Corporate Governance and Dividend Policy: Evidence from Shariah-Compliant and Conventional Firms in Pakistan

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ABSTRACT

This research aims at examining the role in which corporate Governance affects Dividend Policy of traditional stocks and shariah stocks.This paper study the topic of GMM estimation method, to efficiently provide the results in Pakistani companies in the KSE 100-index. Data is obtained all the audited annual reports of companies. In this paper, a panel data involving the non-financial companies of the sugar and allied sector, the fertilizer industry, and the automobile parts and accessories listed at Pakistan Stock Exchange were used; this is in the pre-COVID period of 2010-2019. It is a long run sample 10 years sample in which corporate governance (composition of the board, ownership structure) is considered the independent variables and dividend policy as the dependent variables. This paper demonstrates opposite effects of the elements of corporate governance on the payment of dividends. Although board-related features are mostly negatively correlated with dividend payments, which can be a deal breaker to a revenue-oriented investor, institutional and insider ownership positively correlate with dividend payments. The various features of the boards of the firms in the overall dynamic panel are reducing the dividend outflow that can be detrimental to the dividend loving investors but on the other hand, institutional and insider holding are strengthening the dividend flow. But, in Sharia compliant panel, the payout of dividend is affected beneficially because of the independence of the board, board size, institutional, and insider holdings.The study contributes towards the governance of the sharia requirements to come up with the quest in the promotion of the Islamic investment.

Keywords: *Corporate Governance, Shariah Compliant, Non-Shariah Compliant, GMM, Dividend Policy*

INTRODUCTION

Islamic finance is founded on the principles of Shariah law, which prohibits the collection and payment of interest, uncertainty, speculation, and other activities deemed unethical. This ethical financial system has experienced significant growth and expansion, despite its relatively small market share in the global financial landscape (IMF, 2017). Shariah, a legal and ethical framework rooted in Islamic doctrine, derives its authority from the Quran and the Sunnah. Its purview extends beyond religious rituals to encompass various aspects of Muslim life, including social, familial, and individual conduct. However, the scope and interpretation of Shariah remain contested issues within the Islamic world, necessitating the development of a quantifiable Shariah index to capture its essence empirically. Furthermore, the governance and management practices of Shariah-compliant companies play a crucial role in elucidating their performance, which is attributed to the principles of Islamic law. This study aims to address this research gap and provide valuable insights into the nexus between Shariah adherence and corporate performance.

This research examines the correlation that exists between the corporate governance and the dividend policy with respect to the Shariah compliance in Pakistan. Market-listed companies are divided in Pakistan in two groups Shariah-compliant and non-Shariah-compliant, the latter solely follows corporate law. The researchers conclude that Pakistan-listed firms have poor corporate governance practices with the weak structures of governance. Moreover, non-financial companies listed in Pakistan Stock Exchange (PSX) have a high degree of indebtedness causing them to become insolvent and also the concentrated ownership structure whereby they are most of the time in the hands of insiders. Here, this research attempts at understanding the consequences of establishments of Shariah compliance to corporate governance and dividend policy.

The recent literature in the financial field is discussing the idea of debt acting like a disciplinary influence on managers (Admati & Hellwig 2013). Specifically, the discipline imposed by short-term debt can enhance the effectiveness of corporate governance. Conversely, capital requirements that favor short-term debt may incentivize banks to seek alternative financing structures, potentially leading to more lax managerial behavior (Hellwig, 2013). This study explores how debt structures interact with corporate governance mechanisms to influence managerial discipline, particularly within the context of Shariah compliance, extending the theoretical propositions of Admati and Hellwig (2013).

The most important concept in cases when moral hazard may exist in the principle-agent relationships is an equilibrium. The principal can strategically pre-commit on some actions that will be beneficial to him. Nevertheless, the robustness of liquidating the company as a sanction to the board is conditional on the financial status of the company. Debt-to-equity ratio becomes significant. However, in mature firms, debt may not be an effective form of discipline in that the board usually has a strong control over the financial processes. The reason behind this is since liquidation might not be the interest of the board and the board might be looking after the interest of the shareholder more than their own interest (Grossman & Hart, 1983).

