The Effect of Board Gender Constitution on Dividend Payments among Listed Pakistani Firms

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Abstract

The notion of this research is to investigate the impact of gender board composition on dividend payout on non-financial listed firms of Pakistan. For that purpose, the regression analysis is used. The data is collected from the companies' annual report from 2008 to 2018. This study provides the contribution related to the board gender diversity in the existing literature. In this regard, the results reveal positively significant impact of female directors on dividend payments. Furthermore, it has been found that the dividend payment is one of the significant phenomena through which the agency tensions between majority and minority shareholders within the context of closely held family firms could be mitigated and female members have the key role.

Key word: Gender composition, Dividend payout, Governance

Introduction

It has been clear from the past research that female administrators are slanted to change meeting room elements. (Jenson 1986) state that according to agency theory the managers utilize the firm's resources to attain benefits, instead of providing benefits to the shareholders. The presence of female directors, therefore, consequence in better exchanges of arguments. This in turn reduces the chances of decision being suffered from groupthink (Chen et al., 2016; Janis, 1983). Al-Amarneh et al. 2017 argue that the female directors influence the companies' dividend policy decision.

Few researchers like Pucheta-Martinez & Bel-Oms, 2016; Jurkus et al., 2011; Byoun, 2016; Van Pelt, 2013 investigate the effect of board gender composition on agency problems. Therefore, the females participation on board of directors and their influence on dividend policy decision is limited investigated. That is why, this study contribute to provide the effect of gender diversity of boards on dividend policy of commercial banks. This study gives a clear and better understanding of the composition of board gender and dividend payout ratio for manufacturing listed companies of Pakistan. This study brings benefit and contribution to certain parties such as the policy maker, regulator, individual investors, companies, future researchers and academician. Firstly, this study might able to contribute to the policy maker and regulator related to corporate governance and dividend policy of the non-financial listed companies.

Section 2 discuses about the literature, subsequently section 3 elaborates the methodology. The results are mentioned in section 4.Moreover, section 5 explains conclusion.

Literature Overview

The researchers like Ahern and Dittmar, 2012; Dezso and Ross, 2012; Matsa and Miller, 2013 investigated the effect of female on value of firm value as well as the performance of the firm. Moreover, in 2016 Faccio et al., examine the effect of female on risk taking behaviour. According to Shaukat et al., (2016), companies having female directors are more serious about the corporate social responsibility. These researches agree on the presence of female managers have significant effect on firm performance. Mastsa and Miller (2011, 2013) argue that recruit female more and than downsizing the workforce.

Some of the researchers explain the negative consequences of weak governance system and attempted to identify the determinant factors that may increase the implementation of corporate governance. The estimation of corporate administration practice at the firm level prompted numerous investigations that figured out how to discover a positive connection between corporate administration and firm worth. These investigations in a roundabout way indicated the value of corporate administration practice at a firm-level that has been polished in numerous nations including Indonesia. As per Berghe and Ridder in their examination, to see the connection between great administration and firm worth isn't simple. Numerous past bits of research demonstrated that there is no connection between corporate administration and firm worth, for example, the exploration of Daily and Dalton (1994). A similar outcome was likewise procured by (Young. 2003) investigated a couple of sorts of research that connection corporate administration with firm worth. (Klein. 2002) found that the free top managerial staff is increasingly effective in directing supervision. This was additionally expressed by (Cornett et al. 2017) where the firm worth will increment with the expansion of free officials. In the interim, (Chen et al. 2017) likewise found that the quality of a free board, number of gatherings and length of administration of the board have relations with the degree of misrepresentation in a firm. Liu and Hu (2005) stated that board structure not just fills in as a control instrument really taking shape of money related reports yet additionally as controlling investors in leading exercises that are a burden to the speculators. (Lipton and Lorsch, 1992, Jensen, 1993, Beiner et al.2003) are the ones that inferred that the magistrate board is a piece of the corporate administration system. This was sponsored up by the assessments of Allen and Gale (2000) that expressed that the chief board is a piece of a significant administration system. The looks into on the effect of a free official to firm esteem are as yet changed in its outcomes. There are investigates that expressed the high extent of free board have a positive association with the firm execution (Yermack 1996), (Daily 1993), and is excluded as the factor to firm execution Kenser and Johnson (1990), and have a negative association with the exhibition Baysinger and Kosnik (1991).

Hypotheses:

H1 = Gender diversity has significant effect on dividend payout.

Research Methodology:

Our example is amassed from a few sources. Director level information is acquired from the yearly report, which gives executive profiles, organizations including chief name, age, title, sexual orientation, the year. At the point when the director started administration, and council enrollment, among others. Our time of study is 2008–2018. Information on profits is gathered from the last record of organizations.

