CORPORATE GOVERNANCE AND DIVIDEND PAYOUT POLICY: A STUDY OF KSE LISTED FIRMS OF PAKISTAN

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Abstract

In recent years corporate governance has become promising area of research. The main objective of this study is to determine the relationship between corporate governance and payout policies. The study used the data of 100 KSE listed companies for the period of year 2007 to 2013. The advanced level of statistical methods are employed, consist of logic regression analysis and the comparative average of various groups. The corporate governance index includes the ratio of non-duty members of the board, board size, the dual responsibility of the CEO, the amount of stock owned by institutional investors, size of the auditing company, audit report quality and auditor replacement. Results of this study suggest that dividend is the result of the quality of corporate governance, and in companies where the rights of shareholders are not observed; opportunistic directors employ free flowing funds to invest in projects and fields that enhance their own prestige, grandeur and reputation. Biphasic results showed a meaningful correlation between the profitability of operations, liquidity, asset structure, corporate size and financial leverage and the payout policy. A relatively weak relationship exists between asset structure dividend payout policy while no meaningful relationship exists between growth opportunities and the latter.

Keywords: Agency Theory, Corporate Governance, Dividend Payout Policy, Pakistan, CEO, KSE

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1 Introduction

In recent years corporate governance has become promising area of research. The literature supports that corporate governance will ultimately improves the value of the firm. In this regard Cheema, (2003) suggest in their research that the good corporate governance can play a vital role in the economy of the Pakistan by attracting foreign investment and for mobilization of capital in the country. Dividends per share, due to their objectivity and tangibility, are of a significant value to the shareholder as one of the sources of cash. The issue has also been of interest to company managers, and has thus directed their vigor and attention toward the topic that is usually referred to as dividend payout policy. However the main issue involved here is to derive the main causes of employing a specific dividend policy by the company. In the present research, the relationship between corporate governance in companies listed in the Karachi Stock Exchange and the dividend policy utilized by them have been studied. According to the definition provided by the International Monetary Fund and the development and economic cooperation organization, corporate governance includes the relationship and responsibility structure within a major group, including the investors, members of the board of directors and the chief executive officer directed at the optimal promotion of competitive operations for the purpose of achieving the primary goals of the company. Corporate governance is influenced by numerous groups, among which shareholder composition; members of the board of directors and the Chief Executive Officer play a major role. Therefore, it can be claimed that these factors potentially influence the activities and policies carried out by managers. Dividend distribution by the company is one of the guidelines and policies discussed above. Hence a reasonable relationship is expected to exist between corporate governance mechanisms and dividend policy within the company. The presence of an appropriate corporate governance policy does assist in achieving auditor independence in its full form and leads to the creation of a transparent information atmosphere within which authorities in the economic arena make more knowledgeable decisions (Bolo, 2006). Evidence in hand indicates that corporate governance has turned into one of the world's most common terminology in the current millennium. The collapse of giant companies such as Enron and WorldCom in the United States during recent years has directed public attention to the prominent role of corporate governance
and the principles discussed above in prevention of similar dissolutions (HassasYeganeh, 2008).Corporate governance issues and problems arise from illegitimate motives and asymmetrical information among managers and stockholders. Conflicts of interest, along with the inability to form explicit and

clear cut agreements among managers and shareholders on the possible future consequences leads to insoluble issues on the topic of agency which in turn affects company value (Heart, 1995).

Effective disclosure of corporate governance practices leads the firm towards profitability and growth. Transparency and disclosure are core attributed of OECD, 1999 reports and also regarded as most important attributes in assessing the corporate governance practices across the globe. Recent big collapse such as Enron or World COM reveals the poor standard of disclosure in their financial statements and highlighted the importance of disclosure aspect in body of main research stream. Corporate governance is designed to reduce agency costs through supervision of manager performance and by limiting opportunistic behavior displayed by managers Bolo, 2006).Corporate governance is a tool for providing balance between shareholders and management leading to reduced agency problems and the possibility of managers utilizing dividend payout policies below optimal levels. Hence, it is expected that corporate governance strategies influence dividend policies (Fakhari, 2010).Dividend policy is one of the most controversial issues in finance; within which conflicting theoretical frameworks that may occasionally lack solid empirical support, attempt to explain dividend payout policies of the company (Frankfurter and Wood, 2002).Dividend payout decisions made by company management are a sensitive and significant issue (Mehrani and Talane, 1998).Results of this research shall also enable investors to identify companies that employ dividend payout policies according to a corporate governance strategy complimentary to their own approach more knowledgably and based on their own investment policies. Benefits arising from this newly gained body of knowledge and motives for changes resulting from it can be stated as justifications for performing the present research. Research Objectives are pointed out through

- The recognition of the nature and the introduction of a more extensive structure for corporate governance and its significance from the viewpoint of company supervision.
- The recognition of corporate governance mechanisms in Iran and their role in determining dividend payout policies.

