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CORPORATE GOVERNANCE AND DIVIDEND PAYOUT POLICY: MEDIATING ROLE OF LEVERAGE

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Abstract

This study seeks to explore the relationship between corporate governance and dividend payout policywith the mediating role of leverage.Relationship between corporate governance and dividend payout already established but mediating role of leverage is checked for the first time. Better corporate governance may impact the capital structure due to reduced agency problem and hence the firms change the dividend payout policy.

CEO duality, audit committee, number of meetings, independent directors and board size are taken as indicators of corporate governance. The study uses the secondary data of Pakistan Stock Exchange 100 index listed companies from 2011 to 211. Total 327 firm-year observations are included in the study. AMOS is used to apply Structural Equation Modeling for the confirmation of mediation process.

The empirical results show that leverage plays mediating role between corporate governance and dividend payout policy when CEO is not holding the office of ChairmanBoD and there is existence of audit committee. Board size is significantly and positively related with leverage and the leverage is significantly and negatively related with dividend payout ratio.

Result reveal that if a company has audit committee and CEO is separate from chairman board of directors and want to increase the dividend payout then the company will have to decrease its leverage. Empirical results show that board size is significantly and positively related to leverage and leverage is significantly and negatively related to dividend payout. So the company will have to keep its board size minimum to minimize the leverage and maximize dividend payout if it is willing to pay higher dividends. On the other hand, it is found that the investorswho opt to purchase shares with the intent to receive higher dividend they will have to select a company with minimum board size. It is revealed from the empirical results that smaller board size keeps the leverage minimum and consequently dividend is maximized.

Key words: Corporate governance, dividend payout, leverage, mediator.

INTRODUCTION

Dividends payout policy is a matter of concern for the shareholder as dividend is one of the important sources of return on their investment**.** The issue is also vital for the policy makers and managers whotry to signal good financial performance in the market. However, the main issue involved here is to derive the main causes of employing a specific dividend policy by the company. In the present study, along with finding the relationship between corporate governance in companies listed in the Pakistan Stock Exchange and the dividend policy utilized by them mediating role of leverage is also studied.International Monetary Fund and the development defines and economic cooperation organization defines the corporate governance as:*"corporate governance includes the relationship and responsibility structure within a major group, including the investors, members of the board of directors and the chief executive officer directed at the optimal promotion of competitive operations for the purpose of achieving the primary goals of the company."*Numerous variables influence the corporate governance among which frequency of board meetings, presence of audit committee, CEO duality, board size and independent directors play a major role. Therefore, it can be claimed that these factors potentially influence the activities and policies carried out by managers. Existence of a vigilant corporate governance policy enhances independence of auditor and provides transparent information atmosphere within which managers of financial sector takemore knowledgeable decisions (Bolo, 2006).

The disaster of big firms like Enron and WorldCom in the recent years has directed researcher's attention to the prominent role of corporate governance (HassasYeganeh, 2008).Illegitimate motives of managers and asymmetrical information among stakeholders is the main cause of the corporate governance problems. Corporate policies are implemented to control agency problems (Bolo, 2006).Corporate governance is responsible to design dividend policy that cares the

interest of all the stakeholders and dividend is optimally used for the objective of the firm.Therefore, it is expected that corporate governance strategies influence dividend policies (Fakhari, 2010). However, corporate governance may not directly influence the dividend policy rather it may reduce the agency cost through the better capital structure and then the dividend policy may change. This process will indicate the mediating role of leverage between corporate governance and dividend policy. Findings of currentstudy enable stakeholders to identify companies that employ dividend payout policies according to a corporate governance strategy complimentary to their own approach more knowledgably and based on their own investment policies.

1.3 Problem Statement

Dividend payout policy is a significant factor for shareholders. If the firm fails to pay dividend for a longer time they have to face consequences in the form of lack of trust of shareholders and fall in share price. This study focuses on how Corporate governance plays role in better management of leverage and hence providing an enhanced dividend payout policy.

