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Dividend Policy of Russian Companies: Impact of Board of Directors

Polina Schukina
Employee of the Department of Finance and Credit,
Lomonosov Moscow State University, Faculty of Economics, Moscow, Russia,
polina.schuckina@yandex.ru, ORCID

Ashot Mirzoyan
Senior professor, Department of Innovation Economics
Lomonosov Moscow State University, Faculty of Economics, Moscow, Russia
kell56@yandex.ru, ORCID

Anastasiia Galich ✉
Employee of the Department of Finance and Credit,
Lomonosov Moscow State University, Faculty of Economics, Moscow, Russia,
nastyagalich02@mail.ru, ORCID

Abstract

The purpose of this study is to examine the relationship between corporate governance and dividend policy of Russian companies based on two theoretical models: the outcome model and the substitution model, which imply the opposite nature of the relationship between corporate governance and dividend payments. The main characteristics of the board of directors as a key mechanism of corporate governance are considered: women representation on the board, independence of the board, the share of directors with foreign experience, frequency of meetings, permanence of the board composition, the average tenure of board members, concurrent independent directors and CEO duality. The novelty of the study lies in analyzing a wide range of characteristics of the boards of directors of Russian public companies whose shares are traded on the Moscow Exchange. Using a sample of 31 Russian companies for the period from 2010 to 2022, fixed-effects regression models showed that the women representation on the board of directors, concurrent independent directors and permanence of the board composition are positively related to dividend payments of Russian companies. No significant relationship was found between dividend payments and such corporate governance characteristics as board independence, the share of directors with foreign experience, frequency of board meetings, and the CEO's membership in the board of directors. This may indicate the specifics of governance in Russian companies, where a high concentration of majority shareholders and government involvement may limit the influence of independent management bodies. The results of the study may be useful for company managers, investors and regulators to optimize corporate governance and make decisions regarding dividend policy.

Keywords: corporate governance; board of directors; dividend payments; company; outcome model; substitution model

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Introduction

There are several reasons for which corporate governance attracts increasing attention of the global community, and they range from international economic integration to social and ethical problems. Due to capital markets' globalization companies are forced to adjust to corporate governance regulatory standards and expectations of the global investor community related to the ESG agenda, and this has a direct impact on stock returns [1].

Agency theory holds that there is a conflict of interests between shareholders and managers of the company [2]. Managers are not interested in paying dividends because they have an opportunity to apply funds towards personal privileges or prefer to reinvest profits in the projects which strengthen their control and influence on the company, even if shareholders will not gain high profits from such projects. Sound corporate governance is important in defusing the agency conflict and protecting shareholder interests. Dividend payments function as a mechanism of agency costs reduction by means of limiting the cash flow which managers may use at their sole discretion [2; 3].

There are two theoretical models which explain the relationship between corporate governance and dividend payments: the outcome model and the substitution model. They implicate existence of a positive and negative relationship, respectively [4]. Companies with well-developed corporate governance are disposed to higher dividends [4]. This is in line with the outcome model which states that well-developed corporate governance allows shareholders to exercise their rights in order to force management to pay dividends, thus, precluding managers from taking advantage of corporate funds. On the contrary, in companies with weaker corporate governance dividends may function as a substitute mechanism compensating for shortcomings in the corporate governance system. This is consistent with the provisions of the substitution model.

The authors of empirical studies obtain mixed results: some studies discover substantiation for the provisions of the outcome model [4–8], others – of the substitution model [9–11]. Consequently, there becomes relevant the research aimed to determine which model describing the relationship between corporate governance characteristics and dividend payments prevails in the Russian market.

Previous studies of the Russian market which address the relationship between corporate governance and dividend payments were mainly focused on analyzing joint-stock companies for earlier periods. So, the papers by Ambardnishvili et al. [12], Nazarova and Emelyanova [13] covered the period of 2009–2012 and 2015–2017, respectively, while Larin et al. [14] studied dividend payments of public companies for 2016. The paper by Belous [15] studies dividend policy of Russian companies under the sanctions imposed by the US and EU against the companies' board of directors and CEO. In the research by Ershova et al. the ownership structure expressed in terms of the share which belongs to the government and private business is considered a factor of corporate governance [16]. The authors reveal that influence of the ownership structure on Russian companies' dividend policy manifests itself only during external economic shocks [16].

There are two aspects of the novelty of the present research. First, we study public companies listed on the Moscow Exchange whereas the majority of previous studies were focused on joint-stock companies which did not go on to IPO [12; 13]. The difference of listed public companies from other joint-stock companies consists in more stringent requirements to information disclosure, composition of the board of directors and corporate governance structure. Public companies have to comply with regulatory standards of corporate governance, ensure transparency of financial statements and take into consideration interests of a wide range of minority shareholders. Unlike public companies non-listed joint-stock companies may have a limited number of owners and lower transparency. Second, we analyze a wider set of the board of directors' characteristics than previous studies of Russian companies. Due to adding supplementary characteristics of the board of directors we may gain a more comprehensive view of its composition and functioning.