2 Literature review

According to Grossman and Hart idea (1980) and Jensen (1986), dividend policy reduces agency conflict by reducing cash flow available for managers, because managers certainly don't act for stockholders profits. If managers increase dividends value, free cash flow decreases; therefore, free cash flow problem decreases. In addition, dividend payment helps agency problem control (Kowalewski Oskar. Talavera Oleksandr 2007). Most of the empirical work which have been done on the analyzing the relationship between corporate governance and firm performance has been done from single control perspective like board size, CEO duality and audit committee. Arslan et al., (2014) examined the relationship of audit committee and CEO duality with firm performance by taking ROA and ROE as dimensions of firm performance. They argued that there is significant positive relationship between audit committee and firm performance while no significant relationship of CEO duality and firm performance (Arslan et al., 2014). Dividend payment to stockholders reduces managers' controlled resources and consequently reduces manger's power; in addition. It increases investment market supervision probability on corporate, because corporate's new stock issuance probability increases by dividend payment (Jensen C Michael 1986) and this matter caused corporate to be examined by investor banks, stock and securities and investors. Corporate precise supervision by investor markets helps to reduce manager opportunistic behavior and finally agency costs, so dividend helps to informational inequality and agency conflict reduction among managers and investors and if a corporate governance system acts well, there will be fewer informational and supervision problems (Silva Luis, Goergen Marc, Renneboog Luc 2004). According to agency model, there are 2 hypotheses provided to justify dividend behavior in financial literature: result theory and replacement theory. Result theory is based on free cash flow theory. According to free cash flow theory, opportunistic managers utilize free cash in order to invest in projects and affaires making more prestige, reputation and well-knowing for their benefits (Mitton Todd 2004). Result theory indicates that dividend is as a result of corporate governance quality. Actually in firms which stockholders rights are not considered, face with opportunistic managers, because managers have broad resources and face with low level of supervisions from stockholders. In this case, managers try to save cash flow instead of distributing among stockholders; therefore, less dividend payment is as a result of weaker governance, but if managers have enough power, they can influence on dividends (BlauBenjamin, Fuller Kathleen 2008). Another theory in justifying dividend is replacement theory. According to this theory, dividend is replacement of stockholders right, means corporates with weaker governance have more dividends to be replaced for weak management. This issue focuses mostly on corporate needs for financial providing by external capital markets. Corporates should have acceptable credit for external financial supplement, and one way to make such credit is paying dividends. Good behavior with stockholders for corporates with weak stockholders rights leads to corporate credit. Therefore, paying dividend is the biggest credit accomplishment for these corporates. Of course, if corporates have strong governance structure,

their need to pay dividend becomes less (Mitton Todd 2004).

