Journal of Positive School Psychology http://journalppw.com
2023, Vol. 7, No. 5, 566-587

Role Of Corporate Governance, Firm And Country Specific Factors Of PSX Listed Firm's Dividend Policy And Stock Prices

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ABSTRACT

Theoretical evidence shows that dividend policy is still unresolved issue of finance. After the development of the MM (1961) irrelevant theory many researcher relaxes the assumptions of MM to find the out the association between stock prices behaviour paying dividend policy to maximize the value of the firms. Most of the theories focus that dividend has impact on stock prices. This study uses a panel dataset of 319 non-financial businesses registered on the Pakistan Stock Exchange for the years 2011 through 2022 to examine the impact of corporate governance and ownership structure on the link between corporate stock price and dividend policy. For the analysis, we used panel regression models. According to the findings, institutional ownership and concentrated ownership have no substantial impact on the link between stock prices and dividend policy, although corporate governance and institutional ownership do. The results also demonstrate a relationship between large dividend payments and firm-level corporate governance, suggesting that this institutional mechanism aids in minimising agency issues and enables businesses to deploy capital more effectively. The conclusions offer useful information for businesses in designing sustainability initiatives and developing dividend policy in light of ownership structure. Additionally, it provides policy recommendations for corporate financing in emerging markets. The study also recommends that tenure of the government and delisting probability has more impact on stock prices of dividend payers firms.

KEYWORDS: Irrelevant theory, agency theory, catering theory, Corporate governance, delisting, Government Tenure, dividend policy, Stock prices, Panel regression, PSX

1: Introduction

Overview

Financial management policy of the businesses such as investing, financing, repurchase and dividend are important for the firm that intends to maximise profits gained to benefit its owners or shareholders (Giriati, 2016; Ozturkkal, 2015; & Thamrin et al., 2017). To conduct its business operations, the corporation needs enough finance to invest future opportunity. These sources of finance can be obtained through investing activities, according to Mason (2006). Through investing operations, businesses can gain from helping the sector meet its finance needs. Companies with more resources will decide between making a financial or actual investment. The corporation invested in shares with the intention of making a profit through distribution of profit as well gains in trading stocks. Lasting, stakeholders often purchase shares in order to receive rewards as a profit (Aroni et al., 2014;

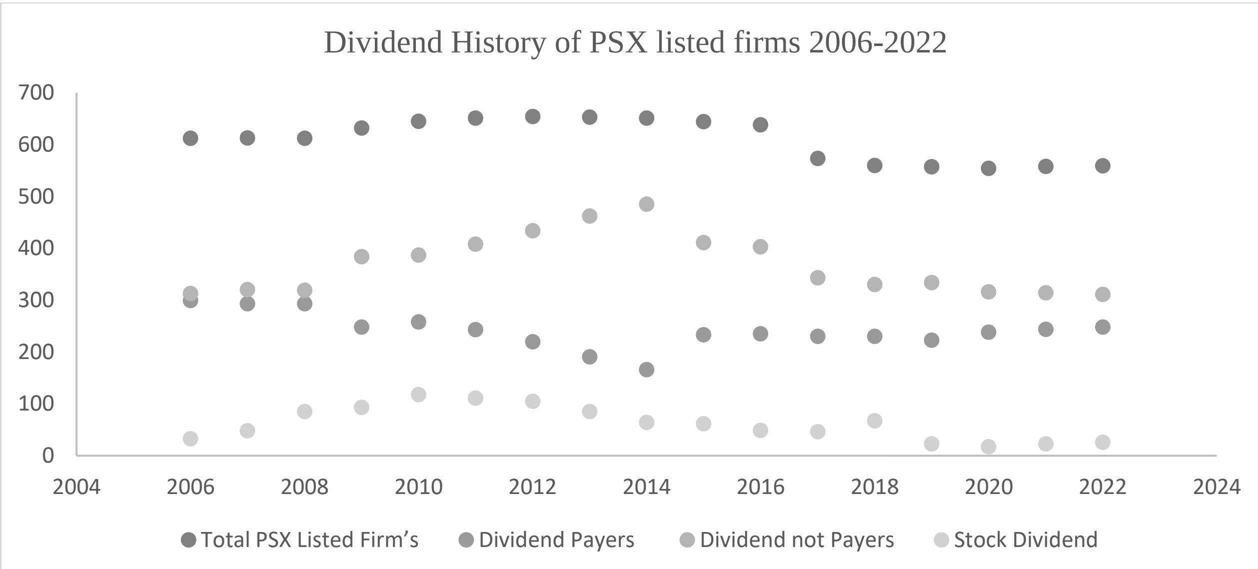
Khoiruddin & Faizati, 2014), and appropriately when shareholder anticipates receiving the maximum growth possible from his investment (Brigham & Houston, 2013). The long-term objective of a company management is to increase the firm's worth. Maximising the wealth of a company's owners (shareholders) is necessary to increase its worth. A business's market value may be maximised, according to Fama and French (2001), by implementing financial management functions. Making one financial choice to raise funds would influence on other financial decisions, might be higher correlation with stock prices of the company.

One of the key choices made by the company's decision-makers is the dividend policy (Booth & Zhou, 2017). Many prior studies focus on why firms distribute profits to its holders and what pattern follow the policy of distribution profit (Baker & Wurgler, 2004a; Booth & Zhou, 2017; Harakeh, 2020; Kent Baker et al., 2018; Miller & Modigliani, 1961; Yeo, 2018). During the past thirty years, a number of dividend distribution theories have developed in an effort to clarify whether shareholders shouldn't or shouldn't have an opinion on a company's policy on dividends. The importance of dividends is determined by how they affect company outcomes and their signalling ability. Due to the sense of security that payments instill in stockholders' demands, Mutisya (2014) demonstrates that paying out dividends policy has a significant impact on business performance. Therefore, it is anticipated that high dividends will reduce agency issues and improve the effectiveness and performance of the company (DeAngelo et al., 2006). As an alternative, they use signals included in dividend announcements to forecast future performance, assuming that an increase (reduction) in dividend payout conveys positive (negative) signals that would lead to a rise (decrease) in price (Baker et al., 2011; Bhattacharya, 1979; John and Williams, 1985; Miller and Rock, 1985).

