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**An empirical research on corporate governance and dividend policy of listed private
enterprises in China**

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An Empirical Research on Corporate Governance and Dividend Policy of Listed Private Enterprises in China

ABSTRACT

This research explores the impact of corporate governance on dividend policy in non-state-owned enterprises in China. The outcome agency model is applied. Correlation research design and multiple regression are used. The findings reflect corporate governance positively relates to dividend policy. It indicates high dividends will be paid to shareholders if an enterprise has strong corporate governance. The results further reflect the relationship between each corporate governance measures and dividend policy. Among those four corporate governance measures, board size and CEO duality have significant positive relationships with dividend policy. Nevertheless, board independence and managerial ownership do not have significant impacts on dividend policy. Based on this research, private enterprises in China should treat dividend policy as a crucial facilitator to generate long-term value for their shareholders. Furthermore, Chinese enterprises should pay more attention to protect the benefits of not only their shareholders but also their stakeholders.

Keywords: Corporate governance, dividend policy, board size, board independence, CEO duality, managerial ownership, return on assets, return on equity

JEL Classifications: G10, G32, M41

I. INTRODUCTION

The research aims at the exploration of the link between corporate governance and dividend policy. It explains the question of how can shareholders obtain higher dividends from enterprises when the inside environments of those enterprises provide low protection for their investors? According to the outcome agency model, companies with strong governance may distribute high dividends to their shareholders since it is more difficult for the management level to make expropriation from shareholders. When shareholders have more power to make decisions, they may force management to distribute excess cash (La Porta et al. 2000; Sawicki 2009; Mitton 2004). In contrast, another economic model, substitute model, illuminates it in a distinct way. It argues that poorly-governed companies need to pay high dividends to establish a good reputation and appeal to more investors. Therefore, in the long term, companies can raise capital from investment (La Porta et al. 2000; Mitton 2004). To examine the potential relationship between corporate governance and dividend policy, this research is established. Besides it, the interaction between corporate governance and dividend policy is seldom mentioned in Chinese companies, especially for listed private enterprises in China. Listed private enterprises refer to those companies whose nature of equity is non-state-owned enterprises at the end of the statistical year. What kind of mechanism is adopted by Chinese listed private enterprise for better corporate governance? What kind of dividend policy are they used to motivate the enthusiasm for both insiders and outsiders? Is there any connection between the governance of enterprises and their policy on dividend distribution? Those questions needed to be answered in the process of investigating enterprises in China. This research tries to build a fundamental framework on the relationship between these two variables

in listed private enterprises in China.

Corporate governance in China concentrates on agency problems. It can be explained as one party tries to exact more benefits which may sacrifice the interests of other parties. According to Clarke (2003), agency problems happened within two types of companies in China. One type is state-owned enterprises. The other type is listed private enterprise which is non-state-owned enterprises. For Chinese corporate governance laws and institutions, one dilemma is that the state wants to run enterprises effectively to achieve wealth maximization. In the process for the state to generate more interest, it may conflict with the benefit of minority shareholders. For listed private enterprises, the management level may adjust the dividend policy in order to seek their own interests. When considering the distribution of retained earnings, many shareholders are preferred direct cash dividend payout rather than reinvestment for higher returns in the future since they may doubt the motivations of the management level. When the shareholders think their personal benefits may not be protected by those companies, there is a high probability they ask for current cash dividends. If the accountability of an enterprise is shaken, it will influence the raising of capital from both existed creditors and potential creditors in the future. Especially, the family business occupies a relatively large portion of the market in China. They grow disproportionately in the Chinese market, and in the meanwhile, the conflicts on the distribution of interests among family members and extended relatives are intensive (Clarke 2003). Since the inextricable family bound, organized corporate governance seems even more difficult to implement in the family business.

In the study of Clarke (2003), another issue in China is for Chinese listed private companies, corporate governance positively relates to concentrated ownership. In contrast,

there is a negative relationship between corporate governance and dispersed ownership. This relationship exists on the precondition that the company share is held by institutional shareholders rather than state agencies. The corresponding question is how to make sure the institutional shareholders with concentrated ownership will make the right decision for the better development of the company rather than seeking for own benefits? What kind of policies and procedures should be created and enforced to regulate and limit the power of those institutional shareholders? What sort of external and internal control measures should be implemented to prevent, detect and correct the potential or existing problems? In this situation, good and effective corporate governance is necessary to ensure the whole company operates smoothly and systematically.

