

Evaluating relationship between board financial expertise and firms' dividend payment behavior in firms listed in Tehran stock exchange

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ABSTRACT

The present research aims at evaluating the relationship between the board financial expertise and dividend- payment behavior firms in the firms listed in Tehran stock exchange. This study is an applied descriptive- correlational retrospective research and has applied the market- based methodology. The statistic population of this research includes 245 firms listed in Tehran stock exchange in a five- year period of 2013- 2017. 127 firms were selected as the statistic sample. The required data have been collected by the audited financial statements of the firms. The Jarque-Bera test was used for testing the normality of data. The correlation matrix was applied for testing the non- existence of collinearity between the independent variables. The Durbin- Watson test was used for testing the non- existence of self- correlation or consecutive correlation between the errors. Breusch–Pagan test was applied for testing the heteroscedasticity and also determining the estimation method based on the random effects. The Chow test, Hausman test and multiple regression test respectively were used for testing the model detection, fixed and random effects of data, and hypotheses. These calculations have been done by Excel and EViews software. The results revealed that there is negative and meaningful relationship between the board financial expertise and dividend payment. And the controlling stockholders have meaningful effect on the relationship between the accounting conservatism and the cash holdings.

Key words: board financial expertise, dividend payment.

Introduction

The evolution of economic environment of Iran in recent years especially along with the privatization and assignment of state- owned firms and also the development of capital market has caused the corporate governance as the supervisory mechanism be increasingly attended. The audit committee is considered one of the components of corporation governance and is a determinative factor in the procedure of financial reporting that increases the validity of audited financial statements. On the other side, the firms and stockholders rely on the audit committee members' judgment in the case of risk, prevention of firm resources amortization, accuracy of financial reporting and consideration of legal and regulatory requirements. Every member of audit committee needs the right and obvious recognition of his/ her duties with regard to the committee activity charter and other legal requirements.

On the other side, the corporate governance system is a concept expressed in recent years in the case of issues such as the responsibility and increase of information quality. The audit committee is one of the main components of corporate governance system and it is also regarded as one of the most important expertized committees of board of directors that causes the improvement, health and quality of financial reporting, improvement of internal controls' quality, and improvement of auditors' performance. It also helps the board to do its responsibility and be sure of consistency of these units with the governing rules and regulations and also prevents the illegal acts of management (Ebrahimi et al., 2014).

The Tehran stock exchange is considered as the most important and major center for the capital exchanges in Iran and it is obvious that the efficiency of this institute requires the correct decision making of its agents. In as much as the active and potential investors are most important group in this market, their appropriate decision making based on correct and apropos information can play significant role in the board financial expertise and dividend- paying behavior of firms in guiding the capitals and also optima; allocation of them. With regard to this matter that a section of ownership of the companies has been submitted to the professional stockholders that despite the minority stockholders, have the internal and value information about the future perspectives and commercial strategies and long-term investments of the firm by direct relationship with the firm managers. The earning transparency can considerably decrease the difficulty of informational imbalance between these groups by the abundance of financial reports publications. The profitability and liquidity are two main factors which attract permanently the attention of financial analyzers. Some of them consider the liquidity more important than the profitability and state that one firm may can give life to its business but it's impossible without the cash. It is the dividend policy and amount of stock interest which is divided among the shareholders and it is determined with regard to the free cash of the firm. Therefore, the amount of firm free cash can be one of the factors effective on the dividend policy and dividend smoothing (Asadi & Azizi Basir, 2008).

The dividend policy is one of radical financial decisions of the firm made primarily by the board. Rozeff (1982) remarks that the organization expenditure is a potential intensive of dividend policy and the firm managers retain much liquidity for reducing the dividend and preventing from the costly external capital. With regard to the separation of ownership and control, the managers usually do not authorize the dividend payments for increasing the value of stockholders instead of their personal interests in the maximization of the wealth. The stockholders prefer the dividend payments for retaining the earnings, since the internal managers might distinguish the cash holdings in the firms. The dividend payment can pave the way for the conflict between these two anniversary groups in the firm (Bushra Sarwar et al., 2018).