Chaney, Faccio & Parsley, (2011) discusses how political ties of company shareholders, chief executive officers, and various other executive management enable businesses to acquire extra advantages like bank financing and more government assistance. Hameed and Ayub study from 2021 demonstrates that Pakistani publicly traded companies don't always adhere to a single theory and have an influence on several theories. The assistance might be geared towards obtaining costly financing and giving shareholders little payouts. According to Cheng and Leung (2016), politically linked Chinese firms perform more effectively economically and have lower management turnover rates. According to research by Fang, Wong, and Zhang (2007), relationships with politicians have a detrimental impact on the success of Chinese companies' after the initial public offerings shares returns. Li and Zhang (2018) studied the influence of the company's throughout its lifespan on governance structures in the past few years, nevertheless they weren't looking at the impact of board composition on company performance at various life cycle phases. Dividend and equity pricing are influenced by board structure, ownership structure, macroeconomic conditions, firm-specific characteristics, and control considerations.

It is a challenging topic to discuss the financial overlap brought on by the interaction between the policy of dividends and investment policy. Consequently, the choice of policy is greatly influenced by the choices of management. As was already said, the Irrelevant Theory proposes that investment strategy should be favoured for profit maximisation, although research on the idea has persisted since Berle and Means (1932) initially created the idea. In order to define the link between dividend and market price, a lot of ideas have been put out, but none of them have been able to make a solid and widely acknowledged claim. These theories encompass simulations based on ideal capital market conditions, transaction costs, tax differentials, which are free cash flow, agency conflicts, information asymmetries, shareholding patterns, new governance, and political leanings assumptions. Appropriate and unnecessary simulations are based on the aforementioned presumptions. Additionally, the length and reliability of the government may be impacted. Government regulations also affect listed company dividends and stock prices.

Graph 1: History of Pakistan Stock listed companies Dividend



Source: **www.psx.com.pk** Author develop table PSX data portal 2006-2022

The graph shows that listed stock pays of dividend and registration in the Pakistan stock exchange. The trends shows that listed firm higher during the 2006-2016 then decline in the listing behaviour of the firms while data also shows that cash dividend and stock dividend payment made was increase and decrease pattern in the initial period and during last five years.

Research Problems

Investors faces instability in the stock market when they purchase shares of the listed companies and their return imbalance in the Pakistan stock exchange during the last decades. To find out the association between different factors such as tax implication on dividend and capital gain in the PSX, signalling effects of announcement, catering applications and other factors that affects on dividend policy and stock prices behaviour on listed stock of Pakistani stock exchange.

The research problems that have been identified are as follows:

- The empirical validity of irrelevant theory has been questions by a number of experts. They have argued that the company's market value is affected by dividend policy. The opposing opinion is a problem to be solved.
- The dividend and market price cannot reach a balanced perfect condition or equilibrium.
- Relevant theories of dividend advanced yet not validate in the world as finds experts.

The study of irrelevant theory in Pakistani perspective is the main motivation of this study. The researcher wants to analyse the strengths and weaknesses as well as the problems that arise as a result of implementation of this theory. The study has also analysed the relationship between company's market value and dividend policy.

This study finds the answer of the following questions through Pakistani data.

- How many theories advanced and their empirical evidences are from the world?
- How far the organization's market value is affected by dividend policy?
- Does political government tenure impact on dividend and share price of listed firm's?
- Does delisting risk have any impact on stock price with respect to dividend?
- Does Corporate Governance and shareholding pattern have impact on dividend and stock prices?
- Does all theory work in Pakistan using their proxy variables?

The study has the following objectives:

- To assess the validity of irrelevant theory in Pakistani context?
- To determine the relationship between company's market value and dividends policy in the tested companies of Pakistan.
- To determine the relationship of Corporate Governance and shareholding pattern of listed firm's.
- To determine dividend theories using proxies are related in the context of Pakistani listed firm's.