In this study, 991 Chinese listed private enterprises are investigated. The span of time is 10 years from 2006 to 2017. Based on this study, more than half of the company boards separate their chairman from the CEOs in listed private enterprises in China. For the dividend payout of Chinese listed companies, only 30 percent of retained earnings are paid by the invested companies to their shareholders as the dividend and the rest 70 percent of earnings are reinvested into the company for generating more wealth in the future. The outcome agency model is adopted to explore the relationship between corporate governance and dividend policy. Correlational research design and multiple regression analysis are used in this research. The results reflect that corporate governance positive relates to dividend policy. It is consistent with the studies of Sawicki (2009), Ahmad (2015) and Mitton (2004). It indicates the well-governed companies will pay high dividends to shareholders. It may cause the difficulty that the management level can make expropriation. Therefore, the shareholders may have more power

to let company disbursements excess cash. There are four measures for corporate governance, which are board size, board independence, CEO duality, and managerial ownership, respectively. As can be seen from the findings, board size has a significant positive relationship with dividend policy. It supports the academic article of Asomoah (2005). This finding can be explained as when there are more directors on the board, there is a higher possibility that the dividend payout will increase. It may cause by the desire of higher dividends for board directors themselves. The second corporate governance measure, CEO duality also significantly positive relates to dividend policy. In the study of Kulathunga et al. (2017), a similar conclusion is drawn. It illustrates that when the chairman of the board and chief executive officer of the company is not the same person, the company may be able to pay high dividends to shareholders. Due to the segregation of duties, the difficulties for the management level to conceal their mistakes increase. For board independence and managerial ownership, the results show they do not have a significant impact on dividend policy.

The contributions of this paper are reflected in several ways. First, it provides empirics that there is a positive relationship between corporate governance and dividend policy. This empirical evidence confirms the study results of Sawicki (2009), Ahmad (2015) and Mitton (2004). Second, it shows the specific relations between each corporate governance measures and dividend policy. The impact of four internal corporate governance measures, which are board size, board independence, CEO duality and managerial ownership, are explained in detail in this study. The findings support the studies of Asomoah (2005), Ahmad (2015) and Odeleye (2017), which indicates board size and CEO duality positively relate to dividend policy. Additionally, the results of this research are built based on the Chinese market. The situations

about corporate governance and dividend policy in China are seldom mentioned in previous studies. Therefore, this research fills a gap in the relationship between these two variables in China. Finally, this research focuses only on non-state-owned enterprises in China. It is relatively more targeted and reveals the relation of these two variables in a certain type of enterprises in China.

The remainder of this study is organized as follows. The second section talks about previous academic articles and tries to establish three theoretical frameworks, which are corporate governance, dividend policy and the relation between these two variables. The third section mentions the research methodology this paper used. The fourth section reveals the empirical results of this research and compares these results with previous articles. Eventually, the fifth section draws a conclusion about the whole research and the limitations existed in this research.

II. LITERATURE REVIEW

Theoretical Framework I: Corporate Governance

According to Sawicki (2009) and Gugler (2003), corporate governance is defined as a way of ensuring the corporate is generating profits and allocating those profits to its investors and managers. Similarly, Ikunda et al. (2016) also provide the explanations of corporate governance from the perspective of the investors. It indicates that corporate governance is the corporates' promise to manage the corporates effectively and systematically and pay the financial returns on the investment. It is associated with the aims of corporate governance mentioned by Odeleye (2017), which is supervising the operation of companies as well as protecting the benefits of investors.

There are both inside and outside measures that will impact the corporate governance directly. The common inside measures are board size, board independence, CEO duality and managerial ownership, respectively. Return on assets, return on equity, market to book value and firm size are used as control variables (Ahmad 2015; Barclay et al. 1995; Kulathunga et al. 2017). In the study of Asamoath (2005), board size measures the number of directors in the board. It examines how the performance of the board in a company affects its governance. Board independence is a crucial mechanism of corporate governance, which indicates the number of independent directors in the board. It is used to distinguish independent directors to executive directors in the board. These two corporate governance measures play essential roles in corporate governance since strategic decisions related to long-term development should be made based on the knowledge of the board. CEO duality is defined by Mitton (2004) as the CEO of the firm is also the chairman of the board. Most of the time, the board of corporates is actually hard to monitor the acts of management level since the particular identity of the CEO. When the duties are not segregated, it provides a convenient way for high management level to commit and conceal their frauds. One of the examples is fraudulent financial reporting. To meet higher earnings expectations and raise its stock prices, the management level may falsely the financial statement to mislead investors to make wrong decisions. Managerial ownership is used to indicate the number of shares held by general managers. Incentives can motivate managers in a competitive market. In order to promote the better performance of managers, the companies offer higher allowance to them (Ahmad 2015). According to Sawicki (2009) and Kulathunga et al. (2017), return on assets measures the efficiency a corporate used its assets to generate profits. Return on equity indicates the capability of a firm to use its equity effectively.