Free cash flows are defined as the excess revenues produced by a company once all the projects having positive expected net present value are financed at the applicable cost of capital. Yet when firms do generate high amounts of free cash flows, there emerges conflict of interest among investors and the managers especially about payout policies. The conflicts are even more hard when the manager is given freedom in how he spends excess cash, and they can run the risk of agency costs and value destruction (Jensen, 1986). Here is a study done to propose the validity of this assumption that low debt companies are financially strong with an emphasis on the subject of Islamic stocks. Islamic stocks Companies, listed in the stock at a high level of ethical and financial criteria, with limited levels of debt. Such requirements distinguish the Islamic companies and their conventional counterparts that have different qualities (Jiraporn et al., 2012; Yusoff & Alhaji, 2012). The tremendous rise of Islamic firms has led to the Islamic finance becoming globally known and now they are being used not only by Muslim-majority states, but also by the non-Muslim states, e.g. Canada, the US, and the UK, thus shown its escalating trend in the financial market of the whole world (Jiraporn et al., 2012; Alhaji, 2012).

The process of corporate governance (CG) is very much controlling the format of the board of directors (BODs). Nevertheless, in the face of increased citizen awareness of CG, there have been scandalous exposures of Enron and WorldCom in USA and Crescent Investment Bank in Pakistan. A close analysis of these scandals shows that there is a point of intersection, i.e. the guilty of the BODs; it had a drastic effect on the financial operations of these companies. These events have highlighted the importance of studies on the nature of BODs and how they affect the company dividend policy (DP). The two issues to be answered in this research include the need to: restore investor confidence and, second, equip policy-makers in Pakistan to take some informed decisions regarding board configuration in order to avert future repeat of such disasters (Iqbal, 2013).

There has been a gap in literature since few studies have recorded the influence of shariah-compliant/non-shariah-compliant corporate governance on dividend policy in various countries and until now, globally, the research on the relationship between governance mechanism and dividend policy has been limited to the Shariah-related contexts (Farooq & Tbeur, 2013). There exists a lack of research on the topic using the dynamic panel GMM method in Pakistan. This research bridge this gap. The research will be comprised of the following objectives: to investigate how corporate governance affects dividends policy of Shariah Compliant and Non- Shariah Compliant Firms in examining the relationship between the board size, the board independence, board insider ownership, the board institutional ownership, the auditor size and the dividends policy. The current research will add value to the existing research by examining the influences of Shariah and Non-Shariah-Compliant firm corporate governances on dividend policy. The results of the current study will be in aid of enhancing corporate governance of operational companies.

LITERATURE REVIEW

Extant literature suggests that Islamic stocks alone may not provide definitive outcomes regarding performance differentials compared to conventional indices (Al-Sadi, 2016). Recent studies, such as those by Ben-Nasr and Ghouma (2022), highlight how Shariah constraints influence firm behavior—particularly dividend payouts—through reduced access to external debt (Al-Sadi, 2016; Ali & Al-Owaihan, 2008). Meanwhile, number of studies examined quirks of Shariah's consistent stocks and portfolios under subthemes: instability, hazard variables, and performance attribute (Al-Kahmisi, 2018; Gul, 2012). Further literature incorporates articles tending to productivity viewpoints, schedule oddities, and difficulties in Shariah stock screening standards invalid source specified (Naveed, 2019; Pepis & De-Jong, 2018; Farooq & Alahkam, 2016; Erragragui & Revelli, 2016). Literature supported that Shariah screening guidelines confirmed irrelevant impact on bringing execution back, by using Sharp and Lintner model (Khawaja, 2016).

In the study by Ahmad and Farooq (2017), the analysis is done in MENA region covering 2003-2013 period and the instability of shariah index vs. conventional index is checked using GARCH model. Question to be answered in the most significant part of the study is: does the instability conducts of Shariah- compliant portfolio equal the unpredictability conduct of non-Shari- ah compliant portfolio by constructing the pre and the post portfolio? The results revealed that the magnitude of the influence of the shariah compliance on the volatility. In addition, the findings indicated that, shariah compliant portfolio performs better than conventional one. To compare the since a long time ago run financial execution and the stock return of the absolutely Shariah-compliant firms, Peppis and De Jong (2018) analyzed how the Shariah consistence has affected the since quite a long time ago show financial execution in a couple of benchmark groups in two different time frames 1990 and 2018 using (ROA) and (ROE). They traced that the long-term fund performance of totally Shariah-compliant companies outperformed the non-Shariah-compliant companies. Interestingly, with these findings, various researchers realized that Sharia compliance leads to underperformance. To understand the difference in the fiscal implementation difference between non-financial Shariah consistent company and non-financial traditional firms in MENA locale (Morocco, Egypt, Saudi Arabia, United Arab Emirates, Jordan, Kuwait, and Bahrain), Farooq and Alahkam (2016) applied a (OLS). In their analysis, they applied market-adjusted returns as an estimation of the test period between 2005- 2009. They finally pursued the fact that the non-financial Shariah compliant companies at least meant failing to deliver to expectations of the non-financial regular companies collectively in the common law countries and civil and common law countries.

