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The impact of the board characteristics as one of the corporate governance attributes on dividends policy: Evidence from Jordanian Commercial Banks

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dividends policy which indicates that companies in the Jordanian business environment consists of some governing members from the same family leading to a reduction in the independence of the Board, then, affecting dividends policy (Farinha, 2003; Al-Najjar and Hussainey, 2009).

The results of the current paper provides great contributions and policy implications to accounting and finance research, regulation and practice. Hence, all parties of interest (including shareholders, creditors, regulators, CEOs) can benefit from the result of current study. For example, finance directors could use dividends policy to mitigate the conflicts between shareholders and creditors' interests.

As with any piece of research, the current paper has some limitations which open some avenues for future research. For example, the current paper employed quantitative and statistical analysis to test the relationship between CG and dividends policy in other sectors rather than banking sector. Some researchers who criticize the accuracy of such analysis can investigate this issue using a qualitative approach by using a questionnaire survey. In addition, the present investigation was conducted on a single nation (Jordan); the circumstances in Jordan gave rise to the importance of the current study. However, this uniqueness obviously limits the extent of any generalisability among the findings. Thus, a cross-country comparative analysis is needed in order to examine the impact of CG on dividends policy in a developing country context.

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of previous research which indicated a negative relationship between CG and dividends policy suggesting that companies which distribute a high level of profits enjoy poor CG practices (John and Knyazeva, 2006; Zhang, 2008). According to the results, the present paper suggests that a large number of directors serving in a board can be one of the mechanisms to enhance dividends pay-out practices as well as improving the capability in monitoring and supervising the management to achieve the goals (Klein, 2002; Afza & Mirza, 2010; Khan et al., 2011). However, some research finding pointed out that a large size of the board is more effective in maintaining better communication and coordination among board members, but this could cause cooperation barriers ultimately resulting in a more symbolic board but less functional (Huda and Abdullah, 2014; Hermalin and Weisbach, 2003).

In addition, the findings show a statistically negative correlation between separation (CEO and chairman positions functions) and dividends policy Indeed, the CEO has the most influential power on the board and when s/he acts a dually role making it more possible to expropriate minority shareholders and restricts the access of information to other members within the board, ultimately and indirectly may effect the overall dividends policy serving his/her own interests (Firth et al., 2007).

The findings also indicate that managerial ownership had no significant impact on the dividends policy suggesting that managers do not use the strength of their position to influence the dividends policy. In fact, management practices are not strongly monitored by corporate law authorities encouraging managers to have a greater tendency in increasing funds under their control at the expense of low dividends payout. These results are in line with some prior research that reported a nonlinear relationship between separation and dividends policy meaning that managers feel insulated from external disciplining forces and face less pressure to pay dividends once they pass the critical level of ownership (Hamdan, 2014; Farinha , 2003). This conclusion is not consistent with other arguments that suggest a negative relationship which implies that any increase in the managerial ownership can result in a decrease in dividends (Kania and Bacon, 2005; Al-Malkawi, 2007). In particular, managers who own a significant stake of shares are highly indented to implement such decisions that address owner's interest. Finally, the results showed no an independency's effect on dividend policy can be explained by the combined independent variables. A further analysis shows in table 4 provides the analysis of this examination and reports mixed results, its indicates statistically positive relationships between dividends and each of board size and separation at *(Sig)* less than 5%. On the other hand, Table 3 reveals no significant associations between dividends and each of board ownership and board independency

Table (4)
Regression results for the board characteristics and the dividend policy

Variables	Dividend policy		
	B	*t*	*Sig.*
(Constant)		*-.176*	*.861*
Board size	*.210*	*2.048*	*.044*
Managerial ownership	*-.066*	*-.647*	*.519*
Separation	*-.263*	*-2.562*	*.012*
Board independency	*.114*	*1.105*	*.272*
Model summary **Adjusted R^2 :- .39** **F value : 3.607** **Sig : .009**			