These two variables directly relate to the operation of companies and they are frequently used to control the scale effect of the study. One of the outside measures that may have a crucial impact on corporate governance is country-level governance (Sawicki 2009; Mitton 2004). According to Mitton (2004), firm-level governance can vary under the same degree of country-level governance, the latter does positively relate to the former. A similar point is also indicated in journals by Sawicki (2009), it suggests that the relationship between firm-level and country-level protection are complements rather than substitution.

Ikunda et al. (2016) state that good corporate governance can promote better performance of organizations since the management level is motivated to take effective actions to maximize the profitability of companies with less cost. This viewpoint is agreed by Mitton (2004), it mentions firms with decent corporate governance are more profitable, though it only explains a small part of reasons why companies with higher profit would like to pay higher dividends. In contrast, a company that faces serious agency conflict may enhance the risk of shareholders because the poor corporate governance may lead managers to make wrong decisions. In the long term, it will decline the management accountability and confidence of its investors (Ikunda et al. 2016; Gugler and Yurtoglu 2003).

Theoretical Framework II: Dividend Policy

Based on Shleifer and Vishny (1997) and Ahmad (2015), dividend policy is defined as a way a company used to allocate its dividend payout to its shareholders. It acts as a mechanism in protecting the benefits of minority shareholders in a company. In the journal of Ikunda et al. (2016), it indicates dividend policy distributes the amount of funds used for reinvestment purposes and the amount of funds paid to investors as dividends. It directly relates to the

effective performance and future opportunities of a company.

According to Kurawa and Ishaku (2014), the optimal dividend policy is determined by the desire of investors about whether they prefer direct capital gain or income. In the meanwhile, the ability of a company to use invested capital to make profits is also a matter. In other words, companies should not retain the money for reinvestment if they could not earn it back at a higher rate in the future.

Easterbrook (1984) illustrates that shareholder protection directly relates to the desire of dividend payout for the investors. It implies investors will prefer dividend rather than future income with weak shareholder protection since the inside managers may seek for their own benefits. By contrast, under a high-level shareholder protection environment, investors will be less likely to prefer a high dividend if they think the present investment of the corporations would bring them high returns in the future.

Theoretical Framework III: Corporate Governance and Dividend Policy

Two economic models are used to set the research model in previous research journals, which are the outcome agency model and substitute agency model. According to La Porta et al. (2000), the outcome agency model suggests that when the rights of shareholders are protected, they can effectively force the enterprises to distribute dividends. In other words, the direct dividend distribute to shareholders increases when the enterprise makes progress on good governance. Similarly, the managers in poorly-governed companies may retain more free cash flow for their own benefits. In contrast, the substitute agency model argues that in order to maintain the reputation and raise fund from capital market in the future, the companies with poor governance are more likely to distribute dividend. (La Porta et al. 2000). It implies that

companies with weak corporate governance would like to pay more dividends to shareholders.

The results on relationships between these two variables widely vary in previous journals. Based on Sawicki (2009), Ahmad (2015) and Mitton (2004), there is a strong positive relationship between corporate governance and dividend policy that is the well-governed companies has high possibility of disbursing excess cash to its investors. Nevertheless, in the journal of Mitton (2004), this positive relationship only exists in countries that enact comprehensive laws to protect the rights of shareholders. Comparatively, the different viewpoint is mentioned by Kowalewski et al. (2007), it uses the substitute agency model to analyze the relation. The results show that the corporate governance negatively relates to dividend payout. It indicates for generating high wealth in the future, a company with poor governance is willing to distribute more dividends to investors in the current period. Besides it, different arguments reveal there is no significant relationship between corporate governance and dividend policy (Ikunda et al. 2016; Gugler and Yurtoglu 2003). In the academic article of Ikunda et al. (2016), the multiple regression analysis implies that corporate governance has no significant impact on dividend policy. Based on the previous research study of Sawicki (2009), Ahmad (2015) and Mitton (2004), the hypothesis about the relationship between corporate governance and dividend policy is drawn as follows:

H1: Corporate governance positively relates to dividend policy.