Many researchers have tried on exploring these hypotheses. He showed in 2002 in research of 22 new-born markets that as much the corporate external governance factors including information disclosure, country trade rules and stock market regulations improve, and dividend role in agency cost control decreases. He proved replacement theory in his research. Mitton in 2004 showed by agency models that corporates with higher governance rate have higher dividend payments and incorporates that corporate governance is stronger; there is negative relationship between growth and dividend (Blau Benjamin, Fuller Kathleen 2008). Sawicki in 2006 using 2 theories of result and replacement arrived to different results before and after Asia financial crisis. Before crisis, results indicated the reverse relationship between corporate governance and dividend policy and this relationship turns to positive direction after crisis (Sawicki Julia 2008). Pronsit and Yixi showed in 2006 that there is reverse relationship between dividend and stockholders power. As more stockholders rights are neglected, organizations pay higher dividend. Their results are confirmation of replacement theory (Jahankhani Ali, Ghorbani Saeed 2005). Kowalewski, Stetsyuk, Talavera in 2007 concluded by replacement and result theories that if stockholders rights are considered better, corporates will pay higher dividend especially when investing chances are weak (Kowalewski Oskar. Talavera Oleksandr 2007). Pronsit et al. in 2008 showed that there is positive relationship between corporate governance quality and dividend. These results don't change after corporate features control as corporate size, profitability and growth chances (PornsitJiraporn, Jang-Chul Kim, Young Sang Kim 2008). Garay and Gonzales in 2008 explored the relationship between corporate governance and firm value. Their findings showed that there is positive relationship between corporate governance mechanisms and firm value (GarayUrbi, Gonzalez Maximilian 2008).Chae et al. in 2009 showed that corporates with more effective governance and higher financial limitations pay lower dividend, while corporate with weaker governance and lower external financial supplement limitations pay more dividends (ChaeJoon, Kim Sungmin. Lee Eunjung 2009). In spite of done researches in our country, there has not been similar research yet; although, corporate governance and dividend has been explored individual like corporate governance and corporates performances (Fakhari and Daryei, 2008; Mashayekh 2006 and Ghaemi 2006 and Namazi 2008) and about dividend (KavehMehrani 2004) and (Sasan Mehrani 2005) and Jahankhani 2005). For this reason, being new issue and necessity of corporate governance in country, which procedure is offered by stock and securities in 2006, this research tries to explore this issue for accepted corporates in new-born capital market of Iran.

2.1 Related works

Jiraporn et al (2011) illustrated in their research that an increase in the quality of corporate governance mechanisms results in higher motives for companies to increase dividends.Meaton (2004) studied corporate governance mechanisms and dividend policies in modern markets and indicated that companies with strong corporate governance mechanisms pay higher dividends. Moreover, the negative relationship between income distributed and growth opportunities in companies with better corporate governance is stronger. In fact, companies with a strong governance system seem more profitable, although profitability only partially accounts for higher dividends paid by the company. He illustrated in a study of 22 modern markets (2002) that as outside factors influencing corporate governance, such as disclosure obligations, domestic trade laws and regulations governing the stock market improve, the role played by stock returns in controlling agency costs wanes. In his research, he has succeeded in proving the replacement relationship. Sawicki (2006), used the two replacement and conclusion hypotheses to attain different conclusions before and after the financial crisis in Asia. Pre-crisis results indicate an inverse relationship between corporate governance and dividend payouts, while the relationship seems to have shifted to a positive direction post crisis.

Kowalski, Statsiac and Talavera (2007), used both conclusion and replacement hypotheses to conclude that companies shall pay higher dividends when shareholder rights are observed, especially in situations where investment opportunities are not strong.Pronsit et al (2008) indicated in their research that a positive relationship exists between corporate governance quality and dividend payouts. The results are not subject to change upon controlling other company characteristics such as company size, profitability, tax effects and growth opportunities.Chai et al (2009) illustrated in their research that companies with more effective corporate governance and more explicit restrictions on outsource financing pay lower dividends.

3 Research methodology

The variables in this research have been categorized into two groups. The first group includes variables pertaining to the corporate governance index and the second group involves dividend payout criteria. The corporate governance index variables include seven criteria namely the ratio of non-duty members of the board, board size, the dual responsibility of the CEO, the amount of stock owned by institutional investors, size of the auditing company, audit report quality and auditor replacement. For purposes of this research, the dividend payout policy criteria is the ratio of dividends paid, and the most significant control variables include operational profitability, liquidity, asset structure, growth opportunities, company size

and financial leverage. The time range of the research covers the period from 2007 to 2013 and the statistical population includes 100 companies listed in the Karachi Stock Exchange. The present research variables have been categorized into two groups. The first group includes corporate governance variables while the second group, involves the ratio of non-duty board members, board size, the dual role of the CEO, the number of shares owned by institutional investors, auditor size, type of audit report and auditor replacement. The criterion for income distribution in this study is the stock dividends ratio, while prominent control variables namely operational profitability, asset structure, growth opportunities, company size, and company debt have been taken into consideration for their influences in testing the hypotheses. The research variables listed as follow:

Ratio of non-duty members

This relative variable indicates the number of members that lack executive responsibilities within the board of directors.

Stock owned by institutional owners

This relative variable, addresses the issue of the amount of ownership by institutional owners within the structure of sample companies, or in other words, the percentage of company stock owned by institutional investors.