Corporate governance is a system of mechanisms used by stakeholders to control the corporation management ensuring protection of their interests [17]. Amidst ownership separation and control there arises a need for the tools to supervise the management. The board of directors plays the key role in this process acting as the main mechanism for monitoring and control of managers' actions in the shareholders' interests [17]. As long as shareholders do not dispose of sufficient resources and incentives to control independently the management this function is delegated to the board of directors. The board of directors (BD) is the key mechanism of corporate governance which balances interests of managers and shareholders as well as transparency and accountability of the company to the investors and regulatory authorities [17–19]. Acting as a supervisory body the board of directors plays an essential role in shaping dividend policy including defining the share of net profit to be distributed among the shareholders and has the right to recommend the amount of dividend payout to the general meeting of shareholders. Dividend policy is the key instrument of corporate governance, it influences the company's investment attractiveness and ensures a balance between shareholders' and managers' interests [20]. The present research considers the relationship between the principal characteristics of the board of directors (women representation on the BD, number of the BD meetings, independence of the BD, share of directors with foreign experience on the BD, permanence of the BD composition, share of concurrent independent directors, CEO duality) and dividend payments in 31 Russian companies for 2010–2022. As a result of constructing regression models with fixed effects it was revealed that most of the studied corporate governance characteristics were positively associated with an increase in dividend payments in Russian companies. This result may support partially the outcome model. We are also the first to study the relationship between permanence of the BD composition and dividend payments of Russian companies and we find out that a more stable BD composition is related positively to the amount of company's dividend payments.

The paper consists of three sections. In the first one we conduct a survey of the studies which interconnect corporate governance characteristics with dividend payments. On the basis of the review the research hypotheses are generated. The second section describes the data and methodology of the research. The third section presents the modeling results and discussion.

Literature Review

Literature identifies two models of the relationship between corporate governance and dividend payments – the outcome model and substitution model [4] which imply existence of a positive and negative relationship, respectively.

According to the outcome model dividend payments are a result of strong protection of shareholders' interests [4]. Corporate governance is a set of mechanisms aimed at ensuring for the investors a certain return on capital employed [21; 22]. Corporate governance is aimed at securing the shareholder rights as well as control over decision-making processes and actions of managerial staff [7]. In case of highly protected rights minority shareholders exercise their powers to force companies to pay dividends, thus, precluding managers and controlling shareholders from use of corporate cash flows to their own advantage [4; 23; 24]. Shareholders may vote for directors who support certain dividend policy; provide a stricter control over the corporation making it less attractive for managers to retain excess cash flows; file lawsuits against the companies spending excessive amounts on the operations beneficial only for the managers [4]. Dividend payments protect investors from expropriation by management and principal shareholders: the stronger corporate governance the better the rights of minority shareholders are secured and the greater the amount of dividends paid by the company.

As per the substitution model dividend payments act as a substitute mechanism of legal protection and a compensation for shortcomings in the corporate governance system. Companies with weak corporate governance pay dividends to develop a positive reputation with shareholders in order to raise capital on beneficial terms in the future [4]. In the countries with poor legal protection of minority shareholders it is of particular importance because dividends are the key mechanism for mitigation of the risk of shareholders' resource expropriation by managers [4]. Dividend payments defuse the conflict of interests between managers and shareholders compensating for drawbacks of corporate governance [11; 25]. Unlike the outcome model the substitution model implies a negative relationship between the corporate governance quality and dividend payments.

Thus, there are two concepts: the outcome model implicating a positive relationship between the corporate governance quality and dividend payments and the substitution model implying a negative relationship with dividend payments. The research issue of the present paper is: which model prevails in the Russian market – is there a relationship between high dividend payments and highly developed corporate governance or do they serve as a mechanism for compensation of its drawbacks?

Previous studies performed in the Russian market mainly supported implications of the outcome model [12–14; 26]. Therefore, hypotheses of the present research are put forward premised on the results of the outcome model.

The board of directors is an important part of corporate governance and plays a critical role in shaping the corporate strategy and decision-making in a company. The upper echelons theory postulates that personal characteristics and experience of top managers and directors produce a significant impact on strategic decisions and, consequently, on the company performance [27]. Proceeding from this, the assumption is made that the efficiency of control over management depends on the composition of the board and characteristics of its members [28].