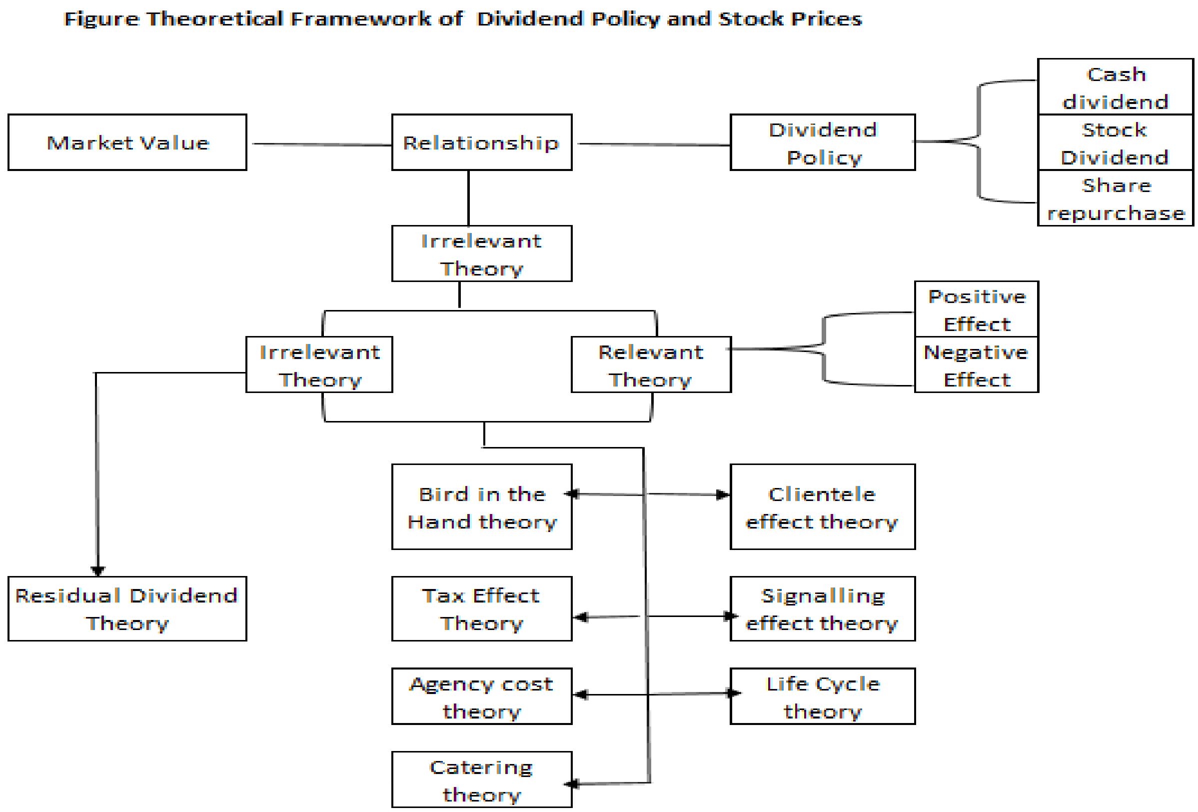
Outline of the study follows this pattern. Chapter one includes; introduction of the study, Chapter two consists of review of Literature includes dividend and share price relationship and firm specific variables. Chapter three developed the econometric model whereas chapter four discusses the results interpretation and chapter five insights on conclusions, recommendation and future study as well.

2. Review of Literature

The reduction in agency costs (Easterbrook 1984; Jensen 1986) and the value of signalling (Bhattacharya 1979; John and Williams 1985; Miller and Rock 1985) are the most frequently cited arguments in favour of firms paying dividends after the seminal works of Modigliani and Miller (1958), Miller and Modigliani (1961), and Black (1976). Moortgat et al. (2017) have presented long-term evidence on dividend policy of Belgian firms spanning the years 1838–2012.

Today, many researchers are keenly interested in a variety of factors, including corporate governance, macroeconomic factors, firm-specific factors, and shareholding patterns. These theories have been developed based on the various assumptions and factors mentioned above to determine the impact on market value. The aforementioned theories have emerged gradually from the inclusion of pioneering works by numerous distinguished scholars, as we see that the theory of the bird in hand created uncertainty in capital appreciation as well as payments in cash, tax modification that resulted in the development of a theory of tax clientele or tax effect hypothesis theory, and a theory based on various investor parties, including insiders, foreign investors, institutions, and the general public who are interested in dividend income. The Signalling Effect idea is contained in the case where firm management attempted to pay dividends, despite the fact that investors' lack of interest and the separation of the management of the company have led to the idea of agency costs. As a result, we can draw the theoretical framework for the study through the following form given below in Figure 2:

Figure 2 Dividend Policies Theoretical Framework



Source: Author

Discussion on dividend Two school of thoughts

Irrelevance Proposition

The policies of dividends are needless and have not any effect on the net worth of the owner, according to various financial and economics experts. The research by Miller and Modigliani (1961), which identified a number of good dividend policy outcomes but had no discernible effect on the company's worth, based on certain assumption such as no taxes, no transaction cost, similar rates of borrowings, equal frequency of information to all and market perfectly behaves for all stockholders. These approaches, yet, do not significantly contribute to creating wealth or a rise in maximisation of profits. The same result is supported by Baker et al. (2006) in Norway, Baker and Powel (2012) in Indonesia, Baker and Kapoor (2015) in India, and Baker and Jabbouri (2016) in Morocco. The dividend irrelevance theory has made a significant addition to the corporate finance literature, regardless of any actual evidence to the contrary. Its main flaw is that it makes a lot of irrational assumptions, and when one of them is eased, the entire model looks to crumble.

Bird in the Hand Theory

The objective has clearly identified that irrelevance of such hypothesis that policies of cash dividends have no significant impact on the valuation of company or the cost of capital. However, the cash dividend policy is not directly related to capital return. Nevertheless, several theorists, including (Lintner, 1962; Gordon, 1963), presum that the capital yield is required when dividends on money declines owing to stakeholders' uneasy views about a higher return on capital between the rise in the price of shares and the earnings retained from getting dividend on cash. In order to understand the significance and appeal of various dividend policy theories, Baker and Kapoor (2015) and Baker and Jabbouri (2016) conducted surveys of listed Indian and Moroccan companies, respectively. The results show some mediocre support for the "bird in the hand" explanation for dividend payments in both markets.

Clientele Effect Theory

According to the research of Black and Scholes (1974), each shareholder has a personal count on whether to choose the benefit of more cash for distributing or retaining it depending on their tax condition. The statement, however, introduces a concept known as the "Clientele Effect" in which a shareholder selects a firm based on how well it satisfies the needs and wants of investors. According to the clientele impact concept, a business should develop dividend policies that take its investors' preferences into consideration. This is because the demand from a company's shareholders, which may be impacted by its dividend, tax, and other policies, can alter the market value of that company's stocks. (2012) Mirza et al. This theory suggests that as higher the number of holder of the share may lower the dividend and similar with tax behaviour.

Signalling Effect Theory

According to the Signalling Effect idea, managers frequently alter the prices regarding dividends in the form of cash distributed to investors in order to convey information regarding the firm's performance (Denis et al., 1994). The study's supporters believe that the rise in cash dividend prices is the source of knowledge sharing. Rival businesses, however, lack the potential to achieve comparable earnings in the near future (Charest, 1978; Asquith and Mullins1983; Doron and Ziv, 2001). When it comes to huge corporations, who must gather more data in order to offer it to investors, it is important to distinguish between the information that the firm has chosen to deliver and what the investors already know. in the cash dividend might be expensive source and authentic way to deliver the information.

