International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2018, 8(4), 163-171.

Gulf Cooperation Council Energy Sectors Governance and Dividend Policy

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ABSTRACT

This study is aims to investigate the governance of the most important sector in the Gulf financial markets, energy sectors. It also looks into the effect of corporate governance on one of the most significant financial polices of in organizations, which is dividend policy. This study involves a sample of eight energy firms in a 10 years' time series, 2008–2017. These firms were selected from six Gulf financial markets: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. The corporate governance was measured by using four indicators. Whereas, the dividend policy was expressed by payout ratio. The findings of the study showed that the outcome hypothesis is adopted in the Gulf Cooperation Council energy sectors; the companies with good governance seek to distribute the profits among shareholders to reduce the conflict of interests and reduce the agency costs. The results also indicated a positive role of public governance in the relationship between corporate governance and the dividend policy.

Keywords: Gulf Cooperation Council Energy Sectors, Governance, Dividends Policy, Gulf Cooperation Council Financial Markets, Agency Theory

JEL Classifications: D53, G3

1. INTRODUCTION

In their development model, the gulf cooperation council (GCC) countries are dependent on oil and gas revenues as a primary source to fund the process of economic development and government expenditure. Despite the tendency of the Gulf States to put strategic plans to diversify sources of income and gradually phase out natural resources, oil revenues still constitute the biggest percentage of government revenues. The energy sector is still among the most important economic sectors in the Gulf financial markets; this affects the performance of the other sectors. However, the energy sectors have their own nature within Gulf economic structure as they receive government support, and the percentage of government ownership is large. Consequently, the Gulf governments dominate these energy sectors and they are part of their economic agenda. This created an exceptional status to these sectors in the Gulf financial markets. Based on importance of such sectors, their continuity must be ensured, so this necessitated applying the best conditions of corporate governance as the level of public governance has an impact on them. This unique mix of corporate governance and public governance drew our attention to do this research. This research aims at investigating the impact of corporate governance in the GCC energy sectors and to which extent they influence one of the most important financial policies, the dividend policy. All of this takes place within the variables of public governance of the state and other variables employed by the study. There is a real gap in the literature between corporate governance and public governance and how, together, they affect the strategic policies in the organization. This is why this study seeks to fill in this gap in the previous literature.

According to the general framework of the Agency Theory, there is a direct link between the quality of corporate governance and the dividend distribution policy; corporate governance achieves a balance between the interests of shareholders and managers, thus limiting agency problems; therefore, companies with good corporate governance must work hard to decrease and minimize conflicts of interest between shareholders and managers. As a result, corporate governance must play a significant role in the policy of dividend distribution (Adjaoud and Ben-Amar, 2010).

The aim of this study was to provide an additional guide on the relationship between corporate governance and the policy of profit distribution. Its importance lies in presenting the practical guide of one of the emerging financial markets, the GCC energy sectors, which has not been discussed in previous studies. This study is also important as it complements a long series of studies that aimed to identify corporate governance in GCC and its relationship to various aspects. This may contribute to enriching the literature of the Agency's theory which explains the dividend policy; the study also contributes to the debate on this dialectical relationship as well as its relationship to the company's different characteristics including size of the company, profitability, size of its indebtedness, and growth opportunities.

The main problem of the study was to answer the following questions: Have the firms in GCC energy sectors listed on the GCC financial markets achieved the conditions of corporate governance? Does corporate governance play a significant role in reducing the problems of the agency in the energy sectors through its role in influencing the dividend policy? The relationship between corporate governance and profit distribution policy was examined in six GCC energy sectors: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. All the companies in GCC energy sectors were subjected to research and analysis over 10 years. Four characteristics of corporate governance were used to measure the level of corporate governance; these qualities are derived from a set of ideal characteristics of corporate governance provided by the Institutional Shareholder Services (ISS) and recently used by many studies in accounting, finance and law. These characteristics had been proved useful in several areas.