Board Size

This relative variable investigates the number of board members of sample companies.

The Dual Responsibility of the CEO

This nominal variable indicates the issue of segregation of CEO responsibilities from chairman of the board and/or other board members.

Auditor Size

The nominal variable above refers to the volume and extent of operations performed by the auditing company.

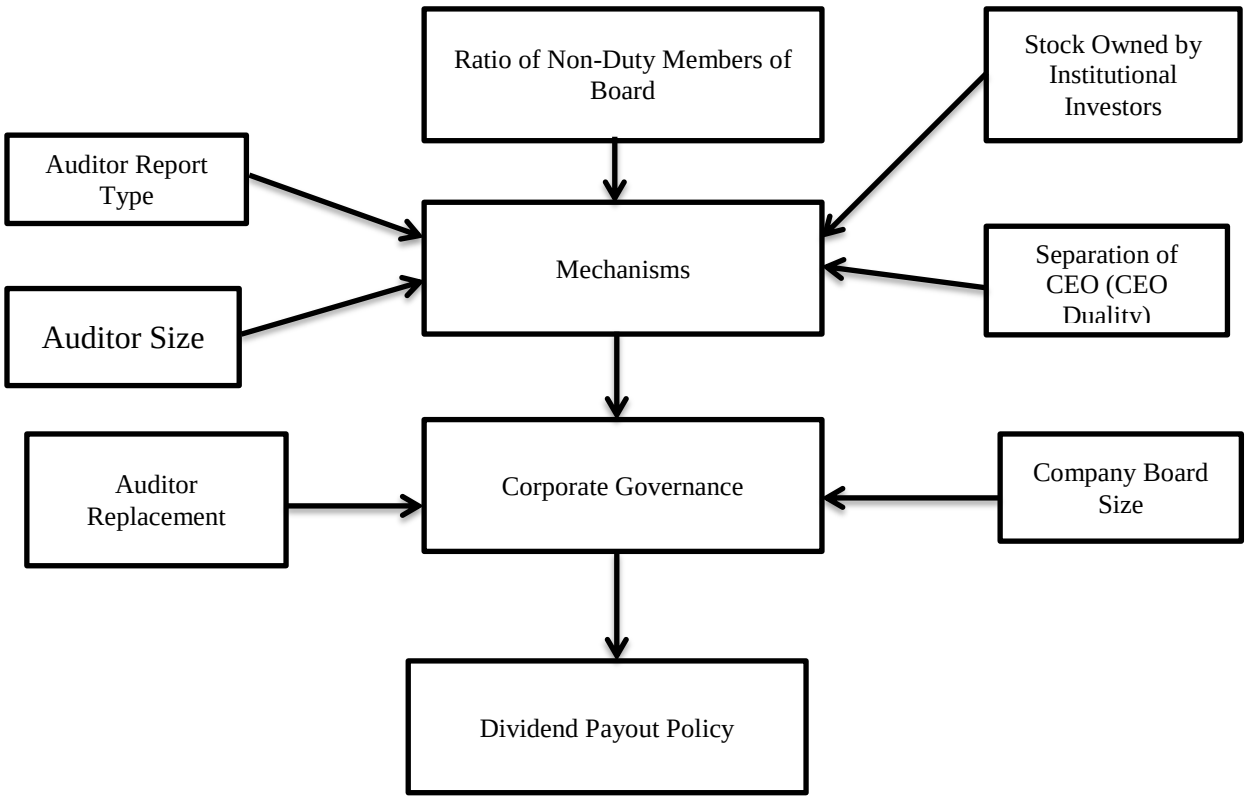
Auditor Report Type

This nominal variable, studies the quality of audit reports.

Auditor Replacement

The nominal value, auditor replacement, refers to the period covered by independent auditor services within sample companies. Corporate Governance Index Ratio of total ratings of year-company observances with a value of 1 to total year-company observance ratings with values 0 to 1.

Figure 1. Conceptual model of study



$$GINDEX = \sum dj / \sum Hj$$

In the equation above, $\sum$ dj is indicative of observances with a score of 1 and $\sum$ Hj stands for observances valued at 0 or 1.