The dividend policies behavior is the radical matter related to the financial theories and it is still the most salient subject in the case of investments of firm in the developed and developing markets. Many researchers have designed and studied different theories for discovering the issues related to the dividend policy dynamism, but Black (1976) adapts the dividend as a puzzle. Brealey and Myers (2005) argue that the dividend is one of the main ten unsolved problems of the investment. Lintner (1956) refers to the partial-adjustment model of corporate dividend and states that the current year earnings and past year earnings are two cofactors for the firm dividend. Then, most of the researchers have introduced their efforts and expressed the key factors which direct the dividend policy of the firm. Many concepts have recognized the debt financial provision, income criteria, free cash flow, firm development, investment opportunities, firm size, big stockholders, firm risk level and so forth as the potential participators to specify the dividend policy of the firm in the developing and developed markets (Pamil, 2010; Mehrani et al., 2011; Al-Shabibi and Ramesh, 2011; Hashemi and Zadeh, 2012; Appannan and Sim, 2011). In addition to these factors, the researchers recognized the board size, board composition, board independency, board sex, board concentration, external managers, auditing type, senior manager's authority, organizational ownership, investor's protection and stockholder's rights as the determinative factors of dividend policy under the corporate governance (Adjaoud and Ben- Amar, 2010; Abor and Fiador, 2013; Cetia-Atmaja, 2010; Erol and Tirtiroglu, 2011). Study of concept of dividend policy is so wide. But some researchers argue that the dividend policy still bothers the financial economists. Despite the wide concept published about the firms' dividend behavior, there is still an atmosphere for the perception of this matter that what factors direct the dividend payment decision. There has been accomplished no research about the study of relationship

between the board financial expertise and firms' dividend- payment behavior in the firms listed in Tehran stock exchange. The present research can help the formulation of educational frameworks for the managers. Therefore, the major research question is: what is the relationship between the board financial expertise and firms' dividend- payment behavior in the firms listed in Tehran stock exchange?

Research theoretical foundation

There expected to exist a considerable relationship between the board financial expertise and the dividend payment policy, since the board properties and dividend payment help the firms to reduce the organizational conflict. Similarly, the board financial expertise can be used as the control mechanism, since their presence in the board would be so important for analyzing the financial report of the firm to emphasize the supervisory role of the board. The theoretical relation is not still clear, since the board financial expertise and dividend payment policy can be substituted or defined. The substitution hypothesis states that the dividend payment can be used as the control mechanism. The firms with strong governance less possibly pay the dividend as a tool for reducing the organizational discrepancy. The dividend is regarded expensive due to the taxation on the dividend- payer firms and expenditures of NPV positive projects (Jiraporn et al., 2011). Therefore, the firms with strong governance less possibly pay the dividend and predict the negative relationship between the board financial expertise and dividend payment. By regarding the dividend payment as the control mechanism, they can supervise the cash management and risky behavior of the managers. Despite the substitution hypothesis, the result hypothesis states that the corporate governance and dividend payment are complement of each other. Laporta et al. (2000) revealed that the firm with better corporate governance protects its stockholders that enforces the managers to pay the dividend in order to increase the stockholder's wealth instead of using the cash for its personal interests. Therefore, the firms with better governance most probably pay the dividend and the positive relationship between the board financial expertise and dividend payment is predicted. Baker (2009) argues that, in the framework of organization problem, the main properties of the firm can affect the owners' (external stockholders) dividend payment behavior. If the firms have strong corporate governance and good investment opportunities, the managers will put less pressure on the dividend payment and the stockholders will be satisfied with the liquidity release due to non- access to the extra cash. The organization costs are increased due to the organization's wrong suppositions such as the cost of supervision on managers and managers' risk taking behavior. The supervision on managers is more costly even based on the wide ownership in the firms and the supervision on the stockholders also would be more costly and the other stockholders benefit the interests related to their costs. Therefore, the stockholders prefer the external managers for the supervision on the firm agents (managers) and use of dividend payments such as the control mechanism. The dividend payment like the control mechanism causes the firm to be supervised considerably by the capital market and the managers disagree with this approach sue to the continuous supervision by the early markets. Some of recent studies have concentrated on the board financial expertise from the perspective of many accounting scandals occurred from 1990 and a few of the researchers have studied the board financial expertise. And based on the researchers' knowledge, none of the previous researchers have concentrated on the board financial expertise as one of the contributing factors of dividend policy.

Research methodology

The present study is an applied research. The statistic population of this research includes the listed firms of Tehran stock exchange in the interval of 2013 to 2017 that have the following conditions to provide the situation for comparing them:

- 1) The firms which listed in stock exchange before the interval of 2013- 17 and do not leave that during the mentioned period.
- 2) The annual information of them has been published at the end of every year or is accessible based on the existing documents.
- 3) The financial year of the firm has been ended in 19 March and they do not change their financial year during the mentioned interval.