Following the above introduction, this paper proceeds with a theoretical of corporate governance, dividend policy and agency theory that constitute the relationship between them. The second part is meant to review the previous studies related to the study variables. The third part deals with the methodology of the study including the study sample, measurement of variables, study hypotheses and the mathematical models. Part four was devoted to empirical study and testing of hypotheses, while the latter part was set to discuss the results, conclusion and the recommendations, in addition to study limitations and future studies.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1. Dividend Policy

The dividend policy is related to the decision to divide the company's net earnings into dividends distributed to the shareholders and retained earnings (Al-Maidani, 2010). The choice between these two options or the balance between them is one of the most important financing decisions in the company. The decision to distribute the bulk of the earnings requires sufficient liquidity. It implies that the management does not have opportunities to invest in the future. However, holding the bulk of the earnings gives indications that there are investments and opportunities for the future growth of the company. This may have profitable investments that seek to finance them, which will positively be reflected on the share price. Finance through retained earnings is considered as the cheapest source of funding for ownership and may be the sole source of financing for the company if its access to financial markets is limited. There is a set of patterns of dividend policy that the company can follow. The first is the policy of distributing a fixed percentage of distributable earnings. This policy achieves continuity in distributions but fluctuates from one period to another depending on the volume of earnings. The regularity of distributions is achieved by the company's policy of dividend distribution regardless of the amount of gained or realized earnings; on the other hand, the company may resort to the policy of distributing the remaining earnings if it relies on retained earnings to finance its investments and distribute the remaining earnings (Awad, 2011).

A debate has been raging in the scientific circles about the relationship between dividend policy and the market value of the company since Miller and Modigliani (1961) published their theory that relates to fact that the decision to distribute earnings had no effect on the market value of stocks. However, the value of the company is influenced by the efficiency of investment decisions. According to "Dividend Irrelevance" theory, investors equate dividends with the company's reinvestment of earnings to achieve growth that is supposed to increase capital gains for investors by increasing market prices for shares (Noor, 2003). This theory has been controversial because it is based on some unrealistic assumptions such as lack of taxes or financing costs and the availability of all information to all investors. Gordon (1963) put forward a remarkable theory stating that profit distribution has a direct impact on the market value and in the market share price. Gordon (1963) agrees with Miller and Modigliani (1961) that the dividend policy does not affect the market value of the share only when the rate of return on investment is equal to the expected return on investment. The third theory, that is related to the explanation of dividend policy, is the "information content of dividends" Theory; it argues that dividends are a sign of management's expectation of future earnings. A distribution of earnings over the expected portion means that the company's management has future visions of increased earnings and is able to maintain this level of distributions, and therefore the market price will rise; if the company distributes earnings less than expected, the price will decrease (Daniels et al., 1997).

These theories were tested in the Amman Stock Exchange; Shabita and Haddad (2010) conducted a study to support M&M theory in the industrial sector. It was found that there was a relationship between dividends and returns in the sector. Other studies (e.g., Al-Mawalla and Al-Omari, 2010; Khrawish, 2011) found an effect for the public announcement of dividend distributions in the Amman/Palestine Stock Exchange. Similar studies (e.g., the study of McManus et al. (2002)) were conducted about the US Stock Exchange and showed a relationship between earnings distributions and stock returns. However, the study of Shabita and Haddad (2010) did not find any influence for the systematic risk and company size on the relationship between earnings distributions and stock returns. These findings were inconsistent with those of Noor and Al-Fadel (2003) that showed a significant relationship between them. In another study conducted on the Jordanian and Iraqi stock exchange markets, Noor (2003) found that there is a relationship between the dividends and the extraordinary stock returns.

