

https://dspace.org/

Dividend policy and corporate governance in emerging markets: the South African case

Papo, Priscilla

2016-08-25
http://hdl.handle.net/10539/20937

Downloaded from a DSpace repository. https://dspace.org/

University of the Witwatersrand

Wits Business School

Master of Finance and Investment (MMFI)



Dividend Policy and Corporate governance in Emerging Markets: The South African Case.

Student : Priscilla Papo

Supervisor: Dr. Thabang Mokoaleli- Mokoteli

Abstract

Using panel data analysis, this paper empirically examined the relationship between corporate governance and dividend payout for a sample of 109 firms listed on the JSE securities exchange over the period 2009-2013. The results show that board composition is positively related to dividend payout while institutional ownership is negatively related to dividend payout. Our findings also show a positive association between firm growth and dividend payout.

Keywords: Corporate governance, Dividend payout, Dividend policy, Emerging markets.

Table of Contents:

Chapter 1

1. Introduction and Context of the study…….....5

1.1 Introduction……...5
1.2 Context of the study…… 6
1.3 Research Problem……...9
1.4 Research Objectives……...10
1.5 Research Questions……...10
1.6 Research Gap……..11
1.7 Significance of the study……...13
1.8 Organisation of the thesis……..13

Chapter summary…….....14

Chapter 2

2. Literature Review……15

2.1 Introduction……..15
2.2 The definition of dividend policy……...15
2.3 Dividend payments and the value of the firm……16
2.4 Dividend theories and reasons for dividend payments……18
2.5 Behavioural finance and dividend policy…….....20
2.6 Behavioural explanations for dividend policy…… 21
2.7 Determinants of dividend policy……....22
2.8 Corporate governance and agency theory related issues……....25
2.9 The definition of corporate governance and its role……..25

2.10 Corporate governance mechanisms and developments……....26

2.11 Corporate governance in emerging economies……...30

Chapter summary…….....32

Chapter 3

3. Research Methodology……..33

3.1 Introduction……..33
3.2 Data and sample selection……33
3.3 Research design……34

Chapter 4

4. Empirical Results……39

4.1 Introduction…….....39
4.2 Dividend payout…….....39
4.3 Descriptive statistics…….....40
4.4 Regression diagnostic……....40
4.5 Regression analysis…….....41

Chapter 5

5. Conclusion……...44

5.1 Introduction……44
5.2 Discussion……...44
5.3 Conclusion……45
5.4 Suggestions for future research……46

Chapter 1

1.1 Introduction.

Corporate dividend policy continues to be among the most researched topics in the field of corporate finance. A fundamental principle in corporate finance is tasking management with the responsibility to make appropriate decisions that will result in increasing the value of the firm and thus, maximizing shareholder wealth. Dividends are defined as the division of the firm's earnings among equity holders of the firm, according to the fraction of their holdings in the corporation, (Ehsan et al., 2013). There is no consensus among researchers about the role of dividend policy. The seminal work of Miller & Modigliani (1961) forms the cornerstone stone of corporate finance and has been largely responsible for eliciting much of the debate around corporate dividend policy. Over the years three schools of thought have emerged. On the one hand is a school of thought with the view that dividend policy has a positive influence on the stock price. On the other hand a second school of thought with the view that stock price is negatively correlated with dividend payout levels. The third school of thought however maintains that the value of the firm is independent of its dividend policy (Frankfurter et al., 2002). In light of diverging views, dividend policy and the lack of validated empirical explanations for firm and investor preoccupation with dividends, dividend policy remains an enigma.

The main objective of this research is, to examine the nexus between corporate governance and dividend pay-out decisions among the Johannesburg Stock exchange listed firms. Secondary to this, our aim is to establish the pattern and amount of dividends paid by JSE listed companies over time, as well as to examine how corporate governance affects investment opportunities of firms. Sub-Saharan Africa (SSA) are believed to have a poor legal environment characterised by high levels of corruption, a weak judiciary and inadequately defined property rights (Ojah et al.,2010), and for that reason, offer an interesting setting to establish if dividends payment is employed as a substitution mechanism.

This chapter is organized as follows: Section 1.2 presents the context of the study. Section 1.3 discusses the research problem. Section 1.4 discusses the research objectives. Section 1.5 presents the research questions. Section 1.6 discusses the research gap. Section 1.7 discusses the significance of the study. Section 1.8

present the organisation of the study and the chapter summary concludes the chapter.

1.2 Context of the study.

In April of 1994, South Africa successfully held its very first democratic elections with the African National Congress (ANC) having won with a majority to head the government of national unity. However, this newly elected government inherited an economy with deep structural flaws as a consequence of international isolation and economic sanctions in opposition of the Apartheid regime. A decade prior to 1994, South Africa had experienced varying degrees of calamity with an economic land scape that was characterised by a protracted period of negative growth rates, double digit inflation rates, falling per capita incomes, inflating fiscal deficit, declining investment and increased uncertainty, (Faulkner and Loewald, 2008).

The apartheid government instigated a system of racial discrimination which advanced the interests of the white minority. International isolation coupled with economic sanctions as well as the apartheid regime's import substitution approach to industrialisation effected a parochial economy which kept international institutions out of the domestic capital markets and similarly keeping South African firms out of international capital markets. The corporate land scape thus comprised of a business sector that was safeguarded from international competition. The private sector profited from close relationship with the government and thus swayed government policy in pursuit of its own interests and lavished on cash as well as tax incentives from government. By the late 1980s, many South African corporations were bloated, without focus and headed by entrenched & complacent managers. Corporate practises far lagged behind international norms as were the case with laws and regulations, (Malherbe and Segal, 2001).

A dichotomy persists in South Africa which stems from decades of racial discriminations which is evident in the divergent living standards of the affluent and the poor. The first economy is largely characterised by the white minority, fully integrated into the global economy and also prosperous with access to a developed economic, physical, educational, communication and other infrastructure. The second and larger economy is predominantly black and poor, stalled in poverty

and underdeveloped infrastructure, moreover incapable of self-generating growth, (Mbeki, 1998; Gelb, 2003; Ojah and Mokoaleli-Mokoteli, 2010).

Democracy has among other factors proved critical to creating the possibility of a peaceful and more stable future and restoring investor confidence. And thus the major thrust of the work of the first elected democratic government was to inoculate new life into the South African economy. Political leadership and economic vision have been pivotal in carving a way forward for the post 1994 South Africa, (Faulkner and Loewald, 2008).

Resolute to address the challenges that besieged the post 1994 South Africa; the newly elected government steered away from the confiscation of property and instead chose to pursue growth through successive policy reforms which among other things could fund expanded social services, more employment and aid in narrowing the gap between the first and second economy. To attain higher growth, South Africa will need to increase mobilisation of both domestic and foreign capital and ensure the efficient use thereof. The bulk of South Africa's output and exports are produced by both private and state-owned corporations which also manage the majority of its capital stock and hence their pivotal role in generating savings and the allocation of investment. Private corporations have owned more than half of the country's capital stock, while state–owned enterprises controlled a third. The corporation is the dominant structure within which the country's productive assets are managed and corporate governance influences how effectively this is done. And for that reason the government recognises the role of capital markets and private firms as key to its economic strategy, (Malherbe and Segal, 2001).

South Africa was the first developing country to introduce a corporate governance code in the form of the first King report (King I) in 1994, (Armstrong et al., 2006; Ntim et al., 2011). The recommendations of King I deeply echoed those of UK's Cadbury report of 1992, (Mangena and Chamisa, 2008). Reminiscent of the Cadbury report, King I adopted an Anglo-American style unitary board of directors, consisting of executive and non-executive directors (NEDs), who are primarily accountable to shareholders with a voluntary ('comply or explain') compliance and disclosure regime. Moreover South African firms were required to separate the roles of chairman and CEO, set up audit and remuneration committees with a minimum

of two non-executive directors as board members. King I did not apply to all companies and its application was limited to companies listed on the Johannesburg Stock Exchange (JSE), government departments, state-owned companies, banks and insurance companies. The first king report (King I), was reviewed in 2002 subsequent to significant international and domestic developments. In the international arena, new codes of Corporate Governance such as the UK's 1998 Combined Code had been introduced while domestically under a macro-economic policy framework called the Growth, Employment and Redistribution (GEAR) Strategy the ANC passed a number of affirmative action and stakeholder laws on black economic empowerment and HIV/Aids, which were aimed at addressing historical socio-economic racial inequalities and needed to be incorporated into the governance of South African corporations,(Ntim, 2013, Ntim et al.,2011).

A major distinguishing feature of the 2002 King report (King II), from other Anglo-American Corporate Governance codes is that it adopted the inclusive approach to compliance that maintains and strengthens the Anglo-American (shareholding) features while also incorporating substantial South African context-specific affirmative action and stakeholder demands (stakeholding), (West, 2009). King II was reviewed and replaced by the third King report (King III) which came into effect on the 1st of March 2010. King III was introduced as a result of changes in international governance trends and the introduction of the Companies Act. It focuses on issues such as leadership, sustainability and corporate citizenship. It is also applicable to all South African entities in both the public and private sector, irrespective of their method and arrangement of their incorporation. King III reflects a shift from a 'comply-or-explain' approach to an 'apply-or-explain' approach to corporate governance which requires that all entities disclose their application of principles prescribed in King III. In the event that certain principles are not applied, King III requires that an explanation be provided for the non-application thereof, (Ntim, 2013). In 1995, the Johannesburg Stock Exchange made it compulsory for listed companies to disclose the extent of their compliance with the King report. Moreover, listed companies are also required to adhere to International Accounting Standards, where previously firms only had to adhere to generally accepted practise. South Africa's Insider Trading Act which was passed in 1998 enabled the

Financial Services Board (FSB) to take more forceful action against illegal transactions, (Malherbe and Segal, 2001).

In contrast to most African countries, South Africa is home to some of the world's largest multinationals, which draw considerable foreign direct investments, (Armstrong et al., 2006). Foreign direct investment provides corporations with expansionary resources in the form of capital, inspires the unceasing advancement and assimilation of sound corporate governance practises which offers assurance to investors, allows a reduction in capital costs and induces more stable financial resources, (Babic and Janosevic, 2011). High stakes have created the necessity for government to pursue corporate governance reforms which have been aimed at revitalising the country's capital markets and ultimately the corporate land scape. This implies that corporate governance has bearing on a country's economic stability and growth prospects, (Malherbe and Segal, 2001; Vaughn and Verstegen Ryan, 2006).

1.3 Research Problem.

South Africa has undergone a remarkable transformation since its first democratic elections in 1994 however, the expectations that it would move onto a path of equalising growth among many others, remain unfulfilled, (Gelb, 2003; Rodrick, 2006).

According to Ojah et al. (2010), economic growth is dependant not only on whether firms have financial resources, but also on the extent to which firms undertake productive investment. Despite the efforts of the South African government to remove obstacles to investment, the government continues to be a major catalyst for economic activity. According to Nellor (2008), successful emerging market countries feature the private sector as the engine of growth. A study that was conducted by Stanlib in 2014 asserts that, internationally there is a clear relationship between increased investment spending and sustained higher GDP growth, with the level of investment ultimately determining the level of employment. However, a further revelation of the study is that the overall rate of increase in South Africa's fixed investment activity remains well below target by emerging market standards. South Africa currently spends 19.7% of its national income on capital expenditure. It is suggested that South Africa should be spending a minimum of 25% of GDP on

investment activity, and maintaining it at that level for more than a decade. According to Jones (2015), private sector spending in 2014 was at its lowest in a decade. In his State of the Nation address of June 2014, President Zuma Identified the low levels of private sector investment in the economy as one of the major constraints to economic growth. This suggests that much more needs to be done to encourage a more robust investment environment, (Stanlib, 2014).