The principal BD characteristics which determine the corporate governance quality are: the frequency of BD meetings [5; 29], independence of BD members [30], women representation on the BD [31; 32], share of directors with foreign experience on the BD [33], permanence of the BD composition [8], concurrent independent directors [8] and CEO duality [34].

Regularity of the Board of Directors' Meetings

Regular meetings help the BD to control the company operations and take informed decisions [35–37]. More frequent BD meetings tighten monitoring of managers' activity and boost shareholders' confidence in protection of their interests. This results in lower agency costs [38]. Regular meetings may enhance the board of directors' efficiency, besides, the frequency of meetings is an indicator that directors fulfill their duties [39].

Most previous studies are focused on examining the relationship between regularity of meetings and corporate financial performance [38; 40-45]. In spite of empirical confirmation of significance of the board meetings' regularity for corporate governance, compliance with regulatory requirements and improvement of corporate financial performance [46; 47] empirical data concerning the relationship between the frequency of meetings and dividend payments are still contradictory. Some studies, for example, the ones examining emerging markets of Eastern Asia [5] and Saudi Arabia [29] detect a positive relationship between the number of the board meetings and dividend payments (the outcome model). In the markets of the UK [37], Sri Lanka [48] and Malaysia [9] a negative relationship was found (the substitution model).

Thus, we presume that more frequent meetings of the board of directors drive improvement of the corporate governance quality because they provide an opportunity to respond timely to changes in the company improving control over management activities and reducing information asymmetry. This makes decision-making more transparent and efficient.

Hypothesis 1. The frequency of meetings of the board of directors has a positive relationship with dividend payments of Russian companies.

Independence of the Board of Directors

Independence of the BD is measured as the share of independent directors in the total number of BD members [49]. In Russia a director is considered to be independent if he has no relations with company's contractors, competitors or the government. The Bank of Russia recommends companies to have the boards of directors represented by independent directors at least by one third and also encourages to assess independence of the board of directors' members on a regular basis.

Inability to serve the shareholders' and company interests may undermine the directors' reputation. Therefore, independent directors have a stake in controlling the actions of managers in order to keep up their public reputation [50]. This also helps them to avoid potential lawsuits and retain their position on the board of directors [51; 52]. Greater board independence improves internal control and makes management more disciplined. As a result, protection of shareholder interests improves and agency costs decrease [8].

A lot of studies confirm the outcome model: independence of the board is positively associated with dividend payments both in the emerging market of Australia [53] and Sri Lanka [48] as well as in the US market [8; 54]. Nevertheless, some studies detect a negative relationship, and this is in line with the conclusions of the substitution model: if independent directors have proper authority to control managers' activity it is not so necessary to pay dividends as a means of protecting shareholders from misconduct of the management [5; 29; 37; 55–58].

On the basis of a sample of Russian companies for 2015–2017 provisions of the outcome model were confirmed: the share of independent directors on the board has a positive relationship with the payout ratio in partially government-owned companies [13]. When independent directors are disinterested they have an opportunity to protect the shareholders' interests more often while making their decisions.

Thus, we presume that a larger share of independent directors on the board improves the corporate governance quality in the company because independent directors ensure objective control of the management, thus, reducing agency costs and protecting the shareholders' interests.

Hypothesis 2. The share of independent directors on the board has a positive relationship with dividend payments of Russian companies.

Women Representation on the Board of Directors

Literature provides no consensus of opinion concerning the influence of women representation on the corporate governance quality [59]. On the one hand, a larger share of women on the board drives implementation of various ideas, prospects and experience in the decision-making process [37], as a result, this process may be improved and agency costs – reduced [60; 61]. Female directors are more likely to abide by law, they are more susceptible to ethical issues and are less risk-prone [62], and this provides better control over managers' activities [63]. Female directors pay more attention to corporate reputation and shareholder interests [62]. Studies suggest that companies with a large share of women on the board of directors pay larger dividends and this is in line with the conclusions of the outcome model [31; 48; 64-68]. On the basis of a sample of Russian companies for 2015–2017 we also confirmed the outcome model: the probability of dividend payments in Russian companies is higher if there are women on the board of directors [13]. However, conclusions of the substitution model are also empirically confirmed: the share of women on the board of directors turns out to be negatively associated with dividend payments of companies in India, China, Russia [32] and Indonesia [69].

On the other hand, some studies suggest that women's membership in the board of directors does not preclude accounting abuses or reduce agency costs [70; 71]. Probably, this is due to the fact that a large share of women on the board may complicate decision-making because they have different approaches and management style, and this potentially impedes coordination among the board members [72]. Besides, when women are appointed directors of the board as a mere formality for the sake of regulatory compliance rather than based on their competence level women's influence on corporate governance may be limited [72].

