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Corporate governance mechanisms and dividend decisions in emerging markets: Insights from India

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Abstract: This study examines the interplay between board compensation, audit committee independence, and dividend policies among Indian firms. Drawing on agency theory and corporate governance frameworks, it investigates how executive compensation structures and audit committee characteristics influence dividend decisions, using a sample of 426 non-financial firms listed on the Bombay Stock Exchange from 2012 to 2023. Employing advanced econometric techniques, including Tobit, Probit, and Generalized Method of Moments (GMM), the research provides robust insights into governance mechanisms. Key findings reveal a positive association between executive compensation and dividend payouts, suggesting that well-structured pay packages align managerial incentives with shareholder interests. Audit committee independence also demonstrates a significant positive impact on dividend policies, emphasizing its role in enhancing financial transparency and mitigating agency conflicts. The study further identifies gender diversity and board size as critical determinants of dividend decisions, while CEO duality emerges as a negative influencer. By addressing gaps in existing literature on emerging markets, this research underscores the need for strategic governance reforms. It advocates for effective compensation frameworks and independent audit committees to bolster transparency and protect minority shareholders. The findings offer actionable insights for policymakers, regulators, and corporate leaders striving to improve governance practices and align managerial actions with shareholder value creation. This study also contributes to the broader discourse on corporate governance by highlighting the unique dynamics within the Indian regulatory and economic landscape.

Keywords: *Agency theory, Audit committee independence, Board compensation, Corporate governance, Dividend policy, Financial transparency.*

1. Introduction

Sustainable corporate governance is an emerging paradigm that prioritizes the integration of environmental, social, and governance (ESG) factors into corporate strategy and decision-making [1, 2]. Unlike traditional models focused on short-term profits, sustainable governance embraces a long-term, stakeholder-oriented approach. It seeks to balance the interests of shareholders, employees, customers, communities, and the environment [2, 3], which is particularly vital for multinational enterprises navigating complex global markets and increasing demands for sustainability compliance. At its core, sustainable corporate governance aims to create value that is not only economic but also environmentally and socially responsible, ensuring long-term organizational resilience [4]. Achieving this requires robust internal governance mechanisms and a commitment to transparency and accountability [5]. Regulatory developments such as the EU's Sustainable Finance Framework, including the EU Taxonomy Regulation and the Corporate Sustainability Reporting Directive, highlight the increasing significance of sustainability in financial and corporate reporting [6]. Firms that incorporate ESG criteria typically experience enhanced enterprise value, reduced financing

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constraints, and stronger green innovation outcomes [7]. This proactive governance strategy mitigates risks and fosters sustainable value creation aligned with societal and environmental needs [8]. As stakeholder expectations intensify, integrating ESG into governance is no longer optional; it is a strategic necessity for resilience and long-term success [9].

Institutional aspect of corporate governance in India

The institutional framework of corporate governance in India is shaped by a combination of statutory regulations, market-driven reforms, and evolving best practices aimed at aligning corporate behavior with stakeholder interests. The legal foundation is provided by the Companies Act 2013, which replaced the outdated 1956 Act to address contemporary governance challenges. This legislation introduced progressive measures such as mandatory board diversity requirements, enhanced disclosure norms, and stricter oversight of related-party transactions [10]. The Act mandates that listed companies appoint independent directors, with specific provisions regarding their tenure, qualifications, and responsibilities. For instance, independent directors are limited to serving two consecutive five-year terms, after which a three-year cooling-off period is required before reappointment [11]. The Act also establishes thresholds for board composition, requiring at least one-third of directors to be independent when the chairperson is non-executive, increasing to 50% when the chairperson is affiliated with promoters or management [10, 12, 13].

Concurrently, the Securities and Exchange Board of India (SEBI) plays a pivotal role through its Listing Obligations and Disclosure Requirements (LODR) regulations, first implemented in 2015 and subsequently amended to strengthen governance standards. The LODR framework consolidates various disclosure and compliance requirements into a unified structure, drawing inspiration from international standards such as the Sarbanes-Oxley Act while adapting them to India's market context [14, 15]. Key provisions include mandatory e-voting for shareholder resolutions, enhanced audit committee responsibilities, and stringent rules for material related-party transactions (RPTs). For RPTs exceeding 5% of annual turnover or 20% of net worth, shareholder approval via a special resolution is required, with related parties abstaining from voting [16]. The LODR amendments in 2025 further refined these requirements, introducing specific governance norms for High-Value Debt Listed Entities (HVDLEs) and lowering the materiality threshold for RPTs involving brand usage or royalty payments to 5% of consolidated turnover [15].

The regulatory architecture emphasizes board accountability through specialized committees. Audit committees, comprising a majority of independent directors, are tasked with reviewing financial statements, monitoring auditor independence, and approving RPTs [11, 13, 14]. Nomination and remuneration committees, with two-thirds independent representation, oversee director appointments and executive compensation, while risk management committees evaluate internal controls and mitigation strategies [17, 18]. These structures are designed to mitigate agency conflicts, particularly in firms with concentrated ownership, where promoter dominance can lead to minority shareholder expropriation [15, 19]. Empirical studies suggest that independent directors in such contexts often face challenges in exercising authority due to entrenched promoter influence, consistent with entrenchment theory 3. However, the regulatory push for greater board independence and committee oversight aims to counterbalance these dynamics.

Transparency mechanisms underpin India's governance framework. The Companies Act and LODR mandate detailed disclosures in annual reports, including director compensation, performance evaluation metrics, and RPT particulars [17, 20]. The 2025 LODR amendments require HVDLEs to submit semiannual RPT disclosures in prescribed formats and conduct mandatory secretarial audits for material subsidiaries. Such provisions align with the "substitution model" of governance, where robust disclosure acts as a surrogate for direct monitoring, reducing information asymmetry between insiders and investors [14]. However, the effectiveness of these measures depends on enforcement capacity. SEBI has established a monitoring infrastructure to assess compliance with Clause 49 (now subsumed under LODR), but gaps persist in consistent implementation across smaller listed entities [17, 18].

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The interplay between governance reforms and dividend policies reflects India's hybrid market characteristics. On one hand, the tunneling model posits that controlling shareholders in weak governance environments may extract rents through excessive dividends, particularly when control rights exceed cash flow rights. This resonates with evidence from Indian business groups, where pyramidal structures facilitate resource diversion. On the other hand, the outcome model suggests that stronger governance empowers minority shareholders to demand higher payouts as a check on managerial discretion. The institutional reforms since 2013 appear to tilt the balance toward the latter, with rising dividend distributions coinciding with stricter oversight mechanisms [14, 15]. Notably, the requirement for audit committee approval of material RPTs and the mandatory abstention of interested shareholders from voting create safeguards against opportunistic tunneling.

The institutional landscape continues to evolve, with recent amendments addressing emerging priorities. The 2025 LODR revisions extend governance norms to unlisted material subsidiaries of HVDLEs, mandating independent director representation and board review of significant transactions. Environmental, social, and governance (ESG) disclosures have gained prominence, with the top 1,000 listed entities required to file Business Responsibility and Sustainability Reports (BRSR) detailing carbon footprints, workforce diversity, and community engagement [10, 19]. These developments reflect a broader trend toward stakeholder capitalism, where dividend policies are increasingly evaluated alongside long-term sustainability metrics.