The practise of dividend payments by firms asserts that corporations have the much needed financial resources to plough back into their economies; however it is not clear why South African firms have not fully embraced the opportunities that are said to exist in their home markets. Research carried out on the African continent on matters relating to corporate governance suggests that governance is perhaps nothing more than mirror image of political governance bridled with a lot of corruption, (Kyereboah-Coleman, 2007). Against this setting the Agency theory suggests that outside shareholders have a preference for dividends over retained earnings, (Easterbrook, 1984). This present study seek to uncover if issues relating to governance in South Africa can be pinned to the low levels of investment experienced which have adverse implications for the National Development Plan and its growth targets.

1.4 Research objectives.

The broad objective of the study is to provide an empirical assessment of the nexus between dividend policy and corporate governance. The objectives of this study are as follows:

- To establish the pattern of dividend payments and pay-out ratios of JSE listed companies.
- To establish whether firm governance have impact on dividend policy.
- To establish if dividend payment is employed as a substitution mechanism.

1.5 Research questions.

- What is the pattern and amount of dividends paid by JSE listed companies?
- Which factors explain the payment of dividends by JSE listed firms?

- Is there a relationship between corporate governance and dividend policy of listed companies in South Africa?

1.6. Research Gap

Some level of consensus in the Agency theory literature, with the view that dividends can be employed as a mechanism to curb potential wasteful expenditure by managers in the event that a divergence exists between the interests of management and shareholders. This view has been argued by (Jensen, 1986; Easterbrook, 1984), however empirical evidence pertaining to the disciplining role of dividend policy that is suggested in theory is inconclusive. Numerous studies have examined the influences around the dividend policy decisions of firms, in developed economies such as the USA (US, Canada, the UK, Germany, France and Japan) and European Markets, (Linter, 1956; Modigliani and Miller, 1961; Fama and French, 2001, Denis and Osobov, 2008). Some studies advocate that propensity to pay dividends is higher among larger, more profitable firms and for those for which retained earnings comprise a large fraction of total equity, (Fama and French, 2001; Denis and Osobov, 2008).

Drawing nearer to the line of research conducted in this paper which has been categorized in recent literature on the relationship between corporate governance and pay-out policy, the seminal work of (La porta et al., 2000), supports this association. In this view dividend pay-out is influenced by laws and the quality of their enforcement by regulators and courts and their communal functioning in awarding adequate investor protection. This relationship has further been examined by; (Adjaoud and Ben-Amar, 2010 and Jiraporn et al., 2011) to arrive at the conclusion that firms with stronger governance exhibit a higher propensity to pay dividends. Their results are consistent with the notion that shareholders of firms that exhibit better governance quality are able to force managers to disgorge more cash through dividends, thereby reducing the level of free cash flows available for expropriation by opportunistic managers. Lin and Shen (2011) explored this relationship further and investigated the role of corporate in the relationship between investment opportunities and dividend pay-outs. Leaning on the work of La porta et al. (2000) the sample of their study is divided into strong and weak governance regimes to investigate the outcome and substitution effect, where the former

stresses a negative relation between investment opportunity and dividend pay-outs in the strong governance regime and a positive relationship between the two in the weak governance regime. The results of their study support the substitute model hypothesis, with the inference that dividend and investment opportunity are positively related in firms with weak corporate governance but little related in firms with sound governance.

Key governance practises appear to be converging around the world however despite this convergence; Nestor and Thompson (2000) contend that governance arrangements will to a certain degree remain idiosyncratic to each region due to varying cultures and history. Very few empirical investigations have been undertaken in emerging markets particularly on the African continent and it becomes imperative to gain an understanding of these issues from that perspective. According to the Institute of international finance (IIF) 2007 report, their findings on the assessment of corporate governance implementation and practises in emerging markets suggests that South Africa appears to have a sound and well- developed Corporate governance framework in the form of the King code.

In conducting our study and stating the confines in which we present our argument we draw the following from the above; South Africa has well coded corporate governance codes in black and white, However by virtue of being an emerging market, it is still susceptible to challenges facing other developing economies, such as the prevalence of tightly held corporate control structures, weak legal and judiciary systems, underdeveloped institutional investors and limited financial and human resources, (Armstrong, 2002). Prior studies have examined this relationship against the back drop of well code corporate governance that was complimented by well-functioning and efficient environments. Similar studies by, (Mitton, 2004), attempted to provide an African perspective by adopting a cross sectional approach in which South Africa was included in the panel. However we argue that the panel of countries masks country specific issues which this present paper will capture better by focusing only on South Africa. This study fills the void in the literature by examining the relationship between corporate governance and dividend pay-out against a back drop of well coded corporate governance practises whose application takes place in an environmental setting that may largely hider the effectiveness and application of those codes in reality.

1.7 Significance of the study.

The world is dominated by emerging economies in terms of population and geographic size. However emerging market economies have historically lagged behind developed economies in terms of economic significance and that perhaps explains the abundance of research available in the context of developed markets economies, (Fan et al., 2011). The search for yield has led international investors to Africa's frontier markets (Nellor, 2008) and there is a growing interest among researches in emerging markets. In spite of this progressive interest concerning corporate governance matters very limited research has been conducted in the African context, relevant empirical studies are still few and far between. This has in addition led to confines in the deepness of our understanding pertaining to corporate governance issues and a comparison of Africa's experiences with other continents, (Kyereboah-Coleman, 2007). Therefore an understanding of corporate governance in the African continent will provide valuable insight to policymakers and inform their strategic decisions in re-shaping Africa's corporate land scape.

The importance of the study also lies in its contribution to the literature by providing a perspective on what influences the dividend decisions of African firms. This present study examines the possibility of nexus between corporate governance and dividend pay-out decisions of South African firms and seeks to establish if the payment of dividends is employed for reasons associated with governance in the environment in which these firms operate as well as the prevailing perceptions surrounding the ability of the institutions that have been established in these markets to effectively see to good governance. Furthermore this present study contributes to the corporate finance and corporate governance literature that will benefit scholars, the investment and corporate community.

1.8 Organisation of the thesis.

This current study is organised into the following chapters. Chapter 2 present the literature review on dividend policy as well as corporate governance. Chapter 3 presents the research methodology which discusses the data and research design. Chapter 4 presents the findings of the empirical research. Chapter 5 presents discussion and conclusion from the results of the study.

Chapter Summary.

Corporate dividend policy continues to be among the most researched topics in the field of corporate finance. A level of consensus emanates from the discussions in the literature, with the view that dividends can be employed as a mechanism to curb potential wasteful expenditure by managers in the event that a divergence exists between the interests of management and shareholders. This view has been argued by (Jensen, 1986; Easterbrook, 1984), however empirical evidence pertaining to the disciplining role of dividend policy that is suggested in theory is inconclusive. This study endeavours to investigate the nexus between corporate governance and dividend pay-out decisions of the Johannesburg Stock Exchange listed firms.

Chapter 2 Literature Review

2.1 Introduction:

This chapter presents the existing literature related to dividends and dividends income. The chapter is organised as follows. Section 2.2 presents the definition of dividends policy. Section 2.3 presents dividend payments and the value of the firm. Section 2.4 presents dividend theories and reasons for dividend payments. Section 2.5 presents behavioural finance and dividend policy Section 2.6 presents the behavioural explanations for dividend payments. Section 2.7 presents the determinants of dividend policy. Section 2.8 presents corporate governance and agency theory related issues. Section 2.9 presents the definition of corporate governance and its role. Section 2.10 presents corporate governance mechanisms and developments. Section 2.11 presents corporate governance in emerging economies and Chapter Summary concludes the chapter.

2.2 The definition of dividend policy.

In the earlier years, dividend policy was often referred to as the division of earnings between payments to shareholders and reinvestment in the firm. Managers are tasked with allocating the earnings to dividends or retained earnings. Retained earnings are one of the most significant sources of funds for financing for corporate growth. The corporate growth in turn, makes it possible to generate greater cash flows which in turn translate into more dividends (Kinkki, 2001). However, the parameters of dividend policy in today's corporation far exceed the initial scope and it includes issues such as the distribution of cash via share repurchase as well as maintaining and improving the value of shares and stocks in the market (Hussainey et al., 2011).

While dividend policy has been an issue of much financial, economic and literature analysis for many years, it remains among corporate finance issues that are pending. Black (1976) epitomizes the lack of consensus by asserting that the harder we look at the dividend picture, the more it seems like a puzzle with pieces that just don't fit together. Answers to questions of why corporations pay dividends and why investors care about dividends are yet to be concretized. Ross (2009) recognises that while plausible reasons for why dividend policy might be important have not

been difficult to identify, it is the interactions between the market imperfections that are complex. Corporate managers contend with issues such as whether or not dividend payments should be maintained at the current level or changed. Whether investors prefer stable dividend pay-outs or those that fluctuate with earnings? (Hussainey et al. 2011).

2.3 Dividends payments and the value of the firm.

There are diverse models that have been developed in the literature to assist the firms develop and evaluate their dividend policies. However, there are is no agreement among the different schools of thought over the relationship between dividends and the value of the share or wealth of the shareholders. The two schools of thoughts comprise irrelevance and relevance theories.

2.3.1 Dividends Irrelevance theory.

The main principle of corporate finance is that managers should make decisions that lead to maximizing shareholder wealth as mirrored by the stock price (Baker et al., 2002). The Modigliani- Miller (1961) school of thought argues that dividend policy is irrelevant. The theory states that the firms dividend policy of the firm does not affect the value of the firm because, regardless less of whether dividends are paid or not, the investors will create their desired stream of payments by selling the stock if they need cash and by purchasing the stock if they have access cash (Dong et al, 2005). According to this theory, the value of the firm depends solely on its earnings power resulting from the investment policy and not on dividends pay-outs. This view is further advocated by Black and Scholes (1974) as well as Miller (1986). The assumptions underlying this theory are as follows; the firm operates in perfect capital markets in which all investors are rational and information is freely available, there are no taxes, alternatively there are no differences in the tax rates applicable to capital gains and dividends, the firm has a fixed investment policy, there are no floatation or transaction costs, the risk of uncertainty does not exist in a manner that investors are able to forecast future prices and dividends with certainty and a single discount rate is appropriate for all securities and all time periods, (Frentzel, 2013; Hussainey et al, 2011; Deangelo & Deangelo, 2006a;).

The criticisms levelled against this theory stems from the unrealistic nature of the assumptions of the MM hypothesis. The assumption that taxes do not exist lacks practical relevance in reality. Under the MM hypothesis, internal and external financing are equivalent, however external financing results in floatation costs. Moreover, contrary to the MM hypothesis, the existence of transaction costs and inconveniences associated with the sale of stock to realise capital gains, investors would prefer dividends to capital gains. It is also not sensible under the condition of certainty to assume a common discount rate that is applicable to both internal and external financing, (Baker et al., 2002).

2.3.2 *Dividends relevance theories*

The other school of thought contradicts Modigliani- Miller (1961) theory discussed above and argues that dividends are relevant in the valuation of the share. In general, dividends relevance theories argue that dividends are viewed positively by the investors and the firms that do not pay dividends are viewed negatively and that has a negative impact on their share price. The model developed by Walter (1963), argues that dividends can be used to maximize the wealth position of equity holders. It provides a view that in the long run, share prices reflect only the present value of expected dividends and that retentions influence stock prices only through their effect on further dividends.