There are many factors that may influence dividend policy. There is a positive relationship between the size of the company and its profitability, growth rates and dividends, while debt and risk negatively affect dividends. However, the company's assets and liquidity have not had a significant effect on the dividend in the Saudi financial market (Salameh et al., 2012). Al-Kuwari (2012) stated that the share owned by the government as a major shareholder plays an important role in monitoring the decision to distribute dividends. The increase in the probability of distributions was connected to and based on increasing the investment of government institutions and the profitability of the company. On the other hand; the distribution decreases when the company's leverage increases. In general; this study found that dividends in the Kuwait Stock Exchange were aimed at reducing the agency conflict and conflict of interest as well as protecting minority rights and avoiding exploitation. In another study, Al-Kuwari (2009) had previously shown the factors influencing dividend policy in financial markets of the Gulf States (GCC). The results of the studies conducted in these states were very similar. Government ownership of the company's shares, size and profitability of the company all had a positive impact on the dividends, while the financial leverage had a negative impact on dividends. At the same time, the results of the Al-Mutairi and Al-Omar (2009) showed that dividends on the Kuwait Stock Exchange were positively affected by both earnings per share and cash dividends for the previous period. These two factors were considered to be the most influential factors in dividends followed by the size of the company. However, the share dividends were adversely affected. Not only did the cash dividends of the previous period affect the dividend policy of current period, but the expected earnings for the coming period; they were both to be considered as the most important factors that take into account the decision to distribute the profit in Kuwaiti companies, followed by the current liquidity level (Alshammari, 2012).

Other studies indicated that the Kuwaiti decision maker does not follow the "retained distributions" approach which was proposed by Miller and Modigliani which is based on distributing the remaining earnings after financing the investments. There was no correlation between the dividend policy and investment policies of the Kuwaiti companies (Al-Deehani and Al-Loghani, 2004). The decision-makers were also interested in incentive payments for distributions that have an impact on the value of the company and did not pay attention to other incentives that do not affect the value of the company (Al-Deehani, 2003). Bouresli and Abdulsalam (2005) conducted a study and found that Kuwaiti profit-making companies were characterized by higher profitability, higher market to book ratios, higher growth rates, greater size and lower debt. The results also indicated that the main factor in the decisions to distribute earnings in the Kuwaiti Stock Exchange market is the earnings realized at the end of the financial year.

In Bahrain, Juhmani (2009) identified the factors that influence the dividend policy of companies listed on the Bahrain Bourse. The most influential factors in the current dividends were included dividends for the previous year, profitability and size of the company, respectively. The researcher did not find an impact for debt on the dividend policy. This specific result is inconsistent with other similar studies conducted on the counterpart financial markets in Saudi Arabia and Kuwait. Al-Malkawi (2007) carried out a study in Jordan and showed that the size, age, and profitability of the company have a positive relationship with dividends; the researcher also found that the leverage has an inverse relationship with dividends. The findings of this study had supported the agency theory and consistency as well as the theory of funding priorities, while the study results did not find any correlation between the information asymmetry and the distributions in the Amman stock exchange. Al-Malkawi (2008) reviewed the factors influencing the decision to distribute dividends in Jordan using a larger sample and different models. The researcher found that the factors influencing the decision to distribute dividends are similar in developed and emerging financial markets. The size, profitability and age of the company were key factors that have a positive effect on the policy of distribution dividends while the company's leverage negatively affects the dividend policy.

Al-Qaisi and Omet (2010) found that the dividend policy in Jordanian companies is stable; however, it is not affected by profit management practices. Companies that usually manage their earnings and gain high earnings without actual cash flows kept themselves away from distributing dividends due to lack of adequate liquidity; on the other hand, they tried to ensure that they were not exposed to financial crises due to the distribution of fake earnings (Awad, 2011). These finding were consistent with the study of Syed et al. (2010), which found no effect of earnings management on the dividend policy in China and Pakistan. However, Hamdan (2010) did not support these results when he found a relationship between positive earnings management and dividend in Dubai stock exchange; the management of these companies could not match the management of earnings to achieve their personal interests and the most important financial decisions i.e., the dividend policy. Therefore, these companies might be vulnerable to severe financial crises when they carry out the distribution of fake earnings that do not correspond to real cash flows.