Agency Costs Theory

According to (Miller & Modigliani, 1961; Jensen & Meckling, 1976; Jensen, 1986; Shleifer & Vishny, 1997), the costs of the transactions or for the agencies were unimportant sources. Strong corporate governance may reduce the conflict of interest between managers and shareholders that results from the improper use of a company's assets from the standpoint of agency costs (Al-Najjar & Clark, 2017; Hussain et al., 2019). In order to solve this issue and match the interests of both managers and shareholders, adequate corporate governance instruments or systems are crucial (Lasfer, 2006). When taxes are disregarded, these dividend programmes, however, can be regarded as optimum (Rozeff, 1982).

Catering Theory

Dividend premium is taken into account in this analysis since it is a well-known example of catering theory. The dividend premium is examined by Baker and Wurgler (2004a, 2006, and 2007) to determine if a company's dividend policy is shareholder-friendly. Recent studies by Ferris et al. (2006), Li and Lie (2006), Konieczka and Szyszka (2013), Abdulkadir et al. (2015), and Neves (2018) support the dividend premium's explanatory ability for determining the motivations behind the dividend policy. The catering idea has been demonstrated to be inconclusive in understanding business dividend practises in several instances, though. Finally, Chahyadi and Salas (2012) show that when accounting for tax, catering does not significantly affect dividend policy.

Firm Life Cycle Theory

Given that mature firms perform better and are therefore better positioned to pay their owners with dividends, dividend policy and company maturity are strongly associated. Earlier in their life cycles (mature firms), according to Garengo, Nudurupati, and Bititci (2007) and O'Connor and Byrne (2015), have less effective governance and weaker performance. Additional evidence supporting the life-cycle hypothesis is provided by the investigations of Fairchild et al. (2014), Jordan et al. (2014), Kim and Seo (2014), and Kumar and Sujit (2018). A more recent study by He et al. (2017) demonstrates the bigger, more lucrative, and lack of investment prospects of companies that typically give dividends. In support of the life-cycle theory, Manos et al. (2012) and He et al. (2017) show that dividend payers are usually older firm’s.

Development of Research Hypothesis of the study

In this section, study reviews the previous literature based on previous studies, developed the hypotheses and their linkages with previous studies.

Share price and dividend policy

The academic debate on association between share price and dividend policy dates back couple of decades. The debate of dividend in academia and practitioners is divided into two blocks. One claiming the association between share price and dividend policy whereas, the opinion of other side indicates no association between them. It is interesting to mention that both opinions are built on support of empirical output. The alteration of signals or the promotion of already realised gains are two uses for share dividends (Chen, Firth, and Gao's, 2002). In their study of the effects of dividend coverage on stock movements for Mediterranean banks, Camilleri, Grima, and Grima (2019) found that dividend yield is more important than dividend pay-out ratio in illuminating their effects on volatility. According to Chiang and Chan (2019), the stabilising effect, also known as the weak relationship between dividend and share price fluctuation, occurs during the lookup period. The impact of product market competitiveness on a firm's dividend policy is examined by Kang & Kim (2021). The research demonstrates that companies with a good dividend reputation pay more dividends than those with a bad reputation.

The irrelevance argument is backed up by a number of research (Brennan, 1971; Miller, 1986; Miller and Scholes, 1978, 1982). As an example, with the goal to determine the influence of paying out dividends on the price of stocks, Black and Scholes (1974) looked at the correlation between the yield of dividends and return on investment. The empirical literature supports the importance of dividends in determining the company's worth with strong evidence. (Fisher, 1961; Baskin, 1989; Asquith & Mullins, (1983). According to empirical research by Maladjian & Rim (2014), Marfo-Yiadom & Agyei (2011), and Parua & Gupta (2009), profitability and liquidity are the two main factors that affect dividend policy. Ownership structure and investment prospects have been noted by Gupta & Charu (2010), Kamal (2012), and Kristianti (2013) as significant factors affecting dividend policy and business value.Examining the connection between dividend coverage and share price volatility in insurance, (Al-shattarat, et al., 2018, Almanaseer, 2019) reveals conflicting findings regarding share price and dividend policy. Therefore, the first and second hypotheses are given as under:

H1: Dividend policy (Dividend pay-out) has positive role in explaining changes on share price.

H2: Dividend policy (Dividend Yield) has negative role in explaining changes on share price.

Government tenure, Dividend policy and share prices

According to North and Thomas (1973), corporate conduct is influenced by the context of institutions, particularly the political climate. However, there is a lot of unpredictability in the corporate world, and that confusion is becoming worse (Gao, Xu, & Yang, 2008). So, the secret to running a successful commercial operation is knowing how to deal with such unpredictability. Pakistan is a developing market and a transitional economy, therefore an unstable political environment may have a stronger impact on business there. In recent decades, Pakistan has undergone significant changes in the form of dictatorship and democratic administration. Political stability in Pakistan makes it impossible to create strict rules. Since the government directly interferes in the economy, the Pakistani government and authorities dominate the transition. The unpredictable nature of forthcoming policies will affect how businesses behave. Consequently, the research looks at the manner in which corporate decision-making conduct from the standpoint of cash dividend distribution is affected by political uncertainty in government shifting. In accordance with the duration of the political party's government tenure, this study uses the political government tenure as a dummy variable. Throughout the research time frame, the government of Pakistan was dominated by two parties.