Other than that, additional characteristics of the firms that comply with Shariah are proved to influence on their financial representation. Indicatively, the degree of commitment between the Shariah consistent firms and the natural, social and administration triggered the interest of analysts who were enthralled by the Islamic funds. In addition, Social, culture obligations contemplated important to Shariah conforming firms in order to alter the profit with Shariah standard and to increase their interest in profit the economy since outer financial organizations and Islamic financial investors are sure to target Shariah conforming firms to assure that their organizations are appropriately lined up to the sections of Shariah standard by following a path of higher moral. The exploration portfolio created by Erragragui and Revelli (2016) consisted of 238 listed firms trading in the U.S (2007 to 2011). They have made use of (ESG) screenings along with (SRI) to review the outcome of the integration of the Shariah rules on uniform firms that are also committed to ESG and SRI and to wit whether socially responsible Shariah firm portfolio comparisons differ in as far as execution in comparison to other Shariah-consistent firms that share lower scores in ESG. They used 12 single-factor models provided by Jensen and traced where higher ESG Shariah-compliant companies excelled over lower ESG Shariah consistent ones. Similarly, they employed other models which were four-factor models by Fama and French and robust industry-changed 7-factor model to support their findings. The results validated the superiority of Shariah portfolios that were more integrated in corporate administration as compared to the counterparty portfolios.

The positive effect of the administration for Shariah-compliant companies was likewise given by Ali and Al-Owaihan (2008). They led a critical appraise of the morals of Islamic funds. They tracked down that Islamic standard supported fairness, reliability, and local area responsibilities which assisted the general public with improving the financial improvement. Also, they inferred that Shariah's consistency put a limitation on devoted firms to focus on the moral norms in business movements, fiscal exposures, hard work, rivalry, and straightforwardness. Expanding the further previous work, an examination directed by Azam, Khalid, and Zia (2019) to research the effect of board variety on (CSR) with the impact of association's consistency to Shariah with holy and moral standards. They utilized information of 65 companies recorded in (PSX) during 2012-2018, utilizing hierarchical moderated regression analysis. Their investigation tracked down an undeniable degree of Shariah's consistency alongside educational foundation and gender variety altogether upgraded the CSR practices of the consistent firms (Naveed, 2019).

The research conducted by McGuire, Omar, Sharp in 2012 has integrated impact of religion on financial reporting anomalies. They analyzed data from over 610,000 interviews conducted by Gallup between 2008 and 2009 using factor analysis. They also concluded that financial reporting inconsistencies were caused by the level of holiness in the population which suggests that local levels of holiness affect firms in such a way that it influenced shareholder value and rendered holy people less likely to view the process of financial reporting as a sufficient narrative to justify heavily manipulated reporting. Essentially, Hamdi and Zarai (2013) further afirm that companies governed by Islamic finance norms are less likely to engage actively in earnings manipulation, viewing Islam as a screening device which enhanced the quality of reported earnings. They studied 81 Islamic banks from 2000-2009 employing fixed effect regression. Furthermore, they added that Islamic norms encouraged managers to avoid actions that would disregard Islam and its moral dictates.

By contrast, Alsaadi, Ebrahim, and Jaafar (2016) found that there were restricting outcomes. They directed the Shariah consistence firms towards (CSR) at the earning quality. They employed the companies of 10 countries of the European Association in the period between 2003 and 2013 applying the cross-sectional approach. Through its findings, it found that organizations that are engaged in CSR have low probabilities of manipulating earnings and being a Shariah consistent firm does not denote a considerable role in shaping up the morality of firms. They made the assumption that the fact that one is part of the Shariah index does not necessarily mean that this firm has to be adherent to the codes of morality. This part of the study deals with the theories that define the relationship between corporate governance and dividend policy in regard with Shariah (Islamic law). Various observers like Al-Kahmisi and Hassan (2018) have maintained that one theory is not enough toward the understanding of Corporate Governance. In general terms, due to this reason, analysts have emphasized on application of at least two theories in better understanding of Corporate Governance on Dividend Payout with Shariah. At the outset of this research work, two theories have been unified in the explanation of Corporate Governance and dividend policy. The two theories include the stewardship theory and agency theory. The theory of stewardship is applied to eliminate any barrier in the way of the Islamic law as well as corporate governance and establishing the affiliation of the stewards between the theories to come up with a platform to undertake this enquiry.