Several previous studies such as Chung and Zhang (2011) assumed that good corporate governance brings corporate investors to invest in the company and has a role in determining the value and sustainability of the company. However, Hamdan and Al-Sartawi, (2013) conducted a study on the Kuwait Stock Exchange and found that corporate governance is a deterrent to institutional ownership in Kuwaiti companies; in other words, there was a negative relationship between corporate governance and institutional ownership. On the other hand; Alfaraih et al. (2012) found that institutional investors played a prominent role in supporting the mechanisms of corporate governance in Kuwaiti companies, which was reflected positively on the performance of these companies; on the other hand, the study found a negative relationship between government ownership and the performance. In the United Arab Emirates, Aljifri and Moustafa (2007) showed that the percentage of government ownership had a significant impact on the performance of companies in the Abu Dhabi stock exchange and Dubai stock exchange; they also found that the percentage of institutional ownership had a weak impact on the performance of companies. In Saudi Arabia Fallatah and Dickins (2012) study showed no impact of the corporate governance mechanisms on the performance of these companies, yet these was an impact on the company's value. In Kuwait, the relationship between corporate governance and corporate performance was examined by Al-Saidi study (2010); the researcher found no impact for the size of the board and the double roles of board chairman on the performance of Kuwaiti companies. However, the study results found that distribution and family control played a role in the performance of companies.

2.2. Development of Study Hypotheses

A large bulk of research has considered two hypotheses explaining the relationship between corporate governance and dividend policy (e.g., Jiraporn et al, 2011; Adjaoud and Ben-Amar, 2010; Renneboog and Szilagyi, 2006; Michaely and Roberts, 2006; La Porta et al., 2000). The first hypothesis "outcome hypothesis" calls for a direct, positive relationship between the quality of corporate governance and dividends, while the second "substitution hypotheses" relates to the existence of an inverse relationship between them. The current study is based on these two hypotheses as follows.

2.2.1. The premise of dividends as a result of the quality of corporate governance

The first hypothesis is based on the free cash flow outcome hypothesis; it is called the "Outcome Hypothesis." According to this hypothesis, managers in companies with low corporate governance tend to retain cash without distributing it in order to exploit it in their personal interests such as bonuses, promotions or investing in and involving into transactions of personal benefit to them without regard to the interests of the shareholders. On the other hand, companies with good governance cannot use free cash flows to achieve their personal interests but are distributed to shareholders. In other words, there is a direct correlation between the quality of corporate governance and dividends and can be expressed as follows:

Hypothesis 1: There is a positive relationship between governance and dividend policy in GCC energy sectors.

The expected profit distribution policy, according to this theory, is the outcome/result of the quality or level of corporate governance in the company (Jiraporn et al., 2011). Therefore, shareholders could impose some pressure on managers to distribute the bulk of profit instead of using them to achieve their own benefits (La Porta et al., 2000; Mitton, 2004; Jiraporn and Ning, 2006; Adjaoud and Ben-Amar, 2010).

Empirical tests have shown that companies with high corporate governance pay higher dividends to their shareholders. Renneboog and Szilagyi (2006) had shown that the companies that have strong governance pay higher dividends to their shareholders. On their turn, Michaely and Roberts (2006) had concluded that companies with high corporate governance are encouraged to make higher and more stable dividend payments.

2.2.2. The distribution hypothesis as an alternative to the quality of corporate governance

This hypothesis is called the "substitution hypothesis." It argues that the dividend distribution policy is one of the conflict mechanisms that may arise between shareholders and managers. According to the proponents of this hypothesis, the dividend distribution policy and the cost reduction of the agency are largely based on restriction on managerial actions. In a situation where there is no effective control of management action, managers will use cash to invest in inefficient investments or to use them as dividends. On the other hand, in companies with high corporate governance, the restrictions on the managerial actions are increased and cash flows are used in efficient projects, thereby reducing the chances of distributing them to shareholders. In other words, there is an inverse relationship between the quality of corporate governance and dividend. This hypothesis can be put simply as follows:

Hypothesis 2: There is an inverse relationship between the quality of corporate governance and dividend policy in GCC energy sectors.