Measure

The dividend payout ratio is dependent variable , which is defined as dividends divided by net profit. The dividend payout ration can be measured in different ways like dividends divided by assets, dividends yields, dividends divided by sales and dividends per shares. In this research paper, the crucial variable is male and female directors composition on the board of directors.

Dividend Yield = $\alpha + \beta 1 \times$ male portion + $\beta 2 \times$ female fractioni, t + Z i;t + Year t + u i,t (Chen et.al.. 2017)

The control variable is represented by Z that influence an association's profit payout as prove by the surviving writing. Moreover, Yeart catches theyear-fixed effects . According to Michaely (2011) and (Harford et al. 2008)Z controls the effect of company attributes on the profit payments. In light of earlier research, we remember different board attributes for regression analysis to represent potential elective impacts on an organization's profit strategy. In particular, we control for board size, return on resources, and return on equity.

Variable	Definition	Sources
Measures of Dividend payout		
Dividend yield	Dividend per share over share price at the end of fiscal year (chen et.al 2017)	Annual Report
Board gender Composition Measures		
Female director fraction	The participation of female directors on the board / size of board (chen et.al 2017)	Annual Report
Fraction of male director	The participation of male dependent directors /size of board (chen et.al 2017)	Annual Report
Control variables		
Size of Board	The total number of directors on the board following (chen et.al 2017)	Annual Report
Return on Assets	EBIT (depreciation, and amortization) / total assets (chen et.al 2017)	Annual Report
Age of Board	The average age of director on the board following (chen et.al 2017)	Annual Report

Data Analysis

This study investigate the effect of board composition diversity on profit payments, which may cause biasing the outcomes of the research. Here we can consider an example that administration receive requests from investors to make the profit higher for them may similarly be progressively receptive to requests for more noteworthy board gender composition, which may cause our outcomes misleading. Therefore, the below mentioned recognizable proof methodologies are adopted to resolve this issue and assist in making causality.

The Female-to-male interest proportion is used by considering the female work power cooperation rate partitioned by the power of male work support rate in a specific scenario. This method is applied because organizations are in states where the female-to-male interest proportion is higher, which lead to more female directorships as they can take advantage of more extensive ability pools.

At long last, we utilize a distinction in-contrasts examination and analyze the adjustments in the profit payment around director as female arrangements (the gathering of treatment), contrasted and the adjustments in a coordinated example of executive male arrangements (the group of benchmark). Coordinated companies are distinguished depending on the affinity strategy of score .

The following techniques were used for the analysis:

- Common Effect Model
- Fixed Effect Model

Analysis Technique

As the data used for the analysis comprises both time series and cross sectional data, which is known as panel data, the descriptive statistics, simple ordinary lest square, correlation model and after that fixed effect, random effect model & Hausman test was applied after to find out the relationship between gender composition and dividend policy. The following are models have been tested.

Table 1: Descriptive Statistics

	Dividend Yield	Female	Male	Board Size	ROA	ROE
Mean	9.37	2.16	5.83	7.99	8.57	7.11
Median	6.11	3.00	5.00	8.00	7.54	6.72
Maximum	68.79	7.00	12.00	14.00	328.00	1268.95
Minimum	0.00	0.00	1.000	4.00	556.04	995.47

Table 1 depict that the minimum value of (4) members exist as size of board in non-financial companies, while the (14) members are the maximum value. The female mean participation is 2%, whereas male present 6 % of the size of board with a highest participation of 14% and 8% in few companies.

Table 2. Female Participation on the board for the period from 2008 to 2018

Variables	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Male	70.4%	70.2%	70.2%	68%	74.6%	70%	68.5%	68%	74.6%	65.2%	62%
Female	29.6%	29.8%	29.8%	32%	25.4%	30%	31.5%	32%	25.4%	34.8%	38%

Values in Table 2 present the yearly normal extent of males and females on the top managerial staff. As can be seen, female extent expanded during the investigation time frame yet it is still on a low level when contrasted with male. When we observe closely the organizations, which have female on the board, it has been clearly seen that the women join the board after leaving their own business or through agents. What's more, there is an expanding consciousness of workforce gender orientation uniformity and the organization began to take activities to upgrade board gender diversity on their board recent year.

