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THE EFFECT OF BOARD EFFECTIVENESS ON DIVIDEND POLICY: EVIDENCE FROM TURKEY

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Abstract

The purpose of this study was to look at the impact of board effectiveness on dividend payout policies. The study employed a sample of non-financial companies listed on the Borsa Istanbul (BIST) from 2016 to 2020. The Board Size (BSIZE), Board Independence (BIND) and Board Female Membership (BFM) were utilized to reflect board effectiveness in the study. Furthermore, various control factors were included, including ROA, firm age. The dependent variable in the study was the dividend per share, which represented the company's dividend payout policy. The regression result of board size and board female membership on dividend policy is significant at the 5% level and board independence has a positive and non-significant impact on dividend policy.

Keywords: Board effectiveness, Dividend policy, Borsa Istanbul, BIST

INTRODUCTION

The purpose of this study is to investigate the effect of board effectiveness on dividend policy. Corporate governance plays a crucial part in providing a favorable investment environment (Bon and Hartoko 2022). It has received a lot of attention as a result of business scandals and failures, such as Worldcom and Enron. The Organization for Economic Cooperation and Development (OECD) helped to develop the corporate governance code. It has served as a worldwide standard and source of direction for enterprises, governments, regulators, and other stakeholders. Another organization with a considerable influence in this area is the Commonwealth Association for Corporate Governance (CACG) principles. Consistently, the Basel committee revised corporate governance guidelines to urge banks to practice effective corporate governance. The Sarbanes Oxley Act was introduced in the United States (US) in 2002 and addressed accountability rules for management, boards of directors, and audit companies. Furthermore, in early 2012, the Capital Market Board of Turkey (CMBT) modified Turkey's governance principles in order to correct its capital market and link it to that of Europe. As a result, Turkey can gain EU membership by doing so.

A substantial amount of study has been conducted in the field of governance and dividend policy. Although some researchers have focused on dividend policy factors (Abdelsalam, El-Masry, and Elsegini 2008; Al-Najjar and Belghitar 2014; Benjamin 2015; Elmagrhi et al. 2017; Mehdi, Sahut, and Teulon 2017; Yarram and Dollery 2015), little is known about good governance practices and dividends as monitoring mechanisms that can be used to alleviate potential agency problems in emerging markets. As a result, the literature on corporate governance is extensive, but it lacks data on the impact of the combined determinants on dividend policy, particularly in emerging economies, such as board composition and ownership structure.

(Aivazian, Booth, and Cleary 2003), well-known academics in the field of dividend policy behavior in emerging markets, compared dividend policies of firms operating in developing nations to dividend policies of firms operating in the United States. Lintner's (1956) approach, according to (Aivazian, Booth, and Cleary 2001), still works for US corporations but not so well for emerging market firms. Current dividends in these markets are much less sensitive to past dividends, supporting the notion that the institutional structures of developing countries make corporate dividend policy a less viable mechanism for signaling than for US firms operating in capital markets with arm's length transactions. However, (Al-Malkawi, Bhatti, and Magableh 2014; Al-Najjar and Hussainey 2009; Al-Ajmi and Hussain 2011; Chemmanur et al. 2010) Evidence supporting the Lintner model was discovered while explaining dividend behavior in several emerging markets. In comparison to industrialized countries, they often reported greater adjustment factors, resulting in lesser smoothing and less stable dividend programs. Furthermore, (Aivazian, Booth, and Cleary 2003)observed that firms in emerging markets follow the same dividend policy drivers (either the same or different signals) as firms in developed markets. This finding was reinforced by studies from many developing countries, including (Al-Najjar and Hussainey 2009; Imran 2011; Kirkulak and Kurt 2010; Mehta 2012). Nonetheless, as mentioned by Aivazian et al. (2003b), the sensitivity to these drivers varies among nations due to differences in financial systems, ownership structures, laws and regulations, and so on between established and developing markets.