Larger dividends substitute for weaker governance, meaning that the companies that distribute the bulk of their profit reflect a low level of governance (Jiraporn et al., 2011). The high level of corporate governance is a substitute for dividend policy, and firms with good governance have low cost of agency; there is therefore no need to use the profit-sharing tool to settle conflicts between owners and managers (La Porta et al., 2000; John and Knyazeva, 2006; Adjaoud and Ben-Amar, 2010).

The present study sought to examine the relationship between the dividend policy and the corporate governance in the GCC energy sectors in order to understand the behavior of dividends in this emerging market after evaluating the level of corporate governance in its sectors. We argued that this issue is of interest to many parties for several reasons. First is that the GCC financial markets is an emerging market and is attracting many investors and researchers. Second is that the GCC financial markets lacks the rules of governance and investor protection compared to the developed markets. Finally; this study focuses on the governance of the energy sectors in GCC countries, the energy sector in the GCC is one of the most important engines of economic development. Consequently, it would be useful to shed light on the level of governance.

3. EMPIRICAL METHODS

In this section, we describe the research methodologies that are designed to test the hypotheses that we have developed in the previous section.

3.1. Sample and Data

The study sample consisted of all firms listed on GCC energy sectors during the period from 2008 to 2017. The sample of the study consisted of 8 firms with all the necessary data to investigate the study variables. After collecting the data, 5 companies were ignored and dropped from the analyses as they did not have enough data; they stopped trading; or they merged with other companies. The study was based on the GCC financial markets and Bloomberg database, the financial statements and accompanying notes so as to obtain dividend data, corporate governance and other study variables.

3.2. Study Model

This study examined the relationship between dividend policy and corporate governance in the Kuwaiti market. To achieve the best representation of this relationship, the multiple regression model was used. The dependent variable in this study was the dividend policy. The independent variables were four characteristics of the corporate governance. The study model was also strengthened by a number of control variables as follows:

$$DP_{itg} = \beta_0 + \beta_1 ManagOwner_{itg} + \beta_2 BoardSize_{itg} + \beta_3 BoardIndep_{itg} + \beta_4 ChairDuties_{itg} + \beta_5 FirmSize_{itg} + \beta_6 FinLeverage_{itg} + \beta_7 FirmGrowth_{itg} + \beta_8 \sum_{k=1}^{n=3} PublicGovernance_{itg} + \beta_9 Country_{itg} + \varepsilon_{itg}$$

Where:

DPRi, t: Dependent variable: Dividend policy of firm (i), year (t) and country (g).

β_0: The constant.

β_{1-9}: The slop for independent and control variables in the model.

$ManagOwner_{itg}$: First independent variable: the managerial ownership in firm (i), year (t) and country (g).

$BoardSize_{itg}$: Second independent variable: the size of board of directors in firm (i), year (t) and country (g).

$BoardIndep_{itg}$: Third independent variable: The independence of board of directors in firm (i), year (t) and country (g).

$ChairDuties_{itg}$: The fourth independent variable: The separating the duties of the Chairman of the Board and the CEO of the firm (i), year (t) and country (g).

$FirmSize_{itg}$: Control variable: Firm (i) size, in year (t) and country (g).

$FinLeverage_{itg}$: Control variable: Financial leverage of the firm (i) year (t) and country (g).

$FirmGrowth_{itg}$: Control variable: Growth opportunities for the firm (i) year (t) and country (g).

$PublicGovernance_{itg}$: Control variable: the mean of 5 public governance indicators: control of corruption, government effectiveness, political stability, rule of law and regulatory quality.

$Country_{itg}$: Country control variable including 6 GCC countries.