LITERATURE REVIEW

Cuong and Canh (2012), conducted a study on a set of data for companies listed on Vietnam stock exchange markets and found that the optimal debt ratio, of less than 59.27% raise the value of the firms.Ron Jana (2010) explored the relationship between the structure of corporate capital and some of the board's characteristics in Nepal. As a result, it was found that the corporate governance leads to lower financial leverage and disputes in the agencies. Experimental results of relationship are only significant statistically about the combination of board and conservative tenure, but it is not significant about the size and skill of board. On the other hand, positive relationship is explored between the number of executive directorson the board and the level of debt. Finally, the findings show that the management of building companies uses the higher debt level as a mean of expropriation for a few shareholders, not as a punitive and disciplinary mean.

Corporate dividends policy refers to a decision where the management has to decide on whether to reinvest the profit amount or distribute it among shareholders. Dividend policy includes making the decisions of timing and ratio of profit to be distributed as dividends. Retained earnings, investment opportunities, liquidity, share prices in market, composition of shareholders, company's policy toward dividends stability, contractual restrictions imposed by lenders, access to external sources of funds, and management's attitude and objective are some of the determinants of dividend payout policy.

Factors Influencing Dividend Policy

Board Size

Significant relationship is found between board size and dividend payout policy(Mansourinia et al.2013). A study was conducted on140 companies of Tehran stock exchange for the 5 years period 2006-10. The researchersexplored significantly positive association between board size and dividend policy. Similarly, positive relationship was found between board size and dividend payout policy byUwuigbe (2013) by using regression analysis method.

Furthermore, Subramaniam and Susela (2011) foundsignificant positive correlationamong size of board and dividend pay-out. The results showed companies with large size of board and family owned companies tend to pay higher dividends. Higher stake of family forces the managers to distribute profits among the family in the form of dividend. In a study of Nigerian companies by Uwalomwa, Olamide, & Francis (2015) positive relationship was reported between board size and dividend payout.Board of directors is controlled by CEO of a company therefore agency cost may be increased.(Lipton &Lorch, 1992). Guest (2009) tried to conclude those findings and explained that smaller boards may perform better. The author further explains that board and dividend are substitute to each other to control agency cost and when the board is large the higher dividends will be paid.

CEO Duality

CEO duality means chief executive officer holds the office of the chairman of the board also, Krenn (2014).Chen, Lin and Kim (2011) explored a sample of 1056 firms listed in Shanghai and Shenzhen stock exchanges and found that when CEO has dual role he is less likely to pay dividend.The results guide negative relationship between CEO duality and dividend payments.If CEO is holding the office of the president of board of directors as well, he will be more powerful and this concentration of power keeps other directors away from staying on their opinion or asserting their opinion.In this scenario CEO can overrule the decisions of other directors there may rise agency problem.

During the year 2005-2008 a sample of 74 Chinese companies studied by Pan (2009);it was concluded that it was less likely to payout dividend when the CEO holds the position of chairman as well. The reason CEO is more powerful when he holds two offices and he is in the position to veto the decisions and suggestions of other directors. This phenomenon increases the agency cost. A dual role CEO may take decisions which have conflict of interest and can impede effective monitoring.

Relationship between CEO duality and dividend policy was investigated by Schen and Suffian (2014) on a sample of oil and gas industry firms of Malaysia for the period 2009-2013and the results show thatdual role of CEO can align the interest of managers and shareholders andreduce the agency cost. Managerial activities can be easily controlled by a CEO who is chairman of board of directors as well. Thus,

firms with CEO duality decide to distribute lower dividend as dividends cannot effectively control agency problem. However, Arshad, Akram, Amjad, and Usman (2013) reported a negative relationship between CEO duality and dividend policy in Pakistan.