In spite of differing perspectives in literature we proceed from the assumption that an increase in the number of women on the board of directors results in improvement of the corporate governance quality driving implementation of various ideas and experience in the decision-making process, enhancing compliance with ethical standards and respect of the shareholders' interests as well as tightening control over managers' activity.

Hypothesis 3. Women representation on the board of directors has a positive relationship with dividend payments of Russian companies.

Directors with Foreign Experience

Directors with foreign experience on the board of directors facilitate implementation of corporate governance best practices, especially in the countries with weak protection of investors' rights [33; 73]. An increase in the share of directors with foreign experience speeds up renewal of the BD management practices [73]. An increment in the share of directors with foreign experience on the BD strengthens corporate governance by improving the monitoring of management's activity by the BD [74] and supports protection of shareholders' rights and interests [33]. The majority of studies reveal a positive relationship between the share of directors with foreign experience in the total number of the board members and dividend payments [33; 75-79]. Besides, based on the sample of Russian companies for 2015-2017 no significant relationship between the payout ratio and the share of directors with foreign experience was detected [13].

Thus, we assume that a large share of directors with foreign experience drives improvement of the corporate governance quality, implementation of best practices and strengthening of protection of shareholder interests.

Hypothesis 4. The share of directors with foreign experience on the board has a positive relationship with dividend payments of Russian companies.

Permanence of the Board Composition

It is pointed out that in case of resignation of directors with long tenures on the board a company loses their accumulated experience and knowledge which are important for monitoring of the managerial activity [80]. Director's tenure is an important factor which determines the quality of his work performance because it allows him to accumulate more experience and knowledge [81]. When the composition of the board of directors changes the monitoring of managerial activity may weaken for some time. Directors with short tenures and limited experience perform monitoring and consulting less effectively because they lack knowledge about the company business and history [68]. Companies with serious board members' turnover are more likely to face misconduct and incur higher agency costs [82]. A more stable board of directors controls the CEO's and the entire management's activity better [82]. Thus, stability of the board composition characterized by its relative unchangeability over time ensures better control over managerial activity and reduces agency costs [8]. In this paper permanence of the board of directors is understood as the share of directors who remained on the board in comparison to the previous year.

Thus, we presume that permanence of the board of directors facilitates better control over managerial activity and reduces agency costs ensuring experience and knowledge accumulation necessary for efficient monitoring.

Hypothesis 5. Permanence of the board of directors has a positive relationship with dividend payments of Russian companies.

Concurrent Independent Directors

There is no consensus of opinion in literature concerning the influence of independent directors' busyness on the corporate governance quality. On the one hand, the more boards a director participates in the stronger his reputation is because this testifies to recognition of his expertise and competence in the external market [83]. Directors who hold several positions have a better idea of various managerial strategies and business models and, consequently, have an opportunity to control the management and take decisions better [84]. The results of empirical studies show that concurrent independent directors may improve the quality of corporate governance and financial performance of the company [85; 86].

On the other hand, it may be difficult for a concurrent independent director to distribute his time and attention between different responsibilities [87]. Highly occupied directors reduce their efforts for monitoring of managerial activity in each company [88; 89], consequently, managers' misconduct becomes likelier and agency costs grow [90]. Weak corporate governance is characteristic of the companies with the majority of external directors who are simultaneously BD members in two or more companies [91]. Empirical studies detect a negative relationship between concurrent directors and dividend payments [8; 90]. In this paper concurrent directors are understood as the share of directors who occupy the position of an independent director in several companies [8].

We proceed from the assumption that a large share of concurrent directors on the board lessens control over managerial activity and results in a decline in the corporate governance quality.

Hypothesis 6. The share of concurrent independent directors has a negative relationship with dividend payments of Russian companies.

Concurrent Service as the CEO and Chairman of the Board of Directors

In case of concurrent service as the CEO and chairman of the board of directors the director obtains significant control and the ability to turn down proposals of other directors [47]. Such duality of positions changes the functioning of the board of directors for the worse and softens control significantly, thus, accumulating power in the hands of the CEO [92]. As a result, the CEO gets more opportunities to pursue his own interests at the shareholders' expense, and this increases agency costs [34; 67].

The results of empirical studies are controversial: some of them confirm provisions of the outcome model and reveal a negative relationship between CEO duality and dividend payments [29; 56; 93-95] while others detect confirmations of the substitution model and find out a positive relationship with dividend payments [5; 31; 32; 65; 96].

In the Russian Federation combining positions is prohibited legislatively: according to Federal Law No. 208-FZ of 26.12.1995 as amended on 25.12.2023, a person who performs functions of the sole executive body cannot be at the same time the chairman of the company board of directors. (supervisory board)[1]. In this paper we consider concurrent service as the CEO and a board director. CEO's membership on the board of directors casts doubt on independence of the board and may result in significant concentration of power and loosening of control of the management.