Agency theory

The background of the problem of agency moves further back to the time when human civilization practiced the concept of business and tried to enlarge their preferences. One question that has nagged joint-stock companies since their inception is that of agency conflicts, caused when owners (principals) and managers (agents) have conflicting interests and there must be governance mechanisms to correct these conflicts. These concerns are also determined by religious and moral issues within Shariah-compliant environments, which further confirms the use of the dividend policy as one of the control measures (Handayani et al., 2022). It cannot go unnoticed because every organization may have had this problem in different forms. The development of the years made the agency issue change its forms, and no matter presents evidence of that in literature. Generally, agency concerns have been witnessed in different fields of studies. These confirmations were made in other areas such as accounting (Watts, 1983), finance (Fama, 1980), (Jensen, 1986), economics (Meckling, 1976); political science (Weingast, 1983), social science (Adams, 1996), (Kiser & Tong, 1992), organizational behavior and marketing (Bergen et al., 1992: Logan, 2000). The extensive distribution of the agency issue to different types of organizations has led to the theory being perhaps the primary theory in the fields of finance and economic studies.

It is perhaps the Adam Smith (1937), who is the main contributor to the examination of the presence with agency problem. In the work The Wealth of Nations, Smith estimates (in case an organization is administered by somebody, or a group, other than the legitimate owners, that then probably they will not act in the interests of the proprietor owners). This fear was further developed by Berle and Means (1932) who dissected the form of ownership of the enormous firms of USA and acquired that managers employed by the owner power had increased firms and performed the business activities. The monetary processes in the 1960s and the 1970s illustrated the agency problem in organizations by the problem of the sharing of risk between the coordinating parties that interacted with the organizations. The company has people and groups with different risk tolerance and they are active accordingly. In their works, Ross (1973) and Mitnick (1975) have shaped the theory of agency and plotted two individual methodologies. Ross defined the agency problem as the problem of inducing incentives like benefits whereas Mitnick contemplated on the question of how the issue occurs due to the institutional configuration but the principal thought in their theories is contrasting. According to Demsetz (1972) and Mitnick (1975), a firm could be described as a set of agreements among the constituents of production. They depicted that organizations are valid falsities in which there are some legally binding relationships involving the people who are involved in the firm. An agency relationship is also a form of agreement between the principal and the agent whereby both parties seek their personal preferences which results in the agency issue. The Black box is the firm and thus by depicting the firm in the black box it adds value and profitability (Meckling 1976). The wealth could be maximized through proper coordination and collaboration of the concerned parties circling the firm. It was argued by Fama (1980) that the resistance of other players can help to manage the organizations, the activity of the entire group and the individual as well. Fama and Jensen (1983) had built an inquiry, which concerned the residual claimants and the decision-making. They unfolded the decision procedures of the association into two categories such as decision management and decision control, where the agents are its major parts at once.

Grossman Hart (1983) constructs an interesting plot around the difference between the risk-taking taste of the agent and the principal. They have explained that the application of the principle depends on the outcome of the agent. The outcome of the level of the agent exertion depends on the level of efforts that the agent exerts and therefore the level of exertion is greater by the principals. Eisenhardt (1989) classified the agency theory into two models such as positivist agency model and principal-agent model (Harris, 1978) and both of the given models are based on the contract binding relationship of the agents moreover, the principal- however, agent-principal model is greater in numbers.

