Dividend payout and corporate governance in emerging markets: which governance provisions matter?

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Abstract: In this paper I examine the relationship between individual corporate governance provisions and corporate dividend payout. Using a sample of 220 firms from 21 emerging market countries, I show that dividend payout is an *outcome* of strong corporate governance. On closer inspection, I find that dividend payouts tend to be greater in firms which score highly in measures of board independence and accountability. I find some evidence which suggests that dividends *substitute* for a lack of transparency for emerging market firms.

Key Words: Corporate governance; Outcome and substitution agency models of dividends; Dividend payout; Emerging markets.

1.   Introduction

Given the creation of corporate governance scores for individual firms in the last decade or so, there has been a considerable amount of time devoted towards examining the relationship between the quality of corporate governance practices and various firm-level characteristics. Two of the most common relationships studied has been that between corporate governance and firm value and corporate governance and corporate dividend payout (see for example, Klapper and Love, 2004; Durnev and Kim, 2005, 2007; Chi, 2005; Black et al, 2007; Gompers et al, 2003; Bebchuk et al, 2009, 2012; Chen et al, 2009; and Brown and Caylor, 2006, for studies which explore the relationship between corporate governance and firm value, and Mitton, 2004; Chae et al, 2009; Jiraporn et al, 2006, 2011; Sawicki, 2009; John and Knyazeva, 2006; Officer, 2007; Shao et al, 2009; Adjaoud and Ben-Amar, 2010; and Bartram et al, 2012, who all explore the relationship between the strength of corporate governance and corporate dividend or total payout).[1] In the case of the former literature, most of these studies conclude that there is a *positive*, causal relationship between corporate governance and firm value. Better-governed firms are worth more, and improvements in corporate governance, for example, via exchange-traded cross-listings in the U.S., enhance value (see for example, Doidge, Karolyi and Stulz, 2004, 2009). The findings of the latter literature support both a *positive* and *negative* relationship between corporate governance and dividend payout. On the one hand, Mitton (2004), Adjaoud and Ben-Amar (2010), Jiraporn et al. (2011), and Bartram et al. (2012) conclude that dividends are an *outcome* of strong governance i.e. there is a *positive* relationship between corporate governance and dividend payout, such that better-governed firms pay the largest dividends. On the other hand, others suggest that dividends *substitute* for poor governance i.e. there is a *negative* relationship between corporate governance and dividend payout (see for example, Jiraporn et al, 2006; Sawicki, 2009, for Asian firms in pre-crisis Asia, John and Knyazeva, 2006; Officer, 2007).

In more recent years, the focus of both literatures has shifted away from examining the relationship between *composite* measures of corporate governance and firm-level outcomes, towards a greater desire to better understand the relationship between governance and firm characteristics, by examining the relationship between the *individual* governance provisions which makeup the *composite*

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[1] Others focus on the relationship between corporate governance and operating performance (see Klapper and Love, 2004), corporate governance and capital structure (see Jiraporn and Kitsabunnarat, 2006; Jiraporn and Gleason, 2007; Harford, Li and Zhao, 2008), governance and corporate diversification (see Jiraporn et al, 2006), and corporate governance and liquidity (see Chung, Elder and Kim, 2010).

governance measures and the aforementioned firm characteristics. For example, Bebchuk et al. (2009) show that only six of the original twenty-four (governance) provisions of the G-Index (Gompers et al, 2003) account for the relationship between corporate governance and firm value uncovered by Gompers et al. (2003). Furthermore, Black et al. (2011) show that one-size does not fit all, since the same governance provisions, adopted in different countries can have very different effects on firm value.[2] The governance/dividend literature has also evolved in the same way. For example, Jiraporn et al. (2011) show that corporate dividend payout in the U.S. is an *outcome* of a number of individual governance provisions, namely board structure and composition (board), audit function (audit), executive and director compensation (compensation), and progressive practices (e.g. the performance of the board is reviewed on a regular basis).[3] They also show that dividend payouts are much higher in firms where charters/bylaws supress shareholder rights i.e. dividends *substitute* for poor shareholder rights.

In this paper, I build on the work of Mitton (2004), and focus on identifying the exact individual corporate governance provisions, which when included together in a single composite corporate governance measure, led Mitton (2004) to conclude that in emerging markets, corporate dividends are an *outcome* of firm (and country) governance.[4] The motives behind doing so are threefold. First, and as already alluded to above, we know from the extant literature that dividends are an *outcome* of strong governance in emerging markets (Mitton, 2004), but we do not know which governance provisions, either individually or collectively, are positively related to corporate dividend payout. In this paper, I fill this void. Second, much of the recent literature in this area which examines the relationship between the strength of individual corporate governance provisions and corporate dividend payout focuses on U.S. (Jiraporn et al, 2011) and Canadian firms (Adjaoud and Ben-Amar, 2010). The corporate governance (see Black et al, 2011) and the payout literature (see for example Aivazian et al, 2003) suggest that the findings from these studies cannot be readily inferred for emerging market firms. Third, while some studies do focus on the relationship between individual governance provisions and corporate dividend policy in

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[2] For example, they show that board structure (i.e. a measure which captures among others the independence of the board of directors and the existence or not of audit and fiscal committees) enhances firm value in India and Korea (Republic), but destroys value in Brazil.

[3] Note that Jiraporn et al (2011) estimate a series of logit and ordinary least squares regressions. These regressions suggest that dividend payout increases in the quality of board and audit functions, but neither of these to provisions influences the decision to pay a dividend in the first instance.

[4] Mitton (2004) shows that corporate dividend payout is an outcome of corporate *and* country governance. In this paper, I concentrate on focusing on the exact determinants of the relationship between individual corporate governance provisions and corporate dividend payout.

emerging market countries, they concentrate on specific individual corporate governance provisions but exclude others, which are potentially correlated with the included provision. Consequently, these studies run the risk that the estimated coefficients on the individual provisions are biased because of the failure to account for the other governance provisions in their empirical framework. In this paper, I account for other governance provisions in all regressions, thus reducing the likelihood of omitted variable bias.

To perform these tests, I collect a sample of 220 firms from 21 emerging market countries. Like Mitton (2004), I test the agency models of dividends using shareholder rights measured at the corporate level (i.e. corporate governance) by employing the corporate governance scores complied by Credit Lyonnais Securities Asia (CLSA, 2001). I begin by reconfirming the findings of Mitton (2004) and show that in emerging markets, dividend payout is an *outcome* of strong corporate governance. In subsequent tests, I show that dividend payout is an *outcome* of board independence and accountability. I find weak evidence which suggests that opaque firms *substitute* a lack of transparency for higher dividends.

The paper proceeds as follows. In the next section I present a brief literature review and develop three hypotheses. From here, I describe the data and present the empirical findings. I end with some concluding remarks.

2.   Literature Review

In this paper I empirically test two agency models of dividends, namely the *outcome* and *substitution* models of La Porta et al. (2000). Since La Porta et al. (2000), much of the subsequent empirical literature which followed focused on the relationship between dividend payout and *composite* country and/or corporate governance measures (e.g. Mitton, 2004; Chae et al, 2009; Jiraporn et al, 2011; Sawicki, 2009; John and Knyazeva, 2006; Officer, 2007; Shao et al, 2009; Brockman and Unlu, 2009, 2011; Jo and Pan, 2009; Adjaoud and Ben-Amar, 2010; Bartram et al, 2012; and Byrne and O'Connor, 2012). More recent work has tended to focus on the relationship between the *individual* constituent components of the *composite* governance measures and corporate dividend payout (e.g. Jiraporn et al, 2011; Adjaoud and Ben-Amar, 2010; Chen et al, 2005; Zhang, 2008; Al Shabibi and Ramesh, 2010; Bartram et al, 2012; and Sharma, 2011). Irrespective of the focus of either strand of this literature, both set about to test the theoretical predictions of the *outcome* and *substitution* models of dividends.