Another theory which contends that dividends are relevant is the Gordon's model. This model relates the market value of the firm to dividend policy and argues that what is available at present is preferable to what may be available in the future. Gordon (1961) argues this point from an uncertainty resolution, proposing that external shareholders prefer a high dividend today to a highly uncertain capital gain from an uncertain future investment. The theory rests on two premises; firstly that investors are risk averse and secondly that they put a premium on certain return and discount uncertain return. The rational investor wants to avoid risk; with the term risk viewed as the possibility of not getting the return on investment. The payment of dividends in the present completely removes any chance of risk. However if the earnings of the firm are retained, the investors can expect to get a dividend in the future. But the future dividend is uncertain both with respect to the

amount as well as the timing. And as result, a bird in hand is better than two in the bush, (Dong et al. 2005).

The essence of the dividend relevance models developed Linter (1956), Walter (1963) and Gordon (1961), is that in a world of uncertainty of future cash flows and information asymmetry, dividends are valued differently from retained earnings, such that investors will often tend to prefer dividends to retained earnings. For that reason dividend policy plays a crucial role in the determination of the market value of a company, (Hussainey et al., 2011; Alam and Hossain, 2012).

The main assumptions are that, investors have imperfect information about the profitability of a firm, cash dividends are taxed at a higher rate than when capital gain is realised on the sale of a share and that dividends function as a signal of expected cash flows, (Hussainey et al., 2011).

2.4 Dividend theories and reasons for dividend payments.

In a not so ideal world, reality means that market imperfections exist which could possibly render the dividend decision relevant. A number of theories exist and have evolved to explain the dividend puzzle. This echoes the annotations of Ang (1987) that –"we have moved from a position of not good enough reasons to explain why dividends are paid to a position of too many reasons". Across the finance literature, there are three standard explanations for dividends (Baker et al., 2002).

2.4.1 Tax-preference explanation

One of the earliest explanations for paying dividends is based on a tax-preference argument. The tax-clientele hypothesis argues that tax clienteles prefer different dividend policies and investors may attach to firms that have dividend policies appropriate to their particular tax circumstances. This proposes that investors who receive favourable tax treatments on capital gains may prefer stocks with low dividend pay-outs. However only limited evidence supports tax induced dividend clienteles of shareholders (Baker et al., 2002).

2.4.2 Signalling

The signalling/asymmetric models as developed by Bhattacharya (1979), John and Williams (1985) as well as Miller and Rock (1985), argue that information asymmetries between firms and outside shareholders may induce a signalling role for dividends (Dong et al, 2005). This suggests that managers as insiders choose dividend payment levels and dividend increases to signal private information to investors. The hypothesis states that managers have an incentive to signal this private information when they believe that the current market value of their firm's stock is below its intrinsic value or that information could be communicated to signal a firm's future prospects and moreover reduce information asymmetry, (Baker et al., 2002). A strong support continues to hold for the signalling explanation in the present as in past research (Nissim and Ziv, 2001).

2.4.3 Agency cost explanation

Another explanation for why firms might pay dividends is based on the agency relationship between various claimholders of the firm. The argument is that, dividends provide a mechanism for restricting managerial discretion. Agency costs are reduced by cutting down cash available for spending by management that would otherwise be at the expanse of shareholders (Baker et al., 2002). Moreover, parallel with this view, Easterbrook (1984) states that by paying dividends the frequency with which firms have need to go to the capital markets to raise additional capital increases. This in turn subjects managers to the scrutiny and disciplining effects of investment professionals (Dong, 2005). Baker et al. (2002), infers that shareholders are then willing to accept higher personal taxes associated with dividends in exchange for increased monitoring that the professional investment community provides. Jensen (1986) makes a similar argument based on shareholder- manager agency relationship, suggesting that the payment of dividends reduces the firm's discretionary free cash flow that could be used to fund suboptimal investments. Therefore excessive cash balances give managers added investment flexibility, which may be detrimental to shareholders.

2.4.4 Other explanations of dividend relevance

The literature on dividend policy identifies transaction costs, floatation costs and irrational investor behaviour as other market related imperfections which may also render the dividend decision as relevant, all though viewed as minor in the broader scheme of imperfections, (Lease et al., 2000; Baker et al. 2002). Moreover the theoretical and empirical finance literature bestows relatively insignificant attention to the first two frictions; however a growing body of literature exists on the behavioural explanations for dividend policy relevance, (Baker et al., 2002).

In framing the context of an ideal world, M & M (1961) created a situation where investors can replicate a firm's dividend policy without incurring costs. Under such conditions any dividend policy is as good as the other however because in practise taxes and transaction costs exist, dividend policy may be relevant. Baker et al, (2002) argues this within the setting of a situation of a firm that has a large amount of attractive investment opportunities that require funds in excess of what is internally available. By assuming away floatation costs M & M enable corporations to acquire debt with no cost attached to fund investments at hand. Without floatation costs, the firm would be indifferent between using internally versus externally generated funds. In reality corporations incur floatation costs as a result of excessing external funds to finance investments. And thus, it would be in the interests of shareholders for managers to follow a residual policy in which the payment of dividends is affected only after capital expenditure requirements have been met as internal equity is less costly than external equity.

Moreover M & M (1961) make the assumption that investors are rational, with a preference for more wealth to less wealth. Baker et al. (2002), poses the question of whether dividends can be explained in terms of rational decision making or does behaviour do a better job of explaining dividend decision making?

2.5 Behavioural finance and dividend policy

Existing theories have presented weaknesses and left room for much debate due to failure in accounting for potentially complex interactions among the various imperfections (Baker, 2002). No paradigm discussed thus far completely explains observed corporate dividend behaviour (Frankfurter and Wood Jr, 2002). Investor

behaviour is greatly influenced by social norms and attitudes (Shiller, 1984). This motivation has been discounted by financial theorists due to the challenge of introducing investor behaviour into conventional financial pricing models (Arbel et al, 1988). On the contrary Shiller (1989) is of the view that the inclusion of these influences in modelling efforts can enrich the development of a theory to explain dividend policy (Frankfurter and Wood Jr, 2002).

Dividend policy is inconsistent with wealth maximization of the shareholder and is better explained by the incorporation of a socioeconomic- behaviour paradigm into economic models (Frankfurter and Wood Jr, 2002). An identical conclusion is reached by Chiang et al.(2006) stating that “one cannot understand the motivation and perception of people with regard to their love for dividends by analysing large volumes of market data, the only way to understand the dividend enigma is to find out what human perceptions are”. This is then the corner stone in which behavioural finance is founded.

2.6 Behavioural explanations for dividend policy

2.6.1 Self-control

Shefrin and Statman (1984) present a behavioral framework explaining why some investors want to receive cash dividends. Their framework is based on the theory of self-control presented by Thaler and Shefrin (1981) and the theory of choice under uncertainty described by Kahneman and Tversky (1979). Empirical studies suggest the marginal propensity to consume from dividends is higher than capital gains (Breuer et al., 2014). The implication is that investors do no treat dividends as a substitute for capital gains; instead their income is allocated in different mental accounts as a result of their limited information processing abilities (Shefrin and Statman, 1984; Breuer et al., 2014).

According to Shefrin and Statman (1984), individuals allocate their income in three different accounts: the current income account, the current asset account and the future income account. Consumption that is financed from the current asset account and more so the future income account involves subjectively felt penalties. Investors want to exercise self-control regarding excessive consumption due to time inconsistent behaviour and place current cash dividends in the current income

account and future cash dividends in the future income account (Breuer et al.,2014).

According to Shefrin and Statman (1984) many investors prefer specific dividend pay-outs. They also identify the demographic attributes of investors who prefer stocks having low and high dividend pay-out ratios. If, for example, retired individuals prefer a high and stable dividend to help finance their daily consumption therefore they may prefer firms with high dividend pay-out ratios. By receiving large dividend payments, these individuals can avoid the inconvenience and cost of creating the needed cash flows by liquidating share holdings (Beker et al., 2002).

2.6.2 Bird- in -hand theory

The bird-in-the hand theory argues that dividends paid during the current period are more certain than promises for capital gains and higher returns in the future (Mehta, 2012; Alam and Hossain, 2012). Gordon (1961) argues this point from an uncertainty resolution, proposing that external shareholders prefer a high dividend today to a highly uncertain capital gain from an uncertain future investment. The theory rests on two premises, firstly that investors are risk averse and secondly, that they put a premium on certain return and discount uncertain return.

The rational investor wants to avoid risk; with term risk viewed as the possibility of not getting the return on investment. The payment of dividends now completely removes any chance of risk. However if the earnings of the firm are retained, the investors can expect to get a dividend in the future. But the future dividend is uncertain both with respect to the amount as well as the timing. And as result, a bird in hand is better than two in the bush.

2.7 Determinants of dividend policy.

According to Gupta and Banga (2010), a dividend decision of a firm is often an outcome of the following considerations: ownership structure, leverage, profitability, liquidity and growth. A company with higher insider ownership proposes for a low cash dividend payout, while institutional owners are keen to influence higher pay-outs in order to enhance control over the management for monitoring their external financing matters (Kumar, 2006).

Firms would like to pay higher dividends if they are utilising their retained earnings as less risk is attached compared to external financing. From this it can be established that there is an inverse relationship between dividend rate and leverage (Gupta and Banga, 2010). The greater the profit of a firm, the higher will be the dividend payout; therefore profitability is positively related to dividend decision (Denis and Osobov, 2008). A high degree of liquidity might be expected to encourage dividends as it enables dividends to be paid without resorting to external financing (Gupta and Banga, 2010). Growth as measured in terms of (annual sales, return on net worth ect) is an important determinant for the payment of dividends.

Osobov (2008) investigated the reasons why some companies pay dividends while others don't. Traditional explanations provided by finance scholars for dividends payments gravitate toward the need for the firm to communicate information to shareholders and also to satisfy the demand for payouts from diverse dividend clienteles, (Allen and Michaely 2003; Denis and Osobov, 2008).

DeAngelo et al (2004), dispel the thinking associated with the signalling and clientele considerations as first-order determinants of dividend policy. Their findings suggest that dividends are increasingly concentrated among a small number of large payers. In a subsequent paper (DeAngelo and DeAgelo, 2006) propose an alternative view of dividends which argues that the optimal payout policy is driven by the need to distribute the firm's free cash flow. Furthermore they propose a life cycle theory that combines the elements of Jensen (1896) agency theory with the firm's ever evolving investment opportunity set as suggested by (Fama and French, 2001; Grullon et al, 2002). In this theory, the firms alter the payment of dividends through time in response to the evolution their opportunity set. The theory predicts that in early years, firms pay few dividends because their investment opportunities exceed their internally generated capital. In later years, internal funds exceed investment opportunities and so firms payout the excess funds to reduce the cash flows available at management's discretions and thus mitigate the possibility of those free cash flows being wasted Denis and Osobov (2008). Consistent with this view (DeAngelo et al., 2006; Denis and Osobov, 2008) find that propensity to pay dividends is positively related to the ratio of retained earnings to total equity. The mix of earned/contributed equity as determinant of dividend policy casts doubt on

the importance of signalling as a first-order determinant of dividend policies. Firms with earned/contributed capital would appear to be ideal candidates for dividend signalling because these firms are less mature and their future prospects difficult to gauge. Nevertheless these are precisely the firms that do not pay dividends. Denis and Osobov (2008) further provide evidence on the signalling, clientele and life-cycle explanations by examining the concentration of dividends and earnings. Their findings are consistent with DeAngelo et al. (2004) suggesting that aggregate dividends do not decline over time. Furthermore those dividend payments are concentrated among the largest and most profitable payers who least have need to signal their profitability. Similarly Denis and Osobov (2008) argue that the concentration of dividends and earnings cast doubt on clientele theories that investors can gratify their demand for dividends while attaining appropriate altitudes of diversification. They analysis reveals that dividend payers account for 90% of the aggregate market capitalization in all countries except the US and Canada, with the top 20% of dividend payers accounting for almost the entire market capitalisation.