H3: Government tenure has negative role in explaining changes on share price

Delisting Risk and share prices:

Delisting has raised an attention in recent years. The reason is due to the possibility that delisting might have a detrimental direct or indirect impact on stakeholders such as shareholders, management, workers, and businesses. Therefore, according to Chaiyawat and Samranruen (2016), it is essential to comprehend the signs of financial trouble in a company and be able to foresee the firm's delisting. Delisting is not advantageous to the company and has an effect on dividend payments. Stock price risk if dividends are not paid to shareholders. (Jensen, 1986; Weir et al., 2005; Michelsen and Klein, 2011) claim that established businesses with little need for expenditures, particularly in research and development (R&D), might experience significant dividend payments. Due to the managers' desire to manage, pay-outs may be vulnerable to conflicts of interest amongst shareholders the resource distributed as dividends otherwise.

H4: Delisting risk has negative role in explaining changes on share price.

Political connections, Institutional shareholdings and share price volatility

In Pakistan, political connection is because of the significant and widely known politically related businesses in earlier research, one of which comprises important institutional settings. According to earlier research (Benjamin et al., 2016; Bliss and Gul, 2012; Fung et al., 2015; Gomez and Jomo, 1999; Johnson and Mitton, 2003), there is a substantial correlation among politically linked firms and a variety of business outcomes. According to agency theory, senior managers' opportunistic behaviour can be restrained by institutional investors' effective oversight (Jensen and Meckling, 1976; Shleifer and Vishny, 1986). While Benjamin et al. (2016) found that large shareholders can limit their capacity to seize the capital of shareholders through higher dividend pay-outs in Politically connected firm's, Heng and Zhang (2013) found that institutional monitoring may decrease management extracting of the company's financial flow.

Second, the government and regulatory bodies provide political protection to politically linked businesses (Chaney et al., 2011; Piotroski et al., 2015; Yu and Yu, 2011; Benjamin et al., 2016). Minority shareholders are deterred from turning to the courts for justice as a result. Because of neither of these factors, the majority owners of politically linked firms feel free to establish and maintain a transparent accounting and reporting structure to support their wealth-expropriation activities, such as self-dealings and related party transactions.to examine the impact of agency issues on share price on institutional shareholders and politically related companies. Study if institutional monitoring may reduce the relationship between the share price of politically related companies.

H5. There is a negative of institutional shareholding between politically connected firm's and stock price.

Corporate Governance and Share Prices:

Over the last 18 years, Pakistan has actively pursued CG (corporate governance) reforms, much like other nations across the globe. All Pakistani listed companies were required to abide by the original CG code, which was first issued in 2002 by the Securities Exchange Commission of Pakistan (SECP) (Tariq and Abbas, 2013). Numerous experts acknowledged the idea that, in the absence of market imperfections, the more profit a corporation generates, the higher its value rises before MM (1961) study developed the premise. According to the signalling hypothesis put forward by Farrukh et al. (2017), firm managers have more access to information about the business's future expectations due to the high insider reports they are familiar with. In their study, Hameed et al. (2021), they discovered a negative correlation between political connections and government tenure has a favourable effect on the Pakistan Stock Exchange's dividend-using listed company from 2010 to 2020. As a "leading paradigm, supporting organisations to identify, evaluate, and manage risks at the enterprise level" (Anton and Nucu, 2020), the fundamentals of risk management disclosure in the financial sector serve as the foundation for this investigation of the interactions between corporate governance variables, financial performance, and risk management. Studies like (Hameed et al., 2021, 2022; Florio and Leoni, 2017; Mehar, 2005; Lechner and Gatzert, 2018; Bunea and Dinu, 2020; Kakanda and Salim, 2017) demonstrate that increased cash uncertainty, reduced uncertainty in stock return volatility, that becomes stronger over time, as well as minority investors are still biassed to buy shares.

Board size

The size of the board and its composition are rational responses to the conditions of the external environment, current internal situation and previous financial performance of a firm (Pearce and Zahra, 1992). According to Sheikh et al. (2013), companies gain from a big board size since the knowledge and abilities of the large members would be put to better use. Additionally, a big board size promotes supervision since dominating CEOs may find it challenging to influence all the board members, according to the efficiency viewpoint of the neo-institutional theoretical framework (Elmagrhi et al., 2016). An alternative argument to the one given above is put forward by another body of literature. For instance, a sizable board can find it challenging to come to an agreement, which might lead to the needless scheduling of meetings (Arora and Sharma, 2016). They discover that smaller boards have a favourable effect on company performance, demonstrating improved shareholder representation.

Board independence

Since non-executive directors (NEDs) are required to monitor how executives use company resources, they help to reduce agency issues and protect shareholder interests (Froud et al., 2008). NEDs come from a variety of backgrounds, which gives the board a variety of viewpoints and decreases complacency (Mathew et al., 2016). They also have the knowledge to make objective decisions (Sundarasen et al., 2016). In order to preserve the interests of shareholders, NEDs may be encouraged by their independence to advise management and keep an eye on its operations (Mura, 2007; Duchin et al., 2010). According to Liu et al. (2015), the presence of non-executive directors' increases business performance, increases investment efficiency, and decreases insider self-dealing in state-owned companies.

CEO Duality

The CEO and chairman of the board both play important responsibilities in their respective organisations (Doan, 2020). The CEO is in charge of running the business, and the chairman is in charge of overseeing the members of the board of directors. When one individual holds the positions of board chair and CEO for a company, this is known as CEO duality. There are two opposing viewpoints on CEO duality that are derived from the theories of stewardship and the idea of agency. According to agency theory, CEO duality will result in a strong CEO who will use that authority to obstruct the board's ability to supervise and make decisions, which will have an impact on the efficiency of the company (Jensen & Meckling, 1976; Muhammad et al., 2019). The theory of stewardship, on the other hand, contends that a chief executive's duality produces great leadership capacity via a unity of authority; as a result, the leader may make choices more quickly and effectively. As a result, strong outcomes will come from high levels of self-determination (Donaldson & Davis, 1991; Muth & Donaldson, 1998; Bich & Thai, 2019). The majority of earlier research did not take into account the varying effects of a strong CEO on company performance over the course of the firm's life cycle.

