Dividend policy, agency costs and board independence

Allam Mohammed Hamdan

Accounting and Economics Department,
Ahlia University, Bahrain
Email: allamh3@hotmail.com

Abstract: This study aims to investigate the moderation role of board independence on the relationship between dividend policy and agency costs. We develop a formal model of a firm that chooses a dividend to minimise the sum of its agency costs of paying dividends with the role independent outsiders board members. The study used panel data with random-effect model for 237 firms from four Gulf Cooperation Council (henceforth, GCC) countries: Bahrain, Oman, Saudi Arabia and United Arab Emirates for a period of 13 years from 2003–2015. We find that dividends are positively related to asset utilisation, the GCC firms resort to dividend policy in order to reduce free cash flow, eventually reducing agency costs. Furthermore, the findings revealed that the inclusion of board independence as a moderating variable has influenced positively the relationship between dividend policy and reducing agency costs.

Keywords: dividend policy; board independence; GCC countries; agency costs.