Denis and Osobov (2008) also investigated the possible for reasons for the substantial decline in the propensity to pay dividends as was reported by Fama and French (2001), to arrive at the same findings. However with the interpretation that firms in the countries examined seem to exhibit characteristics of non-dividend paying firms. It appears that the average firm is less profitable and has lower earned/contributed capital. They suggest that the observed decline in the propensity of dividend payments maybe a result of a relatively short forecast period, a combination of expanding world scope coverage of firms over time as it expands from the coverage of larger and more mature firms to include smaller and less mature firms over time. They conclude that any observed declines in the propensity to pay dividends are not attributed to any changes in the dividend policies of firms but rather the failure of newly listed firms to initiate dividends when expected to do so.

2.8 Corporate Governance and Agency theory related Issues.

The Miller and Modigliani's (1961) seminal work on dividend irrelevance resulted in a number of subsequent theories that advanced to relax their assumptions of perfect capital markets. The agency theory which predicts that the misalignment of interests between shareholders and management could result in agency problems, is one crucial theory that has distinguished itself among the rest to be extensively examined and continues to receive supporting evidence, (Chen et al.,2012).

According to Jensen (1986), the divergence of ownership and control results in potential conflict of interests, referred to as agency problems. Agency problems are prompted by two main sources. Firstly, different participants have different goals and preferences. Secondly, the participants have imperfect information concerning each other's actions, knowledge and preferences, (Gillan and Laura, 2003).

The need for corporate governance is thus largely rooted in curbing potential conflict of interests between managers and owners of the firm. In the absence of corporate governance mechanisms, the agency theory claims that agents might be tempted to follow action and take decisions that are not in the interests of their principals. These actions could take the form of maintaining costly remuneration packages to their own benefit, avoiding mergers and acquisitions in the fear of losing certain privileges, on the contrary pursuing mergers and acquisitions to effects resulting benefits such as large bonuses and stock options, (Chris et al.,2014).

2.9 The definition of corporate governance and its role.

Corporate governance is a term that is commonly used by academics, regulators and business professionals. However, there is no general agreement on the definition of the term. The literature has viewed the concept in different ways and as a result various definitions exist, (Gillan and Starks, 2003; Brickley and Zimmerman, 2010).

Shleifer and Vishny (1997) define corporate governance as dealing with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment. Zingales (1998) provides a corresponding view, defining corporate governance as the complex set of constraints that shape the ex-post

bargaining over the quasi-rents generated by the firm. Both definitions encapsulate corporate governance in terms of the economic interests of the participants.

Brickley and Zimmerman (2010), define corporate governance as the systems of laws, regulations, institutions, markets, contracts, and corporate policies and procedures that direct and influence the actions of the top-level decision makers in the corporation. Corporate governance serves the purpose then of providing checks and balances between shareholders & management and thus to mitigate agency problems. Chris et al. (2014), define corporate governance as a network of principles and practises which forms the basis on which a company is organised and governed so that the long-term needs of shareholders and stakeholders will be preserved in the best possible manner.

2.10 Corporate governance mechanisms and developments.

Shleifer and Vishny (1997) investigated possible mechanisms through which the interests of principals can be enforced. This study analysed the role of managerial incentive plans, the inclusion of outsiders to serve the role of non-executive members in Boards, the introduction of specialized committees operating within the context of Board of directors as well as the separation of roles between the Chairman of the Board and the Chief executive officer. These mechanisms collectively are envisioned to limit the degree of the agency problem although not expected to completely eliminate it.

2.10.1 The role of Managerial incentive plans.

The use of incentive programmes for agents is based from the rationale that keeping managers happy with the level of compensation received will align the interests of agents with that of the principals they represent. Incentives plans could be in the form of stock options which derive their value from accounting set targets or measures of performance relative to the overall market,(Fama, 1980). The optimal contract derives its value from the risk aversion of the manager and the extent to which decisions undertaken affect the well-being of the firm, (Holmstrom, 1999). Academic research is inconclusive about the role of managerial incentives plans.

Some studies revealing a positive relationship between executive remuneration and firm performance (Core et al., 1999). Others view incentives plans as inducing excessive risk-taking on the part of fund managers and thus deviating from their intended role (Jensen and Murphy, 1990).

2.10.2 The role of Board of directors.

The Board of directors of a firm embody great governing power and thus strengthening their role can be used as a further mechanism to mitigate agency problems. The greater the degree of independence of the Board the greater it's monitoring ability. Moreover Boards should consist of non-executive members as this will ensure greater autonomy and compliance with decisions that will not adversely impact shareholders. The separation of roles between the chairman of the Board of directors and the chief executive officer ensures that extensive power is not gathered by a single individual. Prior to the introduction of corporate governance ideal practises the dual role by a single individual was considered common. The concentration of power is considered undesirable for the welfare of minority shareholders and the long term interests of the firm (Jensen, 1993).

2.10.3 The establishment of specialised Board Committees.

The establishment of specialised Board committees is regarded to facilitate the efficient confrontation of important issues. The existence of Audit, Remuneration and Nomination committees is said to enable efficient control. It is considered undesirable for the executive board members to form part of these committees as they are likely to produce poor audit work. In addition to this, when the Chief executive officer holds a prominent role in the formation of such committees, it is more likely that few non-insiders will be elected into such committees. The existence of such committees would render their objectivity and effectiveness controversial, (John and Senbet, 1998). Sound corporate governance practises requires that these committees be formed almost exclusively with non-executive members, further more small committees are preferable to large committees as they are not prone to manipulation by insiders, (Chris et al.,2014).

The presence of such mechanism within firm structures places constraints on the activities of managers. These mechanisms can be viewed as internal control mechanisms (such as the board) or external control mechanisms (such as the market for corporate control). The emergence of institutional investors as equity owners has become an increasing important external control mechanism affecting the governance around the globe. Institutional investors have the potential to influence management's activities directly through their ownership and indirectly by trading their shares otherwise acting as a group to avoid investing in a particular firm and consequently increasing the cost of capital for the particular firm. The corporate environment has evolved creating a need for corporate governance practises to reflect the changes, (Gillan and Starks, 2003). Since the late 1990s a number of developed and emerging countries have undertaken corporate governance reforms, which are defined as the deliberate intervention in a country's governance tradition by the state, security and exchange commission, (Kim and Lu, 2013). Governance changes have been widespread in economies where the banking, capital markets and legal systems have undergone change. Moreover, these governance changes have been witnessed in countries with relatively high levels of institutional investment. Equity ownership by institutional investors, more specifically foreign institutional investors, can have influences on the prevailing quality of corporate governance with both country and firm. In emerging market economies, the demands for investment capital have increased as a result creating the need for increased foreign institutional investment. According to Karmin (2000) some markets are plagued by the obstacle of attracting foreign institutional investors. Unless corporations operating within these markets start paying increased attention to their corporate governance practises, these markets could remain in the backwaters of global finance for years to come. According to Gillan and Starks (2003), it is easier for investors to vote with their feet and simply walk away from many of these markets.

It is within the confines of the agency framework that the relationship between the quality of corporate governance and dividend policy has been comprehensively examined (Jiraporn et al., 2011). Prior studies claim that dividends are affected by investment opportunity, regulation, real sales and the signalling effect. Rozeff (1982) suggests that in addition to the above mentioned factors, agency problems

such as the level of insider stock holdings, could also influence dividend policy (Li and Shen, 2012).

La Porta et al. (2000) suggest two possible hypothesis as having influence on the dividend decision, the outcome and substitution hypothesis.

The outcome hypothesis is largely based on the free cash flow hypothesis. In firm where corporate governance is weak, mangers of such firms are more likely to retain cash within the firm as it enables them to consume perquisites, engage in empire building and invest in projects & acquisitions that may enhance their personal prestige at the expense of shareholders. However in firms where good corporate governance is observed, managers are less likely to abuse the free cash flow and would elect to pay out cash to shareholders in the form of dividends. The expected dividend policy is the outcome of the governance regime. The empirical prediction of this hypothesis is firms with strong governance should pay larger dividends. Alternatively, the expectation is that there exists a positive relationship between corporate governance quality and dividend payouts, (Jiraporn et al., 2011). Michaely and Roberts (2006), conclude that strong governance induces higher and consistent payouts (Jiraporn et al., 2011).

Under the substitution hypothesis, dividend policy is viewed as a mechanism for lessening potential conflicts between shareholders and managers. The effectiveness of payout policy in reducing agency costs rests on the degree of restriction on managerial actions. In the absence of pre-commitment, poorly monitored managers use the firm's free cash flows to finance inefficient investments. Due to negative market reactions to dividend cuts, dividends constrain managers and constitute an effective monitoring mechanism in the presence of severe agency conflicts (Jiraporn et al., 2011). As shareholders observe that firms with weak governance may be more prone to managerial entrenchment and rationally anticipate free cash flow related issues, the necessity for dividends should then be stronger for firms with weak governance than for firms with strong governance. Not only does the payment of dividends result in tax penalties but also the cost of foregone value adding projects, as well as the additional costs associated with external financing to fund investments when internal reserves are inadequate.

With a cost attached to the payment of dividends, firms that are less vulnerable to managerial entrenchment-firms with strong governance, should then be less inclined to pay dividends moreover pay less dividends on average. For firms that are vulnerable to agency costs, with characteristics of poor governance the payment of dividends becomes a substitute for weaker governance (Jiraporn et al., 2011).

2.11 Corporate governance in emerging economies.

Emerging market economies are low income, rapid growth countries using economic liberalization as their primary engine of growth. Institutional theory has become the central theory for analysing the management of corporations in emerging markets, (Hoskisson et al.,2000).According to Young et al. (2008) it is likely that institutional structure at the country level have bearing on organisational behaviour and shape the strategic choices of corporations that operate within that environment. The actions undertaken by organisations in turn, determine their effectiveness, (Wright et al., 2005). However the institutions that impact organisational behaviour in emerging economies are not stable and the formal institutions that do exist in these markets don't promote mutually beneficial impersonal exchange between economic agents. As a result organisations in these markets are reliant on informal institutions, (Young et al., 2008). Emerging economies lack an effective and predictable rule of law and thus have weak governance. These economies have pursued reforms as an attempt to adopt legal frameworks of developed economies either as a result of internally driven reforms or as a response to international demands. Yet, the formal institutions such as laws and regulations regarding accounting requirements, information disclosure, securities trading and their enforcement are either absent, inefficient or don't operate as intended. As a further result basic corporate governance mechanisms have relatively little institutional support and informal institutions such as relational ties, business groups, family connections and governance contracts serve a greater role in shaping corporate governance, (Young et al.,2008).

The predominant model of corporate governance is a product of developed economies. Although the vast majority of publicly listed firms in emerging economies have adopted corporate governance mechanisms that resemble that of developed economies, these rarely function like their counterparts in developed

economies. In developed economies, ownership and control are often separated and the legal mechanisms protect owners' interests and the conflicts of interests are largely between principals and agents. Conversely, in emerging economies not only does the institutional setting present challenges in the enforcement of contracts but concentration in firm ownership is commonplace, (Young et al., 2008). This concentration in ownership coupled with the absence of effective governance mechanisms results in conflicts of interests between controlling shareholders and minority shareholders. This had led to the development of a new perspective on corporate governance which has a focus on the conflict of interests between different sets of principals in the firm, (Dharwadkar et al., 2000; Morck et al., 2005). Principal-principal conflicts are resultant from factors such as concentrated ownership and control, poor institutional protection of minority shareholders and indicators of weak governance, such as fewer publicly traded firms, lower firm valuations, lower levels of dividend payouts, less information contained in the stock prices and less investment in innovation, (La Porta et al., 1997; Morck et al., 2005; Young et al., 2008). The existence of principal-principal not only alters the dynamics of corporate governance but presents the following challenges, the controlling shareholders can decided on the composition of board members and this in turn nullifies a board's ability to oversee controlling shareholders. Furthermore value can be expropriated from the minority shareholders by controlling shareholders in the following manner; through the placement of less-than qualified family members and friends in key positions, purchasing supplies at prices above market values or selling products at below market values to organisations owned by or affiliated with controlling shareholders as well as pursuing strategies that advance the personal, family and political agendas, (Chang and Hong, 2000; Young et al., 2008).