Table 3. Correlation matrix for main variables

Variables	Dividend Yield	Female	Male	Board Size	ROA	ROE
Dividend Yield	1.0000 4.906*					
Female	0.1611 1.455*	1.0000				
Male	0.1764 1.6456*	0.7625 1.764*	1.0000			
Board Size	0.0610 2.448*	0.0977 0.4569*	0.5691 0.887*	1.0000		
ROA	0.0135 0.264*	0.0031 -1.493	0.0379 -1.866	0.0562 0.5496	1.0000	
ROE	0.0721 0.0360	0.0443 -2.498	0.0322 -0.5487	0.0071 -0.547	0.1955 1.7656	1.0000

Table 3 introduces the relationship framework between variables. The values depict that dividend yield positively significant to organizations' Return on Assets (ROA), the size of board , and return on equity (ROE).However, not identified with board gender composition. Moreover, the profit yield relationship is positive with board gender composition, the size of board, yet not identified with organizations' productivity. The connection between female extents in the governing body is significantly positive, showing that female are available in the meeting of large size organizations, yet it isn't important to have a female-just in large member of board. The connection between male extents in the directorate is positively significant demonstrating the main enormous size organizations have male executives also. Additionally, the relationship among different factors isn't on higher side. Therefore, the problem of multicollinearity does not exist.

Table # 4 Regression Model with Female directors in Board

	Coefficient	t.statistic	Prob.
Female	11.55	8.69	0.00
ROA	0.13	7.12	0.05
ROE	0.16	6.53	0.03
Board Size	0.98	7.35	0.04
R-Square	0.37		
Adjusted R-Square	0.56		

Results in table 4 show significantly positive coefficient of female executive on board (11.55), additionally the size of board and organizations profits apply significantly positive impact on profits' returns. Furthermore, the specification significantly show that 56% of organizations dividend policy changes due to profit yield (Adjusted R-Square is 0.56). The results are in line with the hypothesis and reliable with previous research, which revealed significantly positive relationship between composition of board gender and organizations' policy of profit maneuver due to profit yield.

Table 5.Regression Model with Male directors in Board

	Coefficient	t.statistic	Prob.
Male	13.65	8.69	0.00
ROA	0.13	7.12	0.05
ROE	0.16	6.53	0.03
Board Size	0.98	7.35	0.04
R-Square	0.37		
Adjusted R-Square	0.68		

Results in table 5 show significantly positive coefficient of male director on board(13.65).Additionally, board size and organizations benefit to apply significantly positive impact on dividend yield and the specification significantly show 68% (12 % more than is analyze female director in board room) of organizations dividend policy changes due to profit yield (Adjusted R-square is 0.68). The results are in line with the hypothesis and reliable with previous research, which revealed significantly positive relationship between composition of board gender and organizations' policy of profit maneuver due to profit yield.

Table 6 Fixed Effect Model (FEM)

Variables	Coefficient	Standard Error	t- stat	P-Value
Male	-0.061575	0.027631	-2.228475	0.0201
Female	0.079961	0.027536	2.903871	0.0106
ROA	0.083976	0.034321	2.446781	0.0021
ROE	0.066268	0.032674	2.028168	0.0430
Board Size	0.024361	0.018826	1.294008	0.0498
Intercept	-0.571752	0.271198	-2.108244	0.0354

Durbin Watson	2.464178
R Square	0.261525
Adj. R Square	0.172152
F-statistics	1.365978
Probability	0.005622

Note: *Return on Equity -ROE, Return on Assets -ROA*

From above table the result indicates a significant negative and positive relationship between dividend yield and gender from the analysis of the fixed effect model. These findings confirms the prior research of (Al-Amarneh et al., 2017),argued that board gender composition establish a positive effect on policy of dividend, however, global crisis and government participation reveal negative effect on this relationship, which depict that board gender composition and government participation on board take up the conservative financing policies at the time of global financial crisis. Furthermore, results show significantly positive relation between control variables and dividend yield. This indicates that dividend is managed more likely in larger companies, which could be a result of agency problems.

Table 7 Random Effect Model (REM)

Variables	Coefficient	Standard Error	t- stat	P-Value
Male	-0.062455	0.027949	-2.234579	0.0257
Female	0.066269	0.027032	2.451548	0.0145
ROA	0.006253	0.007859	0.795564	0.4265
ROE	-0.027162	0.011346	-2.394069	0.0169
Board Size	-0.011450	0.006011	-1.904674	0.0572
Intercept	0.179423	0.058972	3.042537	0.0024
Durbin Watson	1.981192			
R Square	0.022200			
F-statistics	3.373850			
Probability	0.005075			

Note: *Return on Equity -ROE, Return on Assets -ROA*

In the above table the random Effect Model is tested for the purpose to test the hausmen test for the selection of model between fixed effect Model and random Effect Model if the result is significant it means used Fixed Effect Model if insignificant than Common Coefficient Model is used.

Hausman test for fixed and random effects

To decide between fixed and random effects model the study conducted a Hausman test. Following is the criteria for husman test

H1: Random effects model is appropriate

H0: Fixed effects model is appropriate

Decision Criterion: Reject H0 if probability value is less than 5%, Accept H0 if probability value is greater than 5%.