LITERATURE REVIEW

Numerous studies have been conducted to investigate the impact of board effectiveness and ownership structure on dividend policy in various nations. (Abdelsalam, El-Masry, and Elsegini 2008) analyzed pooled cross-sectional data from Egyptian enterprises to discover a substantial positive association between institutional ownership, firm performance, dividend decision, and pay-out ratio. Meanwhile, no significant association was discovered between the composition of the board and dividend decisions or ratios. This finding is consistent with the findings of (Tahir, Masri, and Rahman 2020), who investigated the drivers of dividend payout in 203 Malaysian non-financial enterprises from 2005 to 2018. The study indicated a statistically negligible but positive association between board diversity and dividend pay-out. The study, on the other hand, discovered a statistically significant and positive association between corporate board size, ROA, and dividend pay-out, while financial leverage has a negative and substantial effect on dividend policies.

(Al-najjar et al. 2016) evaluated the effect of board Composition on dividend policy of Turkish listed companies. The study employed different dividend policy indicators such as dividend payout probability, dividend pay-out ratio, and dividend yield, as well as the logit and tobit models. The data revealed that foreign and state ownership are related with a lower likelihood of dividend payment, whereas other ownership characteristics, such as family engagement, local financial institutions, and minority shareholders, have no effect on dividend payment probability. All ownership characteristics, however, have a considerable negative impact on the dividend pay-out ratio and dividend yield.

(Mehdi, Sahut, and Teulon 2017) for non-financial listed firms from East Asian and Gulf Cooperation Council nations, and (Al-Najjar and Belghitar 2014)for UK firms, found that dividend pay-out decision rose with institutional ownership in those countries. (Al-Najjar and Belghitar 2014) discovered that there is little evidence that independent directors influence cash dividends. Their findings are consistent with the findings of (Elmagrhi et al. 2017), who investigated the extent to which corporate board characteristics influence the level of dividend pay-out ratio using a sample of UK small and medium enterprises (SMEs) and discovered that board independence and CEO role duality have no significant effect on the level of dividend pay-out ratio.

On the one hand, (Yarram and Dollery 2015) investigated the impact of board effectiveness on dividend policy in Australian private enterprises from 2004 to 2009. The findings revealed that board independence has a strong favorable influence on Australian firms' dividend payout. The findings also found that a company's size has a considerable beneficial influence on its dividend payout. (Juhmani 2020), on the other hand, employed the ordinary least-squares regression to evaluate the effect of corporate board characteristics and ownership structure on dividend pay-out decisions in Bahraini listed businesses. Juhmani concluded that board independence has a strong negative correlation with dividend payout decisions, but board size has a significant favorable association. Furthermore, the study found that the frequency of board meetings, blockholder ownership, institutional ownership, and managerial ownership have little effect on dividend payout decisions.

Furthermore, (Ahmad, Khan, and Khan 2019) discovered that corporate governance has a considerable impact on dividend payout decisions. (Ahmad, Khan, and Khan 2019) investigated the impact of board composition and ownership structure on dividend payout policy using ordinary least squares and logistic regression models, which were tested in Pakistani 100-index enterprises from 2005 to 2014. Furthermore, the findings revealed that organizations with larger profits offer a signal to the market to pay bigger dividends in Pakistani companies, with the goal of resolving agency problems. These findings contradict the prior findings of (Mehdi, Sahut, and Teulon 2017), who discovered that during the current financial crisis, dividend decision is inversely connected to board dualism, board size, and board meeting frequency. This finding backs with the findings of (Benjamin and Zain 2015; Elmagrhi et al. 2017), who discovered that the frequency of board meetings has a strong negative association with the level of dividend pay-out.

HYPOTHESES DEVELOPMENT

The section that follows develops the research hypotheses and provides reasoning for each hypothesis.

Board Size and Dividend Payouts

The board size may have an impact on the quality of management control. Previous research has yielded conflicting results about the impact of board size on dividend policy. In the literature, there are two opposing opinions on the effect of board size. According to one point of view, large boards allow directors to specialize. More specialization can result in more effective monitoring (Le and Le 2017). This may result in better governance practices by strengthening managerial oversight and motivating managers to pursue wealth-maximizing policies, such as delivering higher cash dividends to shareholders. As a result, big dividends are projected. The opposite point of view is that huge boards are less effective than small boards because large groups are more difficult to coordinate (Ahmad, Khan, and Khan 2019; Bokpin 2011; Obaidat 2018) investigated the effect of board size on dividend policy and discovered a strong and favorable link. As a result, in accordance with (Bokpin 2011), we suggest the following hypothesis:

H1: Board Size is negatively related to dividend policy.