A study for the period 2009 to 2011 on a sample of 296 American companies listed in New York Stock Exchange (NYSE) by Obradovich and Gill (2012) conclude that dividend policy is positively and significantly influenced by CEO duality. A part of profit of the companies is distributed among shareholders as dividend and a part of profit is retained by the company to reinvest in the growth opportunity.Chairman board of directors is also a CEO of the company has to decide about which portion of profit is to be distributed among shareholders and which portion has be retained for future investments there may come conflict of interest.

No. of Meetings

During a study of 307 firms for the period 1990-94 Vafeas (1999) found significant relationship between number of board meetings and corporate governance. Also it has significant impact on agency theory. The number of annual board meeting is negatively related with firm value.It is observed that as the frequency of meetings is increased the share prices declined.

Further it is found that operating performance improved following years ofabnormal board activity. These improvements were observed in the firms which were previously showing poor performance and firms not engaged in corporate control transactions. Overall, results suggest that board activity, measured by board meeting frequency, is an importantdimension of board operations.

In 2005 Adams used the proxy of board meetings by incorporating all meeting conducted by board of directors and their differentcommittees. He used this proxy to measure the efficiency and effectiveness of corporate governance.

Independent Directors

Fama and Jensen (1983) argue that board of directors plays significant role in controlling agency cost. Including independent director in the board enhances the board effectiveness to control and monitor the managers.Study ofMansourinia et al. (2013) on companies listed in Tehran stock exchange concludes that there is insignificant association between board independence and dividend policy. For the study a sample of 140 companies for the period 2006 – 2010 was observed. Its results explain that executive and unbound manager have no influence on the dividend payments to shareholders.

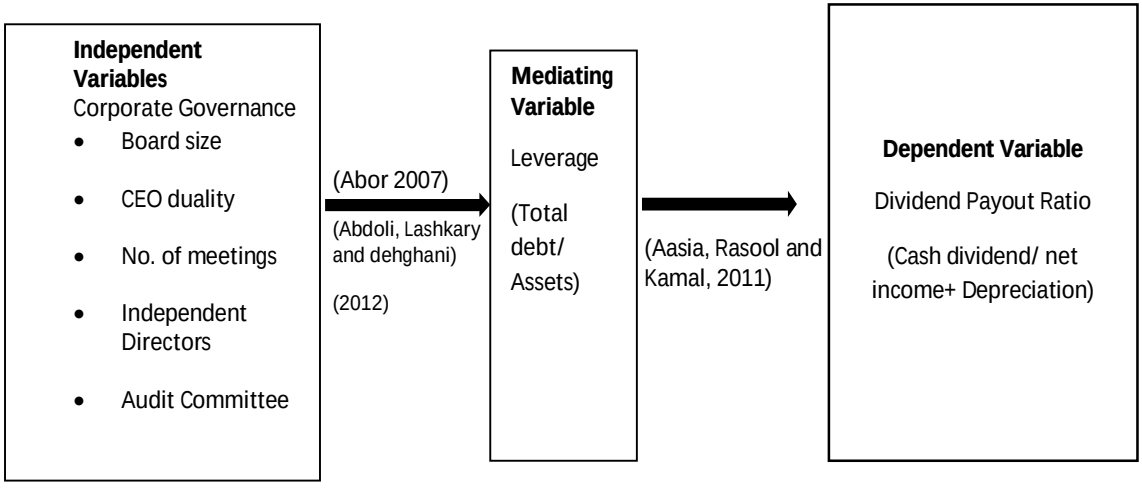
Batool and Javid (2014), find that board independence did not affect the dividend policy. The study explained that as compared to other emerging economies Pakistani companies pay lesser dividends because companies in Pakistan depend

upon the external financing. Mehar (2005) also reports the same kind of results and explains that dividend policy in Pakistan is regularized in favor of managers instead of favoring shareholders.