Board size, board independence, CEO duality and managerial ownership are four common measures for corporate governance (Adham 2015; Barclay et al. 1995; Kulathunga et al. 2017; Ikunda et al. 2016). In the study of Kulathunga et al. (2017), board size and board independence negatively relate to corporate governance and CEO duality positive relates to the

dividend policy. For board size and board independent, it indicates when the number of directors and independent directors in the board increases, a company is less likely to pay high dividends to its shareholders. For CEO duality, the previous findings reveal when CEO of the company and chairman of board are not the same person, there is high possibility the company will distribute high dividends. In the meanwhile, managerial ownership positively relates to dividend policy (Ahmad 2015; Ikunda et al. 2016).

According to Ahmad (2015) and Sawicki (2009), dividend policy is one of the solutions to reduce agency conflicts and promote good corporate governance since agency conflict is the major hurdle existed in corporate governance. The corporations can allocate excess dividend payout to alleviate the conflicts between outside shareholders and inside managers when there is no outside investment opportunity. A similar viewpoint is mentioned in the journal of Kurawa and Ishaku (2014), which implies that dividend payout is used to reduce the agency conflicts since it reduces the power of managers in a company. While the free cash flow can be handled by the managers is reduced, the rights of shareholders will be strengthened.

III. RESEARCH METHODOLOGY

Research Model

This research applies the outcome agency model that is the amount of dividend payout increase when a company is governed well. Correlational research design and multiple regression analysis are used to explore the possible relation between corporate governance and dividend policy. The research data is obtained from listed private enterprises in China from 2007 to 2016. The model is formulated in the spirit of Kulathunga et al. (2017). In the study of Kulathunga et al. (2017), the research model is used to test the strength of the relation between

the dependent variable, dividend policy, and independent variables relating to corporate governance. Board size, board independence and CEO duality are used as internal measures of corporate governance. In the study of Ahmad (2015), managerial ownership is a crucial measure to indicate governance performance of an enterprise. Control variables and dummy variables are added to minimize the fixed effect. The regression model used can be expressed as follows:

$$\begin{aligned} \mathbf{DPO}_{it} = & \beta_0 + \beta_1 \mathbf{BS}_{it} + \beta_2 \mathbf{BI}_{it} + \beta_3 \mathbf{CEOD}_{it} + \beta_4 \mathbf{MGR}_{it} + \beta_5 \mathbf{MBV}_{it} + \beta_6 \mathbf{ROA}_{it} \\ & + \beta_7 \mathbf{ROE}_{it} + \beta_8 \mathbf{SIZE}_{it} + \mathbf{YEAR} + \mathbf{IND} + \varepsilon_{it} \end{aligned} \quad (1)$$

Where \mathbf{DPO}_{it} , the dependent variable, indicates dividend payout for the listed private enterprises for the firm i in year t . \mathbf{BS} and \mathbf{BI} represent board size and board independence. \mathbf{CEOD} indicates CEO duality. \mathbf{BS} , \mathbf{BI} and \mathbf{CEOD} are three common internal measures for the independent variable, corporate governance (Kulathunga et al. 2017). \mathbf{MGR} is defined as managerial ownership. In the study of Ahmad (2015), it implies investors will prefer dividend rather than future income with weak shareholder protection since the inside managers may seek for their own benefits. Managerial ownership is used to indicate managerial incentives. In order to derive the accuracy of correlations, this study uses four control variables. \mathbf{MBV} denotes the market to book value for the common equity of enterprises. \mathbf{ROA} and \mathbf{ROE} represents return on asset and return on equity, respectively. \mathbf{SIZE} refers as firm size of a company. To control the fixed effect, \mathbf{YEAR} and \mathbf{IND} are regarded as dummy variables in the study. \mathbf{YEAR} is the fixed effect at time and \mathbf{IND} means the fixed effect at industry or firm. β_0 is denoted as the constant parameter. The error term, ε , contains other possible factors that could have impact on dividend payout that are not indicated in the regression model.

Considering the multicollinearity between variables may affect the prediction ability of the regression model. The research will follow the regression and test the relationship between each corporate governance measures and dividend policy separately.