Operation Profitability (CFA)

The profitability criterion here is the financial performance of the company defined as the ability of the company to generate net income and for purposes of this research is obtained through dividing net cash flows from operations by total company assets.

$$CFAi,t = CFi,t/ Ai,t$$

Where:

$CF_{i,t}$: Net cash flow from operations of company i in year t $A_{i,t}$: Total assets of company i in the year t

Liquidity (FCFA):The criterion for liquidity is the company ability to create financial commitment calculated by dividing free cash flow by total assets.

$$FCFA_{i,t} = FCF_{i,t} / A_{i,t}$$

Where:

$FCF_{i,t}$: Free cash flow of company i in year t $A_{i,t}$: Total assets of company i in year t

$$FCF_{i,t} = CF_{i,t} / CE_{i,t}$$

Where:

$CF_{i,t}$: Net cash flow from operations of company i in year t $CE_{i,t}$: Capital expenses of company i in year t

Asset Structure (TANG):Asset structure is defined as a function of tangible assets of the company, calculated by dividing fixed assets of the company by total assets.

$$TANG_{i,t} = FA_{i,t}/A_{i,t}$$

Where;

$FA_{i,t}$ = Fixed assets of company i in year t $A_{i,t}$ = Total assets of company i in year t-1

Growth Opportunity (MB)

The concept of growth opportunity relates to the limit based on which the company retains its level of growth as compared to other companies and where the ratio of market value of stockholder equity to its book value has been used.

$$MBi,t=MVi,t \setminus BVi,t$$

Where;

$MV_{i,t}$ = Total Assets of company i in year t $BV_{i,t-1}$ = Total Assets of company i in year t-1

Company Size (SIZE)

In the present research, the natural logarithm of total assets has been used as a replacement for company size.

$$SIZE_{i,t} = Lg\ (Total\ Assets)$$

Financial Leverage (FL)

Financial leverage reflects the composition of utilization of liabilities and stockholder equity for financing company assets and is calculated by the ratio of total liabilities to total assets.

$$FL\ i,t=Li,t/Ai,t$$

Where;

$L_{i,t}$ = Total liabilities of company i in year t $A_{i,t}$ = Total liabilities of company i in year t-1

Research Model: According to the hypotheses formulated for the relationship between corporate governance and dividend payout policies, the following regression model was presented:

$$DVI_{i,t} = \beta_0 + \beta_1 CG_{i,t} + \beta_2 CFA_{i,t} + \beta_3 FCFA_{,t} + \beta_4 TANG_{i,t} + \beta_5 MB_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 FL_{i,t} + \varepsilon_{i,t}$$

4 Results

To analyze the data and to test research hypotheses through implicit analysis of fact based information, the knowledge acquisition processes were performed. Mean, Median, highest, lowest, standard deviation; Skewness and Kurtosis were used as indices of descriptive statistics to analyze research variables. To test the normality of the distribution of variables, the Jarque-Bera parameter and to test the dependence among independent and dependent variables, the Pearson correlation coefficient tests were utilized. The Logit regression model was used to test the first hypothesis. The Logit model predicts the rank of each of the sample companies using the probability function hereby presented:

$$L_i = LN\ (p_i/1-p_i) = X_i^t\beta + \varepsilon_i$$

The z parameter was used to study the meaningfulness of the variable coefficients in the regression model and to test the meaningfulness of the regression model, the LR parameter was applied. To test the second hypothesis of the research, statistical observances were first categorized into two groups of high and low payouts based on the dividend policy variable and then a comparison was made between corporate governance indices in various dividend payout levels using the mean equality test among these groups. The mean equality test is used when research samples are subcategorized into two or more groups based on a specific characteristic.

The t parameter has been used in this test, and where t is above the 5 percent error interval, mean equality is approved, indicating the absence of a meaningful contrast between research variables at different levels; otherwise evidence suggests a

meaningful contrast existing between various variable levels. Descriptive statistics for data relating to the research variables have been presented in table 1.0. The amounts in this table are in percentage.