Perrow (1986) criticized positivist office agency analysts and opined that the positivists have only concentrated on the agent side of the agent and principal problem and felt that there is a possibility of the problem to arise on the principal side. He observed that this theory did not show interest in the principals who cheat, evade and misuse the agents. The positive agency theory has been critiqued by many scholars such as (Wiseman & Gomez-Mejia, 1998), (Carpenter, 2003) and (Alexander Pepper, 2012). On yet another basis, they suggested an alternative agency theory, which they termed as behavioral agency theory, (Eisenhardt 1989). These scholars in the behavioral agency argued that standard theory on agency merely emphasizes the agent and principal concern, the agency cost, and the repositioning of both the parties who prefer to restrict the agency concern. Nonetheless, logical and renowned as it is, the agency theory undergoes various obstacles; and this has been noted down by many scholars such as (Eisenhardt, 1989), (Shleifer & Vishny, 1997) and (Daily & Dalton, 2003). The theory anticipates that there should be a legally binding agreement between the agent and the principal with a limited or unlimited future duration where the future is uncertain.

RESEARCH METHODOLOGY

In this research, the Generalized Method of Moments (GMM) is applied to study the non-financial companies, which are listed between 2010, and 2019, and belong respectively to the sugar, fertilizer, and automobile parts industries of the Pakistan Stock Exchange. Independent variables include governance variables such as size of the board, board independence and ownership structure with dividend policy as the dependent variable. It takes 10 years of the sample. In this case, data will be sourced out of the annual reports on sample firms. The data on ownership was extracted using the trend of shareholding at the financial report of the companies. The board size and the size of the audit committee have been obtained by accessing the profile of the companies. The data of the chairman of the board of independence and audit committee members were obtained on the statement of compliance of every firm.

The dependent variable consists of a dividend policy which is computed as the dividend per share to the earnings per share. Corporate governance is estimated by the application of various elements of corporate governance. To this end, board size, Board independence and Insider ownership, Institutional ownership, Audit size are used. Board size: It is referred to as (BSIZE). It is quantified by the number of members in the board. Board independence: The label representing it is (BINDP). It is quantifiable by counting the number of independent directors in the board. Insider ownership: It is represented by (INSIOW). It is gauged proportionately to shares held by the board of directors. Institutional ownership: It is referred to as (INSTOW). It is assessed as a ratio of the number of the issued shares to the total number of shares of authoritative financial institutional investors. Audit size: It is represented as (AUDITS). It is computed as No. of members in the audit committee. The study controls are receivable ratio (RR) and the ratio of the total receivable to the total asset, leverage (LEV) and book value of debt to book value of the total asset. The earnings before interest and tax divided by the book value of the total asset is called the return on asset (ROA). Firm size (FS) natural log of total assets. The measurement of cash ratio (CR) uses cash to the total assets.

GMM estimations will be utilized to test the following model.

Model: 1

$$\boldsymbol{DP_{i,t} = c + \beta_1 BSize_{i,t} + \beta_2 BINDP_{i,t} + \beta_3 INSIOW_{i,t} + \beta_4 INSTOW_{i,t} + \beta_5 AuditS_{i,t}}$$

Model: 2

$$\boldsymbol{DP_{i,t} = c + \beta_1 BSize_{i,t} + \beta_2 BINDP_{i,t} + \beta_3 INSIOW_{i,t} + \beta_4 INSTOW_{i,t} + \beta_5 AuditS_{i,t} + \beta_6 RR_{i,t} + \beta_7 LEV_{i.t} + \beta_8 ROA_{i,t} + \beta_9 FS_{i,t} + \beta_{10} CR_{i,t} + \varepsilon_{i,t}}$$

EMPIRICAL RESULTS

The descriptive procedure gives implications of the non- financial companies recorded at the Karachi Stock Exchange in Pakistan. Its corporate governance record (sum of the variables factors in corporate governance) is 8.9 with maximum 9 and minimum 8 in the sample of all the firms. Table 1 gives the test results of the GMM that contain corporate governance and dividend policy. The other types of variables that were applied in the review of corporate governance include the board (board size, board independence) and ownership (structure ownership, institutional, insider) along with the audit size. Coefficients of combined board characteristics and the board size and board independence indicate that the outcome model or the substitute model is potentially to fail in explaining the dividend policy to the extent of board characteristics. It also showed that the bigger the board in size and how independent the board is to the firm, the lower the dividend policy. Besides, all the efficiency of institutional and insider ownership are negative and significant but rather, it is positive and significant. Also, the results show that the coefficients of insider ownership have a negative relationship with audit size and their coefficients have significant effect as far as dividend policy is involved. This small measure of standard error of the mean in dividend policy is a better measure of the population mean. Insider ownership provides a bigger standard error of the mean and inaccurate measure of the mean of the population. The bigger the sample favors, the smaller standard error of the mean and an accurate value of the population mean.