ε_i: Random error.

3.3. Measuring of Variables

The study used a set of measures for analyzing the variables based on a number of previous, related studies; some of these variables were modified and improved so that they suit the data disclosed by the companies that are enrolled in the GCC financial markets database. Below is a detailed explanation of the various method used in investigating the study variables whether they were dependent, independent, or control.

3.3.1. Dividend policy

The current study was meant to explores the impact of the quality of corporate governance in determining the optimal policy for dividend distribution in GCC energy sectors. The researchers sought to identify and suggest one of the two previous hypotheses that explain the relationship between corporate governance and dividend policy. In order to measure dividend policy, the study used a proxy variable of the dividend policy; this variable is Payout Ratio (Al-Maidani, 2010; John and Knyazeva, 2006; Jiraporn et al., 2011; Khamis et al., 2015b; Hamdan, 2018).

3.3.2. Corporate governance

The corporate governance is used to determine the extent to which companies comply with the quality of corporate governance. Four rules of corporate governance have been drawn from the set of rules provided by the global ISS, which are divided into eight categories. The four rules, which examined the compliance of GCC energy sectors to them, were as follows. Rule (1): The percentage of managerial ownership; the percentage of managerial ownership in the firm shares should range between 1% and not more than 30% of the total shares. This rule has been given "ManagOwner" code. Rule (2): The size of the Board of Directors. The Board of Directors shall be between 6 and no more than 15 members. This rule has been given "BoardSize" code. Rule (3): The independence of the members of the Board of Directors; the Board of Directors shall consist of not <50% of the independent members from outside the firm. This rule has been given "BoardIndep" code. Rule (4): Separation of duties; the duties of the chairman of the board of directors and those of the chief executive director must be separated. This rule has been given the "ChairDuties" code. (Al Mubarak and Hamdan, 2016; Khamis et al., 2015a&c).

To give a measurement of these rules that could be used in the study model, dichotomous variables were used for this purpose. (1) is given to the company if it satisfies the corporate governance requirement, and (0) if this condition is not met.

3.3.3. Control variables

3.3.3.1. Firm size

Small and new businesses or companies have limited access to borrowing and financing by issuing shares. This is mainly attributed to the fact is that these companies are not well known by investors in the financial markets, so they rely on retained earnings as the main source of finance and have a tendency to hold a large percentage of profits (Al-Maidani, 2010; Anasweh, 2018; Ahmed and Hamdan, 2015). On the other hand, larger companies have larger opportunities to access internal and external financial markets and therefore less dependent on retained earnings in financing their investments (Holder et al., 1998). Consequently, the size of the company was taken as one of the control variables which was measured by the natural logarithm of the total assets of the company. This variable was given the "FirmSize" code, which is expected to have a positive correlation with the distributions.

3.3.3.2. Limitations of loan agreements

The loan agreements the company adopts may impose further restrictions and limitations on the management's freedom in deciding to distribute the earnings; they may also require or obligate the company not to distribute any dividends to shareholders after taking the loan, or if the working capital falls below a certain level (Al-Maidani, 2010). The increase in the company's loans would also reduce its free cash flows, which would help it avoid the agency's problems (Farinha, 2003; Renneboog and Trojanowski, 2007; Adjaoud and Ben-Amar, 2010). It is therefore expected that there will be an inverse relationship between the loan agreement restrictions and the rate of dividends distributed to shareholders. Limitations of loan agreements were measured through financial leverage "FinLeverage" which is defined as the ratio of debt to total assets (Al-Maidani, 2010; Jiraporn et al., 2011).

3.3.3.3. Company growth opportunities

It is natural that fast-growing companies will need substantial financing to meet the expansion of their needs. Such companies will take advantage of all sources of finance and capture the bulk of the profits to provide for property financing needs (Al-Maidani, 2010). Consequently, the researchers have decided to include the company's growth opportunities among the control variables; it is expressed as the growth rate of assets in the current year compared to the previous year. This variable was given the "FirmGrowth" code and is expected to be inversely related to the rate of dividends that are distributed to shareholders.