Table 1. Descriptive statistics

Variable	Mean	Median	Maximum	Minimum	Standard Deviation	Skewness	Kurtosis	Jarque-Bera Statistics
Dividend Ratio	50.25	67.3	99.5	0	36.92	0.22	2.44	14.63
Corporate Governance Index	61.22	57.14	98	15.25	16.48	-0.3	2.85	9.65
Operational Profitability Index	2.15	10	94	-25	13.45	1.09	7.97	823.06
Liquidity Index	0.84	7	85	-45	15.31	0.81	7.42	580.1
Asset Structure Index	5.21	25	55	5	16.82	0.67	2.73	28.29
Growth Opportunity	0.97	1.5	14.41	-5.64	1.85	2.26	12	2871.94
Company Size	0.51	6.38	17.52	5.3	3.49	0.38	1.45	85.27
Financial Leverage	5.57	65	1.94	20	21.22	1.11	8.19	909.74

Evidence suggests that corporate governance index in these companies is 98 %, while there have also been companies that have only observed a number of the mechanisms, thus reflecting a weak corporate governance index of approximately 15.25 %. Companies have, on average, distributed 50.25 % of their profits among shareholders. A few have distributed approximately 99.5 % of their profit. Some of the companies have indicated a 94 percent performance, while a few have had a low performance of approximately 25 percent. Although some possessed a substantial amount of cash approximately 85 %, the distribution was quite high, and other companies reflected negative liquidity. On average, 30% of all company assets investigated, are comprised of fixed assets, which account for a significant 55% in a number of companies and only 5% in others. In some companies, 15 times the growth has been observed while in a few others not only has no growth taken place, but rather a decline 6 times the market value of their stock has been reported. Company size, which has also been studied in this research, has been calculated using the natural logarithm of total company assets resulting in 6.5 units. In a number of companies where assets form a significant part, the size is equal to 16.52 units while in others, due to an absence of adequate assets the value equals 5 units. Liabilities have on average made up 65 percent of the assets, indicating that on average the contribution of liabilities in the capital structure of sample companies is higher than shareholder equity. Companies that have only used liabilities to provide for 20% of their assets. The Pearson correlation coefficient was used to study the correlation between research variables, as reflected in table 4.

Correlation among operational profitability and liquidity is strong enough to lead to colinearity. Accordingly, complexities arise in regression model analysis, which means that simultaneous processing of all descriptive variables would be impossible.

H1: Corporate governance index has a meaningful influence on dividend payout policies

In the first hypothesis the relationship between corporate governance and dividend policies has been tested. Thus dividend policy has taken on the role of the dependent variable, while corporate governance is the independent variable and operational profitability, liquidity, growth opportunities, asset structure, company size and financial leverage as factors controlling other potentially influential factors, the control variables. As can be observed in the table 3.0, three models have been offered for the presentation of the relationships. In model (1), the relationship between corporate governance and dividend policies have been tested. Model (2) offers separate tests for the liquidity variable in order to eliminate the colinearity problem and finally model (3) tests the influence of control variables except the liquidity variable on the relationship.

Lower dividend payout policies as compared to those with higher dividend payout policies.

In the second hypothesis the meaningful contrast among the corporate governance indices in sample companies at various dividend payout levels has been tested. For this purpose, in the first stage the dividend ratio variable has been categorized into two lower and higher groups and subsequently according to the mean equalization tests a comparison has been made between the corporate governance indices across companies with varying dividend payout levels. Results from comparisons among mean variables of the research at various dividend levels have been presented in table 4.

Table 3. Results from over fitting the relationship model for corporate governance and dividend payout policy

Description		**Model 1**	**Model 2**	**Model 3**
Y-intercept	**Coefficient**	-0.3032	-0.3785	3.1345
	(Z parameter)	-0.9021	-0.9965	3.9952
	(Z probability)	0.45	0.30	0.00
Corporate Governance Index	**Coefficient**	2.5541	2.587	2.352
	(Z parameter)	4.0252	3.8521	2.985
	(Z probability)	0.00	0.00	0.00
Operational Profitability	**Coefficient**			6.9512
	(Z parameter)			4.9845
	(Z probability)			0.00
Liquidity	**Coefficient**		1.9514	
	(Z parameter)		2.4521	
	(Z probability)		0.04	
Asset Structure	**Coefficient**			-1.8521
	(Z parameter)			-2.2815
	(Z probability)			0.03
Growth Opportunity	**Coefficient**			0.0070
	(Z parameter)			0.0808
	(Z probability)			0.91
Company Size	**Coefficient**			-0.0952
	(Z parameter)			-2.5829
	(Z probability)			0.00
Financial Leverage	**Coefficient**			-3.7521
	(Z parameter)			-4.95
	(Z probability)			0.00
Review of Overall Model Meaningfulness	**LR Parameter**	17.21	110.412	23.867
	(Parameter Probability)	0.00	0.00	0.00
Model Descriptive Ability	**Determining Coefficient**	0.0345	0.2541	0.048
H2: A meaningful contrast exists in the corporate governance index between companies with				
Dependent Variable:Dividend Payout Policy				