4) The firms work at the productive or commercial aspects and they do not belong to the banks, financial, credit and investment institutions. Regarding the mentioned conditions, 245 firms were selected as the statistic population.

For evaluating the variance of population, a pilot study was done on 15 firms selected by simple random sampling method. Ultimately, the final random sample volume has been calculated 127.

Data collection method

The data were collected by a library method and by using the documents such as the managing reports existing in the firms and notes of financial statements.

Data collection tools: the card, informational banks of stock exchange and internet were used as the research tools.

Research model

Major hypothesis: there is relationship between the board financial expertise and firms' dividend payment behavior in the firms listed in Tehran stock exchange.

Minor hypotheses

Hypothesis 1: the board financial expertise has positive relationship with the dividend payment.

Hypothesis 2: the board financial expertise has negative relationship with the dividend payment.

The dependent and independent variables and the type of relationship between them have been represented in a graphical form in the figure 1:

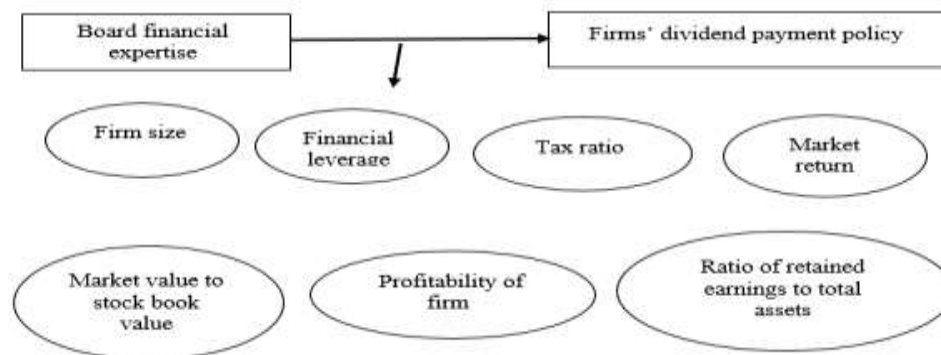


Figure 1: research conceptual model

Research equation

The purpose of present research is to evaluate the relationship between the board financial expertise and firms' dividend payment behavior in the firms listed in Tehran stock exchange. To do so, the model of Bushra Sarwar et al. (2018) is applied:

Relation (1):

$$DY_{i,t} = \beta_0 + \beta_1 DY_{i,t-1} + \beta_2 FIN + \beta_3 LnTA + \beta_4 ROA + \beta_5 Tax + \beta_6 Leverage + \beta_7 RE + \beta_8 MBV + \beta_9 MarketReturn + \epsilon_{i,t}$$

Definition of variables

$DY_{i,t}$ = dividend yield

$DY_{i,t-1}$ = dividend yield of past year

FIN = board financial expertise

LnTA: firm size

ROA = firm's profitability

Tax = ratio of income tax to total assets

Leverage = financial leverage

RE = ratio of retained earnings to total assets

MBV = ratio of market value to book value

Market return = market return

i = symbol of intended firm

t= symbol of intended year

ε = error

Categorization of variables

Dependent variable= $DY_{i,t}$

Independent variable= FI

Controlling variable= MBV, RE, Leverage, Tax, ROA, LnTA, $DY_{i,t-1}$ and Market Return

Measurement of variables

$DY_{i,t}$ = dividend yield

The dividend is the stock interest paid to the stockholders at the end of financial year. In this research, the variable of dividend yield has been used for the stock dividend. The dividend yield is equal to the cash stock dividend paid for every share during the recent twelve months that has been divided by the market price.

$DY_{i,t-1}$ = dividend yield of past year

FIN= if the board has one expertized member, it would be 1; otherwise it would be 0.

LnTA= natural logarithm of total assets

ROA= result of after tax profit divided by total assets

Tax= result of income tax divided by total assets

Leverage= ratio of long- term debts to total assets

RE= retained earnings (undivided earnings) divided by total assets

MBV= market value divided by stock book value

Market Return= the market return is the yield of market portfolio of all the transacted securities and the amount of total index has been annually extracted from the Tadbir Pardaz.

Its formula is:

Return of market portfolio= exchange index at the beginning of period – exchange index at the end of period

ε_i = error

In this research, the historical data of five- year period of 2013 to 2017 is evaluated by using the combining linear regression based on the panel data analysis.

Methods and tools of data analysis

In this study, the descriptive statistical methods including the central indexes and dissipation and also the inferential statistic such as the regression model were used.