India's experience illustrates the challenges of transplanting global governance standards into emerging market contexts. While formal regulations align closely with developed market practices, informal norms around ownership concentration and family control persist [12, 13]. The resilience of these structures underscores the importance of contextual adaptations, such as SEBI's phased implementation of LODR requirements based on market capitalization thresholds. Future reforms may need to address latent tensions between standardized governance codes and the heterogeneous needs of India's corporate sector, particularly in balancing promoter autonomy with minority protection. The ongoing refinement of institutional mechanisms suggests a trajectory toward greater accountability, though their ultimate impact on dividend policies will depend on the interplay of regulatory rigor, market discipline, and cultural shifts in boardroom practices.

2. Literature Review and Hypothesis Development

2.1. Theoretical Review

Corporate governance mechanisms shape how firms control and direct operations. Among these, board compensation and audit committee independence are pivotal in influencing financial transparency and shareholder outcomes. Agency theory provides the primary lens to examine these constructs. It addresses the inherent conflict between managers and shareholders and emphasizes aligning executive incentives with shareholder interests. Board compensation structures influence executive behavior. Performance-linked pay is intended to encourage executives to prioritize firm value. However, excessive or misaligned incentives can create perverse motivations, encouraging short-termism or earnings manipulation. Evidence suggests equity-based compensation may compromise audit oversight when committee members hold substantial shares. This undermines objectivity, especially in reviewing financial statements [21]. When boards lack independence, self-interest may overshadow fiduciary duties, weakening governance effectiveness [22].

Audit committee independence is fundamental to oversight. Committees that maintain financial expertise and distance from management enhance credibility and accountability. Research across jurisdictions confirms that independent audit committees strengthen monitoring functions, improving transparency and curbing opportunistic behavior [23, 24]. The separation between management and oversight responsibilities fosters stronger checks and balances. The synergy between audit committees and boards also plays a central role. Studies emphasize that when audit committees collaborate effectively with boards, organizations experience better decision-making and internal controls [25].

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This synergy promotes cohesive governance practices, reduces the risk of misreporting, and enhances investor confidence.

Institutional theory supplements agency perspectives by recognizing external pressures, such as regulations and market expectations, that influence governance behavior. In developing economies, audit committees may exist primarily to project legitimacy rather than enforce oversight, limiting their effectiveness [26]. Independence and technical competence are critical to converting symbolic roles into substantive influence.

Stakeholder theory expands the discussion by recognizing that governance extends beyond shareholders. Transparency benefits a broader group of investors, regulators, employees, and society. Independent audit committees support this broader accountability by ensuring credible disclosures and preventing insider abuse [27]. Recent work emphasizes the importance of aligning board structure with sustainability goals. Effective boards integrate environmental, social, and governance (ESG) priorities into oversight functions, where audit committees act as conduits for monitoring ESG disclosures [24]. This expands traditional financial oversight into forward-looking value protection.

The tension between performance incentives and independence underscores the need for structural balance. Boards must design compensation systems that drive accountability without impairing governance integrity. Likewise, audit committee independence must be protected from erosion through financial entanglements or internal influence [28]. Theoretical integration of agency, stakeholder, and institutional perspectives reveals that board compensation and audit committee independence are mutually reinforcing governance tools. Their effectiveness lies not in isolation but in interaction when structured to maintain integrity, transparency, and strategic alignment with firm value.

2.2. Board Compensation and Dividend Policy

The connection between board compensation and dividend policy has attracted considerable interest in the realm of corporate governance literature, highlighting the dynamic interaction between managerial incentives and shareholders' interests. This review consolidates essential insights from a range of studies examining the impact of board characteristics such as composition, diversity, and independence on dividend payout decisions in various contexts.

The composition of the board plays a pivotal role in shaping dividend policy. Boshnak [29] explores how board composition and ownership structure influence the dividend payout policy of firms listed in Saudi Arabia, uncovering that a higher level of board independence is associated with a reduced likelihood of dividend payments. This finding is consistent with the substitute theory, indicating that firms with effective governance can lower agency costs, which in turn reduces the necessity for dividend distributions. Furthermore, Thompson and Manu [30] highlight that the composition of the board holds greater importance in shaping dividend payout policy compared to the characteristics of management. This underscores the vital function that independent directors serve in overseeing and influencing dividend-related decisions.

In the Indian context, Pahi and Yadav [31] observe that the involvement of non-executive directors has a detrimental impact on the dividend payout ratio, whereas an increase in board size correlates positively with it. This indicates that larger boards could potentially enhance the equilibrium between shareholder and management interests, resulting in increased dividend distributions. In contrast, Roy [32] asserts that factors related to corporate governance, such as the size of the board and the ratio of independent directors, play a crucial role in influencing dividend policy, which underscores the vital role that governance frameworks have in determining financial choices.

Research indicates a correlation between board diversity and dividend policy, suggesting that boards with varied compositions may implement distinct payout strategies in contrast to their more homogeneous counterparts. Byoun et al. [33] investigate the relationship between board diversity and payout policies, suggesting that boards with diverse members are more adept at tackling the free cash flow issue, which may result in increased dividend payouts. The findings of Muhammad et al. [34] lend credence to this perspective as they explore the connection between board diversity and dividend policy

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within Nigerian healthcare companies. Their research highlights that boards with diverse members can improve decision-making processes concerning cash distributions.

Nonetheless, the connection between board diversity and dividend policy does not consistently yield positive outcomes. Tahir et al. [35] present a nuanced analysis of the relationship between board diversity and dividend payouts, indicating that certain dimensions of diversity may strengthen governance practices, whereas others might introduce conflicts that adversely affect decisions regarding dividends. This complexity highlights the necessity for additional investigation to clarify the particular circumstances in which board diversity impacts dividend policy.

Incentives for management, especially those linked to compensation from the board, play a crucial role in influencing dividend policies. Chen et al. [36] identify a positive correlation between dividend payouts and the initial compensation of newly appointed CEOs, indicating that companies might employ dividend policies as a strategy to harmonize managerial incentives with the interests of shareholders. The findings of Ghosh and Sirmans [37] align with this observation, revealing a notable positive correlation between board independence and dividend payouts. This suggests that independent directors may promote policies aimed at increasing shareholder value, as highlighted in their research.

Furthermore, Hu and Kumar [38] investigate the connection between managerial entrenchment and payout policy, indicating that enhanced corporate governance mechanisms may result in more advantageous dividend policies by alleviating the risks tied to entrenched management, which aligns with the broader literature that posits effective governance structures can help reduce agency conflicts, thereby facilitating more optimal dividend decisions. The frequency of board meetings represents a significant factor that impacts dividend policy. Hu and Richman [39] explore the connection between the frequency of board monitoring activities and the policies surrounding dividend payouts. Their findings suggest that more frequent meetings correlate with better governance practices, which in turn positively affect dividend decisions. This is echoed by Shamsabadi et al. [40], who find a positive relationship between board meeting frequency, corporate governance, and dividend policies reinforce the idea that active boards are crucial for effective governance.

Furthermore, Ofori-Sasu et al. [41] underscore the pivotal function of the board of directors in steering dividend policies aimed at maximizing shareholder wealth. They stress that the intricacies of board structure play a crucial role in informing these financial choices, which highlights the significance of both the board's composition and its operational dynamics in shaping dividend strategies.