5. Conclusions and Discussions

This paper examines the influence of CG measures on dividends policy for 13 Jordanian commercial banks . A number of findings emerge from the current investigation. First, the characteristics of the board of directors has a statistically significant relationship with the dividends policy; in particular, the board size and separation matter when deciding dividends policy. This suggests that the dividends are affected by the application of CG, and could help to mitigate the conflicts between stakeholders' and managers' interests. The findings are consistent with some prior research on the association between the board characteristics and dividends policy (Chauhan et al., 2015; kurawa and Ishaku, 2014; Daradkah and Ajlouni, 2013; Bokpin, 2011). By contrast, the results of the current paper contradicts with another set

Pearson correlation Matrix

		dividend	B size	M ownership	Indep	Sep
dividend	Pearson Correlation	1	.252*	-.126	.102	-.274**
	Sig. (2-tailed)		.016	.234	.338	.009
	N	91	91	91	91	91
BSIZE	Pearson Correlation	.252*	1	-.143-	.114	-.093-
	Sig. (2-tailed)	.016		.177	.285	.379
	N	91	91	91	91	91
M ownership	Pearson Correlation	-.126-	-.143-	1	-.094-	.086
	Sig. (2-tailed)	.234	.177		.376	.420
	N	91	91	91	91	91
INDIB	Pearson Correlation	.102	.114	-.094-	1	.159
	Sig. (2-tailed)	.338	.285	.376		.135
	N	91	91	91	91	91
SEP	Pearson Correlation	-.274-**	-.093-	.086	.159	1
	Sig. (2-tailed)	.009	.379	.420	.135	
	N	91	91	91	91	91

This table presents the correlation matrix for the board characteristics variables and the dividend policy used in the regression model for the sample banks in this investigation. dividend: dividend policy . B size: board size (Number of board members); INDEP: Independent directors (Number of non-executive directors on the board of directors); SEP: separation of function . Note that ** and * indicate that there is a correlation significant at the 0.01 and at the 0.05 between the respective factors respectively.

4.3 Regression Results

The current study uses OLS regression analysis to examine the impact of CG on dividend policy for a sample Jordanian listed companies and led to some concrete results. the summary table below shows there is combined significant effect of the corporate governance represented in the board characteristics on the dividend policy, where the value ($F = 3.607$) and ($sig= 0.009$) which is less than 0.05, also ($R^2 = .398$) , this means that 39% of the variation in the

The mean of the separation between(CEO and chairman positions) is (0.82) , this percentage shows the bank's commitment to the main requirements of corporate governance. The average percentage of the managerial ownership in Jordanian commercial banks is (49.559), and maximum value was recorded (98.680), while the Minimum value was recorded (13.51), this indicates high percentages in managerial ownership make attempt to control the decisions by the high rates of ownership. Finally the independency of the Board shows that the mean (.8473) , standard deviation (.1376), and maximum value was recorded (1), while the Minimum value was recorded (.45), this shows the bank's commitment about corporate governance that (should the number of independent members of the Board at least four members) and most of the members of the Board members are (non-executive).

From the above we can see that the Jordanian commercial banks appear acceptable commitment with the principles of corporate governance relating to (board size, the independence of the Board, and separation of the positions).

Next table (3) reports the Pearson correlation matrix and it is deployed to measure the strength and the direction of the linear relationship between any two variables. The results below in the correlation coefficient demonstrate positive a significant between dividends and board size at a value of (.252*).Moreover, the correlation matrix indicates a negatively significant association between dividends and separation of function at a value of (-.274**).Table 3 shows that there are insignificant associations between independent director , managerial ownership with dividend policy

Table 3:

existence of a strong negative correlation, while the optimum result is ranging between (1.5-2.5) which refers to the lack of correlation between values, and from table (1) the (D-W) is (1.52) It is within the appropriate range and thus clear from autocorrelation problem (Gujarati, 2004, 496).

4.2 Descriptive analysis

After assurance that data is valid to test, we conducted descriptive statistics . Table 2 shows the main descriptive statistics for the board characteristics variables and the dividend policy, It shows the minimum, maximum, statistical mean and the standard deviation.