Thus, we presume that concurrent service as the CEO and chairman of the board of directors in the same company weakens control over the management because it concentrates power in the hands of the same person impairing effectiveness of the board of directors. This raises the risks of decisions which favour the CEO at the shareholders' expense, thus, increasing the agency costs and degrading the quality of corporate governance.

Hypothesis 7. CEO's membership on the board of directors of the same company has a negative relationship with dividend payments of Russian companies.

Data

In the research we use data on 31 public companies from the Russian stock market for 2010–2022. The lower limit of this time interval is related to recovery from the global financial crisis of 2008-2009 while the upper limit (2022) – to the latest available reports of the company. The following restrictions of the sample have been applied:

- Companies were included in the Moscow Exchange Index on a regular basis (over 4 times within the considered time horizon);
- Within the considered period companies paid dividends at least once (3 companies were eliminated from the sample based on this criterion);
- For each company ordinary dividends are considered;
- Financial companies are eliminated.
- The sources of data are corporate annual reports, appendices to them and financial statements (IFRS).

Methodology

In this paper the logarithm of dividends per share is the dependent variable [97-100]. We use two model specifications: the one with the variables characterizing the BD in the current period (formula (1)) and the one with the lagged variables characterizing the BD (formula (2)). Year and company fixed effects are used in all models.

$$\begin{aligned}\ln(\mathrm{DPS}_{it}) &= \beta_1 + \beta_2 \mathrm{ROA}_{it} + \beta_3 \mathrm{Stage}_{it} + \beta_4 \mathrm{CAPEX}_{it} + \\ &+ \beta_5 \ln(\mathrm{Assets}_{it}) + \beta_6 \mathrm{Debt}_{it} + \beta_7 \mathrm{G}_{it} + \beta_8 \mathrm{Women}_{it} + \\ &+ \beta_9 \ln(\mathrm{Meet}_{it}) + \beta_{10} \mathrm{Age}_{it} + \beta_{11} \mathrm{Exp}_{it} + \beta_{12} \mathrm{Foreign}_{it} + \\ &+ \beta_{13} Ind_{it} + \beta_{14} Perm_{it} + \beta_{15} Comb_{it} + \beta_{16} CEO_{it} + \\ &\beta_{17} Size_{it} + \sum_{k=1}^{K-1} \alpha_k d_{ki} + \sum_{t=1}^{T-1} \gamma_t Time_t + \varepsilon_{it}, \quad (1)\end{aligned}$$

$$\begin{aligned}\ln(DPS_{it}) &= \beta_1 + \beta_2 ROA_{it} + \beta_3 Stage_{it} + \beta_4 CAPEX_{it} + \\ &+ \beta_5 \ln(Assets_{it}) + \beta_6 Debt_{it} + \beta_7 G_{it} + \beta_8 Women_{it-1} + \\ &+ \beta_9 \ln(Meet_{it-1}) + \beta_{10} Age_{it-1} + \beta_{11} \mathrm{Exp}_{it-1} + \\ &+ \beta_{12} Foreign_{it-1} + \beta_{13} Ind_{it-1} + \beta_{14} Perm_{it-1} + \\ &+ \beta_{15} Comb_{it-1} + \beta_{16} CEO_{it-1} + \beta_{17} Size_{it-1} + \\ &+ \sum_{k=1}^{K-1} \alpha_k d_{ki} + \sum_{t=1}^{T-1} \gamma_t Time_t + \varepsilon_{it}, \quad (2)\end{aligned}$$

where DPS_{it} – dividends per share; ROA_{it} – return on assets; $Stage_{it}$ – variable of the life cycle stage; $CAPEX_{it}$ – capital expenditures to revenue ratio; $Assets_{it}$ – total assets; $Debt_{it}$ – debt to assets ratio; G_{it} – government participation share; $Women_{it}$ – women representation on the BD; $Meet_{it}$ – number of BD meetings; Age_{it} – average age of the BD members; Exp_{it} – average tenure of the BD members; $Foreign_{it}$ – share of directors with foreign experience; Ind_{it} – share of independent BD members; $Perm_{it}$ – permanence of the BD; $Comb_{it}$ – share of concurrent independent directors; CEO_{it} – binary variable taking on the value of 1 if the CEO is on the BD and 0 – otherwise; $Size_{it}$ – BD size; d_{ki} – binary variables of companies; $Time_t$ – binary variables of years; ε_{it} – random error. Index i indicates the company number, index t indicates the year; K – total number of companies; T – total number of years; $\beta_s, \alpha_k, \gamma_t$ – ratios.