Dominant ownership is predominant in emerging economies as a result of the following; firstly at the verge of transition from founder to professional management, foregoing dominant ownership requires that the founders divulge sensitive information to outside investors. However, at that particular stage of development, leakage of sensitive information can undermine the very existence of an entrepreneurial threshold firm. The sharing of information among unfamiliar parties requires trust which is unlikely to occur due to the inability of institutions to adequately ensure legal safeguards that protect both parties and as a result firms

in these economies hire exclusively members of the in-group or family, (Zahara and Filatotchev, 2004; Young et al.,2008). Secondly, firms in emerging economies may rely on dominant ownership as a corporate governance mechanism. The external corporate governance mechanisms such as product and labour markets, takeover markets and other external factors are corrupted or ineffective which in turn renders them less effective in governing top management. And for that reason more emphasis is placed on internal control mechanisms. According to Dharwadkar et al. (2000) not only is dominant ownership commonplace but it is often more likely that the controlling shareholders are the dominant owners, holding more than 50 % of firm equity.

Chapter Summary

The Miller and Modigliani's (1961) seminal work on dividend irrelevance resulted in a number of subsequent theories that advanced to relax their assumptions of perfect capital markets. Subsequent theories suggest that market imperfections might influence dividend policy decisions. However empirical research remains inconclusive and does not validate a specific theory. The agency theory which predicts that the misalignment of interests between shareholders and management could result in agency problems is one crucial theory that has distinguished itself among the rest to be extensively examined and continues to receive supporting evidence, (Chen et al., 2012). It is within the confines of the agency framework that the relationship between the quality of corporate governance and dividend policy has been comprehensively examined (Jiraporn et al., 2011).

Chapter 3 Methodology

3.1 Introduction

This chapter presents the data and research design. The chapter is organised as follows. Section 3.2 presents the data and sample selection. Section 3.3 presents the research design.

3.2 Data and Sample selection

South Africa has by far the largest and most developed financial sector in Africa and the JSE Securities Exchange is by far the most active and functioning stock exchange in Sub-Saharan Africa. And for that reason this study seeks to make an inference about dividend paying firms listed on this exchange. Firms on this exchange were also chosen for the mere reason that information can easily be obtained. The population under investigation will refer to all firms listed on the Johannesburg Stock Exchange (JSE) in South Africa that have paid dividends for at least one financial year for the period under research. The financial data and corporate governance indicators were obtained from the annual reports of sampled companies. In addition we also depended on Bloomberg financial data base for the collection of the following data for each firm observation: Total Assets, Debt to Equity ratio and Earnings. The sample for the study comprises of 109 non- state-owned and non-financial companies listed on the stock exchange that paid dividends over the period of the study. Table I contains the industrial composition of the sampled companies, followed by a detailed description of the sample selection criterion. In arriving at the definition of what constitutes these sectors, we largely depended on the classifications given by the stock exchange.

Table I: Summary of total sampled firms

	No. per sector	% of sample
Basic Material	24	22.0
Industrial	33	30.3
Consumer Goods	11	10.1
Consumer Services	28	25.7
Technology	7	6.4
Heath Care	3	2.8
Telecommunications	3	2.8
Total sampled firms	109	100

Similar to previous studies (Kumar, 2006) we exclude Public Sector firms as their dividend payments may highly be influenced by social obligations, which may be difficult to account for. We also exclude financial firms and utilities because their dividend policies are highly constrained by external forces. Post this a two-step criterion for company selection was employed to derive the final sample. Firstly, we restrict our analysis to firms whose full five year financial data is available. Secondly, due to the difficulties encountered with obtaining the data relating to the corporate governance variables, we selected firms that have a minimum of four years of data available. The criteria was employed for the following reasons, in tandem with prior studies (Kumar, 2006; Adjaoud and Ben-Amar, 2010; Jiraporn et al., 2011; Ntim et al., 2012). We finally ended up with 109 firms resulting in an unbalanced panel. Gujarati (2003) suggests that the advantages of more degrees of freedom and less multi-collinearity among variables can be derived from using panel data, involving both cross-sectional and time-series observations. Moreover, the sample begins in 2009 because prior to this period majority of the corporate governance variables employed in the methodology could not be obtained and our study ends in 2013 for it is the most recent year for which the data could be obtained.

3.3 Research Design

The research study focuses on the same firms followed throughout the five year period, therefore it is a panel study based on annual time series data. We estimate a simultaneous panel regression model to examine the relationship between corporate governance and dividend pay-out. The study employs a random effect panel least square model to investigate the effect of corporate governance on dividend pay-out policy according to the following mathematical relationship:

$$DIV_{it} = \alpha_i + \beta_1 BC_{it} + \beta_2 {BS_{it}}^2 + \beta_3 CEO_{it} + \beta_4 INO_{it} + \sum_{j=5}^{N} \beta_j \, Contol_{it} + \mu_{it} \qquad (1)$$

Dependant Variable (Dividend Pay-out Policy)

Consistent with prior research in finance (Adjaoud and Ben-Amar, 2010), DIV_{it} is a measure of dividend pay-out and it is defined as the ratio of dividend to earnings. Dividend is total cash dividend paid to shareholders.

Corporate governance variables

We limit the corporate governance variables to include the following: board composition, board size, CEO duality, and institutional ownership. *BC* is board composition and it is defined as the percentage of external board members on the corporate board. The board of directors is expected to be made up of more non-executive directors for effective control. The argument for this view stems from the thinking that this will ensure effective monitoring and passing of fair and unbiased judgement on management, (Kyereboah-Coleman,2007).It is also argued that small board sizes should be encouraged to promote effective communication and decision making. A further argument is that apart from that the cost of coordination and processing problems is high in large boards, small boards reduce the possibility of free riding, (Kyereboah-Coleman, 2007). Lipton and Lorsch (1992) have proposed an optimal board size of between seven and nine directors. BS^2 is the square of the number of board members or the board size. The quadratic term for board size is introduced for the purpose of capturing the effect of non-linearity of the board size. The effect of board size is believed to take a non-linear form and assumed to be significant only within a certain range of board size. It is expected that different individuals occupy the position of CEO and board chairperson as this corrects the concentration of power in one individual. Fama and Jensen (1983) argue that the concentration of decision management and control in one individual hinders a board's effectiveness in monitoring top management and leads to leadership facing a conflict of interest thereby increasing agency problems. *CEO* duality is indicated as a dummy, one if the CEO is also the board chair and zero otherwise. It has also been argued that the nature of ownership of a firm has bearing on governance structure and that institutional block holders serve as extra monitoring devices concerning the operations of the firm, (Kyereboah-Coleman, 2007). *INO* is representative of institutional ownership and it is measured as the percentage of shares held by institutions owning at least 5 percent of equity at the end of the accounting year. Both linear and quadratic terms for institutional ownership have been included.

Control Variables

Our multivariate analysis controls for variables related to dividend policy and control is a vector of our control variables and these include leverage, growth, firm size and profitability. Leverage is measured as the ratio of long term debt to the book value of equity (debt-to-equity ratio) and is indicative of the firm's closeness to debt covenant restrictions. It is argued that leverage may influence dividend payout because debt can also be used to alleviate potential problems associated with free cash flows and thus, a negative relationship between leverage and dividend payouts can be expected, (Farinha, 2003; Renneboog and Trojanowski, 2007). Growth is defined as market-to-book value ratio. Growth opportunities should be negatively related to dividend policy. Firms with high growth or investment opportunities tend to retain more funds to finance such growth and therefore pay smaller amount of dividends, (Kumar, 2006). We also control for firm size which is measured as the logarithm of total assets. Holder et al. (1998) propose that large firms should have better access to external capital markets and less dependent on internally generated funds for the purpose of financing their investments. For this reason, large firms should be more likely than small ones to pay dividends to their shareholders. Prior studies, (Holder et al.,1998; Farinha, 2003 and John and Knyazeva, 2006) find evidence of positive association between firm size and dividend payout. Profitability is defined as the ratio of earnings before interest and tax divided to the book value of total assets. Denis and Osobov (2008) and Fama and French (2001) find that a propensity to pay dividends is greater for larger firms with higher profitability and lower growth opportunity.

Based on the free cash flow hypothesis (Jensen, 1986), managers of firms with weak governance are more likely to retain cash within the firm as it allows them to consume perquisites, engage in empire building as well as investing in projects and acquisitions that may enhance their personal prestige however not providing shareholders with adequate returns. In contrast firms with strong governance will refrain from the abuse of the free cash flow, thus raising the attractiveness of paying out cash to shareholders. In this view the expected dividend policy is consequently the outcome of the governance regime, (Jiraporn et al., 2011). However, dividends can also serve as disciplining device. Considering the negative market reaction to dividend cuts and infrequent deviations from dividend policy, dividends help

constrain the manager through high cost of deviation and constitute an effective pre-commitment mechanism in the presence of a severe agency conflict, (John and Knyazeva, 2006). The necessity for dividends should be greater for firms with weak governance as opposed to those with strong governance and in this view dividends therefore serve as substitute for good governance, (Laporta et al.,2000; Jiraporn et al., 2011).

The discussion above asserts that dividend pay-out may also be explained by corporate governance variables and thus the existence of a causal relationship calls for a model that can account for the endogeneity without compromising left censoring on dividends pay-out. The following panel least square model is proposed along with variable specifications thereafter:

$$BC_{it} = \alpha_1 DIV_{it} + \sum_{j=1}^{N} \beta_j Control_{it} + \mu_{it} \quad (2)$$

The control variables in the corporate governance model are institutional ownership, debt ratio, growth, firm age and firm size. Age is defined as the number of years the firm has been listed on the stock exchange. It is expected that institutional owners and debt holders would demand more independent external members on the board to protect their interests and minimise agency conflicts, (Abor and Fiador, 2013). The literature also suggests that as firms venture into new product lines or new geographical territory the necessity for new board members to help oversee managers' performance arises. The implication is that growth and the continued successful existence of the firm as an entity is dependent on specialized board services which are also likely to grow with time. New directors may have specialized knowledge that applies to the new growth areas (Agrawal and Knoeber, 2001). Boards of larger or more diverse firms also may increase their demands for new board members as tasks such as succession planning, compensation, and auditing are assigned to committees rather than handled by the board as a whole (Yermack, 1996). Lehn et al. (2004) argue that larger firms demand more outside directors because their large size gives rise to more significant agency problems. Anderson et al. (2000) also argues that large and diversified firms deploy more independent directors to monitor their wider scope of operations. Boone et al. (2007) suggest

that board size and independence increase as firms grow in size and diversify overtime. Therefore, board composition is positively explained by institutional ownership, debt-equity ratio, growth, firm age and firm size.

Subscript i is the firm index, subscript t is the year index and N is the number of control variables. Finally, μ is the random error term. In the light of varying trading conditions for individual firms and/ or industries as well as the recent financial crisis, this study anticipates the response variable to be left censored when firms decide not to pay-out dividends. The response variable in this regard is a binary variable (0 0r 1), that is whether a firm paid out dividends (1) or not (0) in that particular year.