Table 2:
Descriptive Statistics for the variables examined in the study

variables	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Dividend	*.00*	*.87*	*.3663*	*.2952*
B size	*7*	*14*	*10.71*	*1.7338*
M. Ownership(%)	*13.51*	*98.680*	*49.559*	*24.503*
SEP	*.00*	*1.00*	*.8242*	*.3827*
INDEP	*.45*	*1.00*	*.8473*	*.1376*

This table presents a descriptive analysis for the board characteristics variables and the dividend policy. Dividends is measured as the dividends per share; Board size is measured by the number of board members; Managerial Ownership is determined as the percentage of shares held by board members; Independency is calculated as the number of non-executive directors on the board of directors; Separation is measured by a dummy variable where a value of 1 given if there is a separation between CEO and Chairman and zero otherwise

table (2) shows that the mean of dividend policy is (.3663). It also shows that there is a large variation in dividends between the sampled banks when standard deviation is (.2952) indicating a high variability, with a minimum of (0.000) this maybe refers to that banks enter in new investment projects. and a maximum of (.87) this refers to the Bank's ability to distribute dividends and working on the interests of shareholders service. Also table shows that that the mean of board size is 10 with a minimum of 7 and a maximum of 14, this conclusion consisted with (Al-Sraheen, 2014) who refers that the size is better when it is round 9 to 11 members .

4.1 data validity

Table 1:
Tests of the data validity

Variables	multicollinearity test	
	VIF	Tolerance
Board size	1.042	.959
Separation	1.048	.954
Managerial Ownership	1.036	.966
Board Independency	1.053	.950
Autocorrelation	1.52	

- **Normality test**

The term of the linear model validity of the General Linear Model (GLM) is that the values of views are follow a normal distribution, and if this condition is not met , the natural logarithm is used . The (Central Limit Theory) which states that it is possible assuming verify this requirement for large samples (n> 30),and we can assuming normal distribution of the data (Gujarati, 2004, 109). In this study it was (n = 91)

- **Multicollinearity test**

This test is checking the linear interaction through Tolerance calculated for each independent variables and then calculate (Variance Inflation Factor) (VIF). from Table 1 notes that all values in Tolerance mostly less than (0.966), this confirms that there is no linear correlation problem among all independent variables of the study (Guajarati, 2004, 359). So we can say that the study model does not suffer of linear correlation problem, , and this shows the strength of the study model to explain the impact on dependent variable . To confirm the result was calculated Variance Inflation Factor (VIF), where (Naser et al, 2006) (al-Bashir, 2003) are assert when (VIF) higher than 5 means that there is a linear correlation problem of the independent variables .and from table(1) all values greater than number 1 and did not exceed 5.

- **Autocorrelation test**

One of regression condition is that data are free from the autocorrelation problem, the test of (Durbin-Watson) is most common among economists. this test ranging between two numbers (0,4) which indicate the result close to (zero) refers to the existence of a strong positive correlation, while the nearby of (4) refers to the

Dividends per share is used as a proxy for dividends; it is measured by scaling the dividends announced on the weighted average of ordinary shares outstanding. This measure is consistent with a number of previous studies in this field (Kurawa et al., 2014; Mehrani et al., 2011; Harada and Nguyen, 2009). With respect to the independent variables, they are measured as follows. Managerial Ownership is measured by dividing the number of shares owned by the Board members on firms' authorized share-capital. Board size is computed as total number of board members. Board independency is measured as the percentage of independent members by dividing the number of non-executive members on the total number of directors. Finally, separation of function is used as a dummy variable which is given number 1 if there is a separation between CEO and Chairman or zero otherwise.

In order to perform the examination between the variables examined in the current study, the following regression model is developed:

$$DIVD_{it} = \alpha_0 + \alpha_1 Bsize_{it} + \alpha_2 Bindep_{it} + \alpha_3 Bsep_{it} + \alpha_4 BMO_{it} + \varepsilon_{it}$$

Dividends is measured as the dividends per share; Board size is measured by the number of board members; Managerial Ownership is determined as the percentage of shares held by board members; Independency is calculated as the number of non-executive directors on the board of directors; Separation is measured by a dummy variable where a value of 1 given if there is a separation between CEO and Chairman and zero otherwise.

4. Empirical Results

Empirical research is inconsistent about the association between managerial ownership and dividends policy. For example, (Afza et al, 2010) illustrated that managerial ownership increases the conflict between internal and external owners , this is because that the manager seeks to collect more cash under his control rather than making dividends. Also when ownership is up to a high level, the managers choose retained earnings based on special accruals , as well as better freedom than distribution of dividends to shareholders.