Existing body of research reveals a nuanced relationship among board compensation, governance frameworks, and dividend strategies. The composition of the board, the level of diversity present, the frequency of meetings, and the incentives provided to management play crucial roles in shaping decisions regarding dividend payouts. Some research indicates that independent and diverse boards can lead to increased dividend payouts, while other studies suggest that specific elements of diversity might complicate the decision-making process. A well-organized board that actively participates in governance is inclined to synchronize its dividend policies with the interests of shareholders, ultimately contributing to an increase in the overall value of the firm. Future research should continue to explore these dynamics, particularly in varying contexts and across different industries, to provide a more nuanced understanding of how board characteristics influence dividend policy.

H_1: There is a positive association between board compensation and dividend policy.
(Rationale: Higher board compensation, when structured effectively, aligns executive interests with those of shareholders, increasing the propensity to distribute dividends to mitigate agency concerns.)

2.3. Independent Audit Committee and Dividend Policy

The Audit Committee (AC) plays a crucial role in assisting boards of directors by ensuring the provision of accurate, relevant, timely, and sufficient information necessary for stakeholders to evaluate management performance and make informed decisions regarding financial reporting [42, 43]. effective accounting practices not only enhance the quality of financial reports but also influence management's decision-making processes, particularly concerning non-financial disclosures. This, in turn, helps to

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mitigate information asymmetry between management and stakeholders, including shareholders [44, 45]. Consequently, the AC serves as a vital monitoring and control mechanism designed to safeguard shareholder interests by overseeing the financial reporting process, reviewing financial statements, managing internal controls, and, more recently, addressing risk management practices [46]

One of the primary characteristics that significantly enhances the AC's ability to supervise and monitor is its independence. The demand for independence is rooted in the necessity to address asymmetric information and conflicts of interest that may arise between management and stakeholders, particularly shareholders [47]. Independent directors are better positioned to mitigate agency costs associated with financial statements prepared by management, as they can provide unbiased oversight. Kusnadi et al. [48] independence of the Audit Committee (AC) is fundamental to positively influencing the financial statement preparation process, thereby enhancing the credibility of reported financial information.

The effectiveness of an AC is further bolstered by its size and the professional expertise of its members. Studies demonstrate that larger ACs, which include members with diverse professional backgrounds, are more effective in monitoring financial reporting practices [49]. This is echoed by research that found firms with robust board and AC structures are more likely to produce accurate forecasts that positively influence market responses [50]. Additionally, the appointment of outside directors to ACs has been associated with significant positive stock returns for the companies involved, underscoring the market's recognition of the value added by independent oversight [51]. Furthermore, a positive association between AC effectiveness and overall company performance has been observed, suggesting that higher levels of independence and expertise within audit committees correlate with increased firm value [52].

The prevailing view in the literature is that the independence of AC members is closely associated with improved monitoring of the financial reporting process, which is critical for ensuring the integrity of financial statements [53]. For instance, independent AC members enhance the monitoring capabilities of the committee, thereby fostering a more transparent financial reporting environment [36]. Furthermore, the presence of financial experts on the AC can significantly enhance its effectiveness, particularly when these experts operate in an environment characterized by strong corporate governance [54]. Literature underscores the pivotal role of the Audit Committee in enhancing the quality of financial reporting and safeguarding shareholder interests. The independence, size, and expertise of AC members are critical factors that influence the committee's effectiveness in monitoring financial practices and reducing information asymmetry. As corporate governance continues to evolve, the importance of robust audit committees in ensuring transparency and accountability in financial reporting remains paramount. Another stream of research shows that increased reporting quality also increases firm performance. According to Bruynseels and Cardinaels [55], an AC provides oversight regarding the auditing process and ensures the quality of financial reporting to stakeholders. Their empirical results show that audit committee activities are positively associated with a firm's total accruals. The study of Taylor [56] examines the effectiveness of audit committee governance and its role in executing and delivering stronger skills. The results reveal that greater independence of the audit committee and competition criteria contribute to better internal control and performance. Byoun et al. [33] suggest that the emergence of corporate governance, in particular the audit committee, sheds light and hopes to improve the financial information of the institutions. Elmagrhi et al. [57] studied corporate governance and dividend policy in small- and medium-sized enterprises in the UK between 2010 and 2013. Their results reveal a positive relation between the size of both the audit committee and dividend policy. Bae et al. [58] recently explored the board reforms, audit committee independence, and their relation with the dividend policy in the context of pre- and post-reforms. Their findings corroborate the dividend outcome model, which postulates that board reforms strengthen the monitoring role of the board and empower outside shareholders to force management to disgorge dividends.

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There appears to be a lack of empirical evidence regarding the effect of audit committee independence on dividend payout policy; therefore, this represents a promising area for further research. Consequently, this study hypothesizes that independent directors on the audit committee influence dividend decisions.

H2: There is a positive association between audit committee independence and dividend policy.

(Rationale: A more independent audit committee enhances oversight and financial transparency, which supports a stronger dividend payout policy in line with the dividend outcome model.)

3. Research Methodology

3.1. Sample and Data Collection

In this section, the research design of the study is explained along with samples, variables, and techniques used for analysis. This section discusses the research design of the top 500 BSE-listed firms. The data for this study were collected manually. It was difficult to collect the data from annual reports for all listed firms. Therefore, the top 500 BSE-listed firms were selected to study the impact of board compensation and the independent role of the audit committee on dividend payout decisions. The top 500 BSE index firms have been chosen for the period of the financial year ending 2012 to 2023. Out of the total announcements made, companies with interim and special dividends more than once a year have been removed to avoid overlapping effects. Moreover, companies for which there were multiple announcements (stock dividends, financial results, rights issues, etc.) have been excluded. Companies that announced only cash dividends have been included in the final sample. Thus, the concluding sample consists of 426 non-financial firms.

3.2. Variable Measurements

Three different measures are considered as proxies for the dependent variable, namely, dividend yield, dividend payout, and dividend per share. The dividend payout decision is measured as a dummy variable, which takes the value of 1 if firms pay dividends and 0 otherwise [33, 49, 59-61]. The main explanatory variables are compensation and audit committee independence. Other important control variables include corporate governance variables, ownership variables, firm size, leverage, and profitability. The detailed description of variables is provided in Table 1.

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Table 1.
Description of Variables.

Type of Variables	Variables	Operational Definition	Abbreviations
Dependent Variables	Dividend Payout	A dummy variable takes the value of 1 if firms pay dividends, and 0 otherwise	DIV10
	Dividend Yield	Dividend paid per share/ price of the share at the end of the financial year	DIVY
	Dividend Per Share	Natural log of total dividend divided by total shares.	LDPS
Independent Variables	Board Size	Natural log of the total number of directors on the board	BS
	Independent Directors	Ratio of total non-executive independent directors to the total number of directors	IND
	Female Directors	Proportion of female directors on the board.	FDIR
	Chairman- CEO Duality	A dummy variable 1if the Chairman of the Board and CEO same person, then 1, else 0.	CEOD
	Executive Compensation	Natural logarithm of total compensation paid to executive directors.	LEXCOM
	Non-Executive Compensation	Natural logarithm of total compensation paid to non-executive directors.	LNEXCOM
	Number of Board Meetings in a Year	Natural log of the number of board of directors' meetings in a year	NBMEET
	Number of Committees	Natural log of the number of Committees in a firm	NCOM
	Audit Committee Independence	Proportion of independent directors in the Audit Committee	ACI
	Stakeholder Relationship Committee Independence	Proportion of independent directors in the Stakeholder Relationship Committee	STCI
	Family Ownership	Percentage of shares held by family and family-related groups/HUF	FAMOWN
	DII ownership	Percentage of shares held by the domestic institutional investor group	DIIOWN
	FII ownership	Percentage of shares held by foreign institutional investors	FIIOWN
Control Variables	Leverage	Ratio of the total book value of debts to the total assets	LIV
	Firm's size	A natural log of total assets	SIZE
	Profitability	Ratio of operating profit to total assets	ROA