Results

Descriptive statistic

Table 1: descriptive indexes of research variables, central indexes, dissipation and distribution form (statistical) indexes

Variable	Symbol	Number	Mean	Standard deviation	skewness	kurtosis	Maximum	Minimum
Dividend yield	DY	635	0.653	0.552	0.773	3.341	2.410	0.000
Board financial expertise	FIN	635	0.417	0.494	0.335	1.112	1.000	0.000
Firm size	LnTA	635	14.230	1.389	0.790	3.871	19.066	10.816
Firm's profitability	ROA	635	0.262	0.158	0.227	2.864	0.722	-0.200
Ratio of income tax to total assets	TAX	635	-0.020	0.028	-0.198	4.159	0.190	-0.253
Financial leverage	Leverage	635	0.639	0.206	0.731	5.682	1.788	-0.096
Ratio of retained earnings to total assets	RE	635	0.094	0.248	-0.157	6.876	0.665	-2.494
Ratio of market value to stock book value	BMV	635	0.459	0.734	-0.407	1.848	1.497	-1.097
Market return	Market Return	635	0.141	0.463	0.057	4.511	1.918	-1.761

Some concepts of descriptive statistics of variables including the mean, minimum observation, maximum observation, standard deviation, skewness and kurtosis have been represented in the table 1. Meanwhile, the central parameters are a set of descriptive parameters of a statistic distribution that express the properties of data in comparison to the distribution center. The mean as a balance point of a statistic distribution is one of the appropriate central indexes for the representation of data centrality. In the table 1-4, the number of observations of studied firms is 635 (127 firms per year). Furthermore, it is observed that the mean and standard deviation of the variables of dividend yield, board financial expertise, firm size, firm's profitability, ratio of income tax to total assets. Financial leverage, ratio of retained earnings to total assets, market value to book value ratio and market return are respectively 0.653 ± 0.552 , 0.417 ± 0.494 , 14.230 ± 1.389 , 0.262 ± 0.158 , -0.020 ± 0.028 , 0.639 ± 0.206 , 0.094 ± 0.248 , 0.459 ± 0.734 , and 0.141 ± 0.463 .

Inferential statistics

Data analysis

In this section, the following model is evaluated by using the panel data method.

First model:

$$DY_{it} = \alpha_0 + \beta_1 DY_{it-1} + \beta_2 FIN_{it} + \beta_3 SIZE_{it} + \beta_4 ROA_{it} + \beta_5 TAX_{it} + \beta_6 Leverage_{it} + \beta_7 RE_{it} + \beta_8 BMV_{it} + \beta_9 Market\ Return_{it} + \varepsilon_{it}$$

Where; i is the number of firms and t is indicative of the interval 2013 to 2017.

The Kolmogorov–Smirnov test has been used for evaluating the normality of distribution of major variables in the research. The test results have been represented in the table 2.

Table 2- Testing normality of major variables of research

Variable	Kolmogorov–Smirnov statistics	P value*
Dividend yield	1.082	0.193
Board financial expertise	0.987	0.651
Firm size	1.163	0.212
Firm's profitability	0.957	0.611
Ratio of income tax to total assets	1.168	0.214
Financial leverage	0.794	0.816
Ratio of retained earnings to total assets	2.106	0.061
Ratio of market value to stock book value	1.398	0.401
Market return	0.949	0.328

*p- value (significance)

Before interpreting the results of table 2, it is worth mentioning that if the p- value of variables be more than the significance level (0.05), it is concluded that that variable has a normal distribution. Therefore, with regard to this matter, the results of Kolmogorov–Smirnov test in the scores of all variables is more than 0.05 and it is concluded that the distribution of all the variables is normal.

Furthermore, the value of Durbin- Watson statistics has been obtained 2.217. It indicates that the assumption of non- existence of self- correlation as one of errors of the models used in the research is accepted.

Model detection test (Chow test)

Before estimating the models, it should be recognized that it is required to regard the structure of data panel (differences or specific effects of firms) or the data related to different firms can be combined by the Pooling method and be used in the model estimation. In single- equation estimations, F- Limer test statistic is used for decision making. In this test, the hypothesis H_0 represents the use of integrative Pooling data method against the hypothesis H_1 , i.e. use of panel data.

Hypothesis H_0 : the pooling data method is appropriate.

Alternative hypothesis: the panel data method is appropriate.