Board Independence and Dividend Payouts

According to (Kilincarslan 2021), an independent director is a critical component of the firm's internal control and monitoring structure. An independent board director is critical to ensuring the accuracy of financial statement disclosures and suitable internal controls in the organization. According to the result hypothesis, the presence of outside directors has a significant impact on board effectiveness since they have more authority to protect shareholder value in the form of dividend payments (Al-Najjar and Hussainey 2009; Boshnak 2021). Furthermore, outside directors are urged to have a significant motive to monitor and supervise managers' opportunistic behavior in order to improve their reputation and image in the labor market (Borokhovich et al. 2005). Based on this rationale, we propose the following hypothesis:

H2: Board independent is negatively related to dividend payout.

Board Female Membership and Dividend Payouts

In this regard, far too many research has been conducted in an attempt to establish the relationship that exists between gender diversity in a firm and its overall success. Recent research has discovered a significant association between board gender diversity and dividend issuance. Examples include (Al-Rahahleh 2017; Byoun, Chang, and Kim 2016; Ye et al. 2019). In contrast, (Saeed and Sameer 2017) discover that board gender variation is highly associated with dividend issuance to investors in developing countries such as India and China. As a result, while the existing evidence is sparse, we believe that based on previous research, there will be a positive association between board gender diversity and dividend issuance in Turkish companies.

H3: Board female membership has positive effect and relation on dividend payout.

METHODS

We evaluate the hypothesis from 2016 through 2020 using data from 170 Turkish firms listed on the Bursa Istanbul Stock Exchange (BIST). This study will use panel data, quantitative analysis, deductive approach multiple regression analysis. Our study takes place in Turkey, which is a fascinating location. The new Turkish commercial code went into effect on July 1, 2012, with the goal of improving company governance, financial reporting, and auditing. As a result, our research spans five years, beginning in 2011 and ending in 2015, to investigate the impact of corporate governance in 2012.

Furthermore, Turkish publicly traded enterprises are used as units of analysis since they are legally compelled to disclose their annual reports. This makes it easier to access companies' annual reports via the BIST. The initial sample included 445 enterprises, including financial institutions and banks.

Two sources were used to acquire information on the study's variables. The first source was BIST publications, while the second was annual reports of publicly traded corporations. The Jordanian Shareholding Companies Guide for 2016, to 2020 provided information on dividends per share, earnings per share, total assets, Board independent, boar size and board Female Membership. The information on board composition and other variables was gathered by hand from the firms' annual reports.

Table 1 Procedure of Sample Selection

Firms	No. of firms
Firms listed on Borsa Istanbul Webpage in 2016 to 2020	**445**
firms with missing financial information in annul reporting	**145**
financial institution and holding	**130**
Final sample observations	**170**

Source: Public Disclosure Platform (PDP), www.kap.gov.tr.

RESULTS AND DISCUSSION

Descriptive Statistics

In Table 2, the descriptive statistics for the study variables are shown. For continuous measurements, we calculated the mean, minimum, maximum, and standard deviation.

According to the data, the firm paid cash dividends per share of 0.07 on average, with a standard deviation of 0.19, indicating that there are significant differences in the payment of cash dividends between the sample companies and/or years. According to the findings, board size (BSIZE) has a mean of 7.52 and a minimum and maximum of 3.00 and 13.00 with a standard deviation of 2.22, respectively. Furthermore, in this sample of Turkish enterprises, the mean proportion of board Independent (BIND) on the board of directors is has a mean 0.89 and a minimum of 0.40 with a maximum of 0.89 and 0.13 standard deviation of independent directors. Turkish companies have fewer independent directors on their corporate boards compared to other nations. Also, the statistics indicate that Board Female Membership (BFM) has a mean of 24.95 percent, with a minimum and maximum of 3.00 percent and 64.00 percent, with a 15.63 standard deviation respectively. This indicates that the representation of females among the listed firms in Turkey is very low.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DVP	170	0.000000	1.200000	0.07000	0.19000
BSIZE	170	3.000000	13.00000	7.52000	2.22000
BIND	170	0.400000	1.000000	0.89000	0.13000
BFM	170	3.000000	64.00000	24.9500	15.6300
ROE	170	2.882419	1.856114	0.00296	40.3650
FAGE	170	16.42244	72.21184	9.90168	99.0909