Table1. C**orporate Governance and Dividend Policy**

Variables	Coefficient	Std. Err.	P>|z|
L1 dividend policy	-.0829283	.0003538	0.000
Board size	-152.5725	4.43078	0.000
Board independence	-40.30535	.4734661	0.000
Institutional ownership	-49.75751	16.29948	0.002
Insider ownership	302.6099	39.02813	0.000
Audit size	91.33248	12.49573	0.000

Table 2 provides evaluation implications of GMM estimation of the corporate governance and dividend policy based on dynamic panel data. The GMM estimations show that there is a negative significant correlation between the previous dividend variable and present disbursement, which means that the dividend policy continuity occurs. Board dimensions and independence have adverse effect on dividend payments hinting at the prospective that higher board size or the level of independence can take a cautious dividend policy, possibly as a result of more surveillance or risky intolerance. Contrary results are obtained as against (Zulfiqar Ali Shah, 2011) and (Iqbal, 2013). This has something to do with the ownership control perception. This study found that there is less of the level of cash dividends when the owners are more involved into its board of directors. The negative influence is particularly the board independence (Zulfiqar Ali Shah, 2011). Here belong to the results (Mirza & Malik, 2019) and (Iqbal, 2013). One of the reasons of this, though there are no strictly prescribed roles of directors in code of conduct, there exist a negative relationship between BIND and dividend decision in Pakistani corporate governance and Boards of directors of Pakistani corporations are likely to involve incompetent independent directors. Ineffective directors as a monitoring mechanism or poor governance leaders to companies and the probability of a decision to give a dividend are on the decline.

Table 2: Assessment Consequences of the GMM Estimation

Variables	Coefficient	Std. Err.	P>|z|
L1 dividend policy	-.0835535	.0027809	0.000
Board size	-93.66396	11.84149	0.000
Board independence	-106.0673	30.18177	0.000
Institutional ownership	272.184	66.86284	0.000
Insider ownership	252.8738	72.41893	0.000
Audit size	-23.04707	41.59468	0.580
Receivable ratio	2.511216	.6873373	0.000
Leverage	2.61e-08	1.29e-08	0.043
ROA	5.380558	.2209628	0.000
Firm size	335.1258	46.9977	0.000
Cash ratio	1.317957	.4561486	0.004

Institutional ownership has a significant positive relationship with dividend decision and the same outcome was provided by (Shaheen & Ullah, 2018). This makes stronger the idea that through institutional shareholders, want to get the firm profit as a dividend instead of keeping it, which is to reduce the agency costs and goes against (Ahmad, Khan & Khan, 2019) and (Bushra, 2015). This is because high ownership concentration in one organization reduces payout of the dividends.

Based on the results of the dividend policy, insider ownership is positively associated (Ullah et al., 2017) and (Zulfiqar Ali Shah, 2011). This is because the Pakistani firms which have higher number of owners in the board of directors pay high dividends in relation to Pakistani corporate structure. Alternatively, it can be inferred that the more insider shareholders the corporation has on the Board of Directors, the more likely it will pay dividends and contradicts (Hafeez Ahmad A. J., 2010), (Ehsan et al., 2013), and (Shaheen & Ullah, 2018) regarding the management willing to distribute the revenue to its shareholders as dividends and seeks reinforcement of the sense of its discretionary powers through limiting dividend payments to minority shareholders. When there is an increase in insider ownership in a corporation in Pakistan, the managers will be keen on taking undue advantage of power and control since there is no good regulatory role to counter the situation and thus embezzle the resources of minority stakeholders by refusing to pay the dividends and pocketing the money earned against individual interests.

In the case of control variables, the coefficient of the ratio of receivables or leverage is positively associated with the dividend policy against (Mirza & Malik, 2019), (Syed Zulfiqar Ali Shah, 2011) and (Ehsan et al., 2013). In Pakistan there is positive and Significant association of return on assets (ROA) with the dividend decision. These findings are coupled up by (Sajid Gul S. M., 2012) and (Bushra, 2015). It supports the argument that the companies can increase their chances of paying off the dividend as companies are sure of their expectations and promise of meeting the dividends coming their way very soon. Coefficient of Firm size, Cash ratio is positively correlated with dividend policy which is contradicting to (Mirza & Malik, 2019), (Ehsan et al., 2013), (Shaheen & Ullah, 2018) and (Bushra, 2015). The fact that the negative association exists between the size of the firms with Dividend distribution can be explained by the fact that the theory resuscitates the notion that Pakistani firms rather invest the cash flows in their projects as opposed to paying them out as Dividends. Also, being related to dividend payment is the issue of Company size which also matters a lot. The bigger the company the greater is the probability of retaining the free cash flows (FCFs) than retained dividend distribution with the aim to evade any liquidation of the assets as opposed to the difficulty caused by payment of debt. To refuse external costs of financing, such companies raise capital internally and often delays (dividends) pay-outs to shareholders.