Mitton (2004) and Zhang (2008) suggested a positive relationship between managerial ownership and dividends and concluded that companies' dividends increase where boards own high percentage of shares. By contrast, (Lu ,2014) and (Gharaibeh et al. ,2013) reported a negative relationship between managerial ownership and dividends appear when mangers own a large stake of shares, and that the wealth of owners are directly related to a company's outsourcing and retained earnings. In addition, managers may prefer dividends on retained earnings when their jobs are under threat, therefore, they try to manipulate a company's sources (Jensen et al., 1992). Indeed, the negative impact of managerial ownership on dividends has been verified by the findings of other empirical studies (Kania and Bacon, 2005); Al-Malkawi, 2007; Fenn and Liang, 2001). They assert that there higher the proportion of managerial ownership in a firm, the less would be the need for using dividends as a tool of reducing agency cost. Finally, (Mehrani et al ,2011) found no relationship between managerial ownership and dividend policy. Then, the fourth hypothesis is developed as follows:

H4: There is a statistically significant association between dividends policy and Jordanian listed firms' managerial ownership.

3. Research Methodology

3.1 Population Description

The present paper investigates the impact of CG attributes (including the Board size, independency, separation and managerial ownership) on firms' dividends policy for a population comprised of all 13 Jordanian commercial banks listed in Amman Stock Exchange , also they have completed financial data for the purposes of the study, and did not stop trading during the period (2007-2013).

3.2 Measurement of Dependent and Independent Variables

H2: There is a statistically significant association between dividends policy and Jordanian listed firms' board independency.

2.3 Ownership Separation

According to the agency theory, it is important to separate the CEO and chairman positions in order to increase effective and efficient processes (Bolbol, 2012). (Cadbury, 1992) points out the focus on both roles with one person, that will lead to a concentration of great strength in ones hand, so, it should be a separation between them to ensure a balance of power. Also, the Chairman of the Board who works a dual role may adversely affect the effectiveness of the supervisory role of the Board by working to achieve his/her own interests instead of shareholders' ones (Firth et al, 2007). As well as restricting access the information to other members of the board ,hence, may affect making dividend policy matter.

Fama and Jensen (1983) argued the separation of the roles of CEO and chairperson functions within a firm reduces agency costs and enhances firm performance. Gill and (Obradovich ,2012) studied the effect of CG governance, institutional ownership on the decision to make dividends and found that there was positive and significant relationship between duality of CEOs' duty with dividend policy. Another aspect of the board structure is whether the CEO is also the chairperson (duality); indeed, duality exists in a majority of firms, such a leadership structure has been blamed for poor firm performance and the failure to adapt to a changing environment (Brown et al, 2011). However, (Mansourinia, et al., 2013) revealed that there was no significant association between dividends policy and CEO duality. Then, the third hypothesis is developed as follows:

H3: There is a statistically significant association between dividends policy and Jordanian listed firms' ownership separation.

2.4 Managerial ownership

Management is considered as an independent professional side in operating the entity and keeping interests of the owners. However, the literature indicated that an attempt by managers to maximize their special benefits, (Douglin & Song, 2009). indeed, managers may manipulate profits through selected accounting methods which lead to maximize their benefits, especially when management property and compensation are tied directly to firms' financial performances.

the nature of an enterprise's operations, the degree of complexity of the processes, and the availability of relevant experience and skills. Accordingly, the first hypothesis is proposed as follows:

H_1: There is a statistically significant association between dividends policy and Jordanian listed firms' board size.