Audit Committee

Audit committee is one of the major factors that can play important role in the value of firm by implementing the rules and policies of the company and ensuring valuable practices of corporate governance.Corporate governance practices guide that the audit committee should perform independently and high standards of professionalism must be adopted. The audit committee is responsible to monitor mechanisms that ensure the symmetrical information between shareholders and the company managers (Rouf, 2011, p.240). This supervision and control results in minimizing agency problems. Ho 2005 explored positive relationship between audit committee and dividend payout. Klein (2002) found negative relationship between audit committee independence and earnings management. Anderson, Reeb and Mansi (2004) revealed that independent audit committee is a major factor for low cost debt financing.

2.8 Theoretical Framework



2.9 Hypothesis

H1: Corporate governance has significant impact on dividend payout policy.

H2: Corporate governance has significant impact on leverage.

H3: Leverage significantly mediates the relationship between corporate governance and dividend payout policy.

2 RESEARCHMETHODOLOGY

Audited financial statements of KSE100 index companies are used for data collection. We studiedall the nonfinancial firms included in KSE 100 index.

Meaurement of variables

Dividend Payout Ratio= cash dividend to net income and depreciation.

Leverage is a major factor to decide dividend policy (AL- Shubiri, 2011; Subramaniam et al., 2011). In Pakistan, while deciding about the dividend payout ratio the management has to consider the leverage. If the company has higher level of leverage the management will prefer to pay off debts before distribution of profits as a dividend. Because if the company is financially stable and has sufficient resources to avail growth opportunities only then it can stay for the longer period. But if despite of higher level of leverage the company decides to payout dividend then it will have to rely on external sources of funds and as the external financing increases, the cost of finance is also increased. Therefore, the management prefers to maintain balance between debt and the equity.

Companies support their investment opportunities either through internal sources or through debt. Paying dividend influences the level of retained earnings. Firms that pay higher dividend are left with lower level of retained earnings. Consequently, they are left with lower level of internal sources of funding to be used for future growth. And this phenomenon will lead the company to go for external source of funding. Higher dividend payout will lead to borrowing. It proves significant relationship between dividend payout policy and financial leverage. When a firm requires cash due to high ratio of dividend, the management considersthe option whether to issuecommon shares or seek borrowings. In the given scenario the firm needs to establish a balance between dividend pay-out and leverage and shares issue. However, empirical evidence on the strength and direction of relationship between dividend pay-out and leverage is inconsistent.

Agency cost is a result of separation between management and ownership of a company anddividend payout is used as a mechanism to minimize agency cost. In the current study 5 proxies of corporate governance are being used namely:

- Number of meetings
- Board Size
- Number of independent directors
- Audit committee and
- CEO duality

Empirical evidence on the direction and the strength of the relationship between corporate governance and dividend policy is not clear. While a positive significant relationship was reported in several studies, negative significant or no significant relationship appeared in others. Above mentioned 5 indicators of corporate governance have been influencing dividend payout policy.

Variable	**Nature of Variable**	**Definition**
Dividend Payout (Div x)	Dependent	Cash dividend/Net income+ Depreciation
Leverage (Lev)	Mediating	Total debt/assets
Board Size	Independent	No. of members on Board
Independent directors	Independent	No. of external directors on Board
CEO Duality	Independent	CEO acting as chairman of Board
Audit Committee	Independent	Whether audit committee exists or not
No. of meetings	Independent	Number of Board meetings in a year

Data Analysis

The main objective of this study is to find out whether the leverage plays a mediating role between corporate governance and dividend payout policy for the nonfinancial companies of KSE 100 index for the period 2011 to 2015. Financial statements of all such companies were obtained from KSE website. The next step was to calculate the dividend payout ratio of all these companies. Dividend payout ratio is calculated by dividing dividend by net income and depreciation.