The *outcome* and *substitution* models of dividends are both theoretically grounded in Jensen's (1986) free cash flow hypothesis. Both agency models agree that dividends paid to shareholders serve to reduce agency costs. In the case of the *outcome* model, dividends serve to reduce the agency costs of free cash flow (Chae et al, 2009), since the shareholders of better-governed firms do not demand larger dividends when firms have growth opportunities and/or are financially-constrained (see Mitton, 2004; Chae et al, 2009; Bartram et al, 2012). The *substitution* model suggests that poorly-governed firms pay reputationally-enhancing large dividends to reduce their financing constraints. Financially-constrained firms are those firms are those that, by definition, have identified positive net present value projects, do not have sufficient internal capital to funds these projects, and face too high a cost to fund externally. By definition, these firms are very much likely to be 'immature'. Coupled with the fact these young, 'immature' firms are unprofitable, there is no (positive) free cash flow. Hence, in the case of the *substitution* model, dividends serve to reduce the agency costs of poor governance (but not free cash flow), and dividends paid serve as a means of communicating to external investors that their investment will not be consumed privately.

While both agency models agree that dividend paid reduce agency costs, they disagree on the relationship between the strength of corporate governance and dividend payouts. Let's elaborate. Since expropriation of free cash flow by self-serving insiders is value-decreasing for minority shareholders, shareholders prefer dividends to retained earnings.[5] The outcome model suggests that the ability of shareholders to force firms to pay a dividend in the first instance, and then the dividend amount relies crucially on the efficiency of the firm's corporate governance practices. Hence, the outcome model of dividends predicts that, all else equal, the likelihood of a firm initiating or paying a dividend in any period, and the dividend amount (payout) is greatest when free cash flow exists *and* where shareholder rights are strong.[6] In effect, dividends are an *outcome* of strong corporate governance (*and* free cash flow). In the period subsequent to the publication of the La Porta et al. (2000) paper, numerous studies have found support in favour of the outcome model using shareholder rights proxies measured at the country and/or

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[5] But are prepared to substitute lower *current* dividends for (expected) higher *future* dividends given firm growth and good governance (see Mitton, 2004; and Bartram et al, 2012).

[6] Using a sample of U.S. firms, Chae et al. (2009) show that dividend payout increases in both corporate governance *and* the amount of free cash flow. However, in the absence of free cash flow, dividend payout actually decreases in the strength of corporate governance i.e. the substitution model prevails.

corporate level (Mitton, 2004; Chae et al, 2009; Jiraporn et al, 2011; Adjaoud and Ben-Amar, 2010; Bartram et al, 2012; Sawicki, 2009, in post-Asian crisis Asia, Shao et al, 2009; Brockman and Unlu, 2009, 2011; and Byrne and O'Connor, 2012). Using *composite* level governance measures, the aforementioned studies all conclude that dividend payout is an outcome of either corporate or country governance or both. In addition, some of these same aforementioned studies and others (Chen et al, 2005; Yarram, 2010; Al Shabibi and Ramesh, 2010; and Sharma, 2011) show that dividend payouts are higher i.e. the outcome model prevails when board of directors are predominantly independent (Chen et al, 2005; Sharma, 2011; Yarram, 2010; and Al Shabibi and Ramesh, 2010), when independent director tenure increases (Sharma, 2011), when the chair of the board of directors and the CEO are not the same person i.e. duality (Adjaoud and Ben-Amar, 2010), and when the audit, compensation, and nomination committees are predominantly independent (Adjaoud and Ben-Amar, 2010; and Jiraporn et al, 2011).[7] Brockman and Unlu (2009), Shao et al. (2009) and Byrne and O'Connor (2012) show that the outcome model of dividends prevails when shareholder and creditor rights are strong. When the rights of the latter are weak, and even when the rights of the former are strong, creditors demand, and firms consent to lower dividends. Hence the agency cost of equity and debt version of the outcome model of dividends suggests that the likelihood of paying a dividend and the dividend amount is an outcome of strong shareholder *and* creditor rights.[8]

On the other hand, the *substitution* model predicts a negative relationship between governance (country and/or corporate) and corporate dividend payout. In effect, dividends in their agency role *substitute* for poor corporate governance. Consequently, the *substitution* model predicts that all else equal, dividend payouts decrease in shareholder rights.[9] Thus, poorly governed firms pay the largest dividends.

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[7] Some studies group a number of 'board of director' characteristics together in a single *composite* index and show that dividend payout is positively related to board characteristics (Adjaoud and Ben-Amar, 2010; and Jiraporn et al, 2011). Consequently, since they do not examine the relationship between either of these board characteristics and dividend payout, I, or others, cannot say with certainty whether it is, for example, board independence or perhaps independence of the audit committee which causes the positive relationship between "Board Characteristics" and dividend payout.

[8] This then suggests an alternative *substitution* model which is inclusive of the agency costs of debt and equity. Creditors *substitute* lower dividends for poor legal protection. In addition, Shao et al. (2009) show that effect of creditor rights on dividends is much lower given poor shareholder rights.

[9] Of course an alternative to paying large dividends would be to improve corporate governance, which in turn would reduce the firms cost of capital. However, in some countries, most notably those with poorly developed financial markets, the net benefit of governance improvements even for firms with an external financing need is negative (Doidge et al, 2007). Hence, for these firms, increased dividends may represent a much less costly bonding mechanism when compared to the costs of improving their corporate governance practices. The short-term costs of

In contrast to the predictions of the outcome model, (poorly governed) firms voluntarily, rather than under duress from shareholders (of firms with efficient governance), pay dividends.[10] Using *composite* and *individual* governance measures, there exists plenty of empirical support for the substitution model (John and Knyazeva, 2006; Officer, 2007; Jo and Pan, 2009; Jiraporn and Ning, 2006; Chae et al, 2009; Sawicki, 2009, in pre-Asian crisis Asia; and Mitton, 2004, in civil law countries only, all find support in favour of the substitution model of dividends).[11] Brockman and Unlu (2011) show that the substitution model prevails in countries where disclosure environments are opaque and the outcome model in countries where disclosure environments are transparent. Shao et al. (2009) and Byrne and O'Connor (2012) find support in favour of the substitution model where creditor rights are weak. The exact governance mechanisms which are negatively correlated to dividend payout are, managerial representation on the board (Zhang, 2009), independent director workload (Sharma, 2011), and the share of equity in the total compensation package of independent directors (Sharma, 2011).

3.   Data

In this paper I examine the relationship between the strength of corporate governance and corporate dividend policy in emerging markets. To measure the strength of corporate governance I use the corporate governance scores developed by Credit Lyonnais Securities Asia (CLSA, 2001). These governance ratings have been used by many in a variety of settings. As I do in this paper, Mitton (2004) examines the relationship between corporate governance and dividend policy; Klapper and Love (2004) the relationship between corporate governance and firm performance; Durnev and Kim (2005) corporate governance and firm value, and more recently Chen et al. (2009), who examine the relationship between

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paying large dividends for poorly governed firms are the costs associated with forgone positive NPV projects and costly external finance (which presumably will decrease once reputation has been established). Alternatively, these same firms could improve their governance by cross-listing as an exchange-traded ADR in the U.S. The costs are large and tend to result in enhanced governance through reputational as opposed to legal bonding. Interestingly, when firms cross-list as Level 2/3 ADRs, they pay less dividends (see O'Connor, 2006; and Adjaoud and Ben-Amar, 2010), which suggests that enhanced governance *substitutes* for dividends for these firms.

[10] Of course better-governed firms may voluntarily pay higher dividends, but the outcome model predicts that shareholders use their legal rights to extract dividends from firms.

[11] The results of these tests using U.S. firms are mixed. Using the anti-takeover governance index of Gompers et al. (2003) to measure the strength of corporate governance of U.S. firms, John and Knyazeva (2006), Officer (2007), Jo and Pan (2009), and Jiraporn and Ning (2006) find in favour of the substitution model. Again using U.S. firms, but now using governance data from the Institutional Shareholder Services, Jiraporn et al. (2011) find evidence in favour of the outcome model. The ISS data is a much broader corporate governance measure than the G-Index, which in turn, likely explains the conflicting findings.

corporate governance and firm value via the cost of equity capital.[12] The CLSA governance ratings range from 0 to 100 with higher values suggesting better corporate governance. The rating for each individual firm, for which there is 495 in total across 25 countries, is a composite of 57 qualitative, binary (Yes/No) questions which span seven distinct governance categories, namely management discipline, transparency, independence, accountability, responsibility, fairness, and social awareness. The first six governance provisions have a 15% weighting in the composite index, while the last remaining category, namely social awareness has a 10% weighting. The rating for each firm is constructed by CLSA analysts. In this paper, I use only the first six governance provisions to construct the composite governance measure since dividend payout is unlikely to be related to social awareness. Consequently, the composite corporate governance score that I use in this paper is an equally weighed average of the first six corporate governance provisions. A sample of some of the questions in each governance category is listed below.

