied the firms of Saudi Arabia stock exchange and found that EPS has a significant positive impact on DPR, which reveals that when earning of a firm increases, their dividend payout ratio increases. Mohammad & Mohammad (2012) in their research on multiple factors which can affect dividends policy decision results found that EPS has a significant and positive impact on the dividend payout policy. Taher (2012) examined multi factors which can affect the dividend payout ratio. Evidence comes from a study of Bangladesh which described that EPS has a negative effect on dividend payout ratio, which means higher the earnings of share, greater the firm's intent to reinvest instead of giving out as dividends.

Hypothesis 6. There is a significant effect of EPS on the dividend policy.

ROE and Dividend Policy

Amidu and Abor (2006) found out that profitability has a highly negative impact on dividend payout ratio, which shows that firms are usually interested in reinvesting of their earning instead of paying earning as a dividend. Baker and Gandhi (2007) investigated the impact of return on equity on dividend payout ratio, and found that ROE has a negative impact on dividend payout ratio, which means that firms prefer to retain earning instead of distributing it as a dividend. Kun Li and Chung–Hua (2012) described that firms are more likely to raise their dividend payout ratio when they earn a profit, which indicates that profitability has a positive impact on dividend payout ratio. Generally, firms which can earn higher profit usually do not afford free cash flows to distribute some of their earnings as dividends.

Hypothesis 6. There is a significant effect of ROE on the dividend policy.

METHODOLOGY

This study employed a sample of 150 non-financial firms from six different sectors. Corporate dividend policy was considered as a dependent variable. For measurement of dividend policy, two proxies were used. The first proxy was Dividend payout ratio, whereas, the second proxy was dividend decisions. This variable was a dummy variable whose value was 1 if a firm decides to pay dividend, and 0 if otherwise. Related data of the firms was collected through the annual reports, financial statements and balance sheet analysis.

The econometric models for this study are as follows:

$$DPR_{it} = \alpha_o + \alpha_1 BIND_{it} + \alpha_2 CEOD_{it} + \alpha_3 INTOWN_{it} + \alpha_4 OWNCON_{it} + \alpha_5 EPS_{it} + \alpha_6 ROE_{it} + \mu_{it} \ldots\ldots\ldots\ldots (1)$$

Where

DPR = Dividend payout ratio calculated as Cash dividend per share/ Earning after tax per share (Abdulsalam et al., 2008; Saba & Afzal, 2010 and Al-Malkawi, 2007).
BIND = Board independence measured as a ratio of Non-executive director to total number of directors in a board.
CEOD = CEO Duality measured as a dummy that takes value of 1 if it exists or 0 otherwise.
INTOWN = Institutional ownership measured as number of share held by institutions/Total number of shares outstanding (Kouki & Guizani, 2009; Abdullah, Zuraidah, & Shashazrina, 2012).
OWNCON = Ownership Concentration measured as number of share held by top 10 shareholders/Total number of shares outstanding (Shah, 2012; Chen, Yan, & Aris, 2005).
EPS = Earnings per share.
ROE = Return on Equity
μ = Error term

$$DDecision_{it} = \beta_o + \beta_1 BIND_{it} + \beta_2 CEOD_{it} + \beta_3 INTOWN_{it} + \beta_4 OWNCON_{it} + \beta_5 EPS_{it} + \beta_6 ROE_{it} + \mu_{it} \ldots\ldots\ldots\ldots (2)$$

Where

DDecision = Dummy variable 1 if dividend is paid and 0 otherwise (Afzal & Saba, 2010).
BIND = Board independence measured as a ratio of Non-executive director to total number of directors in a board.
CEOD = CEO Duality measured as a dummy that takes value of 1 if it exists or 0 otherwise.
INTOWN = Institutional ownership measured as number of share held by institutions/Total No of shares outstanding (Kouki & Guizani, 2009; Abdullah et. al. 2012).
OWNCON = Ownership Concentration measured as No of share held by top 10 shareholders/Total No of shares outstanding (Shah, 2012; Chen et al., 2005).
EPS = Earnings per share.
ROE = Return on Equity
μ = Error term