Table 3- Results of F- Limer test for research model

Test statistics	Freedom degree	P value		Result
1.914	499.126	0.000		Use of panel data

As it is observed in the table 3, the hypothesis H_0 of the research about the equality of all the specific effects of the firms in the research model is rejected ($p < 0.05$). It means that the research model cannot be estimated by combining the data related to the studied firms by pooling method can the panel data method can be used. In other words, the efficiency of model evaluation is revealed by using the panel data for 127 firms listed in Tehran stock exchange.

Model type detection test (Hausman model)

The results of F-Limer test revealed that the panel data method should be used for evaluating the intended models. To continue, Hausman test is used for the recognition of appropriate method for the panel data models (fixed effects model or random effects model). In this test, the hypothesis H_0 is indicative of appropriateness of random effects model and the rejection of H_0 is indicative of efficiency of fixed effects model for the estimation of research model.

Hypothesis H_0 : the random effects model is appropriate.

Alternative hypothesis: the fixed effects model is appropriate.

Table 4- Results of Hausman test for research model

Test statistics	Freedom degree	P value	Result
7.386	9	0.597	Use of random effects model

As it is observed in the table 4, the hypothesis H_0 about the efficiency of random effects model on the studied firms is not rejected ($p > 0.05$). In other words, the results are indicative of confirmation of random effects against the fixed effects. Therefore, the research model for 127 firms listed in Tehran stock exchange should be estimated by the random effects method.

Testing hypotheses

Table 5- Results of study of partial coefficients of first model

Dependent variable: dividend yield					
$DY_{it} = 0.596 + 0.001DY_{it-1} - 0.002FIN_{it} + 0.015SIZE_{it} + 0.085ROA_{it} + 0.276TAX_{it} - 0.248Leverage_{it} + 0.254RE_{it} - 0.057BMV_{it} - 0.123MarketReturn_{it} + \varepsilon_{it}$					
Variables	Symbol	Coefficients	Statistics	Probability	Result
Fixed coefficient	C	0.596	2.494	0.013	Meaningful
Yield of last year dividend	DYt-1	0.001	4.141	0.000	Meaningful
Board financial coefficient	FIN	-0.002	-2.296	0.022	Meaningful
	LnTA	0.015	3.327	0.001	Meaningful
Firm size	ROA	0.085	3.118	0.002	Meaningful
Income tax to total assets	TAX	0.276	0.263	0.792	Not confirmed
Financial leverage	Leverage	-0.248	-2.345	0.019	Meaningful
Retained earnings to total assets	RE	0.254	1.368	0.172	Not confirmed
Stock market value to book value	BMV	-0.057	-2.038	0.042	Meaningful
Market return	Market Return	-0.123	-2.223	0.027	Meaningful
Durbin- Watson statistics	2.217			0.000	
Statistic F	5.478				
Modified determination coefficient	0.203				
Determination coefficient	0.319				

Study of model validity and power

F test: if there is no relationship between the dependent variable and the independent ones in a multivariate regression equation, all the coefficients of independent variables in the equation should be equal to zero. Therefore, the meaningfulness of regression equation should be tested. This is done by using F statistics. As it is observed in the table (4-11), amount of F statistics and significance level of this statistics, the statistic hypothesis H_0 that is the meaninglessness of total model (being zero of all the coefficients) is rejected and the evaluated regression model is generally meaningful.

Determination coefficient R^2 : it is a criterion that interprets the relationship between the dependent variable and independent variables. The amount of this coefficient indicates that how many percentage of dependent variable changes is explained by the independent variables. In this model, the determination coefficient is 0.319. It means that %31.9 of dependent variable changes can be explained by the independent variables.

Modified determination coefficient: this coefficient is not equal to the determination coefficient. Probably, the existence of extra variables can be the reason of existence of difference between the determination coefficient amount and the modified determination coefficient that cause the false reduction of determination coefficient by the meaningful effect on the dependent variable.

Study of remaining's validity

Self- correlation: the study of self- correlation between the error statements is done by using Durbin-Watson statistic. The obtained statistic is in the domain of 1.5 and 2.5 that is indicative of lack of self-correlation between the model errors.

Results

T test: with regard to positive amount of regression coefficient of board financial expertise, it is concluded that the board financial expertise has negative (reverse) relationship with the dividend yield in the firms listed in Tehran stock exchange ($p < 0.05$). Therefore, the first hypothesis is rejected and the second hypothesis of research is confirmed.