Correlations

	BODSIZE	CEDU	Meetings	Idirectors	AC	
BODSIZE	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	327				
CEDU	Pearson Correlation	-.141*	1			
	Sig. (2-tailed)	.011				
	N	327				
Meetings	Pearson Correlation	.246**	-.119*	1		
	Sig. (2-tailed)	.000	.032			

	N	327	327	327		
Idirectors	Pearson Correlation	.317**	.071	.177**	1	
	Sig. (2-tailed)	.000	.201	.001		
	N	327	327	327	327	
AC	Pearson Correlation	-.102	.029	-.106	.123*	1
	Sig. (2-tailed)	.067	.598	.055	.026	
	N	327	327	327	327	327

Correlation table shows that board size is negatively correlated with CEO duality, audit committee and dividend and positively correlated with number of meetings and independent directors. Moreover, board size is significantly related with CEO duality, independent directors, audit committee and number of meetings.

CEO duality is negatively correlated with number of meetings and positively correlated with independent directors and audit committee. However, CEO duality has significant relationship with number of meetings but its relationship with independent directors and audit committee is insignificant.

Number of meetings has negative relationship with audit committee and positive relationship with independent directors. Number of meetings has significant relationship with board size, CEO duality, audit committee and independent directors.

Independent directors have positive correlation with audit committee. Relationship of independent directors with audit committee is significant.

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Board Size	327	4.00	17.00	9.0000	2.19
Meetings	327	1.00	24.00	5.4740	2.36

Independent Directors	327	.00	13.00	1.7523	1.96
Leverage	327	4.80	165.64	49.0865	23.69
Dividend Payout	327	.00	158.93	26.7208	30.43

Descriptive statistics show that in our sample of 327 firms minimum board size is 4 and maximum board size is 17 with a standard deviation of 2.19.

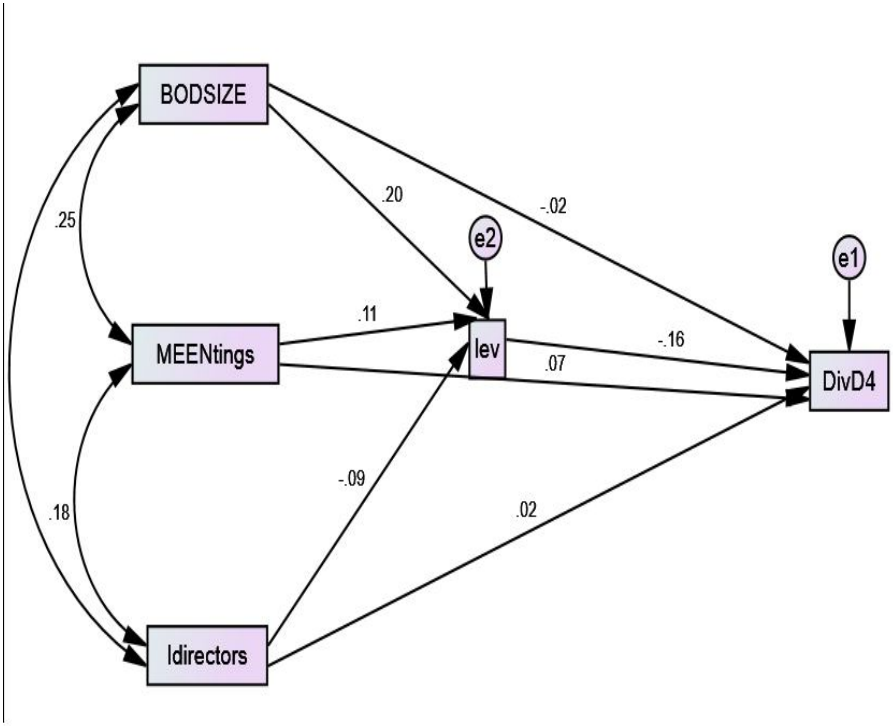
CEO Duality is measured through dummy variable. Minimum number of meetings is 1 and maximum number is 24 with a standard deviation of 2.36. Minimum number of independent directors is 0 and maximum number of independent directors is 13 with a standard deviation of 1.96. It means there are companies who don't have independent directors.

Audit committee is measured through dummy variable. Presence of audit committee is measured as 1 absence is measured as 0.