Control variables

The company financial performance and corporate governance characteristics are used as control variables. Debt load is related negatively to the amount of dividend payments due to interest-bearing liabilities which reduce net income and the ability to pay dividends [5; 12; 55; 101-105]. High profitability of the company generates the profit sufficient to maintain stable or growing dividend payments [97; 106]. As capital investment increases the plowback ratio grows [107]. Companies applying more funds towards capital expenditures have on average more opportunities for growth. Profit is reinvested in business expansion and development, so the share of profit allocated to dividends decreases [107]. Companies with a high book value of assets have at their disposal more internal resources to finance investment and may allocate the free cash flow to pay dividends [108]. The stage of company's life cycle determined by the earned capital ratio (the ratio of retained earnings to equity) [109] has a positive relationship with dividend payments: companies with a high ratio (with the profit accumulated for distribution) on average pay dividends more often while firms with a low ratio as a rule do not pay dividends [109; 110].

[1] Article 66. Election of the company board of directors (supervisory board).
URL: https://www.consultant.ru/document/cons_doc_LAW_8743/33caef9cd49459da61c3eed258e7beda703c467d/ (accessed date: 03.04.2024).

Analyzing dividend payments of Russian companies it is necessary to take into consideration the share of government ownership in the corporation's capital [111; 112]. According to the regulatory requirements of the Ministry of Finance of the Russian Federation partially government-owned companies have to pay dividends of at least 50% of profit calculated as per the International Financial Reporting Standards (IFRS).

We also use the board of directors' characteristics as control variables: the average age of the board members, average tenure on the BD and BD size [76; 78; 113; 114]. With advancing age directors become more conservative, are less prone to risky strategies and more inclined to pay dividends [18]. Director's tenure is defined as the number of years when the director occupies the position of a director on the board [113; 115]. Recently appointed directors may be more interested in risky projects and investing in innovation to show instant results of their activity than in dividend payments [116; 117]. Directors with longer tenure may improve monitoring and decision-making in the company [78; 81]. Long tenure enhances the quality of control, mitigates the risk of expropriation of minority shareholders' resources and has a positive relationship with dividend payments [14]. The board size has a controversial relationship with the quality of corporate governance. On the one hand, a larger board of directors may encounter communication and coordination difficulties, and this curtails its ability to control effectively the managerial actions entailing problems with corporate governance [46]. On the other hand, in researchers' opinion, an increase in the number of board members is related to higher expertise and experience and this may reduce agency costs and improve monitoring of managerial activity [118]. Taking into consideration conflicting results of the studies concerning the relationship between the board size and the corporate governance quality we use this BD characteristic feature as a control variable and do not put forward separate hypotheses to verify the results of the substitution model and outcome model [14].

All applied variables are described in Table 2 of the appendix, descriptive statistics are indicated in Table 3 of the appendix. The multiple regression model with company and year fixed effects was used to verify the suggested hypotheses [119].

Several problems may arise when constructing models. Time-invariant or slightly time-variant variables should be eliminated from the fixed effects models. For this reason, we check the number of companies where the considered variables changed over time. Thus, the number of companies with changes in the BD size within the research period is 21, the number of companies with changes in the variable of "CEO's membership on the BD" within the research period is 12. As a result, we may use these variables for modelling. As long as correlation between random errors is possible for the same companies we use standard errors clustered by companies. Another potential problem is endogeneity brought about by the two-way cause-and-effect relationship between the dependent variable and the variables of interest. In order to solve this problem we build a model using lagged values of the variables which characterize the BD. Another potential source of endogeneity is omission of an essential variable. It is eliminated by adding control variables related to corporate dividend policy. Endogeneity may be a result of self-selection: we consider the companies which have at least once made dividend payments within the studied period. However, only 3 companies were eliminated on the basis of this criterion, so we may assume that it produces no significant influence on the modelling results.

Modelling Results

The results of modelling are presented in Table 1. Regression models revealed no significant relationship between the frequency of the board of directors' meetings and dividend payments (Table 1, Model 1). At the same time, in the model with lagged variables the coefficient preceding such variable turns out to be significant, therefore, **hypothesis 1 is partially confirmed** (Table 1, Model 2). The board of directors' meetings may be formal in nature offering to discuss routine issues and never solving major problems [120]. Frequency of such meetings may not be indicative of the actual managerial activity and quality of control over the corporate operations [46].