3.3. Control Variables

In empirical research on dividend policy and corporate governance, the inclusion of control variables ensures more reliable estimates by accounting for firm-specific heterogeneity that might otherwise confound the primary relationships under investigation. The selection of appropriate control variables is not arbitrary; it is guided by consistent empirical precedent and theoretical grounding. Firm size remains one of the most commonly included control variables. Larger firms tend to have greater access to capital markets, more stable earnings, and established dividend policies, which influence payout behavior. Additionally, they often face less information asymmetry, reducing agency costs associated with dividend signaling. Recent findings confirm the significance of firm size as a determinant of dividend policy decisions across multiple sectors [62, 63]. Profitability, often measured through return on assets or return on equity, is a fundamental control variable in dividend studies. Profitable firms are more likely to distribute dividends due to the availability of internal funds and the lower need for external financing. Multiple studies confirm a positive association between profitability and dividend payouts, reinforcing its importance as a control variable in governance-dividend models

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[64, 65]. Leverage is another critical control. Highly leveraged firms tend to retain earnings to meet debt obligations, which often constrains their ability or willingness to distribute dividends. This negative association is widely observed and confirms that financial structure affects payout behavior. The role of leverage as a control variable is well-documented in contemporary studies that seek to isolate the effects of governance on dividends [66]. Firm age is used to capture the maturity and stability of operations. Mature firms often have fewer growth opportunities and are therefore more likely to distribute earnings as dividends. Including firm age helps control for differences in strategic life cycle phases across the sample. Recent research confirms that age positively correlates with dividend payouts as companies evolve from growth to maturity stages [67]. Prior year dividend payout is a control that accounts for dividend policy persistence. Firms tend to maintain stable dividend policies due to signaling and investor expectation management. Including lagged dividends captures this inertia and ensures that observed changes are not misattributed to governance shifts. Rahayu and Meidiaswati [65] confirm its explanatory power in models of payout behavior among Indonesian manufacturers. Liquidity is a practical control variable, as firms with strong short-term assets are more capable of sustaining cash dividends. It also mitigates investor concern over payment risk. Studies identify liquidity as an effective determinant in moderating governance-dividend linkages [64].

4. Methodology

The Tobit and Probit methods are used in this panel data estimation, as the binary nature of one of the dependent variables while the other is a censored variable. The reason for using the Probit model in this study is the fact that when companies decide on their dividend policy, they face two options: pay dividends or not pay dividends. These options are based on the binary nature of one of the variables dependent on the dividend decision. Therefore, the Probit model is the most appropriate to reflect this decision. While the Tobit model is used to consider the fact that the payment of dividends has two outcomes: zero, in which companies do not distribute dividends, or a positive value if companies decide to pay dividends to their shareholders. In addition, dividends will never be negative; therefore, the Tobit model is more preferable.

This study uses a greater number of corporate governance elements that can lead to the problem of endogeneity. To address this issue, the use of dynamic panel regression is justified in this study. In quantitative analysis, endogeneity problems occur when an explanatory variable is correlated with the error term. Therefore, GMM regression analysis is performed on sample companies. The Sargan test confirms the validity of the instruments used in the model. The Sargan test of the identified restrictions verifies the validity of the instruments used in the GMM estimate.

The Generalized Method of Moments (GMM) is an advanced econometric technique designed to address potential endogeneity issues in panel data models. Endogeneity arises when explanatory variables correlate with the error term, often due to omitted variables, measurement error, or simultaneity, leading to biased and inconsistent estimates. GMM controls for this by using internal instruments, typically lagged values of the dependent and independent variables to generate consistent estimators. In the context of this study, where firm-level governance variables such as executive compensation and audit committee independence may be simultaneously influenced by and influence dividend decisions, endogeneity presents a significant concern. The dynamic nature of corporate decision-making makes it plausible that past dividend behavior affects current governance structures. GMM is particularly suited to this challenge, as it enables the use of lagged instruments within a system of equations, thereby isolating causal relationships more reliably. The study adopts the Arellano-Bond dynamic panel GMM estimator, appropriate for datasets with a large number of firms (N) and shorter time periods (T). The validity of instruments is tested through the Sargan and Arellano-Bond autocorrelation tests, confirming the robustness of the estimates [68, 69].
The following are models of this study:

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Model 1

To examine the relationship between the board structure and dividend payment in mitigating agency conflicts. The empirical estimation is specified as:

$$Y_{it}^{*} = \alpha + \beta_1 LEXCOM_{it} + \beta_2 LNEXCOM_{it} + \beta_3 BS_{it} + \beta_4 IND_{it} + \beta_5 FDIR_{it} + \beta_6 CEOD_{it} + \beta_7 NBMEET_{it} + CONTROL\,VARIABLES_{it} + \sum_{k=1}^{40} y_k INDD + \sum_{t=1}^{6} \theta_t TIME + \varepsilon_{it}$$

Model 2

To examine the association between the board committees and dividend payments in mitigating agency conflicts. The empirical estimation is specified as:

$$Y_{it}^{*} = \alpha + \beta_1 LEXCOM_{it} + \beta_2 LNEXCOM_{it} + \beta_3 ACI_{it} BS_{it} + \beta_4 BS_{it} + \beta_5 IND_{it} + \beta_6 FDIR_{it} + \beta_7 CEOD_{it} + \beta_8 BMEET_{it} + \beta_9 NCOM_{it} + \beta_{10} STCI_{it} + CONTROL\,VARIABLES_{it} + \sum_{k=1}^{40} y_k INDD + \sum_{t=1}^{6} \theta_t TIME + \varepsilon_{it}$$

Where variable Y_{it}^{*} is a dependent variable (Dividend yield, Dividend payout and Dividend per share) and INDD is industry effects.

Model 3

To examine the relationship between the firm's ownership structure and dividend payments, the empirical estimation is specified as:

$$Y_{it}^{*} = \alpha + \beta_1 LEXCOM_{it} + \beta_2 LNEXCOM_{it} + \beta_3 ACI_{it} BS_{it} + \beta_4 BS_{it} + \beta_5 IND_{it} + \beta_6 FDIR_{it} + \beta_7 CEOD_{it} + \beta_8 BMEET_{it} + \beta_9 NCOM_{it} + \beta_{10} STCI_{it} + \beta_{11} FAMOWN_{it} + \beta_{12} DII_{it} + \beta_{13} FII_{it} + CONTROL\,VARIABLES_{it} + \sum_{k=1}^{40} y_k INDD + \sum_{t=1}^{6} \theta_t TIME + \varepsilon_{it}$$

In panel data models involving corporate governance variables, endogeneity remains a significant econometric concern. It arises due to simultaneity, omitted variable bias, and potential reverse causality, particularly relevant in analyzing the interplay between governance mechanisms and dividend policies. To address this issue, we employ the system Generalized Method of Moments (GMM) estimator developed by Arellano and Bover [68] and Blundell and Bond [70].