1. **Discipline**. Has the company issued a "mission statement" that explicitly places a priority on good corporate governance? Does the company's annual report include a section devoted to the company's performance in implementing corporate governance principles?

2. **Transparency**. Are accounts presented according to IGAAP? Does the company consistently disclose major and market sensitive information punctually?

3. **Independence**. Is the chairman an independent, nonexecutive director? Does the company have an audit committee? Is it (the audit committee) chaired by a perceived genuine independent director?

4. **Accountability.** Are the board members and members of the executive/management committee substantially different? Do independent, nonexecutive directors account for more than 50% of the board?

5. **Responsibility.** Are there mechanisms to allow punishment of the executive/management committee in the event of mismanagement? Is the board small enough to be efficient and effective? (If more than 12 answer "No").

6. **Fairness.** Do all equity holders have the right to call General Meetings? Are voting methods easily accessible?

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[12] The CLSA (2001) governance measures are far from perfect. For example, two of the major criticisms of the scores are, first, they suffer from subjectivity bias since some of the answers to the questions are not "matter-of-fact", but instead completed based on the experiences of the analyst who covers each firm. Nevertheless, Durnev and Kim (2007) do show that the bias is likely to be low since they find that firms reported for corporate misdemeanors do score low in the CLSA (2001) governance measure. Second, there is some overlap in the different categories. For example, the question "Are the board members and members of the executive/management committee substantially different?" is placed in the accountability section but could easily, without controversy be placed under the independence heading.

I use three different dividend payout measures, namely dividends-to-earnings (%), measured as dividends per share divided by earnings per share, dividends-to-cashflow (%), measured as dividends per share divided by cashflow per share, and dividends-to-sales (%), measured as cash dividends (paid to common and preferred shareholders) divided by net sales. All data is sourced from Worldscope at the end of year 2001. In all regressions, I control for firm size, firm profitability, firm growth, cash, total equity and retained earnings. Size is measured as the log of book assets in US$, growth is the logarithmic one-year asset growth, profitability is earnings before interest and taxation (EBIT) to book assets, cash is cash scaled by book assets, total equity is total shareholders' equity also scaled by book assets, and finally retained earnings is retained earnings again scaled by book assets. Consistent with the life-cycle model of dividends (see Grullon, Michaely and Swaminathan, 2002; De Angelo, DeAngelo and Stulz, 2006; Bulan, Subramanian and Tanlu, 2007; and Denis and Osobov, 2008), size, profitability, and retained earnings are expected to positively influence dividend policy, while high growth firms typically pay smaller dividends. Finally, the expected relationship between cash holdings, total equity and dividend payout is ambiguous. For example, firms with high cash reserves but with little or no demand for external finance are likely to pay a dividend. In contrast, those firms with anticipated future growth opportunities may finance this growth with their cash reserves, and refrain from paying a dividend.[13] All firm level variables are winsorized at the 1st and 99th percentiles.

I include two country level determinants of dividend policy, namely shareholder and creditor rights. The literature suggests that dividends can be an *outcome* of, or *substitute* for shareholder and creditor rights (La Porta et al, 2000; Brockman and Unlu, 2009; Shao et al, 2009; and Byrne and O'Connor, 2012). I use the revised version of the anti-director rights measure from Spamann (2010) to account for the strength of shareholder rights at the country-level. Since this data is missing for China, Hungary, and Poland, I use the Djankov et al. (2008) measure of shareholder rights for these countries. The creditor rights measure is taken from Djankov et al. (2007), and ranges from a low of zero to a high of four, where

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[13] The ambiguity surrounding the relationship between cash holdings and dividend payout is grounded in how one perceives the nature of the relationship between corporate cash holdings and firm-level financing constraints. Fazzari et al. (2000) and the proponents of the cash flow sensitivity of cash approach to estimating firm-level financing constraints (see Almeida et al, 2004) suggest that financial-constrained firms hoard cash (and pay little or no dividends). In contrast, others (see Cleary, 2005) suggest that the very existence of cash reserves suggests that firms are not financially-constrained, since these firms can finance internally rather than externally. Presumably these firms also pay a dividend.

higher values represent greater levels of creditor protection. A priori, the sign on the shareholder and

creditor rights variables are expected to be positive. From my original sample, I lose 275 firms because of

missing firm-level data, which results in a final sample of 220 firms.

The final sample of firms is presented in Table 1. It comprises of 220 firms from 21 countries.

They are Argentina, Brazil, Chile, China, Colombia, Hong Kong, Hungary, India, Indonesia, Korea

(Republic), Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Singapore, South Africa, Taiwan,

Thailand, and Turkey. The number of firms varies considerably by country. Taiwan (31 firms) followed

by Hong Kong (25) and Malaysia (22) supply the largest number of firms. In contrast, there are just a

single firm from Argentina, Colombia, Hungary, and Peru. The third and fourth columns of Table 1

contain the median and standard deviation corporate governance score by country. They suggest that the

median firm is better governed in Peru (76.5), then Singapore (67.4), followed closely by the sole firm

from Argentina (66.7). In contrast and when compared to other firms, the median firm is poorly

governed in Pakistan (33.6) and Poland (37.7).[14] Interestingly, while the median firm from Pakistan has

the lowest governance score in this sample of firms, the greatest variation in governance scores occurs in

Pakistan (standard deviation of 20.2). Hence, there are firms in Pakistan which are much better governed

than their median counterpart. There is much less variation in corporate governance practices in Mexico

(standard deviation of 4.0), Chile (4.2), and Korea (5.8). Overall, the median firm has a corporate

governance score of 55.8, with a standard deviation of 14.6.[15]

In the fifth to tenth columns of Table 1, I outline the median and standard deviation dividend

payout by country, using all three dividend payout measures. They suggest that as a percentage of

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[14] A large literature exists which examines the firm and country-level factors which promote firms to practice better corporate governance (see Klapper and Love, 2004; and Durnev and Kim, 2005, 2007). These 'governance-predictions' studies find that amongst others, large firms, firms with a need for external finance, and firms with large proportion of 'soft/intangible' assets practice good corporate governance. They also find that corporate governance improves with ownership concentration, provided there is no deviation from one-share-one-vote (i.e., dual-class firms typically have poorer governance than single-class share firms). Cross-listing firms and firms domiciled where country governance (e.g., shareholder rights strong, efficient judiciary) is strong also tend to be better-governed. However, Doidge et al. (2007) show that some firms with these 'desirable' characteristics may not necessarily practice better governance, since the costs of doing so can outweigh the perceived benefits. The costs of doing so are greater where financial development weak. Aggarwal et al. (2009) highlight the differences in governance practices between U.S. and non-U.S. firms, and show that amongst others, differences in financial development between the U.S. and non-U.S. countries can explain part of the superior governance practices of U.S. firms. Furthermore, recent work suggests that some firms do not adopt 'desirable' aspects of corporate governance since their adoption can prove to be value-decreasing (see Black et al, 2011).
[15] Klapper and Love (2004) show that the variation in corporate governance ratings (using CLSA corporate governance scores) decreases as country level investor protection increases.

earnings, the median firm in Hungary (85.5%) followed closely by the median firm in Pakistan (76.8%) pay the largest dividends. In contrast, dividend payouts tend to be much lower in the Philippines (5.3%) and Korea (5.9%). The sole firms from Argentina and Poland pay no dividend in 2001. When scaling dividends by either either cashflow or sales, dividend payouts tend to be high in Colombia (median dividends to cashflow (%) and dividends to sales (%) are 82.2% and 6.0%, respectively), and Pakistan (median dividends to cashflow (%) and dividends to sales (%) are 71.1% and 9.7%, respectively). Using either of these two payout measures, the median firm pays much lower dividends in Brazil (the median dividends to cashflow (%) and dividends to sales (%) is 9.5% and 2.9%, respectively), Korea (the median dividends to cashflow (%) and dividends to sales (%) is 3.0% and 0.2%, respectively), and Taiwan (the median dividends to cashflow (%) and dividends to sales (%) is 9.3% and 1.1%, respectively). In the full sample, the median firm pays 23.4%, 15.4%, and 2.2%, of its earnings, cashflow, or sales, respectively, as a dividend.