Leverage is calculated as ratio of total debt and total assets of the company. Minimum leverage is 4.80 and maximum is 165.64 with a standard deviation of 23.69. It means some companies use debt to finance their assets as well as their operations.

Dividend payout is calculated by dividing the dividend by net income and depreciation. Minimum payout ratio is 0 that means some companies are either in loss or not paying dividends and maximum payout ratio is 158.93 it means these companies are paying dividend from their retained earnings. Mean value of payout ratio is 26.72

4.5 Structural Equation Model



In our study audit committee, CEO duality, board size, number of meetings and independent directors are proxies of corporate governance. In the model we have board size, number of meetings and independent directors as independent variable, while CEO duality and audit committee are observed in group.Leverage is mediator and dividend payout is dependent variable.

4.6 Regression analysis: All

Relationship of variables	Estimate	P		
Leverage	<---	Independent directors	-.092	.109
Leverage	<---	Meetings	.107	.056
Leverage	<---	Board size	.203	***
Dividend Payout	<---	Board size	-.016	.793

Relationship of variables	Estimate	P		
Dividend Payout	<---	Meetings	.073	.199
Dividend Payout	<---	Independent directors	.024	.681
Dividend payout	<---	Leverage	-.161	.004

From the above mentioned table we observe that leverage is significantly related with independent directors, number of meetings and board size. At the same time leverage has significant impact on dividend. It proves that corporate governance has indirect relationship with the dividend payout. According to Preacher and Hayes (2009) a significant value of indirect effect shows an occurrence of mediation and according to above mentioned table leverage is displaying a significant mediation between corporate governance and dividend payout ratio.

4.6.1 Regression analysis: (No CEO duality)

Variables	Estimate	P		
Leverage	<---	Independent directors	-.065	.295
Leverage	<---	Meetings	.100	.100
Leverage	<---	Board size	.184	.003
Dividend payout	<---	Board size	-.018	.777
Dividend payout	<---	Meetings	.073	.235
Dividend payout	<---	Independent directors	.033	.599
Dividend payout	<---	Leverage	-.164	.006
Dividend payout	<---	Sizefirm	-.017	.775

In the table we can observe that when there is no CEO duality leverage is significantly related with meetings and board size. All other variables have insignificant relationship. However leverage is acting as mediator.

4.6.2 Regression analysis: (CEO acting as chairman of BOD)

Variables	Estimate	P

Variables	Estimate	P		
Leverage	<---	Independent directors	-.215	.211
Leverage	<---	Meetings	-.004	.982
Leverage	<---	Board size	.211	.214
Dividend payout	<---	Board size	-.085	.621
Dividend payout	<---	Meetings	-.188	.248
Dividend payout	<---	Independent directors	-.140	.421
Dividend payout	<---	Leverage	-.140	.373
Dividend payout	<---	Sizefirm	.067	.663

The results show that all the variables have insignificant impact when CEO is holding the office of chairman of board of directors as well.

4.6.3 Regression Weights: (Audit Committee Does not Exist)

Variables	Estimate	P		
Leverage	<---	Independent directors	-15.151	***
Leverage	<---	Meetings	3.707	.243
Leverage	<---	Board size	1.811	.442
Dividend payout	<---	Board size	-1.811	.942
Dividend payout	<---	Meetings	77.287	.027
Dividend payout	<---	Independent directors	93.018	.135
Dividend payout	<---	Leverage	4.757	.165
Dividend payout	<---	Sizefirm	-.005	.049

he results show that when audit committee does not exist the leverage has significant impact on independent director only. All other variables have insignificant relationships.

4.6.4 Regression Weights: (Audit committee Exists)

Variables	Estimate	P		
Leverage	<---	Independent directors	-.979	.161
Leverage	<---	Meetings	1.166	.038
Leverage	<---	Board size	2.266	***
Dividend payout	<---	Board size	-2.029	.596
Dividend payout	<---	Meetings	2.882	.391
Dividend payout	<---	Independent directors	1.721	.680
Dividend payout	<---	Leverage	-.781	.020
Dividend payout	<---	Sizefirm	.000	.765

The above table shows that in the presence of audit committee the leverage is significantly related to number of meetings, board size and dividend payout ratio. It means number of meetings and board size significantly influence the leverage and leverage significantly influence dividend payout ratio. Hence proved that the leverage is playing mediating role.