In our specification, the following variables are treated as endogenous due to their potential bidirectional relationship with dividend policy:

- Executive compensation (LEXCOM)
- Audit committee independence (ACI)
- Board independence (IND)
- Family ownership (FAMOWN)

These variables are likely influenced by firm performance and dividend decisions, necessitating the use of valid instruments to achieve consistent estimation. To mitigate endogeneity, we instrument these variables using their own lagged levels (t–2 and earlier) for the differenced equations and lagged differences for the level equations, as permitted under the system GMM framework.

Control variables such as profitability (ROA), leverage (LIV), firm size (SIZE), and foreign/domestic institutional ownership (FIIOWN, DIIOWN) are assumed to be predetermined or exogenous, based on established theoretical and empirical literature. These controls account for firm-level characteristics that may independently affect dividend policies but are unlikely to suffer from simultaneity within the short panel structure.

Instrument validity is tested using the Sargan test of over-identifying restrictions, which confirms the orthogonality of instruments to the error term. Additionally, we conduct the Arellano-Bond test for second-order autocorrelation (AR(2)) in the first-differenced residuals to ensure no serial correlation exists, a critical assumption in dynamic panel models. Across all GMM specifications, the AR(2) p-

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values exceed 0.05, confirming the absence of second-order autocorrelation. Similarly, the Sargan test results support the validity of the instrument set.

By adopting this dynamic panel estimation approach, we provide consistent and unbiased estimates of the impact of governance variables on dividend policy. The robustness of the results is further confirmed by using alternative dependent variable specifications and model forms, with findings remaining materially consistent throughout.

5. Analysis and Findings

5.1. Descriptive Statistics

Table 2 provides the descriptive statistics of all the variables used in the study. The preliminary statistics reports of sample firms in Table 2 include the mean and standard deviation values. Only 14% of the firms in the 426 companies paid dividends from the financial year 2012 to 2023. The average dividend yield and dividend per share over the period 2012 to 2023 are 21.55 and 0.02, respectively. Executive directors are paid an average of 15.87 annually, while non-executive directors receive an average of 15.64 annually. The proportion of independent directors in the audit committee is denoted by ACI. The average value of ACI is 0.72, indicating that 72 percent of directors in the audit committee are non-executive independent directors. The average proportion of independent directors (IND) is 67%, implying that approximately two-thirds of the total directors are independent. This suggests that listed firms in India adhere to the regulatory and governance rules of SEBI. The average board size of BSE-listed firms is 7.69. Board gender diversity, measured as the percentage of female directors on the board, has an average value of 0.04, indicating that the boards of Indian listed firms are predominantly male. Fifty percent of firms have the same person serving as CEO and chairman of the board, reflecting a tendency among Indian companies to combine these roles. Listed firms have an average of 3.23 committees to facilitate better and more focused attention on the firm's affairs. The occurrence of board meetings has a mean value of 5.83 in a financial year, during which major financial and non-financial policies are discussed.

Section 178(5) of the Companies Act, 2013, introduced a new committee, the Stakeholder Relationship Committee, which was not present in the erstwhile Companies Act, 1956. The proportion of independent directors in the Stakeholder Relationship Committee, denoted by STCI, is only 20%. The Stakeholder Relationship Committee is obligatory for all Indian listed companies after the introduction of the new Companies Act, 2013; hence, all data relating to these committees are covered from the financial year 2014–15.

This study considers three important control variables of ownership structure, namely, family ownership, Domestic Institutional Investors, and Foreign Institutional Investors. The mean values of family ownership, DIIOWN, and FIIOWN are 11.08%, 8.73%, and 11.67%, respectively, indicating that FII are more attracted to top-listed firms.

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Table 2.
Descriptive Statistics.

Variables	Mean	Median	Standard Deviation
DPS	21.55	0.00	180.59
DIVYIELD	0.02	0.00	0.13
DIV10	0.14	0.00	0.35
LEXCOM (Millions)	15.86	0.00	17.38
LNEXCOM (Millions)	15.64	0.00	16.91
ACI	0.72	0.75	0.29
BS	7.69	7.00	2.98
IND	0.67	0.67	0.22
FDIR	0.04	0.00	0.07
CEOD	0.50	0.00	0.52
NCOM	3.23	3.00	1.48
NBMEET	5.83	5.00	2.46
STCI	0.20	0.00	0.31
FAMOWN (%)	11.08	0.23	19.51
DIIOWN (%)	8.73	6.95	8.25
FIIOWN (%)	11.67	9.15	10.78
LIV	0.22	0.17	2.08
SIZE (Millions)	1697.18	31.39	572.21
ROA	7.33	5.69	8.97

Source: Analysis of Research Data (Stata Output).

This table presents the results of the descriptive statistics of all the dependent, independent, and control variables for the financial years 2014 to 2023. DPS represents dividend per share, DIVYIELD indicates dividend yield, DIV10 denotes whether dividends are paid out or not, LEXCOM is the logarithm of executive directors' compensation, LNEXCOM is the logarithm of non-executive directors' compensation, BS stands for board size, IND is the number of independent directors, FDIR indicates the number of female directors on the board, CEOD signifies CEO and Chairman duality, NCOM is the number of committees, NBMEET is the number of board meetings in a year, ACI represents the number of independent directors in the Audit Committee, STCI is the number of independent directors in the stakeholder relationship committee, FAMOWN indicates the percentage of family ownership, DIIOWN is the percentage of domestic institutional ownership, FIIOWN is the percentage of foreign institutional ownership, SIZE refers to total assets, and ROA denotes Return on Assets.

Next, the following variables are the group of control variables used in this study. The study uses LIV to indicate the firm's financial leverage. Previous studies show that highly leveraged companies tend to pay lower dividends. Leverage average is 0.22, indicating that Indian companies are cautious about their ability to take on debt risk.

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Table 3.
Correlation Matrix.

Variables	DIV10	LDPS	DIVY	LEXCOM	LNEXCOM	BS	IND	FDIR	CEOD	NBMEET	NCOM	ACI	STCI	FAMOWN	DIIOWN	FIIOWN	SIZE	LIV	ROA
DIV10	1.000																		
LDPS	0.295***	1.000																	
DIVY	0.440***	0.697***	1.000																
LEXCOM	0.283***	0.112***	0.142***	1.000															
LNEXCOM	0.339***	0.075***	0.123***	0.340***	1.000														
BS	0.190***	0.069***	0.089***	0.327***	-0.163***	1.000													
IND	-0.054***	0.017	0.010	0.203***	0.009	-0.229	1.000												
FDIR	0.094***	0.125***	0.192***	-0.009	-0.027	-0.045***	0.072***	1.000											
CEOD	-0.054	-0.006	0.026	0.095***	-0.043	0.097***	-0.098	0.038	1.000										
NBMEET	0.051*	0.005	0.039**	0.188***	0.027	0.231***	-0.034	0.028	0.072***	1.000									
NCOM	0.068***	0.038*	0.102***	0.088***	0.115***	0.176***	0.018	0.049**	0.072***	0.176***	1.000								
ACI	0.135***	0.062***	0.037*	0.082***	0.116***	0.195***	0.189***	0.024	-0.007	0.000	0.070***	1.000							
STCI	0.084***	0.094***	0.062**	0.017	0.089***	0.083***	0.011	0.204***	0.010	0.026	0.142***	0.200	1.000						
FAMOWN	0.077***	0.065**	0.035*	-0.046	-0.012	-0.095	0.173**	-0.010	-0.081	-0.056	-0.018	-0.007	0.000	1.000					
DIIOWN	-0.024	-0.051**	-0.059***	0.033	0.028	0.101***	-0.080	0.017	-0.002	0.138**	0.043*	-0.023	0.007	-0.159	1.000				
FIIOWN	0.112***	0.006	0.053***	0.055***	0.063***	0.142***	0.021	0.078***	0.050**	0.049***	0.082***	0.063	0.108	-0.017	0.133***	1.000			
SIZE	0.077***	0.063***	0.049**	0.152***	0.039**	0.188***	-0.005	0.067**	-0.010	0.248	0.102***	0.039	0.102***	-0.224	0.262***	0.297	1.000		
LIV	0.010	0.008	0.037	0.015	-0.013	0.017	-0.011	-0.004	0.001	0.009	-0.032	-0.022	0.005	-0.009	-0.010	0.024	0.124	1.000	
ROA	0.149***	0.030	0.055***	0.060***	0.003***	-0.030	-0.020	0.048***	-0.031	-0.034	-0.030	-0.011	-0.003	0.141**	-0.041	0.126**	-0.165	-0.013	1.000