The underlying principle of panel data is the assumption that firms are heterogeneous. In time series and cross section analysis, this heterogeneity is not taken care of and this poses a threat because of the risk of obtaining biased results (Moulton, 1987). The use of Panel data therefore controls for individual heterogeneity. The use of Panel data also offers the ability to study the dynamics of adjustment because cross-sectional distribution that looks relatively stable conceals a lot of changes. Again, it is able to measure effects that are difficult to detect in pure cross-sectional or time-series data. Due to the reasons cited above the study employs a fixed effect Panel least square model to investigate the relationship between corporate governance and dividend policy (Hsiao, 2003).

Selection of corporate governance variables

Corporate governance embraces a broader set of variables, the King report and the Cadbury Committee Report highlight the following seven key dimensions of good corporate governance: Board of Directors, Audit committee, Executive and Director Compensation, Insider ownership issues, Director characteristics, Issues surrounding charter/ By-Laws and Progressive practises. The variables of interest are sub- issues raised under the board of directors. The availability of data and its accessibility and measurability have largely influenced our choice of variables in this study.

Chapter 4 Empirical Results

4.1. Introduction

This chapter presents the results of the study. The chapter is organised as follows. Section 4.2 presents the amount and pattern of dividend payout over time. Section 4.3 presents the descriptive statistics. Section 4.4 presents the diagnostic test. Section 4.5 presents the regression analysis.

4.2 Dividend payout

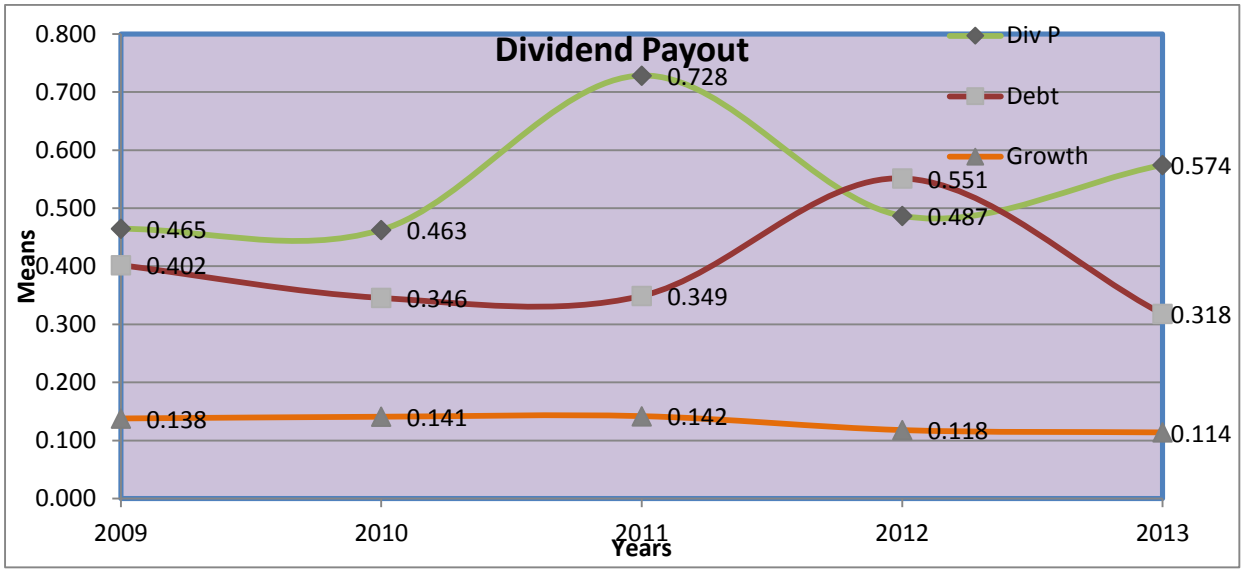


Figure: 1 Dividend payout

Figure 1 above displays the pattern of dividend payments and payout ratios of the firms included in the study over the five year period. It also displays the corresponding debt and growth ratios in each year. The graph depicts an upward trend in the payment of dividends from a payout ratio of 46.3 % in the year 2010 to a peak of 72.8 % in the year 2011 which is then followed by an immediate fall in the subsequent year. The dividend payout and debt levels remain well above the growth levels which reflect an almost uniform pattern over time.

4.3 Descriptive statistics

Table II: Summary statistics

Variable Name	Mean	Std Dev	Min	Max
Dividend Payout	0.559736	1.924643	0	30.64546
Debt ratio	0.335835	0.662758	0	5.285328
Profitability	0.140211	0.112814	-0.100961	0.960393
Growth	2.948012	2.592808	0.1158	15.1076
Firms Size	9.644257	0.757339	7.857061	11.35568
Firm Age	29.25397	26.32071	1	125
Board Size	10.36905	2.932629	4	21
CEO duality	0.027778	0.164663	0	1
Board Composition	0.662727	0.131249	0.25	1
Institutional Ownership	0.420673	0.131249	0	1.27194

Table II reports a broad description of the summary statistics of the variables used in the study. It displays the mean, standard deviation, minimum and maximum values. We observe the mean value of dividend payments to be 54.47 %. We also observe the presence of debt among the firms in the sample which is represented by a mean value of 33.58%. There is not a wide dispersion in terms of the size of the firms in the sample as shown by the minimum and maximum values of 7.857 and 11.355 respectively. On average the firms in the sample have been listed for 29 years. The size of the board ranges between 4 and 21 members with a mean value of 10. CEO duality displays a mean of 0.027%. On average the board comprises of 66.27% non-executive directors. On average, institutions account for 42.06% in terms of the ownership structure of the sampled firms.

4.4 Regression diagnostic

We carry out a unit root test and making use of the augmented dickey-fuller test observe that t-statistic for each of the variables is more negative than its critical values, and thus we reject the null hypothesis of non-stationarity. We further examine for autocorrelation and partial correlation and this also enables us to detect for heteroscedasticity. We rely on the correlogram and the AC and PAC functions and find no indication thereof. According to Brooks (2008), the ACF and PACF should decay geometrically. A correlation matrix is also utilised in order to assess the potential degree of milti-collinearity among the regressors. Table III below, illustrates the correlation among variables. The correlation table records a positive

and the highest correlation between firm size and board size (0.593134). A positive correlation between growth and profitability is also observed (0.555399). This does not raise too many concerns around the potential problem of multi-collinearity. According to Drury (2008), mulitico-llinearity exists when the correlation between two independent variables is equivalent to or greater than 70%.

Table: III Correlation Matrix

	DIV	D/E	PROF	GRT	FS	FA	BSS	CEO	BC	INV
DIV	1									
D/E	-0.0325	1								
PROF	-0.0055	-0.0835	1							
GRT	0.03713	0.12868	0.5554	1						
FS	0.09657	0.299	0.1005	0.2411	1					
FA	-0.0157	-0.0122	-0.1032	-0.001	0.1922	1				
BSS	0.05074	0.164	-0.0233	0.1687	0.5931	0.1872	1			
CEO	-0.0209	-0.0772	0.0583	0.0337	-0.210	0.0554	-0.0603	1		
BC	0.11725	0.1021	0.168	0.2777	0.5396	0.127	0.26763	-0.103	1	
INV	-0.0098	0.0982	0.0131	0.1869	0.3782	0.147	0.25921	-0.035	0.2514	1

Note:DIV-dividend payout; D/E-debt equity; PROF- profitability;GRT-growth; FS-firm size; FA- firm age; BSS-board size squared; CEO- ceo duality; BC- board composition; INV- institutional ownership.

4.5 Regression analysis

Table: IV Model 1

Dividend Payout	Coef.	Std.Err.	t-stat	P> I t I
c	-2.387880	2.174685	-1.098035	0.2733
Board Composition	1.277964	1.213905	1.052771	0.2935
Board size square	-8.33E-05	0.002552	-0.032624	0.9740
CEO duality	0.049455	0.823589	0.060048	0.9522
Institutional ownership	-0.432144	0.463191	-0.932972	0.3518
Debt ratio	-0.206403	0.214459	-0.962436	0.3368
Growth	0.035118	0.066353	0.529271	0.5971
Firm size	0.251103	0.273701	0.917435	0.3598
Profitability	-1.154958	1.460097	-0.791014	0.4297
R-squared	0.021354			
Adjusted R-squared	0.010998			
F-statistic	0.660055			
Durbin-Watson stat	2.973652			

Table IV displays the results of the random effect panel least square model which examines the effect of corporate governance on dividend payout. The dependant variable is dividend payout while measures for corporate governance include board composition, board size, CEO duality and institutional ownership. A positive relationship between board composition and dividend payout is observed. This is consistent with Abor and Ben-Amar (2010) who found a positive association between board composition and dividend payout. We found a negative association between board size and dividend payout. Corporate boards are responsible for monitoring the opportunistic behaviour of management and protecting the interests of shareholders. According to Abor and Fiador (2013), the effectiveness of the board tends to improve with increase in size, however only to a certain point. CEO duality is found to have a positive impact on dividend payout. Contrary to the literature, we found that institutional presence among the sample firms does not influence higher dividends but leads to lower dividend payout. Kumar (2006) however, found a positive relationship between dividend payout and institutional ownership. Consistent with Gupta and Banga (2010), we found that debt has a negative relationship with dividend payout. Contrary to the literature, we observed a positive relationship between dividend payout and growth. According to Lin and Shen (2012), high growth companies should have lower dividend payouts than low growth companies. We observed a positive relationship between dividend payout and firm size. We observed a negative relationship between dividend payout and profitability. This is contrary to Fama and French (2001), who found a positive association between dividend payout and profitability. The observed r-squared of 2.13%, indicates that corporate governance explains 2.13 % of the total variation in dividend payout.

This paper has examined the effect of corporate governance quality on dividend payout. However, it could be argued that an organisation's dividend policy may have an influence on its overall corporate governance quality. For that reason it becomes essential to examine for the possible endogenous association between corporate governance and dividend policy.

Table: V Model 2

Board Composition		Coef.	Std.Err.	t-stat	P> I t I
c		-0.252253	0.094394	-2.672332	0.008
Dividend payout		0.002621	0.00363	0.722118	0.4709
Debt ratio		-0.015579	0.011013	-1.414607	0.1584
Growth		0.008256	0.002789	2.960368***	0.0034
Firm size		0.092123	0.01037	8.883569***	0.000
Firm age		0.0000885	0.000272	0.325964***	0.0034
Institutional ownership		0.006354	0.025048	0.722118	0.800
R-squared	0.335666				
Adjusted R-squared	0.319528				
F-statistic	20.80016				
Durbin-Watson stat	2.21693				

Note: ***Significant at 1 percent.

Table V displays the results of the panel least square model with the endogenous covariate which examines the effect of dividend payout on corporate governance. The dependant variable in this model is board composition. We observed that dividend payout has a positive impact on board composition. A negative association between debt and board composition is observed. Consistent with the literature we observed a significant positive relationship between growth and board composition. As firms grow and expand into new business territories, they require more external board members with essential knowledge and expertise on the board. These benefits are expected to filter down to the management of the organisation in the form of advisory services, (Boone et al., 2007). We also observed a significant positive relationship between firm size and board composition. According the literature, large and diversified firms have greater need for independent directors who oversee the monitoring of operations. Moreover the large nature of these firms gives rise to greater agency conflicts and strong independent boards are then required to monitor the behaviour of management, (Yermack, 1996; Anderson et al., 2000). We found a significant positive relationship between firm age and board composition. We observed a positive relationship between institutional ownership and board composition. The observed adjusted r-squared of 31.95 %, indicates that dividend payout explains 31.95 % of the total variation in corporate governance.