Table 3 presents assessment consequences of the GMM estimation having corporate governance and dividend policy through the application of dynamic panel data as far as the shariah aspect is of concern. Coefficient of lag dependent variable (L1 dividend policy) has very much negative effect on dividend policy to sharia aspect. The negative effect of audit size, cash ratio and receivable ratio is insignificant in terms of sharia aspect. Conclusions, similar to the ones made by Derigs and Marzban (2009) indicate that beliefs are varied and that Shariah scholars contradict with the strategy that goes together with it. Some of them could be primarily attributed to the various legal (shariah) interpretations that scholars take, as well as to the difficulty of transforming the historical and oral sources of Shariah, into formal, calculable rules to be applied in a contemporary scriptive evaluation procedure and portfolio management (Derigs and Marzban, 2009). The heterogeneity in Shariah screens is another reason attributed to this inconsistency because such a problem is both considerate and anxious because it will compromise the number of shares in SECP and may lead to the occurrence of various sectoral assembly and financial demonstrations. A number of studies (Derigs and Marzban, 2009) compared the performance of traditional and SECP portfolio. Most of the previous research is founded on one set of screening criteria or fund-wide data, with the focus of the performance versus the traditional portfolios. The size of the board and the independence of the board are not important determinants of the positive influences on the dividend policy in shariah view of the picture and this indicates that neither of the two variables influences the dividend policy. Institutional ownership, Insider ownership, Firm size and leverage also show strong positive association in the dividend policy in respect of shariah that indicates that all these four variables have major effects in the dividend policy.

Table 3: Shariah (Islamic Law), Corporate Governance and Dividend Payout.

Variables	Coefficient	Std. Err.	P>|z|
L1 dividend policy	-1.057043	.042526	0.000
Board size (BSIZE)	114.5551	132.0685	0.386
Board independence (BINDP)	6.988986	48.22435	0.885
Institutional ownership (INSTOW)	192.545	89.30782	0.031
Insider ownership (INSIOW)	208.1738	10.9	0.0000
Audit size (AUDITS)	-14.19639	24.24469	0.558
Receivable ratio (RR)	-8.372555	7.633689	0.273
Leverage (LEV)	8.02	2.8	0.00638
Return on Asset (ROA)	-1.285382	4.245382	0.762
Firm size (FS)	137.1868	66.60432	0.039
Cash ratio (CR)	-.6011431	1.969354	0.760
Number of observations	107		
Number of groups	19		
Observations per group: min	0		
Average	5.63		
Maximum	8		

In the Arellano-Bond method individual effects are eliminated by calculating the first difference of the regression equation. Its differentiated lags are then instrumentalized by the deeper lags of the dependent variable (which are endogenous). Sargan/J test is a statistical test to obtain a probability of whether or not a statistical model over identifies limitations. Overidentifying restrictions test or the J-test uses the concept of additional instruments to test exogeneity. The Sargan test tests the feasibility of over-identification limitations and is founded on the assumptions that model parameters are recognized by limitations on coefficients.

Another test for Over-identifying limitations in a statistical model are tested using the statistical test called Hansen test: Arellano-Bond test for AR (1) in first differences: z = 0.03 Pr > z = 0.975