Note: Superscripts of ***,** and * denote the level of significance at 1%, 5% and 10% respectively.

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5.2. Correlation Analysis

Table 3 presents the correlation between the three predicted variables, explanatory variables, and control variables of the top 500 sample firms. According to the hypotheses of the study, all dependent variables (DIV10, DIVY, & LDPS) show the expected correlation in relation to board composition variables, committees' variables, and ownership variables, except for a few variables.

Table 3 displays that the compensation of directors has a significant positive ($p < 0.01$) correlation with dividend decision. This implies that highly compensated directors do not indulge in agency conflict and pay more dividends to shareholders. Board size has a positive and significant ($p < 0.01$) correlation with all three predicted variables (DIV10, LDPS, and DIVY). This implies that companies with more directors distribute a higher proportion of their profits as dividends. The proportion of independent directors shows a significant negative correlation with the propensity to pay dividends. The proportion of female directors is significantly positively ($p < 0.01$) correlated with all three dependent variables, which supports the findings that firms with a greater proportion of female directors exhibit lower agency costs and pay higher dividends. The results support the findings of earlier studies [37, 43, 71, 72]. Both committees' variables, audit committee independence and stakeholder relationship committee independence, are positively and statistically significantly correlated with dividend decisions. Table 3 shows that family ownership of sample firms has a significant positive relationship with the propensity to pay dividends. Domestic institutional investors show a significant negative correlation with dividend decisions, while foreign institutional investors show a significant positive correlation with dividend payout decisions.

5.3. Regression Results and Discussion

This study attempts to establish how compensation and audit committee independence, as elements of corporate governance, influence managers' dividend payment decisions. Regression analyses were conducted using two regression models: Probit regression and Tobit regression.

In Hypothesis 1 (H1), the study posits that there is a significant association between board compensation and dividend payouts. The results support the alternative hypothesis, indicating a positive relationship between both executive and non-executive compensation and the likelihood of paying dividends, as well as dividend yield. This finding aligns with the evidence presented by Tahir et al. [35], who established that higher levels of cash compensation are associated with increased dividend payout ratios. For instance, Chen et al. [36] demonstrate a connection between managerial compensation and dividend payouts, suggesting that appropriate compensation structures can deter excessive reinvestment or investments with negative net present value (NPV). However, these results contradict the assertions made by Adjaoud and Ben-Amar [10], who argued that compensation contracts can lead to managers with higher quality receiving more information rents, thereby potentially reducing dividend payouts. Additionally, managerial compensation incentives may intensify the pressure on management to meet earnings targets, as noted by Chen et al. [36] and Sulaiman [47]. Consequently, well-compensated managers may be more inclined to prioritize shareholder interests, resulting in higher dividend distributions.

In Hypothesis 2 (H2), the study hypothesizes a relationship between the independence of the audit committee and dividend payments. The findings reveal a significant positive association between audit committee independence and the likelihood of dividend payments, consistent with the dividend outcome model. This supports the conclusions of Bae et al. [12] who argue that the establishment of robust corporate governance mechanisms, particularly through audit committees, enhances the quality of financial reporting and reduces information asymmetry between stakeholders and management. The audit committee, as a governance mechanism, plays a crucial role in mitigating agency problems by ensuring transparency in financial disclosures.

Furthermore, the analysis indicates that board size positively impacts the likelihood of dividend payments across all three models. However, board independence exhibits a negative influence on dividend decisions, specifically in Model 3. Gender diversity within the board is positively and

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significantly associated with the probability of dividend payments, dividend yield, and dividends per share for the sampled companies. This finding corroborates previous research suggesting that gender diversity can help alleviate agency problems by promoting cash dividend distributions to external stakeholders [42].

Conversely, CEO duality (where the CEO also serves as the board chair) is significantly negatively correlated with the likelihood of paying dividends. This result aligns with earlier studies by Sanan [17], Ghosh and Sirmans [37], Harvey et al. [72], Feng et al. [73] and Kor and Qamruzzaman [74] all of which report a negative association between CEO duality and dividend payout policies. The analysis further reveals an insignificant relationship between the frequency of board meetings and dividend variables, except in Model 2 of Table 4. Additionally, the relationship between the independence of the stakeholder relationship committee and dividend payments remains inconclusive, potentially due to the recent introduction of this committee under the Companies Act of 2013, suggesting that its impact may become clearer in subsequent years.

Table 4 presents probit analysis results indicating a significant positive association between family ownership and the propensity to pay dividends. This finding resonates with the arguments put forth by Al-Najjar [46], Amedi and Mustafa [75], and Ben-Nasr [13], who assert that family shareholders often rely on dividends as a primary income source. The positive relationship between family ownership and dividend payments suggests that firms with concentrated ownership structures, particularly among family members, may be more inclined to stabilize their dividend policies to signal positively to the market [76]. Moreover, the results indicate a significant positive association between foreign institutional investors and dividend payments, supporting [12] findings that foreign institutional ownership correlates with higher dividends in Japan. Conversely, a significant negative association is observed between domestic institutional investors and dividend payments, corroborating Neupane et al. [77] who argue that differences in investment patterns and stock selection between foreign and domestic institutional investors stem from their varying levels of experience, access to expertise, and local market knowledge.

The Audit Committee (AC) plays a pivotal role in supporting boards of directors by ensuring the provision of accurate, relevant, timely, and sufficient information necessary for stakeholders to evaluate management performance and make informed decisions regarding financial reporting [37, 78]. Effective AC practices not only enhance the quality of financial reports but also influence management's decision-making processes, particularly concerning non-financial disclosures. This, in turn, helps to mitigate information asymmetry between management and stakeholders, including shareholders [79, 80]. Consequently, the AC serves as a vital monitoring and control mechanism designed to safeguard shareholder interests by overseeing the financial reporting process, reviewing financial statements, managing internal controls, and, more recently, addressing risk management practices [75, 81].