Board meetings

Providing recommendations regarding financial prospects, board meetings have an impact on the success of the company (Vafeas, 1999). For instance, whenever directors from outside the company participate meetings, management' interests and the needs of shareholders are more closely matched. This is because it is more probable for third-party directors to gather data, make judgements, and keep an eye on management actions during board meetings (Adams and Ferreira, 2009). According to Demirtas (2017), when the directors meet soon after the start of the selling process, the returns and premiums of the shareholder at the target business increase. There is a need to reexamine the link between share price and corporate governance structure of the organisation because the research provides few and inconsistent conclusions. Therefore, the hypotheses are given as under:

H6: Board size has positive role in explaining changes on share price

H7: CEO duality has negative role in explaining changes on share price

H8: Independent director has positive role in explaining changes on share price

Market Capitalization to GDP on Share Price

Lukács (2002) investigated the relationship between share price values and a firm's market capital. The analysis is based on the performance of 21 equities listed on the Budapest Stock Exchange (BSE) in terms of returns. According to Kurihara's (2016) research, market capital rates have an impact on all macroeconomic variables, including a country's GDP, currency rate, investor borrowing rates, difference in current account, and money supply. Oluwatoyin and Gbadebo (2009) examined the correlation between market share capitals of firms and earnings using data from 20 time periods between 1988 and 2008 to determine if a firm's capital market price rises in response to its income after taxes, cash dividends, or market price. Alam, Rubel, Karim, and Professor (2016) conducted research utilising Dhaka Stock Exchange elements that influence listed company share prices. A paper by AL- Shubiri in 2010 titled "Analysis the Determinants of Market Stock Price Movements: An Empirical Study of Jordanian Commercial Banks" Macro factors including the GDP rate of expansion and the value of market capitalization were studied in Jibran et al. (2016), Mwangi (2017), Alaliet al. (2018), Chizobaet al. (2018), Rashid and Kemal (2018), and Deyganto and Alemu (2019) for their effects on stock price performance. According to studies, both have a favourable impact on share prices. Additionally, studies looked at the effects of GDP, market capitalization, and the market capitalization to GDP ratio on share prices. Using the debate above, the following hypothesis developed:

H9: Market capitalization to GDP ratio has positive role in explaining changes on share price

Share price, Dividend policy and Firm Specific Variables

According to the financial management, an organization's dividend payout procedures is more likely to be associated with its financial makeup and expenditure regulations, as well. As a result, they have a close connection with the company-specific traits identified by Smith and Watts (1992) and Barclay et al. (1995). Theoretically, many company managers concentrate on the primary aim of increasing the stock value of the company and as a result, make decisions that ultimately enable them to beat their peers in performance in the market by commanding significant prices prices on the marketplace (Ward 1993; Bishop et al 2000). In order to strengthen their arguments, numerous accounting including economic specialists examine the connections between various business economic factors, including company size, growth in sales, ratios of debt to equity, and company revenue ratios Aivazian et al 2003; Ferris et al 2006; Al-Najjar 2009). The culture of commercial accounting has undergone a significant transition during the past several decades. As opposed to tax computations, financial decision-making is now more closely related to it. This has caused PSX listed firms to provide trustworthy financial reports based on company performance, which has positively impacted the ease of making more accurate financial decisions (such as investments, capital structures, and dividends) (Balsari and Varan 2014). Here, the sole firm-specific or control variable that we used was firm size.

Firm size:

Studies like (Ferris et al 2006; Al-Najjar 2009) provides evidence that a company's size affects both the cash dividend payout and the share value, increasing the likelihood of linkages. Furthermore, larger enterprises have a greater likelihood of facing agency costs in the form of owners and managers (Holder et al. 1998; Lloyd et al. 1985; Crutchley and Hansen 1989); fewer surveillance implications; a scattered ownership structure; and a high cost of monitoring. As a result, findings also compare the lower cost of capital, lower likelihood of agency theory, and significant asymmetry in knowledge, which decreases the likelihood of best internally utilising funds. Therefore, firm size also affects the distribution of cash to shareholders from earnings.

H10: Firm size has positive role in explaining changes on share price

3. Research Methodology

The association of dividend policy has been tested against various factors as discussed in vast literature above. However, its association with market price of stock is considered quite significant. This viewpoint receives significance since market price of stock is equally important for management and stockholders. According to (Baskin, 1989, Hussainy et. al 2010, Gunarathne et al. 2016, Jahfer and Mulafara 2016, Jiraporn et al. 2016, Desai and Nguyen, 2015; Yu and Webb, 2017 & Hashemijoo et al. 2012) dividend policy is a function of share price volatility. In first equation, share price is a function of dividend per share used as a dividend policy measurement. Sheikh et al. (2013) assert that companies gain from having a big number of board members since they may use their knowledge and abilities to boost the performance of the company as well as to render objective assessment (Sundarasen et al., 2016). The CEO is in charge of running the business, and the chairman is in charge of overseeing the board of directors. According to agency theory, CEO duality will result in a strong CEO who will use that influence to obstruct board decisions and oversight of the CEO's conduct, which will have an impact on the performance of the company (Muhammad et al., 2019). Through strategic recommendations about investment prospects, board meetings and meeting frequency have an impact on the performance of the company (Vafeas, 1999). Demirtas (2017) reports that return and premiums of the shareholder at target firm increases when the directors meet early after the beginning of a sale process increases. Corporate governance related factors that affect dividend policy as well as share price volatility.

$$\begin{aligned}\mathrm{SP} &= \alpha 0+\ \alpha 1(\mathrm{DPR})+\alpha 2(\mathrm{DY}) \\ &+\alpha 3(\mathrm{Govt\_Tenure})+\alpha 4\ (\mathrm{Prob}-\mathrm{delist}) \\ &+\alpha 5\ (\text{institutional x politically connection }) \\ &+\alpha 6\ (\text{Board size})+\alpha 7\ (\text{CEO duality}) \\ &+\alpha 8\ (\text{board independence}) \\ &+\alpha 9\ (\text{Marketcap to GDP})+\alpha 9\ (\text{firm size}) \\ &+\mu \end{aligned} \tag{1}$$

This study used secondary source and panel data to test the study hypothesis. The companies taken here are multiple and their historic data of multiple years are included for analysis. Hence data set would be combination of number of companies and number of time periods so panel models are suitable for such analysis. This study also utilized fixed or random effect model based on Hausmann test results. This study samples all companies which have data during the study period 2011-2022. The empirical analysis is carried on data taken from 319 firm's for 11 years. There is total 3509 = (11x319) number of observations. The data is annualized and based upon all variables show in equation in preceding chapter. Purposive sampling method is used for data collection.