2.2 Board Independence

Independent directors can enhance monitoring and controlling management decisions and reduces the agency problem. Prior literature suggested that non-executive members of the board can protect the interests and rights of the shareholders (Comar , 2003). In addition the independent directors whose professional managers are desirable because of their experience and wealth of knowledge, they can reduce the information asymmetry between managers and shareholders by providing better disclosure with higher quality (Lim et al, 2007). Further, the independency of directors allows the board to fulfill his legal duty to oversee management and to protect the interests of other parties, primarily the shareholders. Previous research pointed out significant and negative relationship between board independence and dividend policy (brown et al., 2011; Maniagi et al., 2013; Andres and Vallelado, 2008). On the other hand, (Kyereboah-Coleman ,2007) reported no significant relationship between the outsider non-executive directors and firms' performance and argued that the board independence fails to create the expected impact on firms' performance due to lack of training and unfamiliarity with the procedures. In another example, (Al-Shabibi and Ramesh ,2011) showed that CG factors do affect dividends policy; they argued that the board independence is one of the most influential factors which drive firms to pay dividends. Other research, including Adams and (Ferreira ,2007) arrived at similar results. In contradictory with this discussion, some studies have found that the presence of independent members in board may lead to losses, because of the insiders that have more information compared to the outsiders, which ultimately weaken companies' ability to make dividends (Harris and Artur R, 2008). Accordingly, the second hypothesis is proposed as follows:

managerial ownership and board size had statistically positive impact on the dividend policy, while a negative association was documented with the board independence. In another example, (Hamdan, 2014) indicated a positive relationship between CG practices (including managerial ownership and separation) and dividends, however, this was not the case for both board size and independence. Using the agency theory, (John and Knyazeva ,2006) pointed out that the level of dividend payouts decreases in well-governed firms since they are perceived to have lower agency conflicts. Specifically, they illustrated that, within firms which face high agency costs, CG plays a decisive role than dividends.

Back to the primary objective of the current paper is to examine the impact of CG practices (including board size, independence, managerial ownership and separation) on dividends policy. Accordingly, the rest of this section develops the study's hypotheses.

2.1 Board size

The size of the board of directors is one of the CG mechanisms that has been studied in the extant literature. In general, the results of this line of investigation arrived at mixed findings indicating that the effectiveness of board size matters when making decisions on dividends . Indeed, (Yarram and Dollery ,2015) argued that the board size depends on the complexity of operations and the availability of appropriate experience and skills. (Beiner et al., 2006) suggested that the larger the board size, the more effective in forming dividends policy . One the other hand, (Yarram and Dollery ,2015) argued that the board's size and composition influence its ability to function effectively and small boards have generally been considered to be more effective in decision-making. (Subramaniam and Susela , 2011) indicated that companies with high-growth reduce interest payment, hence, the relationship between investment opportunities and dividend policy is weaker especially for companies with a large board size. However, other studies concluded that dividends increase when boards had a large size (Gill and Obradovich, 2012; Bokpin. 2011; Maniagi et al., 2013; Beiner et al., 2006) suggesting significant and positive relationships between board size and dividends.

From above, it can be said that there is no agreement in the results of studies on the relationship between the size and effectiveness of the board and its relationship to dividend policy. Researcher believes the proper size of the board is linked to the type of activity,

2. Theoretical Background, Literature Review and Hypotheses Development.

The extant literature highlights two competing hypotheses on the relationship between dividends and CG: namely, the outcome theory and substitution theory (La Porta et al., 2000). With respect to the outcome theory, a strong investor protection may provide fair and enough minority to shareholders, therefore, managers wouldn't be able to use the free cash flow working out their own interests. That's why always shareholders put further pressure on managers to enhance dividends policy (Jiraporn and Ning, 2006). Empirical evidences indicated that good CG practices improves companies' dividends (Jiraporn et al., 2011; Jiraporn and Ning, 2006).

The alternative view, the substitution theory, argues that insiders who are interested in raising capital are more likely to enhance dividends in order to establish a good reputation among shareholders. Thus, a negative relationship between CG quality and payout is predicted, to avoid costly external financing. It is noted that dividends policy is as one of conflicting mechanisms between shareholders and managers. The proponents of this hypothesis argued that dividends policy can significantly reduce the agency cost by restricting management behavior (Hamdan, 2014).

Setting objectives and monitoring a firm's activities (such as dividends policy) are primary responsibilities for the Board of Directors. Hence, corporations should pay an additional attention to their dividends policy especially when shareholders' target is not met. In fact, the structure of the board of directors reflects key characteristics including monitoring activities, searching growth opportunities and enhancing earnings' transparency (Linck et al., 2008). In addition, it increases the oversight and supervision of a firm's operations (Benjamin and Mat Zain, 2015).