One of the primary characteristics that significantly enhances the AC's ability to supervise and monitor is its independence. The demand for independence is rooted in the necessity to address asymmetric information and conflicts of interest that may arise between management and stakeholders, particularly shareholders [82]. Independent directors are better positioned to mitigate agency costs associated with financial statements prepared by management, as they can provide unbiased oversight [76]. Research indicates that AC independence is foundational to positively influencing the financial statement preparation process, thereby enhancing the credibility of reported financial information [38].

The effectiveness of an AC is further bolstered by its size and the professional expertise of its members. Studies demonstrate that larger ACs, which include members with diverse professional backgrounds, are more effective in monitoring financial reporting practices [42, 83, 84]. This is echoed by research that found firms with robust board and AC structures are more likely to produce accurate forecasts that positively influence market responses [85]. Additionally, the appointment of outside directors to ACs has been associated with significant positive stock returns for the companies involved, underscoring the market's recognition of the value added by independent oversight [86]. Furthermore, a positive association between AC effectiveness and overall company performance has been observed,

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suggesting that higher levels of independence and expertise within audit committees correlate with increased firm value [87].

The prevailing view in the literature is that the independence of AC members is closely associated with improved monitoring of the financial reporting process, which is critical for ensuring the integrity of financial statements [88]. For instance, independent AC members enhance the monitoring capabilities of the committee, thereby fostering a more transparent financial reporting environment [89]. Furthermore, the presence of financial experts on the AC can significantly enhance its effectiveness, particularly when these experts operate in an environment characterized by strong corporate governance ([90].

Table 4.
Probit and Tobit Regression.

Probit Analysis (Dependent Variable DIV10)				**Tobit Analysis (Dependent Variable DIVY)**		
MODELS	**Model 1**	**Model 2**	**Model 3**	**Model 1**	**Model 2**	**Model 3**
LEXCOM	0.025	0.025	0.025	0.008	0.007	0.007
	(4.590)***	(4.371)***	(4.286)***	(4.871)***	(4.627)***	(4.556)***
LNEXCOM	0.067	0.065	0.067	0.016	0.016	0.016
	(11.811)**	(11.409)**	(11.410)***	(9.454)***	(9.132)***	(9.069)***
ACI		0.671	0.675		0.132	0.124
		(4.169)***	(4.124)***		(2.905)***	(2.736)***
STCI		0.129	0.114		0.034	0.027
		-1.157	-1.011		-1.114	-0.868
IND	-0.185	-0.364	-0.529	-0.015	-0.045	-0.079
	(-0.958)	(-1.807)*	(-2.572)**	(-0.265)	(-0.776)	(-1.370)
FDIR	1.452	1.356	1.443	0.618	0.582	0.604
	(3.639)***	(3.336)***	(3.565)***	(6.218)***	(5.186)***	(6.099)***
CEOD	-0.168	-0.148	-0.145	-0.028	-0.026	-0.026
	(-2.357)***	(-2.048)**	(-1.959)**	(-1.354)	(-1.269)	(-1.282)
NBMEET		0.005	0.009		0.005	0.0074
		-0.292	(-0.575)		-1.22	-1.27
NCOM		-0.002	-0.014		0.0136	0.0042
		(-0.059)	(-0.513)		(1.901)*	-0.425
FAMOWN			0.009			0.002
			(5.086)***			-0.001
DIIOWN			-0.008			-0.004
			(16.34)***			(-2.485)***
FIIOWN			0.14			0.003
			-1.21			(3.045)***
LIV	0.032	0.042	-2.401	0.024	0.022	-0.1667
	-1.046	-1.323	(-1.5)	(2.890)***	(3.128)***	(-1.220)
ROA	0.025	0.025	0.041	0.006	0.005	0.005
	(6.163)***	(6.154)***	(2.930)***	(4.985)***	(4.898)***	(3.712)***
SIZE	0.044	0.035	0.007	-0.006	-0.009	-0.038
	(1.767)*	-1.374	(1.989)**	(-0.922)	(-1.366)	(-4.011)***
Constant	-3.257	-3.471	-3.773	-496.726	-488.537	-472.525
	(-9.016)***	(-9.203)***	(-9.380)***	30.721***	69.256***	71.647***
Observations	5112	5112	5112	5112	5112	5112
Time effect	Yes	Yes	Yes	Yes	Yes	Yes
Industry effect	Yes	Yes	Yes	Yes	Yes	Yes

Note: Superscripts of***/**/* denote the level of significant at a 1%, 5% and 10% respectively

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5.4. Robustness Tests and Endogeneity

To strengthen the robustness of the empirical findings, the study re-estimates the models using an alternative proxy for dividend behavior, dividend per share (DPS) instead of dividend yield or the binary dividend payout indicator. This approach ensures that the results are not sensitive to how dividend policy is measured. However, using multiple governance variables raises the risk of endogeneity, where explanatory variables may be correlated with the error term. To address this concern, the Generalized Method of Moments (GMM) is employed. GMM allows for the use of internal instruments, such as lagged variables, to correct for potential biases caused by simultaneity or omitted variables, ensuring more reliable and consistent parameter estimates [91]. The results were found to be very similar. Following the earlier regression results, the regressions with dependent variables for each model, using an alternative definition of LDPS, are displayed in Table 5. The insignificant p-value of the Arellano-Bond test for second-order autocorrelation indicates the absence of second-order autocorrelation in the residuals, that is, AR(2) ($p > 0.05$) [92-94] in all cases, the results suggest that the instruments are valid. Finally, the findings regarding the impact of board compensation and the role of independent directors in audit committee variables on dividend decisions are broadly similar to those obtained earlier. Thus, the inferences drawn largely remain unchanged.

Table 5.
GMM Analysis.

Models	Model 1	Model 2	Model 3
LEXCOM	0.022	0.012	0.018
	(3.962)*	(2.207)*	(2.563)***
NLEXCOM	0.012	0.014	0.014
	(3.331)***	(3.440)***	(3.215)***
ACI		0.334	0.527
		(1.905)*	(2.617)**
BS	-0.098	-0.039	0.004
	(-1.405)	(-0.550)	-0.06
IND	0.115	0.249	0.472
	-0.881	(1.700)*	(2.992)***
FDIR	0.92	0.591	0.879
	(5.421)***	(2.748)***	(3.899)***
CEOD	0.051	0.049	-0.046
	-1.026	-0.911	(-0.766)
NBMEET		0.022	0.025
		(-1.218)	(-1.225)
NCOM		-0.002	-0.008
		(-1.917)*	(-0.389)
STCI		-0.124	-0.119
		(-1.843)*	(-1.653)
FAMOWN			-0.014
			(-1.992)**
DIIOWN			-0.006
			(-0.656)
FIIOWN			0.017
			(1.763)*
LIV	-0.004	-0.014	-0.014
	(-0.041)	(-0.772)	(-0.732)
ROA	0.009	0.014	0.014
	(2.012)**	(2.333)**	(1.995)**
SIZE	0.102	0.241	0.171
	(1.772)*	(3.023)***	(1.690)*
SARGAN TEST	0.208	0.762	0.923
AR (2)	0.278	0.268	0.252
Observations	2417	2417	2417

Note: Superscripts of ***/**/* denote the level of significance at a 1%, 5% and 10% respectively.