Variables Calculation and Definitions

The discussion of the study variables used such as dependent, independent, control, and dummy variables given below with calculation and researchers given below:

Table 2:

Variables of the Study	**Definitions**	**Authors Name**
Dependent Variables		
SP = share price	Annual average prices of the stock using closing minus opening price divided by opening price.	Salih, 2010, Azhagaiah & Priya, 2008.

Independent Variables		
PCNC = Political connected not connection	Political connection of the Board and owner,s with any political party. If yes = 1 and No = 0	Cheng and Leung (2016)
Probdelist= Probability of Delisting	Delisting risk if firm's not pay continuous more than 3 years = 1 otherwise =0	Chaiyawat and Samranruen, 2016.
pcnc_instsh	Total institutional shareholder interaction with Political connection of the firm's during specific period	Chhaochhria et al., 2012
DPR = Dividend Pay-out Ratio	Total dividend divided by net income of the firm during specific period	Kagzi & Guha (2018), Mirza & Malik (2019)
DY =Dividend yield	Total dividend divided by share price of the firm during specific period	Kagzi & Guha, 2018, Mirza & Malik, 2019)
Govt_tenure = Government Tenure	Democratic Government tenure if PMLN = 1 and PPP = 0	
Mkt_GDP	Calculated total GDP divided by Market capitalization of the firm's	Forson et al. 2013
Governance and Shareholding pattern		
BODmbr = BOD members	Total Number of board of directors members	Kagzi & Guha (2018)
CEO Duality	Duality if any directors have both CEO and Chairman = 1 if No 0	(Doan, 2020), Kagzi & Guha, (2018)
INDD = independent director	If number of independent directors in firm's yes = 1 and NO = 0	Kagzi & Guha (2018), Mirza & Malik (2019)
Control Variable		
Size_a = log of Assets	log of total assets	Hussainey et al., 2011

4: Results and Interpretation

The aim of the study was to explore the theoretical advancement and empirical evidences of dividend policy a case of Pakistan. To examine the influence of dividend policies on stock prices valuation. To test the study hypothesis, panel regression applied on data set

Panel Regression Analysis Results

Here we represent the analysis comparing Panel least square, Fixed Effect or Random effect model for the study data using EViews Software. The results value favour in fixed effect model. Fixed effect results given below.

Table 3: Panel Regression Results FE, RE & OLS SP & DPS Panel Results

Variable	OLS	Fix Two	Random Two
Wald Test- Value	<0.0000 Sig	Fixed Effect model is favourable	

Hausman test Value	0.0000 significant	Now Fixed Effect Model is favourable

The table results show that fixed effect is appropriate for this study. So we interpret fixed effect model output. The output shows that value of both Wald and Haussmann prefers as sig value less than 0.05. On the basis of above results we present and interpret Fixed Effect Model result.

Table 4: Fixed Effect Model-9 SP & (Dividend Policy, Control, Governance, firm specific Variables)

Variables	**Coefficients**	**Standard Error**	**t - Statistics**	**Prob.**
Dependent Variable = SP	**Period 2011-2022**		**N = 319**	
C	-412.310 (	116.080	-3.552	0.000
BODMBR	12.877**	5.612	2.294	0.044
DY	-0.053***	0.0106	4.970	0.000
DPR	2.461***	0.082	30.012	0.000
DUALITY	11.61**	4.760	2.439	0.049
GOVT_TENURE	103.47***	16.521	6.263	0.000
MKT_GDP	0.000	0.000	-0.279	0.781
NOIND	14.70	11.85	1.240	0.215
PCNC_INSTSH	0.000	0.000	0.409	0.682
PROBDELIST	-44.829***	16.683	-2.681	0.030
SIZE_A	1.624***	0.3168	5.126	0.002
Cross-section fixed (dummy variables				
R-squared	0.816	F-statistic		41.1045
Adjusted R-squared	0.796	Prob (F-statistic)		0.000

Significant * at 10%, ** at 5% and *** at 1%

The findings shows that DY and delisting risk has negative significant while board member, DPR, duality, govt-tenure, market capitalization to GDP, and size has positive significant association at 5% level on share prices of listed firm's. These results highlighted that SP will increase with positive coefficients and will decrease with negative coefficient variables. The significant means that the variable coefficients value +/- has effect on share price of listed firm. F- Value 40.969 with F-Statistics value 0.00 ≤ 0.05 show model is good fit. R-Square value shows that 81.62% variation explained by independent for SP and remaining 18.38% variations unexplained due to other variables not taken in this study.

Study finding shows that dividend policy decision has significant positive association with dividend per share and dividend pay-out ratio. On the other hand, dividend yield has significant negative association between share price volatility. So all hypothesis of the study accepted while H5 and H7 have rejected. Study finding shows a significant positive association with share prices of listed stock. Delisting risk has significant negative association with share prices. Politically connected has negative not significant while political connection and intercorrelation with institutional shareholding has positive not significant association. Tax has significant negative association with share prices. Board size, CEO duality and number of independent shows a significant positive association with share prices. On the other hand, independent directors have not significant positive association with share prices. Market cap to GDP ratios have not significant positive association. Firm specific factors such firm size shows significant positive association with share prices.