A great deal of the extant literature examined how CG can affect firm dividends policy (e.g., Chauhan et al., 2015; Malomo and Ojediran, 2015; kurawa and Ishaku, 2014; Hamdan, 2014; Hamill and Al-Shattarat, 2012; Bokpin, 2011; John and Knyazeva, 2006). The general findings of this line of research indicates that CG had positive impact on a firm's dividends policy. For instance, Chauhan et al, 2015) investigated the impact of CG governance on dividend policy decisions using a sample of 30 Indian companies. They found that dividends policy is positively affected by board size and independence. Using a sample firm from Nigeria, (kurawa and Ishaku ,2014) pointed out that potentially powerful mechanism (Chtourou, 2001) by used his responsibility for controlling and monitoring the company's objectives. Also giving advices and supporting in wide range of the company (Finkelstein & Moony, 2006) . shareholders see the boards characteristics as the first line of defense against inefficient administration and opportunistic style (Meligi, 2013).thus the board emphasized that the executive management of the bank has the appropriate skills and expertise to manage the bank efficiency through knowledge of the laws and inform them of all aspects of the business (Union of Arab Banks, 2003).

Besides corporate governance, dividend policy refers to ways used to distribute earning between retained earnings and dividends distributed among shareholders(La porta et al, 2000). But, when we are talking about dividends we should keep in mind the information asymmetry, agency problems, advantage of growth opportunities, and costs making dividend policy matter. this has paused a large number of theoretical and empirical researchers to attempt to identify the determinants of corporate dividend policy, Where that policy affect the company's value through investment and financing plans to the shareholders and lenders by giving them signal on the status and performance of the institution (Wardani and Ahmad, 2014).

Hence, a significant body of the extant literature has attempted to identify the determinants of corporate dividend policy (e.g., Malomo and Ojediran, 2015; kurawa and Ishaku, 2014; Hamdan, 2014; Hamill and Al-Shattarat, 2012; Bokpin, 2011). The primary objective of the current paper is to examine the impact of CG attributes (including the Board size, independency, separation and managerial ownership) on firm dividends policy. Theoretically, the argument in this paper is built on the fact that paying dividends along with a well-structured and organized board can lower agency cost.

This paper is structured as follows. Section 2 outlines the literature review as well as discussing the theoretical framework underpinning the current study. Section 3 discuss the research methodology, while Section 4 summarizes the results of the empirical investigation. Finally, Section 5 concludes the paper.

The impact of the board characteristics as one of the corporate governance attributes on dividends policy: Evidence from Jordanian Commercial Banks

Dr. Amneh Alkurdi

Abstract:

Using a Jordanian Commercial Banks for the period of 2007-2013, the current paper examines the impact of board characteristics, including the (Board size, independency, separation and managerial ownership) on banks' dividends policy; an OLS regression analysis is used to analyze this relationship. Two major finding have emerged from the current investigation. First, the board size and separation have a statistically significant impact on banks dividends policy. Second, managerial ownership and the independency of the board had no significant impact on dividends policy. The current paper provides some insights for the extant literature in this field and conveys some policy implication for parties of interest. In addition the study provides investigation for the association between CG and dividends policy post the introduction of CG code in Jordan in 2007.So this study suggest make further research in a cross-country comparative analysis in order to examine the impact of CG on dividends policy in a developing country context.

Key words: Corporate Governance, Board Characteristics, Dividends Policy, Jordan.

Introduction

Corporate Governance (CG) aims to protect stakeholders' interest by introducing, and continuously strengthen business regulations to enhance accountability, integrity and transparency. This, in turns, can positively rationalize decisions-making and reduce the agency problem. In addition , CG helps in increasing the financial statements reliability, and enhance control over management behavior to reduce opportunism Mechanisms and earning management (Fodio et al, 2013) .Also application of CG orders the relationship between management and shareholders through achievement desired profit, saving benefits of stakeholders, and maintaining interest to related parties (Tofana et al, 2015).

Most field studies indicate the role of the board of director in the reduction of interest conflict between managers and shareholders (Fivos, 2013), thus forming the cornerstone of achieving a balance between related parties interests. In addition the board considered as a