The remaining columns of Table 1 contain the shareholder (SR) and creditor rights (CR) data. Shareholders tend to enjoy considerable legal rights in Brazil (Revised ADR is 5), Chile (5), Pakistan (5), South Africa (5), and Taiwan (5). In contrast, shareholder rights are much lower in China (1). Creditor rights (CR) are strong in Hong Kong (Creditor Rights is 4) and Hong Kong (4), but much weaker in Colombia (0), Mexico (0), and Peru (0). To mention but two, Colombia and Peru provides shareholders with much greater protection than creditors (SR is 4 and CR is 0 in both countries). In general, shareholder rights tend to much greater than creditor rights in these countries.

In Table 2, I present the median and standard deviation of each of the corporate governance provisions by country. There is significant variation in governance provisions both *across* and *within* countries. Across countries, corporations tend to be most *disciplined* in Peru (77.8) and Mexico (72.3), while much less so in Poland (11.1) and Hungary (22.2). The greatest variation occurs in Pakistan (standard deviation of 26.5). Firms tend to be *transparent* in Chile (90.0) and Peru (90.0) and opaque in Poland (20.0) and Pakistan (31.7). *Independence (Accountability)* is greatest in Singapore and Taiwan (85.7) (Poland (100)), and much less so in Turkey (28.6) (China, Hungary and Turkey). Finally, the most *responsible* firms are in Chile and Hong Kong (Both 83.3), and the *fairest* in Singapore (88.9). There also

exists considerable variation in governance provisions *within* countries. For example, China scores at or above the sample median in 2 provisions (*Fairness* and *Transparency*), and below in the other four.

In Table 3 I present some correlation coefficients, and more formal tests for multicollinearity (variance inflation factors (VIF) and condition numbers). [16] The top panel contains the correlations between each individual corporate governance provision and their composite. Each individual corporate governance provisions composite is calculated as the equally weighted average of the other five remaining governance provisions. For example the governance composite for *discipline* is an equally-weighted average of *transparency, independence, accountability, responsibility* and *fairness*.[17] As expected, the correlations suggest that the governance provisions tend to be highly correlated with one another. Of the six individual governance provisions, responsibility is most highly correlated with its composite (0.563). The large and significant correlations among the individual governance provisions suggest that the possible exclusion of any of the corporate governance composite measures in the regression specifications is likely to bias the coefficient estimates of the individual corporate governance provision. Hence, in the regressions that follow, I include the corporate governance composite of each individual governance provision in regressions where the relationship between each individual governance provision and corporate dividend payout is estimated.

Finally, in the middle panel of Table 3, I present the correlations between each of the six governance provisions and the three dividend payout measures. All of the correlation coefficients are positive, and statistically significant for all provisions bar corporate discipline. Corporate responsibility is most highly correlated with dividend payout. The correlation coefficients range from 0.253 (dividends to cashflow (%)) to a high of 0.278 (dividends to sales (%)).

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[16] The inclusion of each individual corporate governance provision with its governance composite may lead to issues of multicollinearity i.e. correlation among the independent variables. The correlation coefficients suggest that this is unlikely to be the case i.e. a general rule of thumb suggests that multicollinearity is unlikely to be an issue provided the correlation coefficients are less than 0.7. Nevertheless, in the bottom panel of Table 3, I explore this possibility by presenting for each individual corporate governance provision, variance inflation factors (VIF) and condition numbers. Both measures suggest that multicollinearity is not an issue since the variance inflation factors and condition numbers are very low. The condition numbers were generated using the STATA procedure "Collin" (see Ender, 2010).

[17] It is important to make a clear distinction between the governance composite measures for the individual governance provisions and the composite corporate governance measure used in Table 3. The former is an equally-weighted average of five individual governance provisions. The latter is an equally-weighted average of all six individual governance provisions.

4.   **Empirical Findings**

In this section I examine the relationship between corporate governance and corporate dividend payout. I begin by exploring the relationship between the *composite* corporate governance and dividend payout. Then, I turn my attention towards examining the relationship between the individual components of the composite corporate governance measure and corporate dividend payout. As a precursor, consider Table 4. Here I divide the full sample of firms into two groups. The first group (High Governance) is made up of firms with a corporate governance score higher than the sample median (55.8). These firms are better-governed firms. The other group (Low Governance) is comprised of those firms with a corporate governance score less than the sample median. When compared to their "High-Governance" peers, these firms are less well-governed. For both groups of firms and using each dividend payout measure, I outline their median dividend payout. They are presented in the top panel of Table 4. They suggest the following. Irrespective of the dividend payout measure used, better-governed firms always pay larger dividends (relative to their earnings, cashflow, or sales) when compared to less well-governed firms. For example, the median "High Governance" firm pays out 12.20 percentage points more of its cashflow in the form of a dividend than "Low Governance" firms (compare 21.30 for "High Governance" firms to 9.10 for "Low Governance" firms). The conclusions remain the same when I use either dividends-to-earnings (%) (Compare 32.80 to 18.00) or dividends-to-sales (%) (Compare 2.90 to 1.50). Admittedly while not controlling for other determinants of dividend policy, these summary payout statistics are consistent with the outcome model of dividends. That is, dividend payouts are larger in better-governed firms. Next, I examine whether this result still holds when I control for other observable determinates of corporate dividend policy. The possibility remains that it is firm-level characteristics other than corporate governance which explain the differences in dividend payout between well and no so well-governed firms. For example, since better-governed firms tend to be more profitable firms with greater cash holdings (see Klapper and Love (2004), and Durnev and Kim (2005)), and since both profitability and cash holdings are positively related to dividend payout, then either or both of these variables may account for the differences in payout policy that we observe between well and not so well-governed firms in Table 4. To explore these possibilities, I follow Mitton (2004) and estimate ordinary least squares regressions (OLS) of the following form:

[13]

$$DIV_i = \alpha + \beta_1 GOV_i + \beta_2 Size_i + \beta_3 Growth_i + \beta_4 Profitability_i + \beta_5 Cash_i + \beta_6 TE_i + \beta_7 RE_i$$
$$+ Industry_i + Country_c + \varepsilon_i \qquad (1)$$

$$DIV_i = \alpha + \beta_1 GOV_i + \beta_2 Size_i + \beta_3 Growth_i + \beta_4 Profitability_i + \beta_5 Cash_i + \beta_6 TE_i + \beta_7 RE_i$$
$$+ \beta_8 SR_c + \beta_9 CR_c + Industry_i + \varepsilon_i \qquad (2)$$

Where DIV_i is either dividends-to-earnings (%), dividends-to-cashflow (%), or dividends-to-sales (%), and GOV_i is the CLSA corporate governance score for each firm. Size, growth, profitability, cash, TE, and RE, are firm size, firm growth, firm profitability, firm cash, firm total equity, and firm retained earnings (to total assets), respectively. $Industry_i$ are industry dummies, $Country_C$ country dummies, SR_C and CR_C, shareholder and creditor rights, respectively.[18] Financial firms are excluded. In Equation (2), I exclude country dummies when I include shareholder and creditor rights. All regressions are estimated with White (1980) standard errors. The coefficient estimates from estimating equations 1 and 2 are presented in Table 5.