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5.5. Managerial and Practical Implications

Executive compensation and audit committee independence play a pivotal role in shaping dividend policy. This study establishes that firms with structured compensation systems are more likely to align managerial incentives with shareholder returns. The findings reveal that executive directors receiving higher remuneration tend to favor dividend payouts, supporting the view that compensation can deter excessive reinvestment and signal firm value when profitable investment opportunities are limited. Such alignment resonates with earlier research that underscores the role of compensation in reducing agency conflict through cash distributions [36, 95]. For managers, this suggests that structuring pay packages with clear performance criteria can enhance credibility and improve payout consistency. A transparent and well-linked compensation framework not only influences executive behavior but also serves as an indicator of corporate accountability. Firms should view remuneration as a strategic tool, not merely as a reward, but as leverage for behavioral discipline [54, 95]. Boards, therefore, must adopt compensation practices that balance incentives with governance responsibilities.

The independence of audit committees emerges as a significant determinant of dividend decisions. Independent committees appear to foster greater transparency in financial reporting, reducing information asymmetry between management and stakeholders. The presence of independent directors correlates with an increased likelihood of dividend distributions, reinforcing the dividend outcome hypothesis that strong governance mechanisms empower minority shareholders to claim returns [29]. In practical terms, companies must prioritize audit committee autonomy to strengthen investor confidence. Audit committees that operate independently are better equipped to supervise financial reporting and challenge management decisions that may dilute shareholder wealth. The presence of financial experts further improves this monitoring function. Managers and boards should ensure that audit committees remain free from executive influence, and members should possess the necessary skills to evaluate financial decisions critically. In the literature of Haji [51] and Hu and Kumar [38] advocated that establishing norms for committee member selection and tenure may further institutionalize independence and reduce susceptibility to management pressure..

The study further highlights the role of board structure in shaping dividend policy. Larger boards tend to support dividend payments, possibly due to enhanced oversight and deliberative decision-making. However, excessive board independence, without contextual governance mechanisms, may produce risk aversion and reduce payout tendencies. The nuanced impact of board diversity is also acknowledged. While female representation is positively linked with dividend payouts, this must be interpreted within broader governance reforms aimed at improving board effectiveness, not solely based on demographic metrics [42]. CEO duality negatively influences dividend decisions, suggesting that the concentration of power in one individual undermines board independence and accountability. This finding aligns with agency theory, emphasizing the need to separate oversight from execution. Firms should reassess board leadership structures and consider independent chairpersons to enhance board functionality and safeguard payout policies.

Institutional ownership exerts varying effects on dividends. While family and foreign investors favor higher payouts, domestic institutional investors exhibit a more conservative stance. These differences may stem from contrasting investment horizons, liquidity preferences, and governance expectations. Managers must recognize these investor profiles when formulating dividend strategies and engage accordingly to maintain alignment and trust. For practitioners, the evidence affirms that governance variables are not passive disclosures but active instruments that shape financial outcomes. Regulatory bodies and board nomination committees must design systems that reinforce accountability through compensation and independent oversight. Strengthening these governance levers not only improves transparency but also positions firms to meet evolving expectations from global capital markets.

The implications extend beyond compliance. Firms that embed governance into operational decisions create enduring value and reduce risks associated with earnings management or opportunistic reinvestment. As corporate environments grow more complex and investor scrutiny intensifies,

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governance must evolve from symbolic presence to substantive function. This research informs policy by demonstrating how well-structured incentives and independent oversight lead to more disciplined financial management. Regulators may consider tightening guidelines around board compensation disclosures and audit committee composition to institutionalize best practices across the industry.

6. Conclusion, Policy Suggestion and Future Research Direction

6.1. Conclusion

The study investigates the effect of board compensation and the role of independence in the audit committee on dividend policy. The extant literature mainly focused on firm characteristics and board characteristics that affect the dividend decision. The relationship between board compensation and dividend payment decision has not been studied so far in the context of emerging markets like India. The study provides new insights into an aspect of compensation that has been largely neglected in the literature. Compensation and incentives may exaggerate management's desire to meet earnings targets, which results in an increase in dividend payout. It can also be concluded that board compensation should be designed effectively so that managers are less prone to expropriating minority shareholders. This study also suggests that higher compensation could force executives to pay more dividends if companies do not have positive opportunities. Therefore, dividend payments can serve as an alternative means of mitigating agency conflicts in companies with higher remuneration.

Results also support the view that when the audit committee works independently, it can review financial reporting and oversee management's activities effectively. The study concludes that higher levels of independence and expertise on the board and audit committees increase firm value [96]. The performance of a firm leads to higher dividends if there are no positive NPV investments. Better governance leads to more payouts, which support the outcome of [94, 97, 98].

6.2. Policy Implications

This study has important implications for regulations and public policy. The results support the fact that boards are more powerful and influential in corporate decision-making. Basically, this study recommends that there should be an emphasis on compensation policies and corporate governance mechanisms to reduce agency conflicts between executives and shareholders and limit executives' opportunistic activities in deciding dividend policy. The rising demand for talented non-executives, who often work in a volatile and competitive environment, justifies the high packages and payments. The supply of talented executive and non-executive directors, who can work in such a competitive environment, is lower than their demand [71, 99]. Thus, there is a need to review the salary packages of non-executive and outside directors for attracting and retaining talent for strategic dividend decisions. Therefore, authorities should focus on the effective remuneration structure to attract competitive outside directors. This will not only protect the minority shareholders from wealth expropriation but also increase the confidence of potential investors, aiding firms in raising funds both from the international and Indian capital markets.

6.3. Limitations in the Study

The manuscript presents rigorous empirical analyses and draws meaningful conclusions, yet it omits a discussion on its limitations, a critical component of scholarly transparency. Acknowledging limitations not only enhances credibility but also guides future research. This study's reliance on secondary data from listed Indian firms limits generalizability beyond the sample and context. The exclusion of firms issuing non-cash dividends or overlapping announcements may introduce selection bias. Furthermore, governance attributes such as board dynamics and informal institutional influences, which are harder to quantify, remain unexplored. Endogeneity concerns, although addressed through GMM, may persist due to unobserved heterogeneity. Time-bound regulations and evolving governance standards may also limit the applicability of findings over time. Including such reflections would deepen the study's academic value and integrity.

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6.4. Future Direction of the Study

Future research should broaden the scope of inquiry into sustainable corporate governance by deepening our understanding of the contextual variables that shape the impact of board compensation and audit committee independence on dividend policy. While this study centers on Indian firms, comparative cross-country analysis, particularly across other emerging markets, would offer a more global perspective on how legal frameworks, market maturity, and enforcement mechanisms moderate governance outcomes. Furthermore, future investigations could explore the longitudinal effects of governance reforms by examining whether changes in board structure or audit committee independence yield sustained improvements in financial transparency and shareholder value over time. Another promising direction lies in unpacking the interaction effects among governance variables such as how diversity, tenure, or CEO duality influence the role of audit committees and compensation structures. Integrating behavioral governance theories could also shed light on how cognitive biases and decision-making processes within boards influence dividend decisions. Methodologically, adopting mixed-method approaches—combining quantitative modeling with case studies or interviews could reveal nuanced insights not captured by econometric analysis alone. The role of technology and digital oversight tools in strengthening audit functions also warrants attention, especially as firms embrace digital transformation. Finally, future studies should investigate the alignment between environmental, social, and governance (ESG) integration and traditional financial governance mechanisms. Doing so would advance a more comprehensive model of corporate accountability that reflects both shareholder value and broader societal interests. These research directions can inform policymakers and corporate leaders as they refine frameworks that ensure transparent, fair, and sustainable corporate behavior in dynamic economic landscapes.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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