TABLE 1
Descriptive statistics of firms during the period of 2008-12

	Mean	Median	Std. Dev.	Min	Max
DPR	0.203082	0.031778	0.273281	-0.3844	0.895522
DDecision	0.526667	1.000000	0.499622	0.000000	1.000000
BIND	0.469788	0.461538	0.268230	0.000000	0.928571
INTOWN	0.104186	0.071746	0.099848	0.000000	0.341887
OWNCON	0.743007	0.774831	0.164114	0.303591	0.993617
EPS	5.445158	2.985000	9.550034	-16.19	26.96000
ROE	0.122823	0.115050	0.222307	-0.3711	0.606300

For the purpose of analysis panel data regression and logit models were employed. The panel data regression analysis was used because of its advantages of capturing variability and greater degree of freedom. The logit model was also employed to capture the impact of dividend decision.

This section starts with the results of descriptive statistics. Descriptive statistics describe the behavior of the data by using measures of central tendencies and measures of dispersion techniques. Similarly, correlation coefficients were used to check whether multicollinearity exists in the data or not.

Table 2 shows pearsons correlation matrix that describes the degree of association between the independent variables. Board independence has a positive correlation with Earning per share, CEO-Duality, institutional ownership and return on equity, whereas negative correlation exists between board independence and ownership concentration. Similarly, CEO-Duality has a positive correlation with ownership concentration and return on equity, whereas it has a negative correlation with institutional ownership and earnings per share. Institutional ownership has a positive correlation with return on equity and earnings per share whereas negative correlation exists between institutional ownership and ownership concentration. Similarly, ownership concentration has a positive relationship with return on equity and earnings per share. Earnings per share has a positive correlation with return on equity. The highest correlation amongst the covariates is between control variables such as ROE and EPS which is 0.5395682. The lowest correlation among the covariates is the correlation between CEO Duality and ROE which is 0.0095749. Overall the ratio of association, or the correlation between the independent variables is either low or moderate, which describes that no multicollinearity exists between the independent variables. As described by Bryman and Cramer (1997), the pearsons- correlation between the independent variables should not be more than .80.

TABLE 2
Correlation Coefficients of Non-Financial Sector (2008-12)

	DPR	DDecision	BIND	CEOD	INTOWN	OWNCON	EPS	ROE
DPR	1							
DDecision	0.6977	1						
BIND	0.2402	0.11603	1					
CEOD	-0.0342	-0.0213	0.04153	1				
INTOWN	0.30312	0.28826	0.03312	-0.1024	1			
OWNCON	0.06782	-0.002	-0.0705	0.05353	-0.0388	1		
EPS	0.39941	0.66174	0.07229	-0.0342	0.20948	0.07618	1	
ROE	0.37919	0.46472	0.02851	0.00957	0.14504	0.08881	0.53957	1

TABLE 3
Fixed Effect Model of Non Financial Firms

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	0.09117	0.07455	1.22295	0.2218
BIND	0.14113	0.05373	2.62677	0.0088
CEOD	0.05695	0.04927	1.15582	0.2482
INTOWN	0.31575	0.12588	2.50839	0.0124
OWNCON	-0.0404	0.091	-0.4439	0.6573
EPS	0.00369	0.00113	3.27375	0.0011
ROE	0.08537	0.04199	2.03326	0.0425
R-squared	0.72045			
Adjusted R-squared	0.6475			
F-statistic	9.87628			
Prob (F-statistic)	0			
Hausman Test	33.52***(0.000)			

Table 3 presents the statistical analysis of fixed effect model. The model has an explanatory power of 0.72. Significant P-value of Hausman test shows that fix effect model is more suitable method for estimation. The results indicate that board independence has shown a significant positive association with the dividend payout ratio (DPR). Board independence is a tool of corporate governance and used as monitoring device. When non-executive directors play an effective monitoring role, dividend is normally not used as a monitoring device because they substitute each other, and firms declare fewer dividends. However, if monitoring of non executive directors is not up to the mark, the firms may declare higher dividends for monitoring mechanism (Farinha, 2003). This analysis describes that in Pakistan board independence may include non executive directors which are not well aware of their job responsibilities. Therefore, we can accept our hypothesis, and our results are consistent with the results of Fosberg (1989), Harris and Raviv (2008) and Sharma (2008) and who also supported their arguments by agency theory. FEM results describe that an insignificant association exists between the CEO Duality and DPR. This indicates that CEOs of the firms have a minor contribution towards dividend payouts. These results are similar with the results of Leng (2007), Mansoutinia and Milad (2013) and Abdulsalam et al. (2008).