Arellano-Bond test for AR (2) in first differences: z = -1.16 Pr > z = 0.246

Sargan test of override. Restrictions: chi2 (25) = 14.28 Prob > chi2 = 0.957

Hansen test of override. Restrictions: chi2 (25) = 5.99 Prob > chi2 = 1.000

CONCLUSION

The goal of this study is to look at the dividend policies of companies that are listed in the KSE 100 and are divided into the firms with shariah stocks and firms with non shariah stocks. This study investigates potential distinctions in dividend policy between these two categories of companies. This study highlights the differential impact of corporate governance components on dividend policy across Shariah and non-Shariah-compliant firms. Institutional and insider ownership consistently promote dividend disbursement across both groups, while board-related variables show more nuanced effects. These findings underscore the importance of aligning governance reforms with religious and ethical investment mandates. According to GMM estimation technique with the perspective of shariah stocks and non shariah stocks both results are, the lag of dependent variable (L1 dividend policy) having significant negative impact on dividend policy. In non shariah stocks firms Board Size ((BSIZE) is significant negative impact on dividend policy which means that in larger firms where members of board are larger, less dividend is paid. While in shariah stocks firms, Board Size (BSIZE) is insignificant explains that larger board do not affect dividend payout policy. In non shariah stocks firms Board independence (BINDP) is significant negative impact on dividend policy which means that in larger firms where independent directors in board are more, less dividend is paid. In non shariah stocks firms Board independence is insignificant which shows that either independent directors are more or less, they don't affect the dividend payout policy.

In non shariah stocks firms and in shariah stocks firms' institutional ownership (INSTOW) significant positive having impact on dividend policy which explain that more institutional owners require more dividend payment either in conventional board or shariah board. In non shariah stocks firms and in shariah stocks firm's insider ownership (INSIOW) significant positive having impact on dividend policy which shows that more insider owners (management and directors) require more dividend payment either in conventional board or shariah board. In non shariah stocks firms and in shariah stocks firms audit size (AUDITS) insignificant negative having impact on dividend policy. For control variables, in non shariah stocks firm's receivable ratio (RR) is significant positive impact on dividend policy, while in shariah stocks firms, receivable ratio is significant negative. In non shariah stocks firms and in shariah stocks firms leverage (LEV)**,** significant positive having impact on dividend policy. In non shariah stocks firms return on asset (ROA) **i**s significant positive impact on dividend policy the rationale behind this more profit leads to more dividend payout, while in shariah stocks firms, return on asset (ROA) is insignificant.

In non shariah stocks firms and in shariah stocks firms' firm size (FS)**,** significant positive having impact on dividend policy explanation behind this perspective is that larger firms means larger boards require more dividend payment either conventional board or shariah board. In non shariah stocks firm's cash ratio (CR) is significant positive impact on dividend policy shows that more free cash flows different owners require more dividend, while in shariah stocks firms, cash ratio is insignificant.

In this study, we attempted to cover as many CG criteria as possible that are relevant to the payments of dividends for the complete satisfaction of all corporate stakeholders in the enterprises listed on the Karachi Stock Exchange. Corporate Governance is not operating well in Pakistan. The management of KSE-100 index listed enterprises must ensure about three things: efficient growth, alignment of the firms' governance with the corporate governance code 2012 of Pakistan, and complete satisfaction of all stakeholders. The results of governance procedures should also substantiate the idea that the entire market acquires accurate information regarding the firm's governance practices so that: The board and firm management should engage intentional conversations about business issues with all stakeholders and security holders in the financial community. KSE-100 listed index companies are required to define and disclose the responsibilities of the corporate board and management, as well as to make it obvious that the board's performance is tracked and evaluated. Listed companies must have formal, independent confirmation and safe-conduct the truthfulness of reporting. Listed companies must ensure timely, accurate disclosure of all matters relating to them that a reasonable person would presume to have a significant impact on the value or price of securities. Listed companies are required to set up a thorough framework for risk management and periodically evaluate its efficacy for the company's recognition and good name. The firms must pay a significant amount as per the most crucial advice. Amount of compensation to entice and retain the best directors, determine their increments in pay to encourage them and connect their interests with the development of value for each company's stakeholder. Shariah firms must recruit the highly qualified shariah scholars in their boards and use optimized shariah screening measures for shariah stocks for their efficient working.

The present study is grounded on the KSE 100 index, which includes 44companies from 2009 to 2019 of three sectors sugar, fertilizer and automobile. These restrictions apply to this study. First, it is impossible to gauge how strongly a manager follows their religion. Therefore, we cannot rule out the potential that managers' personal religious observance influences our results. Second, data accessibility prevents us from fully considering the managerial attitude toward risk, which may potentially influence dividend policy. Third, to improve the study's sample size, more sectors could be included. Further classification of audit size can also be utilized for example independent directors and dependent directors are included in audit committee to investigate the dividend payout behavior of Pakistan's listed companies with respect to shariah and non shariah.

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