4.11 Mediation Analysis

Evaluation of Mediation

According to Hayes (2009) if a variable X exerts an effect on the outcome Y through one or more intervening variable it is called mediation. Many methods are available to check mediation. However, in the current research we used AMOS v21.0 to check mediation. Certain assumptions are followed to check mediation. For example: a) there must beassociation between mediator and independent variable. b) There must be a significant correlation between mediator and dependent variable. c) There must be a significant relationship between independent and dependent variable in the presence of mediator.

4.12 The Mediation ResultsOverall

Structural Paths	Total Effect	P value	Direct Effect	P value	Indirect Effect	P value	Mediation Status

Independent Directors	→	Leverage	→	Dividend Payout Ratio	-.092	.130	.024	.531	.015	.135	No Mediation
Meetings	→	Leverage	→	Dividend Payout Ratio	.107	.168	.073	.080	-.017	.175	No Mediation
Board Size	→	Leverage	→	Dividend Payout Ratio	.203	.003	-.016	.878	-.033	.011	Full Mediation

There is full mediation when indirect effect value is significant, Preachser and Hayse (2009). In the above mentioned table we are analyzing the overall results and we find that independent directors and number of meetings are insignificantly related with the leverage however board size is significantly associated with the leverage. So according to Preacher and Hayse (2009) mediation is accepted with the board size and mediation with independent directors and number of meetings is rejected.

4.13 No CEO Duality

Structural Paths	Total Effect	P value	Direct Effect	P value	Indirect Effect	P value	Mediation Status

Independent Directors	→	Leverage	→	Dividend Payout Ratio	0.044	0.263.	0.033	.0.376	0.011	.308	No Mediation
Meetings	→	Leverage	→	Dividend Payout Ratio	0.057	.0.173	0.03	0.105	-0.016	.167	No Mediation
Board Size	→	Leverage	→	Dividend Payout Ratio	-0.047	.0.007	-0.017	.0.007	-0.030	.009	Partial Mediation

When there is no CEO duality we observe that according to Preacher and Hayse (2009)

Partial mediation is accepted in board size only and in other 2 variables the mediation is rejected.

4.13 CEO Duality Exists

Structural Paths	Total Effect		P value	Direct Effect	P value	Indirect Effect	P value	Mediation Status
Independent Directors	→	Leverage	→	Dividend Payout Ratio	-.111	0.541	-.141	0.440	.029	0.418	No Mediation
Meetings	→	Leverage	→	Dividend Payout Ratio	-.172	0.274	-.172	0.289	.000	0.930	No Mediation
B Size	→	Leverage	→	Dividend Payout Ratio	-.128	0.418	-.100	0.575	-.029	0.429	No Mediation

In the above mentioned table we observe that mediation is rejected in the light of Preacher and Hayse (2009)

4.14 Audit committee Exists

Structral Paths	Total Effect		P value	Direct Effect	P value	Indirect Effect	P value	Mediation Status
Independent Directors	→	Leverage	→	Dividend Payout Ratio	.034	0.443	-.022	0.606	.012	0.188	No Mediation
Meetings	→	Leverage	→	Dividend Payout Ratio	.036	0.387	.053	0.261	-.016	0.167	No Mediation
Board Size	→	Leverage	→	Dividend Payout Ratio	-.059	0.002	-.031	0.002	-.029	0.050	Partial Mediation

In the presence of audit committee partial mediation is accepted between with board size. Because according to Preacher and Hayse (2009) if independent and dependent variables have significant correlation indirect effect is also significant then it is partial mediation.