Chapter 5 Conclusion

5.1 Introduction.

This chapter presents the discussion and conclusion of the study. The chapter is organised as follows. Section 5.2 presents the discussion. Section 5.3 presents the conclusion. Section 5.4 presents the suggestions for future research.

5.2 Discussion

This paper empirically examined the relationship between corporate governance and dividend payout for firms listed on the JSE securities exchange over the period 2009-2013. A sample of 109 firms was drawn from the sectors; basic material, industrial, consumer goods, consumer services, technology, health care and telecommunications. We first examined the effect of corporate governance on dividend payout and observed that contrary to the literature relating to studies in developed markets, institutional ownership has a negative impact on dividend payout. This could suggest that, the sentiments of institutional investors in these firms are gravitating towards the payment of lower dividends and retaining more profits to invest in future projects. We these parties to hold superior knowledge about potential opportunities to be exploited in their home markets, the very opportunities that have led international investors to Africa's frontier markers. The results of the study also point to a positive relationship between board composition and dividend payout. This suggests that corporate boards ensure effective protection of shareholder interests by effecting higher dividend payments. A negative relationship between board size and dividend payout is recorded. This suggests that as the size of the board increases, lower dividend payouts are effected. Contrary to the literature, we observed a positive relationship between growth and dividend payout. Our findings are consistent with that of Abor and Fiador (2013), who argue that firms that exhibit high growth in South Africa are very capable of maintaining high dividend payout policy as these firms may have potential positive NPV projects. Although our findings are consistent we present an opposing view. We argue that growth leads profitability and growth depends on the extent that firms undertake productive investment (Ojah et al., 2010; Stanlib, 2014). However, it is known that productive investment is not taking place in these environments and thus, it cannot be expected that profitability levels will continue to grow to sustain high dividend payouts. The pattern of dividend payout by these firms

during the period of our review depicts periods of peaks and falls which is an indication that dividends are not initiated at a level where they will be maintained over time in the South African market. Moreover, we observed a negative relationship between profitability and dividend payout. This is contrary to the findings of Fama and French (2001), who recorded a positive relationship between profitability and dividend payout. We then examined the impact of dividend payout on corporate governance and observed a positive relationship between dividend payout and board composition. According to Abor and Fiador (2013), this could suggest that high dividend payouts necessitate the adoption of good corporate governance practises. We found that debt has a negative impact on board composition. According to Abor and Fiador (2013) this indicates that an increase in debt is associated with a fall in the proportion of external board members. Alternatively, an increase in equity leads to an increase in the proportion of external board members. Consistent with the literature, we found a significant positive relationship between growth and board composition which suggest that the need for external members on the board increase with the growth of the firm. Consistent with Abor and Fiador (2013), we found a significant positive relationship between firm size and board composition as well as firm age and board composition. This suggests that both the size and age of the firm positively influence the proportions of non-executive directors.

5.3 Conclusion

Governance arrangements will to a certain degree remain unique to each region due to varying cultures and history, (Nestor and Thompson 2000). Although emerging markets have embraced corporate governance mechanisms that resemble those of developed economies we argue that these rarely function like that of their counterparts in developed economies. South Africa has well coded corporate governance codes in black and white; however by virtue of being an emerging market, it is still susceptible to challenges facing other developing economies. According to Ayogu (2001) the African continent is generally characterised by weak governance systems. Moreover, he argues that corporate governance is nothing but a mirror image of political governance and that the problem with Africa is certainly not a lack of laws, but has always been the lack of power to enforce corporate regulations and laws for a better system. We present

the argument that if governance is an outcome of an effective legal protection of shareholders, in an era where Africa is ripe with growth prospects, shareholders of these firms should be more willing to allow these firms to retain more funds and thus demonstrate the confidence that there will be a future benefit arising from the payoff of good projects later on. However, despite of the efforts of the South African government to reduce barriers to investment, the capital expenditure levels of South African firms have been recorded to be at their lowest in a decade, (Stanlib, 2014). This is an indication that little has been done in the past years by the vast majority of these organisations to take on positive NPV projects that will yield higher returns for their shareholders. We take the stance that to an extent dividend payout in these markets will always resemble an element of substitution. Demands for investment capital have increased in these markets, creating much need for foreign institutional investment. The implication then for policy makers in some of these markets is that the prolonged neglect of corporate governance practises will result in the consequence of not overcoming the barriers associated with attracting these much needed funds as well as not realising their growth targets.

5.4 Suggestions for future research

As is the case with related research in the field, this study is not without limitations. Due to data limitations, our analysis is restricted to 11 factors that can influence dividend payout and the time horizon chosen may not give a better view of what the influences of both King I and II have been over time. As data availability improves, future studies may look into carrying out the review over a longer time horizon as well as how other potential determinants such as debt financing, credit ratings and foreign ownership affect dividend payout policies in the context of an emerging market.

References:

Abor, J., & Fiador, V. (2013). Does corporate governance explain dividend policy in Sub-Saharan Africa? *International Journal of Law and Management*, *55*(3), 201-225.

Adjaoud, F., & Ben-Amar, W. (2010). Corporate governance and dividend policy: shareholders' protection or expropriation? *Journal of Business Finance & Accounting*, *37*(5-6), 648-667.

Agrawal, A. and Knoeber, C. (2001), "Do some outside directors play a political role?" *Journal of Law & Economics*, Vol. 44, pp. 179-198.

Alam, M. Z., & Hossain, M. E. (2012). Dividend Policy: A Comparative Study of UK and Bangladesh Based Companies. *IOSR Journal of Business and Management*, *1*(1), 57-67.

Allen, F., & Michaely, R. (2003). Payout policy. *Handbook of the Economics of Finance*, *1*, 337-429.

Al-Malkawi, H. A. N., Pillai, R., & Bhatti, M. I. (2014). Corporate governance practices in emerging markets: The case of GCC countries. *Economic Modelling*, *38*, 133-141.

Anderson, R., Bates, T., Bizjak, J. and Lemmon, M. (2000), "Corporate governance and firm
diversification", *Financial Management*, Vol. 21, pp. 5-22.

Ang, J. S. (1987). Do dividends matter. *A review of corporate dividend theories and evidence. New York: Salomon Brothers Center for the Study of Financial Institutions and the Graduate School of Business Administration, New York University*.

Arbel, A., Carvell, S., & Postnieks, E. (1988 May–June). The smart crash of October 19th. Harvard Business Review, 66, 124–136.

Armstrong, P. (2002) Report on the seminar on the theme "Corporate Governance and International Financial Standards," Abidjan, Ivory Coast.

Armstrong, P., Segal, N. and Davis, B. (2006). Corporate governance in South Africa", in Mallin, C. A. (eds), Handbook on International Corporate Governance.

Ayogu, M. D. (2001). Corporate Governance in Africa: The Record and Policies for Good Governance. Economic Research Papers, No. 66, Africa Development Bank

Babic, V. and Janosevic, S. (2001) How to Improve the Process of Strategic Change Management in Transition Economy Enterprises. Paper presented at the Strategic Management Society: 21st Annual International Conference, San Francisco, CA.

Baker, H. K., Powell, G. E., & Veit, E. T. (2002). Revisiting the dividend puzzle: Do all of the pieces now fit?. *Review of Financial Economics*, *11*(4), 241-261.

Bhattacharya, S. (1979). Imperfect information, dividend policy, and" the bird in the hand" fallacy. *The Bell Journal of Economics*, 259-270.

Black, F. (1976). The dividend puzzle. *The Journal of Portfolio Management*, *2*(2), 5-8.

Black, F., & Scholes, M. (1974). The effects of dividend yield and dividend policy on common stock prices and returns. *Journal of financial economics*, *1*(1), 1-22.

Bøhren, Ø., Josefsen, M. G., & Steen, P. E. (2012). Stakeholder conflicts and dividend policy. *Journal of Banking & Finance*, *36*(10), 2852-2864.

Boone, A.L., Field, L.C., Karpoff, J.M. and Raheja, C.G. (2007), "The determinants of corporate board size and composition: an empirical analysis", *Journal of Financial Economics*, Vol. 85, pp. 66-101.

Breuer, W., Rieger, M. O., & Soypak, K. (2014). The behavioral foundations of corporate dividend policy a cross-country analysis. *Journal of Banking & Finance*, *42*, 247-265.

Brickley, J. A., & Zimmerman, J. L. (2010). Corporate governance myths: comments on Armstrong, Guay, and Weber. *Journal of Accounting and Economics*, *50*(2), 235-245.

Brooks, C. (2008). Introductory econometrics for finance. Cambridge university press.

Chang, S. J., & Hong, J. (2000). Economic performance of group-affiliated companies in Korea: Intragroup resource sharing and internal business transactions. *Academy of Management Journal*, *43*(3), 429-448.

Chen, C. X., Lu, H., & Sougiannis, T. (2012). The Agency Problem, Corporate Governance, and the Asymmetrical Behavior of Selling, General, and Administrative Costs*. *Contemporary Accounting Research*, *29*(1), 252-282.

Chiang, K., Frankfurter, G.M., Kosedag, A. and Wood, B. Jr, (2006) "The perception of dividends by professional investors", *Managerial Finance*, Vol. 32, No. 1, pp: 60-81.

Chris, G., Theodoros, K., & Vasilios, C. (2014). Corporate Governance in Practice. The Greek Case. *Procedia Economics and Finance*, *9*, 369-379.

Core, J. E., Holthausen, R. W., & Larcker, D. F. (1999). Corporate governance, chief executive officer compensation, and firm performance. *Journal of financial economics*, *51*(3), 371-406.

DeAngelo, H., & DeAngelo, L. (2006). The irrelevance of the MM dividend irrelevance theorem. *Journal of Financial Economics*, *79*(2), 293-315.

DeAngelo, H., DeAngelo, L., & Skinner, D. J. (2004). Are dividends disappearing? Dividend concentration and the consolidation of earnings. *Journal of Financial Economics*, *72*(3), 425-456.

DeAngelo, H., DeAngelo, L., & Stulz, R. M. (2006). Dividend policy and the earned/contributed capital mix: a test of the life-cycle theory. *Journal of Financial economics*, *81*(2), 227-254.

Denis, D. J., & Osobov, I. (2008). Why do firms pay dividends? International evidence on the determinants of dividend policy. *Journal of Financial Economics*, *89*(1), 62-82.

Dharwadkar, B., George, G., & Brandes, P. (2000). Privatization in emerging economies: An agency theory perspective. *Academy of management review*, *25*(3), 650-669.

Dong, M., Robinson, C., & Veld, C. (2005). Why individual investors want dividends. *Journal of Corporate Finance*, *12*(1), 121-158.

Drury, C. (2008). Management and cost accounting, 7th ed., Cengage Learning, London.

Easterbrook, F. H. (1984). Two agency-cost explanations of dividends. *The American Economic Review*, 650-659.

Ehsan, S., Tabassum, N., Akram, Z., & Nasir, R. (2013). Role of Insider and Individual Ownership Structure in Dividend Payout Policy: Evidence from Pakistan. *Middle-East Journal of Scientific Research*, *17*(9), 1316-1326.

Fama, E. F. (1980). Agency Problems and the Theory of the Firm. *The Journal of Political Economy*, 288-307.

Fama, E. F., & French, K. R. (2001). Disappearing dividends: changing firm characteristics or lower propensity to pay?. *Journal of Financial economics*, *60*(1), 3-43.
Fama, E.F. & Jensen, M.C. (1983). "Agency Problems and Residual Claims". *Journal of Law
and Economics, 26: 327-349.*

Fan, J. P., Wei, K. C., & Xu, X. (2011). Corporate finance and governance in emerging markets: A selective review and an agenda for future research. *Journal of Corporate Finance*,
17(2), 207-214.