3.3.3.4. Public governance

Our study used the mean of 5 public governance indicators as a control variable: Control of corruption, government effectiveness, political stability, rule of law and regulatory quality.

3.3.3.5. Country dummy

The current study used the country as a control variable and it is given the code "country;" it was replaced by the value (1) of the company from specific GCC country and the value (0) for other companies from the rest of the GCC countries.

4. MULTIVARIATE REGRESSION RESULTS

To obtain indicators related to the relationship of dividend policy to corporate governance, regression analysis was used, which was controlled by a set of control variables that impacted the dividend.

The ordinary least squares method was used because the dependent variable "payout ratio" was a continuous variable. To confirm the results, the logistic regressions were used because the dependent variable in the second model was a dichotomous variable. The companies were divided into two parts: The first part was the companies that distributed dividends and they were given number 1 while the other companies which did not distribute were given the number 0. In these two regression models, all the conditions of corporate governance were listed as independent variables, and the governance index as a single independent variable. The results were shown in Table 1.

The Table 1 shows that the second and fourth models, in which the impact of corporate governance index was tested, were more representative of this relationship. It was found that the Adjusted R^2 of the second model was larger than the first model, and the Akaike test of the fourth model was lower than that of the third model. In general, this means that reliance on the second and fourth models is more accurate in studying the relationship between corporate governance and dividend policy.

Table 1: Multivariate regression results

Variables	Label	Models			
		OLS		Logistic regressions	
		Model 1	Model 2	Model 3	Model 4
Managerial ownership	ManagOwner	3.087**		4.500***	
		0.015		0.000	
Size of board of directors	BoardSize	–0.254		–1.875	
		0.128		0.140	
Independence of board of directors	BoardIndep	0.879		0.915	
		0.687		0.580	
Separating the duties of chairman and the CEO	ChairDuties	1.987**		2.915**	
		0.037		0.018	
Firm size	FirmSize	7.556***	5.499***	6.542***	6.444***
		0.000	0.000	0.000	0.000
Financial leverage	FinLeverage	1.052	1.296	0.758	0.875
		0.432	–0.196	0.428	0.643
Growth opportunities	FirmGrowth	0.875	–0.348	–0.987	–1.526*
		0.554	–0.728	0.562	0.087
Public governance	PublicGovernance	3.256***	2.115**	5.540***	7.778***
		0.000	0.021	0.000	0.000
R^2		0.491	0.490		
Adjusted R^2		0.473	0.475		
F-statistic		30.350***	38.654***		
P-value		0.000	0.000		
Akaike				0.762	0.759
Hausman test (χ^2)		10.541***	7.589***		
P-value (χ^2)		0.000	0.000		

OLS/LR: t/z-statistic (top), P-value (bottom). *,** and ***denote significance at the 10%, 5% and 1% levels. OLS: Ordinary least squares

4.1. Testing the Hypotheses about the Impact of Corporate Governance on Dividend Policy

Table 1 shows that the indicator of corporate governance had a positive impact on dividend policy with a statistical significance of <5% in the second and fourth models. Companies with a good level of corporate governance increased their cash dividends on the GCC energy sectors. This finding led the researchers to accept the hypothesis that distributions come as a result of the quality of corporate governance, i.e., (outcome hypothesis). This finding was consistent with many studies that had found a direct relationship between the policy of dividend distribution and corporate governance including the study of Renneboog and Szilagyi, (2006) which found that companies with strong corporate governance distribute more earnings to its shareholders.

Furthermore, Michaely and Roberts, (2006) concluded that high-level corporate governance encourages higher and more stable and consistent dividend payouts. More recently, Adjaoud and Ben-Amar (2010) and Jiraporn et al. (2011) stated that companies with high-level corporate governance contribute to reducing agency problems among shareholders and managers by distributing the bulk of the earnings so as not to be exploited for the personal interests of managers.