Corporate Governance Measures

This research uses internal corporate governance measures to indicate the overall governance performance of the enterprises. According to Kulathunga et al. (2017), the common internal measures of corporate governance are board size, board independence and CEO duality. Those measures are flexible and various in different circumstances. Board size can be identified in the financial statement as how many directors existed on the board. Board independence indicates within all the directors on the board, how many of them are independent directors. CEO duality means the CEO of a company is also the chairman of the board. Based on the study of Ahmad (2015), managerial ownership indicates the percent of shares held by general managers in a company. In the Appendix, Table 1.1 shows the items in the financial statement used to indicate those measures of corporate governance. Those indicators in multiple regression closely relate to the independent variable, which is corporate governance. Based on the previous research, the hypotheses of the relationship between each corporate governance measures and dividend policy are drew.

H1a: Board size is positively related to dividend policy

H1b: Board independence is positively related to dividend policy

H1c: CEO duality is positively related to dividend policy

H1d: Managerial ownership is positively related to dividend policy

These four corporate governance measures illuminate corporate governance from

different angles and evaluate the quality of corporate governance effectively. In addition, the data related to those indicators can be found directly in the financial statement.

Measurement of Dividend Policy

In the study of Kulathunga et al. (2017), dividend payout is used to measure the dividend policy. Dividend payout is calculated as dividing dividend per share (DPS) by earnings per share (EPS). In Appendix A, Table 1.2 shows the corresponding items in the financial statement used to compute dividend payout.

Control Variables

To test the association between independent and dependent variables, other variables should be considered constant. This research uses market to book value, return on assets, return on equity and firm size as control variables to control the effect of firm profitability on the model. In the study of Ahmad (2015), market to book value evaluates the company's current market value relative to its book value. According to Asamoath (2005), return on assets determines how efficient a company generates profits using its assets. It is calculated as dividing net income by average total assets. Return on equity indicates the profitability of a company based on its equity. It can be calculated by dividing net income by average total equity. Return on assets and return on equity are usually in the form of percentage. Firm size is computed as the logarithm of total assets. It is used to control the scale effect. Furthermore, year and industry are added in the regression in order to control the fixed effect. In Appendix, Table 1.3 shows the corresponding items in the financial statement used to calculate these four control variables and two dummy variables.

IV. EMPIRICAL RESULTS

Sample Selection

This research uses data in listed private enterprises in China. Listed private enterprises refer to those companies whose nature of equity is non-state-owned enterprises at the end of the statistical year. Those data are extracted from CSMAR and analyzed by Stata and Excel. The research data comes from Listed Private Enterprises Folder and Financial Statements Folder in CSMAR. The sample period for corporate governance data is from 2003 to 2008. The sample for dividend policy data is from 2007 to 2016. Therefore, this research chooses the intersection of these two databases and eliminate the differential period. Besides, the research select data from consolidated financial statements rather than parent statements since the higher data integrity in consolidated financial statement. The stock code of each enterprise is used as an identifier. The research drops all the null value data and winsorizes all the variables at either the 1st or 99th percentiles in multiple regression to minimize the impact of extreme outliers. The final 3285 observations contain 991 private enterprises and span 10 years, $y = 2007$ to 2016. The total assets in the prior year is added to calculate return on assets. Industry code and fiscal year are put into the data set to control the fixed effect.

Empirical Results

Table 2.1 presents the descriptive statistics of variables that affect dividend policy from financial statements of the listed private enterprises in China. All the variables are defined in Appendix.

Table 2.1 Descriptive Statistics

Variable	N	Obs	Mean	Std.Dev.	Min	Max
DPO	991	3285	0.305	0.224	-0.194	0.945
BS	991	3285	8.556	1.536	5	14
BI	991	3285	3.137	0.526	2	5
CEOD	991	3285	0.604	0.489	0	1
MGR	991	3285	0.120	0.157	0	0.586
MBV	991	3285	3.964	2.618	1.068	15.192
ROA	991	3285	0.064	0.048	-0.078	0.232
ROE	991	3285	0.091	0.065	-0.15	0.296
SIZE	991	3285	21.647	1.006	19.846	24.865
YEAR	991	3285	2012.454	2.316	2007	2016
IND	991	3285	32.538	12.947	1	66

NOTE: N stands for the number of sample enterprises. Obs stands for the total number of records. Mean stands for arithmetic mean. Std.Dev. stands for standard deviation. Min and Max stands for minimum value and maximum value, respectively.