Table 1. Results of regression models

	ln(DPS)	
	Model 1	**Model 2**
Return on assets	5.649***	5.576***
	(0.927)	(1.417)
Life cycle stage	0.150	-0.469
	(0.269)	(0.379)
Capital expenditures/Revenue	-2.135	-4.869**
	(1.853)	(2.049)

	ln(DPS) Model 1	Model 2
Logarithm of total assets	0.749	1.128**
	(0.527)	(0.509)
Debt/Total assets	1.347*	1.491
	(0.729)	(0.960)
Share of government participation	0.549	0.004
	(0.460)	(0.646)
Women representation on the BD	3.294*	2.235*
	(1.846)	(1.237)
Logarithm of the number of BD meetings	0.162	0.449***
	(0.223)	(0.155)
Average BD age	0.013	0.039
	(0.034)	(0.048)
Average BD tenure	0.103	-0.083
	(0.063)	(0.091)
Share of directors with foreign experience	1.359	-0.578
	(0.954)	(0.793)
Share of independent directors	-0.566	0.329
	(0.799)	(0.602)
Permanence of the BD composition	1.206**	1.169*
	(0.479)	(0.689)
Concurrent service	1.973**	-0.291
	(0.863)	(1.178)
CEO's membership on the BD	0.113	0.445
	(0.182)	(0.361)
BD size	-0.001	0.011
	(0.048)	(0.090)
Number of observations	304	255
Within R^2	0.291	0.220
Adjusted Within R^2	0.245	0.157

Note: the table presents estimates of ratios of the models with company and year fixed effects. Model 2 uses lagged variables of the BD characteristics. Standard errors clustered by companies are used. *, ** and *** stand for 10%, 5% and 1% significance levels, respectively.

We have not detected a significant relationship between independence of the board of directors and dividend payments. So, **hypothesis 2 is not confirmed** (Table 1). A serious share of majority shareholders including government entities is often characteristic of Russian companies. In such cases independence of the board of directors may be formal and not necessarily cause changes in decision-making. Independent directors may lack power sufficient to introduce significant changes in corporate policy including the dividend payment issues [65; 121]. Our result disagrees with the previous research based on a sample of Russian companies for 2015–2017 which revealed a positive relationship between independence of the board of directors and the payout ratio in partially government-owned companies [13]. Most studies support the outcome model in terms of the relationship between the share of independent directors on the board and company dividend payments [8; 30; 48; 54].

Women representation on the board of directors turns out to have a positive relationship with dividend payments in both models (Table 1). This result is in line with some previous studies [13; 31; 48; 65; 66; 103]. Thus, **hypothesis 3 is confirmed**.

Growth of the share of directors with foreign experience on the board is not statistically related to an increase in dividends per share. Thus, **hypothesis 4 is not confirmed**. This result is consistent with the previous research performed in the Russian market [13]. Foreign experience may be non-applicable in the Russian market due to significant differences in the economic conditions, corporate culture and legislative characteristic features, and this limits the influence of such directors on dividend policy.

Greater permanence of the board composition turns out to be positively related to dividend payments of the company in both models and this is consistent with the outcome model [8]. Significance of the coefficient preceding the lag of the variable of permanence of the board composition confirms its influence on dividend payments. So, **hypothesis 5 is confirmed**.

The share of concurrent independent directors turns out to have a positive relationship with dividends per share [122]. At the same time, in the model with lagged variables the coefficient preceding this variable is insignificant. **Hypothesis 6 is confirmed partially**.

We have not detected a significant relationship between CEO's membership on the board of directors and dividend payments, so **hypothesis 7 is not supported**. This result may stem from the fact that CEO's membership on the board of directors in itself is not a sufficient prerequisite for lobbying someone's own interests and influencing dividend policy [8; 37; 76; 121].

The majority of revealed significant relationships between control variables and dividend payments are in line with the results of previous studies [97; 98; 109]. The sign of the coefficient preceding the variable of the debt-to-assets ratio differs from the findings of previous studies [123]. The positive relationship of the debt-to-assets ratio may be due to the company strategy aimed at an increase of debt load in order to invest in operational components of business, and potentially this drives growth of revenue and, under otherwise equal conditions, net income of the company. Consequently, the company may rise dividend payments. The coefficients preceding the variables of the average age of BD members, BD size, average tenure of BD members and share of government participation turned out to be insignificant (Table 1, Model 2) [12].

Thus, 2 out of 7 hypotheses are confirmed fully, while two hypotheses are confirmed partially. As long as we cannot assert with complete certainty that there is a relationship between women representation on the BD and concurrent independent directors and the corporate governance quality we also cannot state univocally that the outcome model is confirmed. Dividend payments of Russian companies have a positive relationship with the number of the board meetings, women representation on the board, permanence of the board of directors and the share of concurrent independent directors. Insignificance of many board of directors' characteristics as related to their influence on dividend payments may be due to high ownership concentration in Russian companies. Under such conditions the board decisions are often taken in the interests of majority shareholders who control the key aspects of corporate governance including dividend policy [20]. This may limit the influence of the board characteristics on dividend payments.