Regression analysis

As shown in Table 3, the total variance in Model is 300.10, implying that all explanatory and control factors together explained 300.10 of the model. The findings demonstrate that just one of the three interaction correlations studied is significant at the 1% level. The remaining four interaction associations consist of two signs at the 5% level, three of significant magnitude at the 10% level, and three of insignificant magnitude. This section provides explanations for each variable of interest:

The regression result of board size and dividend policy is significant at the 5% level (t = 0.006; p = 0.021) as shown in Table 3. According to the findings, there is a favorable association between the two. A 0.042 rise in BSIZE might result in a 0.042 increase in dividend policy. These findings support the assertion made by the outcome hypothesis that bigger boards are in a better position to assess and regulate the opportunistic management behaviors (i.e., exploiting income for themselves), like the fact that larger boards have got more expertise, which can reduce problems associated with the company and improve company performance (Ntim 2015). Table 3 shows that the board effectiveness influence on the connection between board size and dividend policy is significant at the 5% level (t =0.02, p = 0.044). Unlike the direct relationship, which has a -0.52 percent adverse relationship, the moderated relationship has a

0.02 percent positive influence. Nonetheless, board size positively impacts dividend policy in both scenarios, even if the moderated impact is smaller.

With a 0.017 percent impact, board independence has a positive and non-significant impact on dividend policy (Table 3). This result concludes that for every one unit rise in board member independence, the dividend payout will increase by 0.015. However, this association is very insignificant, with a p-value of 0.480 (t=0.71). The board effectiveness effect of the covariates is significant but positive (t = 2.45, p= 0.013). The 5% threshold of significance has been chosen.

According to Table 3, the influence of female directors is 2.70 percent, and for every unit increase in female directors, dividend policy would increase by 2.70 percent. This is in line with the premise of the resource dependency hypothesis that increasing the size and variety of the BOD improves the security of businesses' important resources and the relationship between enterprises and their external environment (Goodstein, Gautam, and Boeker 1994; Pfeffer 1973). Even while the impact is positive (t = -1.07, p = 0.285), the board effectiveness effects of a female directors are smaller and inconsequential. A few earlier research has supported this association.

Table 3 Regression analysis Model

Variable	Coef.	Std. Err.	T	P>|t|
BSIZE	-0.009	0.018	-0.52	0.021
BIND	0.015	0.017	0.71	0.480
FBM	0.056	0.035	1.21	0.027**
BSIZE* DVP	4.270	2.117	2.02	0.044*
BIND * DVP	-2.207	0.034	2.45	0.013**
BFM * DVP	-8.147	7.600	-1.07	0.285
ROE	-0.003	0.002	-0.18	0.860
FAGE	-0.062	0.018	-3.10	0.023**
R-squared	300.10			
Prob > chi2	0.0000			

Notes: * = significant at 10%, ** = significant at 5% and *** = significant at 1%.

CONCLUSIONS

The purpose of this study was to look at the impact of board effectiveness on dividend payout policies. The study employed a sample of non-financial companies listed on the Borsa Istanbul (BIST) from 2016 to 2020. The board size (BSIZE), Independent (BIND), Board Female

Membership (BFM) were utilized to reflect board effectiveness in the study. Furthermore, various control factors were included, including ROA, firm age. The dependent variable in the study was the dividend per share, which represented the company's dividend payout policy. According to the findings regarding board effectiveness, shareholders of companies with a large board size and a high institutional ownership ratio are better able to force managers to distribute more cash as dividends, reducing the possibility of expropriation by opportunistic managers. In this sense, an effective corporate governance process reduces agency conflicts of interest between managers and shareholders, as well as limits managers' opportunistic behavior in determining dividend policy. Furthermore, board independence has a positive and non-significant impact on dividend policy and the board effectiveness effects of a female directors are smaller and inconsequential. This conclusion has consequences for regulatory bodies as well as the Borsa Istanbul. This paper has made some recommendations for further research in this exciting area of academic endeavor. The future research can replicate this study by looking at the impact of board effectiveness and dividend policy in different sectors and/or environments. This will aid in comparing the findings of this study to those of similar studies, which may aid in the generalization of the current study's conclusions.

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