According to the summary, data from 991 listed private enterprises are used as the sample in this research. There are 3285 records used to examine the potential relation. As shown in the table, the range of dividend payout, return on assets and return on equity is between -1 and 1. The range for CEO duality, managerial ownership is located between 0 and 1. The central tendency is measured by the arithmetic mean. For the sample enterprises, the average number of total directors and independent directors on the board are 8.556 and 3.137, respectively. It may suggest that approximately 35 percent of board directors in listed private enterprises in China are independent directors. Around 65 percent of the board directors consists of executive directors and the board highly relies on them. The average CEO duality is higher than 0.5, which indicates the more than half of the company boards separate their chairman from the CEOs. The mean of dividend payout is around 30 percent, which indicates only 30 percent of retained earnings is paid to shareholders as the dividend and the rest 70

percent of earnings are reinvested into the company for generating more wealth in the future.

Table 2.2 shows the Pearson correlation matrix. It indicates the multicollinearity between variables that is whether one variable is highly correlated with other variables. The definitions of variables are shown in Appendix.

Table 2.2 Pearson Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) DPO	1.000								
(2) BS	0.015	1.000							
(3) BI	-0.004	0.750***	1.000						
(4) CEOD	0.027	0.167***	0.074***	1.000					
(5) MGR	0.010	-0.206***	-0.092***	-0.635***	1.000				
(6) MBV	-0.157***	-0.109***	-0.073***	-0.082***	0.096***	1.000			
(7) ROA	-0.048*	0.001	-0.004	-0.026	0.053**	0.323***	1.000		
(8) ROE	-0.071***	0.072***	0.054**	0.056**	-0.050**	0.282***	0.863***	1.000	
(9) SIZE	-0.137***	0.232***	0.207***	0.165***	-0.284***	-0.190***	-0.126***	0.121***	1.000

NOTE: Significance: "" stands for $p < 0.10$, "***" stands for $p < 0.05$, "****" stands for $p < 0.01$. Variables are defined in Appendix.*

As can be seen in Table 2.2, except board size and managerial ownership, other corporate governance measurements and dividend payout have negative correlation. There are three relatively strong correlations in the matrix, which correlation value is higher than 0.5. Board size and board independence have relatively strong correlation, which is 0.750 at 1 percent level. Both board size and board independence measure the number of directors on the board. Thus, it might be the reason for the high correlation between these two variables. Managerial ownership and CEO duality also has relatively strong correlation at -0.635 and it is significant at 1 percent level. In addition, the correlation between return on assets and return on equity is 0.863 at 1 percent level, since both two variables are the indicators of the company's profitability by using net income. Besides these three strong correlations, the

correlations between other variables are lower than 0.5. Therefore, there is no significant multicollinearity among those variables.

Table 2.3 represents the regression results. It demonstrates the correlations between corporate governance measures and dividend policy under control variables and dummy variables.

Table 2.3 Regression Results

	(1)	(2)	(3)	(4)	(5)
VARIABLES	REG1	REG2	REG3	REG4	REG5
BS	0.008*** (2.840)				0.009** (2.085)
BI		0.012 (1.492)			-0.006 (-0.492)
CEOD			0.021** (-2.557)		0.023** (-2.198)
MGR				-0.031 (-1.132)	0.024 (0.694)
MBV	-0.018*** (-8.959)	-0.018*** (-9.092)	-0.018*** (-8.845)	-0.018*** (-8.914)	-0.017*** (-8.785)
ROA	-0.681*** (-3.775)	-0.688*** (-3.821)	-0.668*** (-3.716)	-0.683*** (-3.804)	-0.661*** (-3.662)
ROE	0.509*** (3.367)	0.515*** (3.415)	0.496*** (3.286)	0.509*** (3.377)	0.492*** (3.247)
SIZE	-0.050*** (-8.950)	-0.048*** (-8.663)	-0.047*** (-8.673)	-0.047*** (-8.540)	-0.050*** (-8.812)
Constant	1.173*** (10.024)	1.168*** (9.992)	1.187*** (10.162)	1.188*** (10.010)	1.178*** (9.896)
Observations	3,285	3,285	3,285	3,285	3,285
R-squared	0.111	0.109	0.110	0.109	0.112
YEAR FE	YES	YES	YES	YES	YES
IND FE	YES	YES	YES	YES	YES
Adj.R-sq	0.0887	0.0872	0.0883	0.0869	0.0896