The findings presented in Table 5 are in line with Mitton (2004), and others, and provide support in favour of the outcome model of dividends. The coefficient estimates on the corporate governance variable are always positive and statistically different to zero. Specifically, the coefficient estimates on the corporate governance variable range from a low of 0.07 (using dividends to sales (%)) to a high of 0.438 (using dividends to earnings (%)).[19] These coefficient estimates imply that a one standard deviation change in corporate governance (14.6), which is close to the difference in the median corporate governance score for firms from India (53.4) and Singapore (67.4) changes dividend payout by 6.39 percentage points using dividends to earnings (%) (0.438 * 14.6), 4.96 percentage points using dividends

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[18] Firms are designated into one of thirteen industries based on the following classifications using 4-digit SIC codes: Agriculture and Food (0100-0999 & 2000-2111); Mining and Construction (1000-1999, excluding 1300-1399); Textiles and Printing/Publishing (2200-2799); Chemicals (2800-2824, 2840-2899); Pharmaceuticals (2830-2836); Extractive (2900-2999, 1300-1399); Durable Manufacturers (3000-3999, excluding 3570-3579); Transportation (4000-4899); Utilities (4900-4999); Retail (5000-5999); Services (7000-8999, excluding 7370-7379); Computers (7370-7379, 3570-3579, 3670-3679); Public Administration (9000+).

[19] Mitton (2004) estimates variants of equations 1 and 2. His version of equation 1 is the same as mine except that he excludes cash, total equity and retained earnings, and excludes these same variables and creditor rights from equation 2. Using both dividends to cashflow (%) and dividends to sales (%), the coefficient estimates on the corporate governance variable is comparable across studies. For example, using equation 1, the coefficient estimates on the corporate governance variable reported by Mitton (2004) is 0.278 and 0.056 (Using dividends to cashflow (%) and dividends to sales (%)), respectively. I report coefficient estimates of 0.270 and 0.070, respectively. Using dividends to earnings (%), the coefficient estimates on the corporate governance variable are much larger in this study (0.369) compared to 0.271 in Mitton (2004).

to cashflow (%) (0.340 * 14.6), and 1.037 percentage points using dividends to sales (%) (0.071 * 14.6).

While not always statistically significant, the firm-level control variables are of the correct sign. Large and

profitable firms pay higher dividends. Growth firms tend to pay lower dividends. Furthermore, and

consistent with the life-cycle model of dividends, dividend payout (at least using dividends to earnings

(%)) increases with corporate maturity i.e. when the ratio of retained earnings to total assets increases.

Finally, I find no evidence to suggest that corporate dividend payouts increase in country-level

shareholder and creditor rights.[20]

In summary, the findings thus far are consistent with Mitton (2004), and many others, and

provide support for the outcome model of dividends. Shareholders use their legal rights, in this instance

measured at the firm-level, to extract dividends from firms. Better-governed firms extract the largest

dividends.

Next, I turn my attention towards examining the relationship between each of the corporate

governance provisions and corporate dividend payout. First, consider the bottom panel of Table 4. Here I

divide the full sample of firms into two groups. The first group is made up of firms with an individual

corporate governance provision score higher than the sample median. The other group is comprised of

those firms with an individual corporate governance provision score less than the sample median. For

both groups of firms and using each dividend payout measure, I outline the median dividend payout.

They suggest the following. First, a number of the different corporate governance provisions appear to

influence corporate dividend policy. With the exception of *accountability*, dividend payout tends to increase

in all other individual corporate governance provisions. Furthermore, the largest difference in dividend

payout between the two groups of firms occurs when I differentiate firms by level of *responsibility* (The

difference in median dividend payout between high and low responsibility firms is 11.20, 14.85, and 1.20

when dividend payout is measured as dividends to cashflow (%), dividends to earnings (%), or dividends

to sales (%), respectively). In the case of *independence*, the difference in median dividend payouts between

the two groups of firms is only statistically significant when dividends-to-earnings (%) are the dividend

payout measure. Second, although the differences in dividend payout are not statistically significant, there

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[20] Bartram, Brown, How and Verhoeven (2012) do find support for the outcome model when they use Spamann's (2010) anti-director rights measure.

is some evidence that points towards the agency substitution model of dividends when we account differences in corporate *accountability* across firms.

In the next section, I examine whether these relations still hold when I account for observable determinants of corporate dividend policy.

To do so and again using ordinary least squares, I estimate regressions of the following form:

$$DIV_i = \alpha + \beta_1 GOV-PROV_i + \beta_2 Size_i + \beta_3 Growth_i + \beta_4 Profitability_i + \beta_5 Cash_i + \beta_6 TE_i + \beta_7 RE_i \quad (3)$$
$$+ Industry_{idy} + Country_c + \varepsilon_i$$

$$DIV_i = \alpha + \beta_1 GOV-PROV_i + \beta_2 GOV-PROV_i^{COMP} + \beta_3 Size_i + \beta_4 Growth_i + \beta_5 Profitability_i \quad (4)$$
$$+ \beta_6 Cash_i + \beta_7 TE_i + \beta_8 RE_i + Industry_{idy} + Country_c + \varepsilon_i$$

Where all of the variables are as before, but now (GOV-PROV$_i$) is one of the individual corporate governance provisions (i.e. discipline, transparency, independence, accountability, responsibility, and fairness), and (GOV-PROV$_i^{COMP}$) is the complement of each particular corporate governance provision. I include the latter variable in order to alleviate potential omitted variable problems which may arise given the extent to which the governance provisions are correlated with one another (see Table 3). Black et al. (2011) do likewise in their study when they examine the relationship between corporate governance and firm value. The coefficient estimates from estimating equations 3 and 4 are presented in Table 6.

The top panel of Table 6 contains the coefficient estimates from estimating equation 3, and the bottom panel those from estimating equation 4. I use dividends to cashflow (%) as the dependent variable. The coefficient estimates suggest the following. When I estimate equations 3 and 4, only *independence* is positive and statistically significant. For example in the top panel, the coefficient estimate for *independence* is 0.163 and statistically significant. This implies that a one standard deviation change in independence (26.7) is associated with a 4.35 percentage point increase in dividends to cashflow (%) (0.163 * 26.7). In contrast, for all of the other corporate governance provisions, the coefficient estimates are lower, and always statistically insignificant. Of the firm-level control variables, only profitability and retained earnings are correctly signed and statistically significant. The remaining firm-level controls are of

[16]

the correct sign, but not statistically significant. The coefficient estimates presented in the bottom panel of Table 6 show that *independence* remains positive and statistically significant even when I include its complement (i.e. a variable which is constructed as an equally weighted average of *discipline*, *transparency*, *accountability*, *responsibility*, and *fairness*). While the influence of *independence* is lessened (compare coefficient estimates of 0.163 in the top panel to 0.141 in the bottom panel), and its level of statistical significance is reduced (compare t-stats of 2.16 in the top panel to 1.70 in the bottom panel), it remains positive and economically significant. The coefficient estimate for *independence* from the bottom panel, suggests that a one standard deviation increase in *independence* results in a 3.76 percentage point increase in dividends to cashflow (%) (26.7 * 0.141). The remaining governance provisions remain statistically insignificant in the bottom panel of Table 6. These findings suggest that dividends are an *outcome* of greater *board independence*.

In Table 7, I estimate equation 4 using dividends to earnings (%) and dividends to sales (%). The coefficient estimates using dividends to earnings (%) are presented in the top panel, and the bottom panel presents the coefficient estimates for dividends to sales (%). All firm-level, industry and country dummies are included but not reported. When I use dividends to earnings (%) as the dependent variable, *transparency*, *independence*, and *accountability* are all statistically significant. The coefficient estimates on the independence and accountability measures are both positive (0.235 and 0.243, respectively), which suggests that dividends are an *outcome* of both *independence* and *accountability*. These coefficient estimates suggest a one standard deviation increase in *independence* and *accountability* (26.7 & 23.7, respectively) increase dividends to earnings (%) by 6.27 (0.235 * 26.7) and 5.76 (0.243 * 23.7) percentage points, respectively. In contrast, dividends *substitute* for transparency i.e. the coefficient estimate on the transparency variable is negative (-0.211), which suggests that *transparent* firms in emerging markets pay lower dividends than their opaque counterparts. From an economic significance perspective, the coefficient estimate on the transparency variable suggests that a one standard deviation increase in corporate transparency (19.9) reduces dividends to earnings (%) by almost 4.2 percentage points (-0.211 * 19.9). This finding is entirely consistent with recent evidence presented by Brockman and Unlu (2011). They show that managers pay higher dividends to establish reputation among providers of external capital when they operate in opaque disclosure environments i.e. firms substitute higher dividends for a lack of *transparency*.