As for the effect of the subdivisions and sub-characteristics of corporate governance on dividend policy, Table 1 shows the results of the first model, which examines the effect of the sub-characteristics of corporate governance on the dividend policy and is expressed in the variable dividend ratio as a continuous variable. The table also shows the results of the third model in which the dividend policy was expressed as a separate binary variable. It can be noticed that the "percentage of managerial ownership" and "the separation of duties" had a positive effect of statistical significance in the distribution of profits at a significant percentage <5%. The "independence of the Board of Directors" had a positive effect, that was not statistically significant, on the dividends. However, the second sub-characteristic i.e. "the size of the Board of Directors" had a negative impact on the distribution of profits although it was not statistically significant.

4.2. Testing the Effect of Control Variables

Table 1 shows that the company size variable - measured by the natural logarithm of total assets - had a positive effect on dividend distributions and was statistically significant at <1% in the four models. Large companies were characterized by larger dividend payments in the companies that are listed in the GCC energy sectors. The same is true about the. The leverage variable had, in fact, a positive effect, meaning that some companies that rely more on debt to finance may distribute higher profits; in other words, means that these companies are seen as potentially more profitable. It also means that some companies may resort to borrow in order to distribute its dividend due to their lack of liquidity. However, this variable was not statistically significant in any of the four models. Finally, the growth rate had a statistically significant adverse effect on dividends; this means that high growth companies deliberately hold earnings instead of distributing them. It is noted from the analysis in Table 1 that the variable of public governance statistically significant in the study models, which reveals public governance has a significant role in the governance and administering energy sectors in the GCC.

5. CONCLUSION

There are two theories explaining the relationship between distributing dividends and corporate governance; the first is that the increase in distributions comes as a result of the increase in the quality of corporate governance in the company in order to distribute the available cash to reduce the conflict of interest and the cost of the agency. In other words, there is a positive relationship between governance and distributions. The second theory is that there is an inverse relationship between distributions and the quality of corporate governance. This can be justified by the fact that the lack of supervision, transparency and low governance leads the management to exploit the company's resources in inefficient investments or distribute them to the shareholders, while the existence of high governance results in exploiting the cash flows in efficient projects, thereby reducing opportunity of distributing them to shareholders.

These theories have been tested in several advanced stock exchange markets, and previous studies have yielded in conflicting results. However, these theories have not been researched adequately in emerging GCC energy sectors. Hence, the present study aimed to examine the relationship between dividends and governance within the companies listed in the GCC energy sectors during the period 2008-2017 During this period, several variables were examined, including the size of the company, public governance, the indebtedness, the growth opportunities of the company and the type of sector to which the company belongs. The results and recommendations of the study can be summarized as follows:

Through the use of a set of descriptive and experimental statistical methods, the study found a number of results.

The most significant result of this study showed that there was a positive correlation between dividends and the quality of corporate governance. GCC energy sectors firms that had increased levels of corporate governance had increased their dividends during the study period, indicating that these firms were working to reduce the cost of the agency and eliminate conflicts between shareholders and managers through the distribution of excess cash flows that were not used in internal financing. The tests indicated that there is a positive effect on both the size of the company and its profitability on dividends. The other variables did not have a significant effect on the study model.

6. PRACTICAL IMPLICATIONS, LIMITATIONS AND FUTURE STUDIES

The practical applications of the study results were derived from the monitoring of the positive influence of both the governance and the size of the company and its profitability in distributions, which are important indicators for investors. The limitations or determinants of the study were mostly attributed to the sample and the of time of conducting the study. Therefore, attention must be paid to the generalization of these results, which may vary from one sample to another or from one-time period to another. The study could examine all the factors related to the relationship between dividend policy and governance. Therefore, it recommends studying the effect of corporate governance on dividend policy and its reflection on the market value.

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