NOTE: The table represents the regression results. REG1-4 show the coefficient between dividend policy and each corporate governance measures. REG1 shows the coefficient between dividend policy and board size. REG2 indicates the coefficient between dividend policy and board independence. REG3 demonstrates the coefficient between dividend policy and CEO Duality. REG4 illustrates the relationship between dividend policy and managerial ownership. REG5 is the overall model which shows the coefficient between dividend policy and all corporate governance measures. "YEAR FE" and "IND FE" refer to dummy variables to control year and industry fixed effects. "Adj.R-sq" refers to adjusted R-squared. Significance: "*" stands for $p < 0.10$, "***" stands for $p < 0.05$, "****" stands for $p < 0.01$. All the variables are defined in Appendix.

As shown in Table 2.3, REG5 represents the potential relationship between dividend policy and all the corporate governance measures. There are 3285 observations are used in this study. Year and Industry dummy variables are applied in this study to control the fixed effect. Adjusted R-squared is 0.0896 which indicates there is only 8.96 percent of the variation in dividend policy can be explained by the variables in the regression model. Lower adjusted R-squared value might be caused by data in the data set are noisy with high variability. The corporate government data still provides information about the dividend policy even though data fall far away from the regression line. In addition, the strong correlation between variables may affect the prediction ability of the model (1). Based on Table 2.3, model (1) can be represented as follows:

$$\begin{aligned}
 \mathbf{DPO}_{it} = & \mathbf{1.178} + \mathbf{0.009BS}_{it} - \mathbf{0.006BI}_{it} + \mathbf{0.023CEOD}_{it} + \mathbf{0.024MGR}_{it} \\
 & - \mathbf{0.017MBV}_{it} - \mathbf{0.661ROA}_{it} + \mathbf{0.492ROE}_{it} - \mathbf{0.050SIZE}_{it} + \mathbf{YEAR} \\
 & + \mathbf{IND} + \boldsymbol{\varepsilon}_{it}
 \end{aligned}$$

Based on the regression table, board size has a significant positive relationship with dividend policy at 5 percent level. It indicates the dividend payout will increase there are more directors on the board, since directors may also want high dividends for themselves and they will make the decisions based on their own benefits. It varies from the study of Kulathunga et al. (2017) and Kurawa and Ishaku (2014) but it is the same as the research of Asomoah (2005). There is a significant positive relationship between CEO duality and dividend policy. It can be explained as the enterprise will disburse more dividend directly to their shareholders when chairman of the board and CEO are taken over by different people. The result is consistent with the study of Kulathunga et al. (2017). It indicates the necessity of the segregation of duties.

When those duties are separated, it increases the difficulties of commit and conceal the fraud. Board independence and managerial ownership have insignificant negative and insignificant positive relationships with dividend policy. The former illustrates that dividend policy will decrease when there are more independent directors on the board. The latter illuminates dividend payout increases with the number of shares owned by the general manager increases. It is consistent with the Kulathunga et al. (2017). This result is also in line with the findings of Odeleye (2017), which explains there is positive but not significant relationship between managerial ownership and dividend policy. For control variable, market to book value is significant negative to dividend policy. It is corresponding with the results obtained from the researches of Ahmad (2015) and Odeleye (2017). For the other three control variables, return on assets and firm size have significant negative relationships with dividend policy. Return on equity is significant positive to dividend policy. This result is different from the study of Kulathunga et al. (2017). Nevertheless, the same outcome is found in the research of Ahmad (2015). According to the findings of Table 2.3, **H1a**, **H1c** and **H1d** are confirmed to be correct. **H1b** is rejected. In addition, since the significant impact on dividend policy are only shown in board size and CEO duality and both of them positively relate to dividend policy. Therefore, corporate governance has a positive relationship with dividend policy. It can be illuminated as a company that has good governance is going to distribute high dividend to its shareholders. The finding is consistent with the study of Sawicki (2009), Ahmad (2015) and Mitton (2004). The hypothesis **H1**, which corporate governance positively relates to dividend policy, is confirmed to be correct.