Table 4. Results from comparative tests of mean values for research variables at various dividend levels

Criteria for Company Categorization				
Variables	**Mean Values at Various Levels**		**Mean Comparison Tests**	
	High	**Low**	**t Parameter**	**Parameter Probability**
Corporate Governance Index	0.596	0.521	-3.8545	0.00
Operation Profitability	0.1215	0.0512	-7.9824	0.00
Liquidity	0.0891	0.0514	-3.1275	0.00
Growth Opportunities	2.0542	1.9925	-0.5121	0.59
Asset Structure	0.2785	0.2365	0.7025	0.55
Company Size	9.1254	9.4152	3.2251	0.00
Financial Leverage	0.7098	0.8521	9.2014	0.00

Evidence suggests that according to the t parameter and its probability the mean values for the corporate governance index across companies with varying levels are not equal. The meaningful contrast among mean values of this variable indicates further approval of the results from testing the first hypothesis. As observed, the mean value for the corporate governance index in companies with a higher dividend payout has been higher than those with lower payouts. Results from testing this hypothesis indicates that the mean values for operation profitability and liquidity variables in companies with higher dividend payouts is higher than those with lower payouts. Moreover the mean values for company size and financial leverage in companies with higher dividend payouts is less than the low dividend group. In accordance with the results from testing the first hypothesis, it can be claimed that no meaningful contrast exists between the two groups concerning the mean value for the growth opportunity variable**.** Despite the negative meaningful relationship between asset structure and dividend payout policies, it can be claimed that asset structure does not significantly justify dividend payout policies in companies.

5 Conclusion

This research attempts to study the relationship between corporate governance and dividend payout policies in companies listed in the Karachi Stock Exchange. Corporate governance index for this study was obtained from the average points considered for a number of corporate governance mechanisms such as: the ratio of non-duty members of the board, board size, dual responsibility of the CEO, portion of shares owned by institutional investors, auditor size, quality of audit reports and auditor replacement. The dividend to approved stock return ratio was used for the dividend policy and in cases where the absolute value of the ratio was higher than 0.25 it was concluded that the company had a high dividend payout policy and where the ratio was less than 0.25, the company was deduced to have followed a low dividend policy in the year of study. For purposes of controlling other factors that may influence the relationship between corporate governance and dividend payout policies, variables such as operation profitability, asset structure, company growth, size and financial leverage were considered as control variables. To perform related analysis and to test the hypotheses, a sample including 100 companies listed in the Karachi stock exchange were selected according to the criteria of the present research, and studied throughout a 7 year period (2007 to 2013). It could be claimed that studies were performed on 700 companies. In order to gain a relative knowledge of the status of research data in sample companies on an actual scale, the data were first described using descriptive statistics. Descriptive statistics pertaining to research variables were presented at both the level of sample companies and at various levels of values offered for dependent variables (high and low level dividend payouts). Next, the normality of the variables was tested and results indicated the abnormality of distribution of research variables; however based on the large number of observances and the central limit theorem, analysis was performed on the same data. The correlation among descriptive variables of the research was examined according to the colinearity control phenomenon; results indicated that the intensity of meaningful correlation among operation profitability and liquidity leads to the colinearity phenomenon. Hence each variable was separately tested according to Logit based on their dividend policies. Ultimately, to test the first hypothesis, over fitting of related models was performed and conclusions presented for the hypothesis. Subsequently, to test the second hypothesis the comparative mean value test was performed and deductions made. The findings of present study reveal that corporate governance, operating profitability and liquidity have positive influence on dividend payout policy while asset structure, company size and financial leverage have significant negative effect on dividend payout policy. It is also found that growth opportunity has no influence on dividend payout policy. Results from comparative testing of dividend payout policy indicates that the mean values for operation profitability and liquidity variables in companies with higher dividend payouts is higher than those with lower payouts. Moreover the mean value for company size and financial leverage in companies with higher dividend payouts is less than the low dividend group.

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