4.15 Audit Committee Not Existing

Structural Paths	Total Effect	P value	Direct Effect	P value	Indirect Effect	P value	Mediation Status
Independent Directors → Leverage → Dividend Payout Ratio	.230	0.493	.777	0.348	-.543	0.568	No Mediation
Meetings → Leverage → Dividend Payout Ratio	.677	0.284	.535	0.350	.142	0.649	No Mediation
Board Size → Leverage → Dividend Payout Ratio	.357	0.038	.287	0.261	.071	0.769	No Mediation

The above mentioned results show that mediation is rejected in the absence of audit committee.

DISCUSSION & CONCLUSION

This study explored the relationship between corporate governance and dividend payout policy and finds the mediating role of leverage in PSE 100 index nonfinancial firms. The proxies of corporate governance used for this study include audit committee, CEO duality, number of meeting, board size and independent directors. For the dividend payout ratio, we divided dividend by net income and depreciation and leverage is calculated by dividing total debt by assets of the company. The regression analysis results show statistically significant relationship between independent variable, corporate governance and the mediator, leverage. At the same time leverage is negatively and significantly associated with the dividend payout ratio. As the leverage increases the dividend payout decreases. The results indicate that Pakistani listed nonfinancial firms prefer to pay off their debt before distribution of profits as dividend.

However, in the mediation path analysis we observe that among 5 indicators of corporate governance only board size is significantly related with leverage. Results show that when CEO is not holding dual offices and audit committee exists at that time leverage plays mediating role between corporate governance and dividend payout ratio.

The leverage has implications on the dividend payout policies. The corporate governors cannot ignore leverage while making decision about dividend payout. Number of independent directors is negatively associated with leverage. As the number of independent directors increases they will force the board to pay off debt and reduce the leveragelevel. In our sample 112 firms have only one independent director that is 34.3% of the total population. Maximum number of independent directors is 13 that is found in only one firm out of 327 firms.

In the regression analysis number of meetings and board size are significantly and positively associated with leverage in our sample. Empirical results show that when CEO is holding the office of chairman of board of directors the association between corporate governance and leverage becomes insignificant and mediating role of leverage also becomes insignificant however when the CEO is separate from chairman then the board size and number of meetings have positive and significant association with leverage and independent directors have negative and insignificant association with leverage. However, leverage is negatively and significantly associated with the dividend payout ratio. In the path analysis mediation of only board size is accepted.

In the presence of audit committee number of meetings and board size are positively and significantly associated with the leverage and independent directors are negatively and insignificantly associated with the leverage. However, the leverage is negatively and significantly associated with the dividend payout ratio. On the other side, in the absence of audit committee independent director are negatively and significantly associated with the leverage but the relationship between all other independent, dependent and mediating variables is insignificant.

It is explored in our study that leverage is mediating between corporate governance and dividend payout. Result reveal that if a company has audit committee and CEO is separate from chairman board of directors and want to increase the dividend payout then the company will have to decrease its leverage. Empirical results show that board size is significantly and positively related to leverage and leverage is significantly and negatively related to dividend payout. So the company will have to keep its board size minimum to minimize the leverage and maximize dividend payout if it is willing to pay higher dividends. On the other hand, it is found that the investors who opt to purchase shares with the intent to receive higher dividend they will have to select a company with minimum board size. It is

revealed from the empirical results that smaller board size keeps the leverage minimum and consequently dividend will be maximum.

Generally, a well-established corporate governance system suggests effective control and accounting systems, strict monitoring, effective regulatory mechanism and efficient utilization of firms' resources resulting in improved performance. Firms with well-established corporate governance structures are able to decide about the dividend payout policy and level of leverage since such firms are able to repay their debt on time. This meanspossibility of a firm to pay dividend and extent of payment depends upon level of leverage.Performance is improved if the cheaper loans are easily accessible to the company.However much work is yet required on the subject of corporate governance and financing decisions to make the stakeholders more vigilant and more knowledge full.

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