Farinha, J. (2003), 'Dividend Policy, Corporate Governance and the Managerial Entrenchment Hypothesis: An Empirical Analysis', *Journal of Business Finance & Accounting*, Vol. 30, Nos. 9&10, pp. 1173–209.

Faulkner, D., & Loewald, C. (2008). *Policy change and economic growth: a case study of South Africa*. International Bank for Reconstruction and Development/The World Bank.

Fosberg, R.H. (2004), "Agency problems and debt financing: leadership structure effects", Corporate Governance, Vol. 4 No. 1, pp. 31-38.

Frankfurter, G. M., & Wood Jr, B. G. (2002). Dividend policy theories and their empirical tests. *International Review of Financial Analysis*, *11*(2), 111-138.

Frentzel, B. 2013. Capital structure theory since Modigliani-Miller: development in the search for the optimal leverage of the firm.

Gelb, S. (2003). *Inequality in South Africa: Nature, causes and responses*. Edge Institute.

Gillan, S. L., & Starks, L. T. (2003). Corporate governance, corporate ownership, and the role of institutional investors: A global perspective. *Journal of Applied Finance*, *13*(2), 4-22.

Gordon, M. 1961. The Investment, Financing, and Valuation of the Corporation.

Grullon, G., & Michaely, R. (2002). Dividends, share repurchases, and the substitution hypothesis. *The Journal of Finance*, *57*(4), 1649-1684.

Grullon, G., Michaely, R., & Swaminathan, B. (2002). Are Dividend Changes a Sign of Firm Maturity?*. *The Journal of Business*, *75*(3), 387-424.

Gujarati, D. N. (2003). Basic Econometrics, McGraw-Hill, New York.

Gupta, A. and Banga, C. (2010). The determinants of dividend policy'**,** *Indian Institute of Management Calcutta*, 37 (2), pp**.** 63-77.

Hoberg, G., & Prabhala, N. R. (2006). *Dividend Policy, Risk*. and Catering, Working Paper, University of Maryland.

Holder, M., F. W. Langrehr and J. L. Hexter (1998), 'Dividend Policy Determinants: An Investigation of the Influences of Stakeholder Theory', *Financial Management*, Vol. 27, No. 3, pp. 73–82.

Holmstrom, B., 1999. Managerial Incentive Schemes: A Dynamic Perspective. *Review of Economic Studies* 66, 169–182.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of management journal*, *43*(3), 249-267.

Hsiao, C. (2003). Analysis of Panel Data. Cambridge University Press, Cambridge.

Hussainey, K., Mgbame, C. O., & Chijoke-Mgbame, A. M. (2011). Dividend policy and share price volatility: UK evidence. *Journal of Risk Finance, The*, *12*(1), 57-68.

Institute of International Finance (IIF), (2007). *Corporate Governance in South Africa – An Investor Perspective,* Institute of International Finance, Inc., Johannesburg.

Jensen, M. C., & Meckling, W. H. (1979). *Theory of the firm: Managerial behavior, agency costs, and ownership structure* (pp. 163-231). Springer Netherlands.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American economic review*, 323-329.

Jensen, M., 1993. The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *Journal of Finance* 48, 831–880.

Jensen, M., Murphy, K., 1990. Performance and Top Management Incentives. *Journal of Political Economy* 98, 225–264.

Jiraporn, P., Kim, J. C., & Kim, Y. S. (2011). Dividend payouts and corporate governance quality: An empirical investigation. *Financial Review*, *46*(2), 251-279.

John, K., & Knyazeva, A. (2006). Payout policy, agency conflicts, and corporate governance. *Agency Conflicts, and Corporate Governance (May 2006)*.

John, K., & Williams, J. (1985). Dividends, dilution, and taxes: A signalling equilibrium. *The Journal of Finance*, *40*(4), 1053-1070.
Jones, G. (2015) Bad omen as capital spending halves, *Business Day (South Africa) Limited*, January.

Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 263-291.

Karmin, C. (2000). Corporate-governance Issues Hamper Emerging Markets –Stalled Changes Push some Shareholders to Abandon the Field.*Wall Street Journal.*

Kim, E. H., & Lu, Y. (2013). Corporate governance reforms around the world and cross-border acquisitions. *Journal of Corporate Finance*, *22*, 236-253.

Kinkki, S. (2001). Dividend Puzzle-A Review of Dividend Theories. *Liiketaloudellinen aikakauskirja*, 58-97.

Kumar, J. (2006). Corporate governance and dividends payout in India. *Journal of Emerging Market Finance*, *5*(1), 15-58.

Kyereboah-Coleman, A. (2007). Relationship between corporate governance and firm performance: an African perspective (Doctoral dissertation).

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (2000). Agency problems and dividend policies around the world. *The Journal of Finance*, *55*(1), 1-33.

Lease, R. C., John, K., Kalay, A., Loewenstein, U., & Sarig, O. H. (2000). Dividend Policy: Its Impact on Firm Value (Harvard Business School Press, Boston, MA).

Lehn, K., Patro, S. and Zhao, M. (2004), "Determinants of the size and structure of corporate
boards: 1935-2000", working paper, University of Pittsburgh, Pittsburgh, PA

Lin, K. L., & Shen, C. H. (2012). The Impact of Corporate Governance on the Relationship between Investment Opportunities and Dividend Policy: An Endogenous Switching Model Approach*. *Asia-Pacific Journal of Financial Studies*, *41*(2), 125-145.

Linter, J.(1959) 'Distribution of incomes of corporations among dividends, retained earnings and taxes', *American Economic Review*, 46, pp. 97-113.

Lipton, M. & Lorsch, J.W. (1992). "A Modest Proposal for Improved Corporate Governance", *Business Lawyer*, 48: 59-77.

Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal determinants of external finance.

Malherbe, S., & Segal, N. (2001). Corporate Governance in South Africa.Development *Centre Discussion Paper*.

Mangena, M. and Chamisa, E. (2008). Corporate governance and incidences of listings suspension by the JSE Securities Exchange of South Africa: An empirical analysis. *International Journal of Accounting*, 43: 28-44.

Mbeki, T. (1998). Statement of Deputy President Thabo Mbeki at the opening of the debate in the National Assembly, on "Reconciliation and Nation Building": National Assembly, 29 May 1998.

Mehta, A. (2012). An empirical analysis of determinants of dividend policy-evidence from the UAE companies. *Global Review of Accounting and Finance*, *3*(1), 18-31.

Michaely, R., & Roberts, M. (2006). Dividend smoothing, agency costs, and information asymmetry: Lessons from the dividend policies of private firms. *Unpublished working paper*.

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *the Journal of Business*, *34*(4), 411-433.

Miller, M. H. (1986). Behavioral rationality in finance: The case of dividends. *Journal of Business*, S451-S468.

Miller, M. H., & Rock, K. (1985). Dividend policy under asymmetric information. *The Journal of Finance*, *40*(4), 1031-1051.

Mitton, T. (2004). Corporate governance and dividend policy in emerging markets. *Emerging Markets Review*, *5*(4), 409-426.

Morck, R., Wolfenzon, D., & Yeung, B. (2005). Corporate Governance, Economic Entrenchment, and Growth. *Journal of Economic Literature*, *43*(3), 655-720.

Moulton, B.R. (1987). "Diagnostics for Group Effects in Regression Analysis", *Journal of Business and Economic Statistics*, 5: 275-282.

Nellor, D. C. (2008). The rise of Africa's "frontier" markets. *Finance & Development*, 45(3), 30-33.

Nestor, S. and Thompson, J. K. (2000) Corporate Governance Patterns in OECD Economies: Is Convergence Under Way? Organisation for Economic Co-operation and Development.

Nissim, D., & Ziv, A. (2001). Dividend changes and future profitability. *The Journal of Finance*, 56(6), 2111-2133.

Ntim, C. G. (2013). An Integrated Corporate Governance Framework and Financial Performance in South African-Listed Corporations. *South African Journal of Economics*, 81(3), 373-392.

Ntim, C.G., Opong, K.K., Danbolt, J. & Thomas, D.A. (2011a). Voluntary Corporate Governance Disclosures by Post-Apartheid South African Corporations. *Journal of Applied*
Accounting Research, Forthcoming.

Ojah, K., & Mokoaleli-Mokoteli, T. (2010). Possible effective financing models for entrepreneurship in South Africa: Guides from microfinance and venture capital finance. *African Finance Journal*, *12*(1), 1-26.

Ojah, K., Gwatidzo, T., & Kaniki, S. (2010). Legal environment, finance channels and investment: The east african example. *The Journal of Development Studies*, *46(4), 724-744.*

Renneboog, L. and G. Trojanowski (2007), 'Control Structures and Payout Policy', *Managerial Finance*, Vol. 33, No. 1, pp. 43–64.

Rodrik, D. (2006). Understanding South Africa's Economic Puzzles, CID Working Paper No.130, Centre for International Development, Harvard University.

Ross, S.A., Westerfield, R.W. & Jaffe, J.F. (2009. Corporate Finance Fundamentals. Eight edition McGraw Hill.

Rozeff, M. S. (1982). Growth, beta and agency costs as determinants of dividend payout ratios. *Journal of financial Research*, *5*(3), 249-259.

Shefrin, H. M., & Statman, M. (1984). Explaining investor preference for cash dividends. *Journal of Financial Economics*, *13*(2), 253-282.

Shiller, R. J., Fischer, S., & Friedman, B. M. (1984). Stock prices and social dynamics. *Brookings Papers on Economic Activity*, 457-510.

Shiller, R. J. (1989). Fashions, fads, and bubbles in financial markets.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, *52*(2), 737-783.

Short, H., Zhang, H. & Keasy, K. (2002).The link between dividend policy and institutional ownership.

Stanlib. (2014). SA growth in fixed investment spending remained modest in Q3 2013. www.stanlib.co.za

Thaler, R. H., & Shefrin, H. M. (1981). An economic theory of self-control. *The Journal of Political Economy*, 392-406.

Vaughn, M., & Ryan, L. V. (2006). Corporate governance in South Africa: A bellwether for the continent? *Corporate Governance: An International Review*, *14*(5), 504-512.

Walter, J.E. (1963), "Dividend policy; its' influence on the value of the enterprise*", Journal of Finance,* Vol. 18, pp. 280-91.

West, A. (2009), "The ethics of corporate governance: a South African perspective", *International Journal of Law and Management*, Vol. 51 No. 1, pp.10-16.

Wright, M., Filatotchev, I., Hoskisson, R. E., & Peng, M. W. (2005). Strategy Research in Emerging Economies: Challenging the Conventional Wisdom*. *Journal of management studies*, *42*(1), 1-33.

Yermack, D. (1996), "Higher market valuation of companies with a small board of directors",
Journal of Financial Economics, Vol. 40 No. 2, pp. 185-211.

Young, M.N.,Peng, M.W., Ahlstrom, D., Bruton, G.D. & Jiang, Y. (2008). Corporate governance in emerging economies: A review of the principal-principal perspective. *Journal of Management studies*, 45(1), 196-220.

Zahra, S. A., & Filatotchev, I. (2004). Governance of the Entrepreneurial Threshold Firm: A Knowledge-based Perspective. *Journal of Management Studies*, 41(5), 885-897.

Zingales, L. (1998) .Corporate governance. The new palgrave dictionary of economics and the law.

Zuma, J. (2014). "State of the Nation Address": National Assembly, 17 July 2014.