[17]

The bottom panel of Table 7 presents the coefficient estimates using dividends to sales (%). Here only *accountability* maters. The coefficient estimate is 0.035 and statistically significant, suggesting that dividend policy is an *outcome* of corporate *accountability*. The coefficient estimate implies that a one standard deviation increase in accountability (23.7) increases dividends to sales (%) by just over four-fifths of one percentage point (i.e. 0.035 * 23.7 is 0.829). The increase in dividends implied by a one standard deviation change in corporate *accountability* is economically large, since it represents since it accounts for almost 38% of the dividends paid relative to sales for the median firm (i.e. (0.829/2.2)*100 is 37.68%). All other governance provisions, and most notably *transparency* and *independence* are not statistically significant in these regressions.

In summary, and using all three dividend payout measures, dividends are an *outcome* of corporate *independence* and *accountability*. Of the two, dividends are marginally more sensitive to changes in *accountability* (compare 0.243 (*accountability*) to 0.235 (*independence*) in the dividends to earnings regressions). In contrast, dividends *substitute* for transparency. Opaque firms in emerging markets pay higher dividends than their transparent peers.

In the remaining two tables, I examine whether the results just presented are robust to the inclusion of shareholder and creditor rights. Almost without exception, they are. Tables 8 and 9 contain the coefficient estimates from estimating equation 4, where the country dummies are excluded and replaced with measures of shareholder and creditor rights. In both Tables, *independence* (when using dividends to cashflow (%) and dividends to earnings (%)) and *accountability* (using dividends to earnings (%) and dividends to sales (%)) remain positive and statistically significant. The coefficient estimates are somewhat reduced but always retain their statistical significance. For example, in the dividends to earnings (%) regressions, the coefficient estimates for the *independence* (*accountability*) governance provisions are 0.173 (0.156) compared to 0.235 (0.243) previously. In contrast, given the inclusion of shareholder and creditor rights, dividends no longer *substitute* for transparency. Finally, and in line with the results presented in Table 5, neither shareholder nor creditor rights enter significantly in any regression.

5.   Concluding Remarks

In this paper I examine the relationship between individual corporate governance provisions and corporate dividend payout. I do so for a number of reasons. First, much of the recent work in this area concentrates on using samples of U.S. and Canadian firms. Even those studies which use emerging market firms, can be criticized on the grounds that the focus of their analysis is too narrow, in the sense that they focus on specific individual governance provisions, and ignore others, resulting in potential omitted-variable bias concerns. In this paper, I endeavour to overcome these aforementioned criticisms of the extant literature. First, I focus on emerging market firms using a sample of 220 firms from 21 emerging market countries. Second, I account for other (composite) governance provisions in regressions which have as their primary variable of interest, specific individual corporate governance provisions.

When I do so, I show, as Mitton (2004) originally does, that dividends are an *outcome* of strong governance. The shareholders of better-governed firms are able to extract the largest dividends from firms. On closer inspection, I show that dividend payouts are the highest in firms which score high in measures which quantify *board independence* and *accountability*. Finally, I uncover some, but not definitive evidence, which suggests that opaque firms pay dividends larger than transparent firms. In effect, these opaque firms *substitute* poor governance with high dividends.

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Table 1

Sample Description

This table describes the sample by country. # Firms is the number of firms. For each country, I report the median (MD) and standard deviation (SD) of corporate governance, dividends to earnings (%), dividends to cashflow (%), and dividends to sales (%), respectively. In the remaining columns, I report shareholder rights (SR) data from Spamann (2009) and Djankov et al. (2008) (for China, Hungary, and Poland), and creditor rights (CR) data from Djankov, McLeish, and Shleifer (2007). All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001).

		Corporate Governance		Dividend Payout Measure						Shareholder & Creditor Rights	
		Corporate Governance		Dividends to Earnings (%)		Dividends to Cashflow (%)		Dividends to Sales (%)		Shareholder & Creditor Rights	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Country	# Firms	MD	SD	MD	SD	MD	SD	MD	SD	SR	CR
Argentina	1	66.7	-	0.0	-	0.0	-	0.0	-	3	1
Brazil	14	61.8	9.1	31.9	34.3	9.5	27.7	2.9	6.0	5	1
Chile	7	62.4	4.2	34.8	16.5	11.7	10.5	1.3	1.7	5	2
China	11	48.2	11.6	28.8	24.7	15.9	17.5	5.8	7.9	1	2
Colombia	1	53.2	-	66.0	-	82.2	-	6.0	-	4	0
Hong Kong	25	59.8	14.4	43.1	32.7	46.7	32.2	6.1	9.2	4	4
Hungary	1	48.5	-	85.5	-	10.6	-	0.5	-	2	1
India	13	53.4	10.4	19.7	23.6	13.7	28.1	3.4	2.4	4	2
Indonesia	12	36.3	13.6	23.7	26.0	20.3	26.6	2.0	4.8	4	2
Korea	13	39.7	5.8	5.9	9.2	3.0	4.9	0.2	0.8	4	3
Malaysia	22	60.3	12.8	33.4	30.2	27.0	27.5	4.8	5.1	4	3
Mexico	4	67.0	4.0	28.1	14.9	15.4	8.0	4.0	2.8	2	0
Pakistan	4	33.6	20.2	76.8	40.7	71.1	36.4	9.7	7.8	5	1
Peru	1	76.5	-	18.9	-	33.0	-	8.0	-	4	0
Philippines	12	40.6	12.2	5.3	19.6	0.4	18.6	0.2	1.6	4	1
Poland	1	37.7	-	0.0	-	0.0	-	0.0	-	2	1
Singapore	18	67.4	6.7	44.0	31.9	24.8	29.0	1.9	7.1	4	3
Sth Africa	16	64.3	16.1	27.5	33.0	22.6	23.3	2.9	7.2	5	3
Taiwan	31	54.9	9.1	17.4	25.4	9.3	20.2	1.1	3.5	5	2
Thailand	6	54.6	15.3	46.0	38.8	26.0	20.6	4.6	8.5	4	2
Turkey	7	46.6	10.6	0.0	20.0	0.0	6.7	0.0	0.6	4	2
		Total Sample									
		MD	SD	MD	SD	MD	SD	MD	SD	Median	
	220	55.8	14.6	23.4	29.5	15.4	26.4	2.2	6.2	4	2

Table 2

Individual Corporate Governance Provisions

This table describes the sample by country. # Firms is the number of firms. For each country, I report the median (MD) and standard deviation (SD) of discipline, transparency, independence, accountability, responsibility, and fairness. Corporate governance measures are from CLSA (2001).