To test whether the multicollinearity between each corporate governance measures will

affect the prediction ability of the regression model (1), this study uses REG1-4 to examine the potential relationship between dividend policy and each governance measures. In Table2.3, REG1 shows the regression between dividend policy and board size. REG2 demonstrates the regression between dividend policy and board independence. REG3 examines the relationship between dividend policy and CEO duality. REG5 shows the coefficient between dividend policy and managerial ownership. As can be seen, the corporate governance measures that have significant relationship with dividend policy are still board size and CEO duality. Both of them positively relate to dividend policy. Therefore, the findings in REG1-4 exactly match the result in REG5. It illustrates that the multicollinearity between corporate governance measures may not have a strong impact on the accuracy of model (1).

V. CONCLUSION

Based on the study of Ahmad (2015), Kulathunga et al. (2017) and Ikunda et al. (2016), different relationships between corporate governance and dividend policy are argued. Despite this being a well-accepted assumption, the analytical literature offers mixed views on the assumption. The study of Sawicki (2009), Ahmad (2015) and Mitton indicate corporate governance positive relates to dividend policy. In contrast, Kowalewski et al. (2007) argue corporate governance negatively relates to dividend policy by using the substitute model. In the studies of Ikunda et al. (2016) and Gugler and Yurtoglu (2003), there is no significant relationship between corporate governance and dividend policy. Another issue is that in Chinese companies, the potential relationship between these two variables are seldom investigate.

This research aims to explore the relationship between corporate governance and

dividend policy in listed enterprise in China. During this process, the potential relationship between these two variables is examined though using 10-year data from listed private enterprises in China. The hypothesis of this research, **H1**, states there is a positive relationship between corporate governance and dividend policy. To test the relationship between these two variables, the outcome agency model is applied. Correlational research design and multiple regression analysis are used. The research data are obtained from CSMAR. Besides that, the study tests the relationship between each corporate governance measures and dividend policy to minimize the impact of multicollinearity between variables.

As a result, the research confirms the hypothesis **H1** that corporate governance positive relates to dividend policy. It can be indicated as well-governed listed private enterprises will more likely to distribute high dividend. It is consistent with the studies of Sawicki (2009), Ahmad (2015) and Mitton (2004). For those four corporate governance measures, board size and CEO duality have significant positive relationships with dividend policy. Board independence and managerial ownership have no significant relationship with dividend policy. The finding is the same as the studies of Asomoah (2005), Odeleye (2017) and Ahmad (2015), but it varies from Kulathunga et al. (2017) and Kurawa and Ishaku (2014).

The study has several limitations which may affect the accuracy and completeness of the research. First, this research only investigates 991 non-state-owned enterprises in China. It cannot represent the overall relation between corporate governance and dividend policy in listed enterprises in China. The adjusted R-squared is relatively low. Only 8.96 percent of the variation in dividend policy can be explained by the variables in the regression. The prediction ability of the model may influence the analysis of these two variables. Furthermore, because

the research period is relatively short, this study only focuses on the impact of internal corporate governance measures on the dependent variable. External corporate governance measures are not applied in this study.

According to the analysis, listed private enterprises should regard corporate governance as a vital facilitator to create long-term value for their shareholders. The results suggest that more directors should be set on the board of companies to serve as the mechanism to monitor and regulate the behaviors of the management level. To ensure effective corporate governance, the segregation of duties is quite necessary. The duties of CEO and chairman should be separated to prevent the risk of committing and concealing the fraud. In addition, these enterprises need to pay attention to protect the benefit of all the stakeholders rather than their shareholders.

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APPENDIX

Table 1.1: Measures of Corporate Governance

Variable Name	Short Name	Corresponding Item in Financial Statement
Board Size	BS	Number of directors in the board
Board Independence	BI	Number of independent directors in the board
CEO Duality	CEOD	The CEO of the company is also the chairman of board (0 for same person; 1 for different person)
Managerial Ownership	MGR	Percent of shares held by general manager

Table 1.2: Measurement of Dividend Policy

Variable Name	Short Name	Corresponding Item in Financial Statement
Dividend Payout	DPO	= Dividend Per Share (DPS) / Earnings Per Share (EPS)

Table 1.3: Control Variable & Dummy Variable

Variable Name	Short Name	Corresponding Item in Financial Statement
Market to Book Value	MBV	= Market Price / Book Value
Return on Assets	ROA	= Net Income / Average Total Assets
Return on Equity	ROE	= Net Income / Average Total Equity
Firm Size	SIZE	= Logarithm of Total Assets
Year	YEAR	The fiscal year of financial statements
Industry	IND	The industry code