The results reveal that the t values is located in the domain of rejection of H_0 for all the variables except the income tax to total asset ratio and the income tax to total assets. It means that all the variables except the mentioned variables are meaningful in the model. The results of controlling variables reveal that the yield of last year dividend, firm size and assets return have meaningful and positive effect on the dividend yield and the variables of financial leverage, book value to market value ratio and market return have negative and meaningful effect on the dividend yield.

Conclusion

The present research aimed at investigating the relationship between the board financial expertise and dividend payment behavior of the firms listed in Tehran stock exchange. The obtained results are represented as following:

First hypothesis: the board financial expertise has positive relationship with the dividend payment behavior.

The coefficient of variable of board financial expertise is equal to -0.002 ($t = -2.296$) with the significance level of 0.022 that is less than 0.05 (test error level).

Furthermore, the coefficient of controlling variables of firm size is equal to 0.015 with the significance level of 0.001 that is less than 0.05 (test error level). The coefficient of variable of firm's profitability is equal to 0.085 with the significance level of 0.002 that is more than 0.05 (test error level). The coefficient of variable of income tax to total asset ratio is equal to 0.276 with the significance level of 0.792 that is more than 0.05 (test error level). The coefficient of variable of financial leverage is equal to -0.248 with the significance level of 0.019 which is less than 0.05 (test error level). The coefficient of variable of retained earnings to total assets is equal to 0.120 with the significance level of 0.0510 which is more than 0.05 (test error level). The coefficient of variable of net cash flows is equal to 0.254 with the significance level of

0.172 which is more than 0.05 (test error level). The coefficient of variable of market value to book value ratio is -0.057 with the significance level of 0.042 that is less than 0.05 (test error level). The coefficient of variable of market return is equal to -0.123 with the significance level of 0.027 that is less than 0.05 (test error level).

Therefore, with regard to the results of statistic t and significance level, and also the negative coefficient of variable of board financial expertise, it is revealed that the board financial expertise does not have positive relationship with the dividend payment and the first hypothesis of the research is rejected at the confidence level of 95 percent.

Second hypothesis: the board financial expertise has negative relationship with the dividend payment behavior.

The coefficient of variable of board financial expertise is equal to -0.002 ($t = -2.296$) with the significance level of 0.022 that is less than 0.05 (test error level).

Furthermore, the coefficient of controlling variables of firm size is equal to 0.015 with the significance level of 0.001 that is less than 0.05 (test error level). The coefficient of variable of firm's profitability is equal to 0.085 with the significance level of 0.002 that is more than 0.05 (test error level). The coefficient of variable of income tax to total asset ratio is equal to 0.276 with the significance level of 0.792 that is more than 0.05 (test error level). The coefficient of variable of financial leverage is equal to -0.248 with the significance level of 0.019 which is less than 0.05 (test error level). The coefficient of variable of retained earnings to total assets is equal to 0.120 with the significance level of 0.0510 which is more than 0.05 (test error level). The coefficient of variable of net cash flows is equal to 0.254 with the significance level of 0.172 which is more than 0.05 (test error level). The coefficient of variable of market value to book value ratio is -0.057 with the significance level of 0.042 that is less than 0.05 (test error level). The coefficient of variable of market return is equal to -0.123 with the significance level of 0.027 that is less than 0.05 (test error level).

Therefore, with regard to the results of statistic t and significance level, and also the negative coefficient of variable of board financial expertise, it is revealed that the board financial expertise can reduce the dividend payment. Accordingly, it can be said that the board financial expertise does not have positive relationship with the dividend payment and the first hypothesis of the research is rejected at the confidence level of 95 percent.

These findings correspond to the findings of Amini (2018), Jameei and Rostamian (2016), Rezaei (2015), Delavari et al. (2013), Banimahd and Asghari (2011), Ahmadi and Emamalizadeh (2011), Izadinia and Alinaghian (2011), Bushra Sarvar et al. (2018), Asif et al. (2011) and, Al-najar and Hosseini (2010).

With regard to the obtained results and this matter that the board financial expertise is of special importance in the economic decisions of stockholders and other beneficiaries, the analyzers and managers of the firms are suggested to consider the dividend policies. The exact study of predicted financial statements in the companies can provide appropriate tools for increasing the perception of profitability process in the organization.

Finally, for further studies, the future researchers are suggested to evaluate the relationship between the ownership structure and board composition and the firms' dividend payment behavior in the firms listed in Tehran stock exchange. In addition, it is suggested to study the relationship between the corporate governance structures and the firms' dividend payment behavior in the firms listed in Tehran stock exchange.

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