Profitability is measured by using two proxies: one is earning per share and second is return on equity which are considered as control variables in this study. Results of FEM analysis reveal that (EPS) earnings per share has a positive and significant impact on the dividend payout ratio which means when the earning of the firms increases, they prefer to distribute their earning as a dividend instead of building up reserves to deal with the unexpected future critical market conditions. Sometimes, it may depend upon the availability of profitable financial projects which can affect the decision making of the firm whether to distribute earning as a dividend or make reserves for future investment in a profitable financial projects. These results are in accordance with the results of Turki and Ahmed (2013) and Mohammad & Mohammad (2012). Similarly, return on equity has shown a positive but significant impact on the dividend payout ratio. These results favor the results of Kun Li & Chung–Hua (2012) who also supported by dividend signaling theory arguments.

Table 4 presents the logit regression analysis of dividend decision. When dependent variable is qualitative nature, we use logit or probit approach. It depends upon the nature of the data. Results of logit approach shows that board independence has a positive insignificant association with the DPR. This means that in our country, board may include non executive directors who remain unsuccessful in giving a valuable contribution towards dividend decisions. These results are consistent with the results of Afzal and Saba (2010) and Abdulsalam et al. (2008) whose results indicated that non executive directors are, perhaps, incapable and remain unsuccessful to give newness and justice to the policies and strategies of the company. Consequently board independence has shown an insignificant result.

CEO who also performs the duties of chairman of the board has shown positive and insignificant result (e.g. Leng 2007; Abdulsalam et al., 2008). A significant positive relationship exists between the institutional ownership and dividend payout ratio. This describes that in Pakistan, institutions usually prefer to increase shareholders wealth. Similarly, for effective scrutiny through the external market they declare higher dividend. This result is consistent with the results of Han et al. (1999), Manos (2002), Al-Gharaibeh et al. (2013) and Abdulsalam et al. (2008), who also defended by dividend signaling and agency theory arguments. Similarly, concentration of ownership did not have any significant effect on dividend decisions due to deficiency of necessary expertise and skills as is supported by the results of Ruhani and Sanda (2001), Leng (2007) and Faizah (2002).

TABLE 4
Logit Model of Non Financial Firms

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Constant	-1.7366	0.58329	-2.9772	0.0029
BIND	0.71127	0.40658	1.74939	0.0802
CEOD	0.31192	0.26429	1.18022	0.2379
INTOWN	5.06363	1.15619	4.37957	0
OWNCON	-0.6413	0.66378	-0.9661	0.334
EPS	0.31611	0.02975	10.6256	0
ROE	2.18625	0.67435	3.24202	0.0012
McFadden R-squared	0.50125			
LR statistic	520.094			
Prob (LR statistic)	0			

Profitability is measured by using two proxies: one is earning per share and second is return on equity. Results of logit model reveals that earning per share has shown a positive and significant impact on the dividend decision, which means that when the earning of the firms increases, they prefer to distribute their earning as a dividend instead of building up reserves to deal with the unexpected future critical market conditions. Sometimes it depends upon the availability of profitable financial projects which can affect the decision making of the firm whether to distribute earning as a dividend or make reserves for future investment in a profitable financial projects. Return on equity has shown a significant positive impact on the dividend decision. Overall, the model is significant with a R^2 48.54%. These are consistent with the results of Turki & Ahmed (2013), Kun Li & Chung–Hua 2012 who supported their arguments by dividend signaling theory.

