

## **Paper # 10**

### **Do Bahraini Companies use the Dividend Policy to Reduce Agency Costs?**

#### **Abstract**

This study aims at investigating to which extent do companies listed in Bahrain Bourse use dividend policy to lower agency costs. The study used panel data and random-effect model for (31) Bahraini companies in a period of (13) years from (2002-2014). As expected in emerging markets where corporate governance and investors protection are low, Bahraini companies use dividend policy to lower free cash flow to reduce agency cost. Market value was found to have a positive effect on lowering agency cost meanwhile company size and age where of a negative effect on lowering agency cost as Bahraini companies with bigger sizes and longer ages lacked the monitoring instruments on management behavior to reduce agency costs. Regarding financial leverage, creditors had a positive role but not effective in monitoring management to best use assets which will lead to lower agency costs.

**Keywords:** Dividend policy; Agency theory; Agency costs; Bahrain Bourse.