5: Discussion, Conclusion and Policy Implication

Discussions

A 319-firm sample that either paid dividends to shareholders continuously or omitted any time between 2008 and 2018. The findings of the study demonstrate that panel regression favours fixed effects with a Haussmann test value of p 0.05 and ignores the random effect model. In light of the study's results, the findings imply the debate that follows. The results of the study show that dividend yield significantly negatively correlates with stock prices, which has an impact on stock prices. This demonstrates that the MM Theorem does not apply to PSX since dividends have an impact on stock price. As the association between the share prices of listed Pakistani companies and dividend yield is positive, the dividend pay-out ratio and dividend per share are both positive. According to research on dividend yield, a high dividend yield raises stock price volatility and, as a result, lowers the risk of owning such a firm. This lends credence to the "bird in the hand" argument, which contends that investors like firms with high dividend yields because they view them as less risky. We cannot, however, disprove the "bird in hand" argument because the only thing that was considered was the change in stock price, not whether greater dividend yields increase stock price. Results of the study indicate that they generally did not support the irrelevant theory, which is relevant. This is in contrast with the findings of studies done by others i. e. Miller and Modigliani (1961), Watts (1973), Black and Scholes (1974), and Miller and Scholes (1978, 1982) and, more recently, dividend policy has an effect on stock prices (DeMarzo & Sannikov, 2008; Lambrecht & Meyers, 2012 & larkin et al., 2017). Study has similar positive significant association finding as (Giriati, 2016; Ozturkkal, 2015; & Thamrin et al., 2017, Aroni et al., 2014; Khoiruddin & Faizati, 2014) with dividend pay-out and dividend per share but negative association with dividend yield. (Allen & Michaely, 2003; Kalay and Lemmon, 2008).

Political connections positive effect on share price similar with (Fung, et al., 2015). Miller and Friesen (1984), Quinn and Cameron (1983), firm characteristics, corporate governance Jawahar & McLaughlin, (2001). Li and Zhang (2018) significant positive. Corporate governance proxies duality has positive significant impact on SP whether independent directors exist or not, number of independent director, and number of annual meetings not significant at 10% level with SP. Additionally, the study suggests that institutional, insider, and individual ownership patterns will not significantly affect SP. While the number of shares has a negligible positive correlation with SP, the total number of shareholders has a considerable positive impact on SP. Market capitalization has a substantial positive link with SP for macroeconomic variables, but a strong negative relationship with SP for market capitalization to GDP.

5. Conclusions

The results of this study showed that dividend policy affects business value, but to what extent depends on the dependent and situational elements unique to each organisation. The degree of the business's ownership, governance, political connections, delisting risk, term of government, macroeconomic considerations, profitability, tax, leverage, earning volatility, information asymmetry, and firm size all play a role in how the dividend policy affects firm value. Dividend policy has an impact on shareholders' decisions and, consequently, the value of the company when there is information asymmetry. A unique dividend payment strategy for every business may not be viable, according to this study's findings, because of variations in firm ownership, investor preferences, and factor endowment. Instead, firms aim to maintain a consistent dividend policy to avoid sending the incorrect signals towards stockholder. A well-planned cash dividend strategy has to find equilibrium between the business's favourable lack of worth investment and the demands of the stakeholders in the shape of rewards. The relationship between dividend policy and shareholder wealth has been the subject of empirical studies to date (Yegon, Cheruiyot & Sang, 2014; Nnadi, Nyema, & Kabel, 2013). While the share price reflects shareholders' expectations for wealth, it is crucial to understand that dividend policy plays a significant role can affect the company's capacity to produce further income from assets bought with retained and reinvestment revenue. Company size, borrowing, structure of ownership, and board characteristics are some examples of variables that should be included when conducting research on the link among dividend policy and business value. Other variables include revenue, taxation, as well as information imbalance. Frankfurter and Wood (2003) note that currently exists no one theory which could adequately describe the practises of paying out dividends for companies, and they recommend that psychological and social and economic factors, which have an impact on companies' practises regarding dividends, be taken into account in dividends policy research.

Based on the study findings, investors must focus on those firm’s which pays dividend and has no political connection of the boards. Investors must focus to invest more on those firm’s which implement code of corporate governance to operate business well and minimize the agency conflict. Investor’s must invest more when a friendly business party govern the country.

For government, must implement those policies which balance the investors and business corporation objective. Government also implement code of governance on listed firm’s and ease on these codes of conduct for better understanding for both domestic as well as foreign companies.

Considering the investigation's outcomes, firms must pay dividend to investors regularly to avoid from delisting or default. Firm’s also lowers the political connections to avoid agency conflict, cater more investor, provides all related business information to investors, strengthen the implementation of code of governance in the board management.

Pakistani listed firm’s adopted multiple dividend policies when paying dividend such as signalling, agency, life cycle and bird in hand not based on only one theory.

6. Policy Recommendations

Pakistani listed firms follow multiple dividend policy. Based on these findings investor must focus on those firms which pays dividend with higher amount. Managers must focus to develop dividend policy which increased their stock prices in the market. Investors also prefer more cash dividend and wait for growth of the company which accumulated higher dividend. Government should lower the tax rate on capital gain and dividend because both increased the funds needs of the firms. Investors must also focus on politically favoured frim which pays lower dividend. Investors also pay attention on those firms which default risk of delisting are higher and may insolvent to pay investors funds at end of dissolution or in case of defaulter. Investors such as individual must prefer those firms which have board average size 12 who care more the investors and board of directors must consider individual investors savings to acquire more funds in the future. Pakistani listed firms more attention on relevant theory rather than irrelevant theories.

In future studies, researcher must apply the managerial constraints to check the relationship between dividend policy and stock prices such as a mediator element concerning the link among the payout policy as well as stock price, such as incentives, and perk perks, managerial ownership, the audit charge, committee of auditors meetings.

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