Country	# Firms	Individual Corporate Governance Provisions											
		Discipline		Transparency		Independence		Account		Responsibility		Fairness	
		MD	SD	MD	SD	MD	SD	MD	SD	MD	SD	MD	SD
Argentina	1	66.7	-	70.0	-	78.6	-	62.5	-	50.0	-	72.2	-
Brazil	14	61.2	20.0	80.0	15.9	64.3	15.9	56.3	15.9	66.7	23.0	33.3	19.2
Chile	7	55.6	6.0	90.0	19.5	64.3	15.7	37.5	6.1	83.3	8.1	83.3	7.7
China	11	33.3	16.5	60.0	12.9	64.3	22.8	12.5	19.7	50.0	13.1	83.3	26.8
Colombia	1	55.6	-	50.0	-	35.7	-	50.0	-	50.0	-	77.8	-
Hong Kong	25	44.4	24.3	70.0	16.1	42.9	28.7	50.0	25.3	83.3	18.2	83.3	17.7
Hungary	1	22.2	-	60.0	-	57.1	-	12.5	-	66.7	-	72.2	-
India	13	66.7	16.9	50.0	14.8	64.3	29.4	50.0	18.4	50.0	16.1	83.3	24.4
Indonesia	12	33.3	18.0	60.0	13.8	14.3	19.8	18.8	8.4	33.3	19.4	66.7	33.0
Korea	13	33.3	10.0	50.0	7.5	35.7	13.9	62.5	17.2	33.3	10.7	33.3	23.3
Malaysia	22	55.6	18.9	65.0	17.7	78.6	21.6	31.3	19.9	50.0	14.2	80.6	22.1
Mexico	4	72.3	10.6	80.0	18.3	67.9	18.8	56.3	11.9	58.4	9.6	77.8	26.6
Pakistan	4	27.8	26.5	31.7	19.7	50.0	26.8	36.1	26.6	27.8	26.5	22.3	8.3
Peru	1	77.8	-	90.0	-	78.6	-	62.5	-	66.7	-	83.3	-
Philippines	12	33.3	17.4	45.0	12.7	53.6	26.3	25.0	13.5	33.3	16.7	33.3	27.8
Poland	1	11.1	-	20.0	-	78.6	-	100.0	-	16.7	-	0.0	-
Singapore	18	66.7	19.5	70.0	14.5	85.7	11.8	50.0	17.7	66.7	13.9	88.9	16.5
Sth Africa	16	55.6	13.8	50.0	19.0	71.4	25.6	75.0	23.5	66.7	21.1	80.6	23.2
Taiwan	31	55.6	17.7	50.0	25.0	85.7	11.8	50.0	25.2	50.0	19.7	50.0	26.1
Thailand	6	27.8	13.4	60.0	13.3	60.8	28.5	62.5	14.6	50.0	23.6	72.2	31.0
Turkey	7	66.7	17.8	50.0	14.1	28.6	25.9	12.5	25.7	50.0	18.6	16.7	20.4
		MD	SD	MD	SD	MD	SD	MD	SD	MD	SD	MD	SD
	220	44.4	20.6	60.0	19.9	71.4	26.7	50.0	23.7	50.0	21.4	77.8	27.9

[23]

Table 3

Correlation Coefficient, Variance Inflation Factors & Condition Numbers

This table present correlation coefficients between each corporate governance provision and an index of the remaining provisions (their composite), and correlation coefficients between each corporate governance provision and each dividend payout measure. Div-Cashflow is dividends to cashflow, Div-Earnings are dividends to earnings, and Div-Sales are dividends to sales. Corporate governance measures are from CLSA (2001), and dividend payout measures are sourced from Worldscope. The bottom panel reports tests of multicollinearity, namely variance inflation factors (VIF) and condition numbers (Condition). ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

		Correlation of each Corporate Governance Provision with their Composite (An equally-weighted average of the other five individual governance provisions)					
		Corporate Governance Provisions					
		Discipline	Transparency	Independence	Account	Responsibility	Fairness
Correlations		0.456***	0.435***	0.430***	0.275***	0.563***	0.334***
		Correlations of Corporate Governance Provisions with each Dividend Payout Measure					
		Discipline	Transparency	Independence	Account	Responsibility	Fairness
Div-Cashflow		0.096	0.038	0.097	0.097	0.253***	0.255***
Div-Earnings		0.078	0.075	0.169**	0.138**	0.259***	0.182***
Div-Sales		0.024	0.118*	0.082	0.076	0.278***	0.225***
Average		0.066	0.077	0.116	0.104	0.263	0.221
		Multicollinearity Tests					
		Discipline	Transparency	Independence	Account	Responsibility	Fairness
VIF		1.34	1.38	1.33	1.25	1.53	1.34
Condition		5.04	6.08	4.66	4.05	5.17	4.74

[24]

Table 4

Univariate Statistics

This table present summary median dividend payouts by strength of corporate governance. Median dividend payout is presented for firms with high and low corporate governance, discipline, transparency, independence, accountability, responsibility, and fairness. Div-Cashflow is dividends to cashflow (%), Div-Earnings dividends to earnings (%), and Div-Sales dividends to sales (%). Corporate governance measures are from CLSA (2001), and dividend payout measures are sourced from Worldscope.

	Composite Corporate Governance Measure			
	Full Sample	High Governance	Low Governance	Difference (High – Low)
Div-Cashflow (%)	15.40	21.30	9.10	12.20***
Div-Earnings (%)	23.40	32.80	18.00	14.80***
Div-Sales (%)	2.20	2.90	1.50	1.40***
	Individual Corporate Governance Provisions					
	Discipline			Transparency		
	High Discipline	Low Discipline	Difference (High – Low)	High Transparency	Low Transparency	Difference (High – Low)
Div-Cashflow (%)	16.70	8.50	8.20*	20.90	13.25	7.65*
Div-Earnings (%)	27.05	15.85	11.20*	29.95	19.85	10.10*
Div-Sales (%)	2.65	1.60	1.05*	2.70	1.95	0.75**
	Independence			Accountability		
	High Independence	Low Independence	Difference (High – Low)	High Accountability	Low Accountability	Difference (High – Low)
Div-Cashflow (%)	18.40	12.30	6.10	16.05	14.80	1.25
Div-Earnings (%)	26.40	19.70	6.70*	21.00	23.90	(2.90)
Div-Sales (%)	2.50	1.70	0.80	1.90	2.40	(0.50)
	Responsibility			Fairness		
	High Responsibility	Low Responsibility	Difference (High – Low)	High Fairness	Low Fairness	Difference (High – Low)
Div-Cashflow (%)	21.65	10.45	11.20***	21.20	8.50	12.70***
Div-Earnings (%)	33.90	19.05	14.85***	29.50	18.60	10.90***
Div-Sales (%)	2.80	1.60	1.20***	3.40	1.50	1.90***

Table 5

Regression Estimates

This table reports coefficient estimates from ordinary least squares with heteroscedastic consistent t-stats presented underneath in parenthesis. The sample period is for the year 2001. The dependent variable is dividends to cashflow (%), dividends to earnings (%), and dividends to sales (%), as indicated. Size is the log of book assets in US$, growth is logarithmic one-year asset growth, profitability is earnings before interest and taxation to book assets, cash is cash to assets, and total equity to total assets, retained earnings is retained earnings to total assets. In columns (1), (3), and (5) a full set of country and industry dummies are included, but not reported. The country dummies are excluded from columns (2), (4), and (6). Shareholder rights data is from Spamann (2009) and Djankov et al. (2008) (for China, Hungary, and Poland), and creditor rights data is from Djankov, McLeish, and Shleifer (2007). All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001). # Firms is the number of firms, and ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

| | Dividend Payout Measure | | | | | |
| | Dividends to Cashflow (%) | | Dividends to Earnings (%) | | Dividends to Sales (%) | |
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	0.270*	0.340***	0.369**	0.438***	0.070**	0.071***
	(1.91)	(3.05)	(2.20)	(3.44)	(2.12)	(2.86)
Size	0.615	0.219	1.862	1.554	0.547*	0.442*
	(0.42)	(0.18)	(1.08)	(1.04)	(1.66)	(1.68)
Growth	2.691	2.893	-29.690**	-27.235**	-3.065	-2.359
	(0.22)	(0.27)	(2.06)	(2.18)	(1.02)	(0.91)
Profitability	26.156	20.806	18.308	8.653	12.467***	10.816***
	(1.49)	(1.42)	(0.80)	(0.48)	(3.04)	(2.88)
Cash	7.611	11.278	8.099	9.541	3.731	4.354
	(0.52)	(0.86)	(0.44)	(0.57)	(0.97)	(1.19)
Total Equity (TE)	8.712	13.970	15.975	20.804	8.893***	8.897***
	(0.67)	(1.21)	(1.11)	(1.56)	(3.10)	(3.48)
Retained Earnings (RE)	9.548	5.821	16.864**	13.471**	0.475	0.214
	(1.51)	(1.03)	(2.46)	(2.15)	(0.49)	(0.23)
Shareholder Rights		0.382		-0.485		-0.425
		(0.24)		(0.21)		(0.97)
Creditor Rights		3.004		1.588		0.475
		(1.46)		(0.69)		(1.08)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Included	Excluded	Included	Excluded	Included	Excluded
# Firms	220	220	220	220	220	220
R-Squared	0.457	0.390	0.388	0.306	0.508	0.448

