

The Impact of Corporate Governance Mechanisms on Dividend Policy

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Abstract : Purpose: The purpose of this paper is to investigate the relationship between the corporate board characteristics and the dividend policy among firms on the Saudi Stock Exchange. Design/Methodology/Approach: This paper uses a sample of 103 nonfinancial firms over a time period of 4 years from 2015 to 2018. To investigate how corporate governance mechanisms such as board independence, the board size, frequency of meetings, and free cash flow impact dividends, the study uses Logit and Tobit models. Findings: This paper finds that board size, board independence, and frequency of board meetings have no influence on a firm's decision to pay dividends, while board size has a significantly positive impact on the levels of cash dividends paid to investors. This study also finds that the level of free cash flows has a positively significant influence on both the decision to pay dividends and the magnitude of dividend payouts. Research Limitations/Implications: This paper attempts to study the effectiveness of dividend policy among some firms on the Saudi Stock Exchange. Practical Implications: The findings reveal that board characteristics, which represent one of the crucial mechanisms of corporate governance, were found to be complementary to corporate laws and regulations imposed on the Saudi market in 2015. The findings also imply that capital market authorities should revise their corporate regulations and ensure that protection laws are adequate and strong enough to protect the interests of all shareholders. Originality/Value: This paper is among the few studies focusing on dividend policy in Saudi Arabia. Finally, these findings suggest that the improvements in corporate laws in Saudi Arabia led to such an outcome, and it has become prevalent in dividend policy decisions and behaviors of Saudi firms.

Keywords : agency theory, Tobit, corporate governance, dividend payout, Logit

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