Conclusion

In the present research we consider the relationship between the principal characteristics of the board of directors as the key mechanism of corporate governance (women representation on the BD, share of directors with foreign experience on the BD, frequency of BD meetings, permanence of the BD composition, concurrent independent directors, CEO duality) and dividend payments in 31 Russian companies from 2010 to 2022. The relationship is considered from the perspective of provisions of the two following models: the outcome model and substitution model. We applied regression models with company and year fixed effects to verify the hypotheses. The logarithm of dividends per share was used as the dependent variable in the models.

The results of the models show that women representation on the BD, number of meetings, the share of concurrent independent directors and greater permanence of the board composition have a positive relationship with dividend payments of Russian companies.

This conclusion is partially in line with the outcome model which states that improvement of corporate governance characteristics is related to an increase in dividend payments. However, there is no consensus of opinion in the literature concerning the influence of women representation and concurrent independent directors on the corporate governance quality, so an unambiguous conclusion is impossible.

We have not revealed a significant relationship between dividend payments and such corporate governance characteristics as independence of the board of directors, CEO's membership on the board and the share of directors with foreign experience. This may be caused by a special nature of governance in Russian companies where high concentration of majority shareholders and government participation may curtail the influence of independent bodies on governance.

On the basis of the research results it is recommended to the companies to pay attention to providing a well-balanced composition of the board of directors including an increase in women representation and ensuring permanence of the board. The board of directors' composition and its members' characteristics may be indicative of the corporate governance level, company's commitment to shareholders' interests and may influence corporate dividend policy.

The research is limited by analysis of only one aspect of corporate governance – the board of directors' composition. Certain characteristics of the board may be indicative of the corporate governance quality just partially. Future studies may be dedicated to the corporate governance index which comprises several factors of corporate governance. So, the corporate governance quality and impact on dividend policy may be assessed more comprehensively.

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Appendix

Table 2. Variable descriptions

Designation	Description
Dividends per share	Dividends per one share
Payout ratio	Ratio of paid dividends to net income
Return on assets	Return on assets
Life cycle stage	Ratio of retained earnings to equity
Capital expenditures / Revenue	Share of capital expenditures in the revenue
Logarithm of total assets	Logarithm of the book value of assets
Debt / Total assets	Ratio of debt to total assets
Women representation on the BD	Share of women on the board of directors to the size of the board of directors
Number of BD meetings	Number of the board of directors' meetings held within a certain year
Average age of the BD	Average age of the board of directors' members
Average tenure of the BD	Average tenure of directors on the board
Share of independent BD members	Share of independent directors to the size of the board of directors
Share of directors with foreign experience	Share of directors with foreign experience to the size of the board of directors
Share of government participation	Share of government participation in the company
Permanence of the BD	Share of the directors who stayed on the board in year t as compared to year t-1
Concurrent service	Share of concurrent independent directors employed by two or more companies
CEO's membership on the BD	A dummy variable which equals one if CEO is a member of the board of directors and zero – otherwise
Size of the BD	Size of the board of directors

Table 3. Descriptive statistics of variables

	Mean	St. deviation	Min.	Quarter 0.25	Quarter 0.75	Max.
Dividends per share (RUB/share)	100	285	0	0.2	74	2,689
Payout ratio	0.055	0.049	0	0.018	0.082	0.235
Return on assets	0.09	0.08	-0.17	0.04	0.13	0.43
Life cycle stage	0.63	0.51	-1.96	0.42	0.92	2.89
Capital expenditures / Revenue	0.13	0.08	0.01	0.06	0.18	0.34
Logarithm of total assets (measured in million RUB)	13.27	1.23	10.74	12.54	13.74	17.11
Debt / Total assets	0.53	0.22	0.08	0.35	0.69	1.11
Stakeholder of government participation	0.15	0.24	0	0	0.33	0.80
Women representation on the BD	0.07	0.08	0	0	0.11	0.33
Number of BD meetings (units)	21.80	15.96	4	12	25	104
Average age of the BD (years)	52.79	6.32	37	48.4	57.2	70
Average tenure of the BD (years)	4.49	2.52	0.22	2.47	5.91	12.40
Share of directors with foreign experience	0.25	0.22	0	0	0.4	0.8
Share of independent directors on the BD	0.40	0.15	0	0.31	0.46	0.78
Permanence of the BD	0.82	0.18	0.11	0.71	1	1
Concurrent service	0.11	0.12	0	0	0.18	0.56
CEO's membership on the BD	0.83	0.37	0	1	1	1
Size of the BD (persons)	10.57	2.46	4	9	11	21

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