CONCLUSION AND RECOMMENDATIONS

Good quality corporate governance is necessary for smooth and effective running of the organization. Board of directors is responsible to make strategies and policies which can protect the investor's rights. This paper can contribute towards introducing the importance of corporate governance culture in an emerging market like Pakistan. Empirical statistics reveals that only 20% firms are paying dividend, either regularly or irregularly. Fixed effect model analysis described that independence of board has a positive significant effect on the DPR and remains insignificant in case of dividend decision. So, it is observed that in Pakistan, board independence may include non executive directors who are not well aware of their job responsibilities. Mostly, board includes non-executive directors who are, perhaps, not capable in term of expertise and skills and remain unsuccessful to give newness and justice to the policies and strategies of the company. These results are supported by the results of Afzal and Saba (2010) and Abdulsalam et al. (2008). CEO Duality has shown an insignificant impact on both dividend payout ratio and dividend decision. These results are supported by the results of Leng (2007), Mansoutinina (2013) and Abdulsalam et al. (2008). Similarly, institutional ownership which is 9.84% on average has shown a significant positive result, which describes that institutional ownership keeps a check and balance approach upon management and increases shareholders wealth by reducing utilization of funds in low profitable projects, and increasing dividends. This result is also maintained by Han et al. (1999), Manos (2002), Al-Gharaibeh et al. (2013) and Abdulsalam et al. (2008). Ownership concentration has not shown any significant effect on dividend decision and dividend payout ratio due to scarcity of necessary expertise and skills as sustained by the results of Ruhani and Sanda (2001), Leng (2007) and Faizah (2002). EPS and ROE which are control variables and measures of Profitability have a positive and significant impact on the dividend decision and dividend payout ratio which explains that firms prefer to distribute their earning as a dividend in case of earning profitability. These results are consistent with the results of Turki and Ahmed (2013), Afzal & Saba (2010), and Kun Li & Chung-Hua (2012).

Pakistan is a developing country; we are not well familiar with the importance of corporate governance. In fact, due to weak corporate governance and accounting irregularities, we have a need for transparency of operations; so we have to work upon clarity of operations. In this context, if we talk about the corporate boards; basically it can perform three roles (Goodstein, Gautam, & Boeker, 1994). First role which is performed by boards is institutional role; second one is related to the monitoring and discipline of inefficient management. The third role of board is to pave for the future growth path of a firm and this role is strategic in its nature. During study, it has been closely observed that some firms work without any independent non-executive directors, thus responsible authorities should make it possible that board includes at least one independent non- executive director in the board. The organization-mix should be well balanced and well organized which can be done by promoting a balance between the executive and non-executive directors. On the basis of the findings, this paper contributes to the literature and gives suggestions to the policy makers and industrialists that board of director should be well equipped with financial knowledge, and should be sound and capable strategically. SECP should take a step forward and promote awareness within the organization regarding the roles and responsibilities of executive and non-executive directors so that capability in terms of expertise, skills and knowledge may increase. CEO Duality should promote unity of leadership in facilitating organizational effectiveness (Fayol 1949; Gulick & Urwick, 1937). Family owned businesses should make sure that they gain related expertise and skills which can help them in organizing and monitoring the management. They can have a check on the management team on the basis of their resources. As a result, free rider problems may reduce, resulting in expansion of corporate governance mechanisms (Shleifer & Vishny, 1986); Harada & Pascal, (2006); Mehar, 2005). Similarly, minority shareholders' rights should be well protected because when minority shareholders' rights are not well protected, they want to get major portion of shareholding to protect their own right themselves, resulting in concentration. Hence, SECP should manage the shareholding pattern and give protection to the minority shareholders. According to the results, only profitable firms pay regular dividends, thus it is the responsibility of our government to protect operations of these firms nationally and internationally. The firms which can pay regular dividend should be encouraged with financial benefits and rewards. This exercise will motivate non-dividend paying firms to do the same. This study is limited up to the five year time duration 2008-12 including only non-financial firms. In future, researchers can increase the time span and sample size by taking both financial and non-financial firms.

FUTURE RESEARCH DIRECTIONS

In future, researchers can extend the study area by taking not only the board independence and CEO Duality as a measure of board composition, but also all the related characteristics of board of directors such as age, gender, industry experience, educational and professional qualification. The more effective element of corporate governance which is audit committee should be tested against dividend policy. Similarly, research can be extended by taking all the related variable of ownership structure as well such as managerial ownership, individual ownership, foreign ownership, local ownership, government ownership etc. Board specifically approves dividend policies. However, these decisions are indirectly influenced through investment opportunities, CEO compensation and financial leverage etc. The researchers can expand this research in future by taking investment opportunities, financial leverage and compensation to CEO as a control variables.

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