Table 8. Hausman Test

Correlated Random Effects - Hausman Test

Test cross-section random effects

Test summary	Chi-sq. Statistic	Chi-Sq. d.f.	Prob.
Cross=section random	13.092987	5	0.0225

From above result of a Hausman test, where the null hypothesis is that the preferred model is of random effect model against the alternative the fixed effect model. Table 4.4 shows the results of the Hausman test, which shows that the probability of chi-square statistic is significant, thus we reject the null hypothesis and acceptance of alternate hypothesis. Therefore, fixed effect model is more suitable than random effect model. As such, the discussion of results has been made on the basis of fixed effect model.

Discussion and Conclusion

Descriptive figures show that concerning the Pakistani non-financial organizations' level of females in the meeting room run somewhere in between 0 to 30% with 3.5% as normal range. The values show that female participation in the company's board is viewed as less comparative with development nations (40%) (Al Rahahleh, 2017) and male in the board room extend somewhere in the range of 0 and 70 % with a normal 6.5%. This pool can be related to the female participation on the board, or having advantage of gender composition on the board. In short, the study findings show that board composition has positive relationship with policy of dividend. By and by, this research is significant benchmark for future studies to investigating the relationship between gender composition of board and policy of dividend. Moreover, in general patterns of the social and economic relations in Pakistan.

This study should just focus on one part of gender composition of board. Henceforth, the future researchers can investigate the effect of different qualities of gender composition of board, for example, training, culture, age and experience on companies execution with regards to different nations. Besides, this study has just centered around manufacturing firms listed on Pakistani stock exchange (PSE). Secondly, the similar research can be applied on developing nations. Thirdly, in Pakistan only few females taking part on the board to date. In this manner, future investigations should rethink the connection between gender composition of board and performance of firm after the regulations related to gender standards will be actually implemented. At last, various techniques, for example, contextual investigations or survey, might be helpful for a point by point comprehension of the subject matter made by composition of gender in listed firms of Pakistan.

Previous researchers investigated the effect of gender composition of board on divided policy. While, we hypothesis that the extent of male and female director on board, the extent of depended, institutional and official executives director, and the shares held by male and female director on board would influence dividend policy of listed firms of Pakistan.

As per agency theory, the composition of gender on board is a tool of monitoring the board of directors decision, provide more prominent advantages for investors, and resolves the conflicts between stockholders and managers, which leads toward prudent strategy in the interest of the company. What's more, speculators in developing economies will request prompt pay for their ventures, rather than sitting tight for increasingly future profit installments. Therefore, it can be argued that women director consider their cases in a tactical way to make the decision prudently regarding dividend policy.

Long residency settles on the board getting adults in the basic leadership process. With encounters, they are smarter to make choices in the firm (Liew et al., 2011). In addition, new director will bring crisp thoughts and basic intuition for the executives. A basic deduction for the board will likewise expand the viability of checking on financial statements (Liu and Sun, 2005). Thusly, the organization needs to have a correct composition for the turnover of the board of directors, since director turnover is one of the director characteristics (Vafeas, 2003)

The political discussion is to a great extent formed by against prejudicial contentions with respect to female portrayal in ground-breaking positions (Mensi-Klarbach, 2014). On the other hand, questions remain with respect to the financial effect of gender diversity due to uncertain and some of the time opposing discoveries in prior research. In this way, the monetary contention regarding whether women director can enhance the financial performance of company is still a big research territory.

Lately, various corporate shock and dissatisfactions have occurred, on account of powerless and inadequate corporate administration instruments. The gender composition of board of director pulled host pulled in basic thought by various social events including policymakers, administrative bodies, governments, organizations, administrators and investors, in light of its effect on corporate administration.

Mansourinia et al. 2013, argued that women directors are more straight forward information about firm and they are more interested to reinvest in the company rather dividend payment, which lead to exceptional yields. This contention is predictable by Khan, and Ghufran, (2018), Crifo and Forget (2013), Jensen 1986, who contend that directors have rousing powers to waste various company facilities for themselves when they have additional income from the company, rather paying additional cash to speculators. As per Van Pelt (2013), women directors are attempting to opposed to paying divided to investors and return all the more procuring, which result agency cost alleviated.

The researchers like Kılıç and Kuzey (2016), Adjaoud and Ben-Amar,(2010), Brockman and Unlu, (2009) and La Porta, et al., (2000) had identical results as per our study. Therefore, board gender composition effect positively on financial performance of firm, which is measured by ROA and ROE. Other studies of Reguera-Alvarado et al., (2015), Liu et al., (2013), Lückerath-Rovers, (2013), and Campbell and Mínguez-Vera, (2008) suggested that women directors on the board of firms have positive effect on economic development. Moreover, the studies of Lückerath-Rovers, (2013), Carter et al., (2010), Rose, (2007) Carter et al., (2003), Shrader et al., (1997) discussed about the board gender composition enhance the corporate administration structure and overall support the positive relationship with previous researchers.

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