Table 6

Regression estimates using individual corporate governance provisions

This table reports coefficient estimates from ordinary least squares with heteroscedastic consistent t-stats presented underneath in parenthesis. The sample period is for the year 2001. The dependent variable is dividends to cashflow (%). Size is the log of book assets in US$, growth is logarithmic one-year asset growth, profitability is earnings before interest and taxation to book assets, cash is cash to assets, and total equity to total assets, retained earnings is retained earnings to total assets. The bottom panel includes 'Governance – Comp' as an additional regressor. 'Governance – Comp' is an equally-weighted average of the other five governance sub-indices. All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001). Industry and country fixed effects are included but not reported. # Firms is the number of firms, and ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

	Dividends to Cashflow (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	0.066	-0.027	0.163**	0.127	0.104	0.080
	(0.76)	(0.35)	(2.16)	(1.35)	(1.10)	(1.20)
Size	0.048	-0.186	0.563	0.073	0.139	0.135
	(0.03)	(0.13)	(0.41)	(0.05)	(0.10)	(0.09)
Growth	3.874	4.026	3.184	4.067	2.848	3.092
	(0.33)	(0.34)	(0.26)	(0.34)	(0.23)	(0.26)
Profitability	25.999	25.754	26.282	30.249*	24.451	23.909
	(1.46)	(1.42)	(1.52)	(1.66)	(1.38)	(1.29)
Cash	9.385	8.843	7.676	8.886	7.587	7.275
	(0.63)	(0.57)	(0.52)	(0.60)	(0.50)	(0.47)
Total Equity (TE)	8.595	8.615	7.128	10.030	8.443	8.907
	(0.66)	(0.66)	(0.56)	(0.77)	(0.66)	(0.67)
Retained Earnings (RE)	9.688	10.571*	10.645*	9.950	10.132*	10.489*
	(1.60)	(1.82)	(1.90)	(1.50)	(1.69)	(1.75)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.448	0.446	0.459	0.453	0.450	0.450
	Dividends to Cashflow (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.010	-0.135	0.141*	0.092	0.036	0.061
	(0.08)	(1.62)	(1.70)	(0.93)	(0.35)	(0.90)
Governance - Comp	0.272*	0.389**	0.111	0.175	0.233*	0.208
	(1.84)	(2.50)	(0.73)	(1.26)	(1.66)	(1.53)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Included	Included	Included	Included	Included	Included
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.458	0.467	0.461	0.458	0.457	0.457

Table 7

Regression estimates using alternative dividend payout measures

This table reports coefficient estimates from ordinary least squares with heteroscedastic consistent t-stats presented underneath in parenthesis. The sample period is for the year 2001. The dependent variable is dividends to earnings (%), or dividends to sales (%), as indicated. Country and industry fixed effects, and firm-level controls are included, but not reported. 'Governance – Comp' is an equally-weighted average of the other five governance sub-indices. All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001). # Firms is the number of firms, and ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

	Dividends to Earnings (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.047	-0.211*	0.235**	0.243**	0.073	-0.002
	(0.35)	(1.81)	(2.32)	(2.34)	(0.54)	(0.03)
Governance - Comp	0.406**	0.556***	0.102	0.119	0.295*	0.371**
	(2.21)	(3.05)	(0.58)	(0.74)	(1.78)	(2.21)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Included	Included	Included	Included	Included	Included
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.390	0.405	0.399	0.399	0.387	0.390
	Dividends to Sales (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.010	0.003	0.020	0.035*	0.010	0.010
	(0.26)	(0.14)	(1.01)	(1.80)	(0.20)	(0.40)
Governance - Comp	0.074**	0.066*	0.049	0.034	0.064**	0.064*
	(2.23)	(1.94)	(1.56)	(1.00)	(2.09)	(1.84)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Included	Included	Included	Included	Included	Included
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.509	0.508	0.508	0.512	0.508	0.508

Table 8

Regression estimates using individual corporate governance provisions & shareholder and creditor rights

This table reports coefficient estimates from ordinary least squares with heteroscedastic consistent t-stats presented underneath in parenthesis. The sample period is for the year 2001. The dependent variable is dividends to cashflow (%). 'Governance – Comp' is an equally-weighted average of the other five governance sub-indices. Shareholder rights data is from Spamann (2009) and Djankov et al. (2008) (for China, Hungary, and Poland), and creditor rights data is from Djankov, McLeish, and Shleifer (2007). All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001). Industry and country fixed effects are included but not reported. # Firms is the number of firms, and ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

	Dividends to Cashflow (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.020	-0.082	0.108*	0.081	0.098	0.088
	(0.27)	(0.92)	(1.65)	(1.04)	(1.02)	(1.56)
Governance - Comp	0.355***	0.401***	0.220	0.261**	0.242*	0.249**
	(3.09)	(3.24)	(1.59)	(2.49)	(1.94)	(2.15)
Shareholder Rights	0.594	0.427	0.376	0.297	0.315	0.649
	(0.36)	(0.27)	(0.24)	(0.19)	(0.20)	(0.39)
Creditor Rights	2.947	2.507	3.075	3.053	2.993	2.781
	(1.44)	(1.22)	(1.48)	(1.50)	(1.45)	(1.34)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.393	0.397	0.392	0.390	0.391	0.391

Table 9

Regression estimates using individual corporate governance provisions & shareholder and creditor rights

This table reports coefficient estimates from ordinary least squares with heteroscedastic consistent t-stats presented underneath in parenthesis. The sample period is for the year 2001. The dependent variable is dividends to earnings (%), or dividends to sales (%), as indicated. 'Governance – Comp' is an equally-weighted average of the other five governance sub-indices. Shareholder rights data is from Spamann (2009) and Djankov et al. (2008) (for China, Hungary, and Poland), and creditor rights data is from Djankov, McLeish, and Shleifer (2007). All firm-level data is sourced from Worldscope. Corporate governance measures are from CLSA (2001). Industry and country fixed effects are included but not reported. # Firms is the number of firms, and ***, **, and * denotes significance at the 1, 5, and 10% level, respectively.

	Dividends to Earnings (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.140	-0.079	0.173**	0.156**	0.191	0.059
	(1.27)	(0.71)	(2.04)	(1.98)	(1.55)	(0.86)
Governance - Comp	0.565***	0.494***	0.241	0.289**	0.248*	0.380***
	(3.87)	(3.25)	(1.58)	(2.44)	(1.78)	(2.76)
Shareholder Rights	0.101	-0.436	-0.497	-0.778	-0.679	-0.604
	(0.04)	(0.19)	(0.22)	(0.34)	(0.29)	(0.26)
Creditor Rights	1.422	1.044	1.723	1.748	1.548	1.696
	(0.64)	(0.46)	(0.75)	(0.76)	(0.68)	(0.74)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.322	0.313	0.311	0.310	0.310	0.306
	Dividends to Sales (%)					
	Corporate Governance Provision					
	Discipline	Transparency	Independence	Account	Responsibility	Fairness
	(1)	(2)	(3)	(4)	(5)	(6)
Corporate Governance	-0.026	0.012	0.012	0.028**	0.022	0.013
	(1.51)	(0.62)	(0.69)	(2.01)	(0.95)	(1.01)
Governance - Comp	0.094***	0.059**	0.059**	0.044**	0.049**	0.057*
	(3.41)	(2.20)	(2.28)	(1.92)	(2.08)	(1.92)
Shareholder Rights	-0.322	-0.425	-0.425	-0.482	-0.441	-0.411
	(0.71)	(0.96)	(0.96)	(1.10)	(1.00)	(0.92)
Creditor Rights	0.445	0.477	0.476	0.505	0.472	0.464
	(1.04)	(1.08)	(1.08)	(1.16)	(1.08)	(1.05)
Industry Dummies	Included	Included	Included	Included	Included	Included
Country Dummies	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
Firm Controls	Included	Included	Included	Included	Included	Included
# Firms	220	220	220	220	220	220
R-Squared	0.459	0.448	0.448	0.451	0.448	0.448