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The Impact of Outside Directorships on Dividend Payout: Evidence from Distressed and Non-Distressed Firms

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Abstract
This study determined the impact of outside directorship on dividend policy in non-financial firms based on a sample of listed firms available on PSX over a five-year period (2016-2020). Other control variables that are used in the study are profitability, liquidity, firm size, growth opportunity, insider ownership, and asset tangibility and borrowing ratio. Bird in hand theory and agency theory are applied to support our study. The study incorporates all the Pakistani non-financial firms that have paid dividend two times in five year period. The research model uses a panel dataset of 152 PSX-listed family firms over the period 2016–2020. Further annual reports and balance sheet analysis are used for the data of variables. The empirical results show a significant negative effect of outside directors on dividend decisions. Some control variables show a significant positive impact on dividend payout. Random effect logit regression and correlation matrix are used to get the results through stata. The findings imply that when a company has a larger number of outside directors on its board, it pays smaller dividends. This evidence supports the replacement hypothesis, according to which companies with poor corporate governance must develop a reputation by providing dividends. In other words, dividends serve as a stand-in for independent board members. This finding provides policymakers with new information about agency conflicts of interest within the firm. It also gives information on the effectiveness of various replacement methods for lowering agency costs.

Keywords: Dividend Policy, Outside Directorship, Non-financial firms, Pakistan

1. Introduction

We use agency theory to see if independent directors and dividend payouts are substitutes or complements for decreasing agency problems in company. The most talked-about topic in CG is dividend policy. Dividend was dubbed "Puzzle1" by Black in 1976. Because dividend behavior is dependent on more than one factor, black called to dividend is a "Puzzle" in emerging unanimity. According to studies by (Bushra, 2012) and (Afza and Mirza, 2010) as well as other academics, there is no single element that may explain dividend policy behavior; it is a function of investor behavior that changes over time. The payout policy relates to how much a corporation will pay out in dividends to its shareholders.Dividends were historically used to keep executives from wasting free cash flow on unprofitable projects. Conflicts emerge between the corporation and external stakeholders, according to Jensen (1986), when there is insufficient investment opportunity, generating cash flow concerns. This logic is similar to that of the research team led by (Easterbrook, 2014; Zwiebel, 2000). High-paying dividends, according to Rozeff, aid in the resolution of such issues. According to Jensen (1986), a dividend might lower agency costs by

allocating free cash flow, whereas over management would invest in failed schemes. Lintner and Gordon strengthened the "Bird-in-Hand" concept in an unexpected way. A company's high value is tied to its dividend policy. The broad discussion of this issue has resulted in a large corpus of financial literature. Dividend policy is one of the most important ideas in finance because it is directly linked to shareholders. Dividend policy refers to the board of directors' decisions on dividends and retained earnings. Dividend payment laws have been a source of debate and inquiry for a long time. Dividend processes are one of the most important corporate policy decisions made in Pakistan, as they are viewed as recompense to shareholders for their part in collecting funds for a firm and accepting the risks that come with it.

The majority of finance research looks at samples of organizations that are both healthy and financially challenged (Skinner, 1993; Pourciau, 1993). Dividends, according to the bulk of these research, have a similar influence on healthy enterprises. According to these studies, the cost of managing income is the same for both types of organizations. Some research employing samples stratified by financial situations suggests that different bonuses have differing financial consequences in financially insecure organizations. A few studies in the literature have looked into the enticements of dividend payment policies in healthy businesses. A member of a company's board of directors who is neither an employee nor a shareholder is known as an outside director. Outside directors are more likely to offer objective advice. Outside directors are better for the company in theory because they have fewer conflicts of interest and are more likely to understand the broad picture than insiders. Outside directorships on boards of directors are also viewed as a good way to resolve internal conflicts of interest (Bathala and Rao, 1995). Outside directorships would aid in the oversight and control of executive directors' actions, while also reducing agency costs (Jensen and Meckling, 1976). The purpose of this paper is to see if outside directorships and dividend payouts are complementary or alternative techniques to cutting agency costs. Although study into this issue has been conducted in the United States, the results have been mixed.

Outside directorships and dividend payouts are associated to see if they are equivalent for mitigating agency problems in the distressed and non-distressed firms (non-financial firms). Amount distributed is regarded to be one of the most effective strategies managers may use to remove agency conflicts in organization. Amount given out lessen internal management problems for some reasons. First, free cash flow (FCF) is not reduced due to dividend payouts and is not available for insiders to spend on projects that benefit them at the expense of shareholders (DeAngelo et al., 2006). Second, because amount paid out upturns the chance of fresh common stock issue, firms are subjected to more regular capital market inspections. Independent directors are valuable tool for resolving internal conflict of interest. Independent directors monitor and oversee the behavior of inside directors, cutting agency expenses (Jensen and Mackling, 1976).

The goal of this study is to determine impact of Independent directors on amount paid out are complimentary or substitute approaches for minimizing the expense occurring between the owners of the business and people who are managing their business. The literature in the United States has looked into this topic, but the conclusions are varied. So we have conducted this research in Pakistan in non-financial firms to further see the results.

The purpose was to see if both dependent and independent variable are complementary or substitution techniques for lowering agency costs. Our findings reveal that there is a negative association between dividend policy and the number of outside directors on the board of directors, implying that companies with a higher number of outside directors on the board are more hesitant to pay bigger dividends. The "substitute hypothesis" is supported by this research (La Porta et al., 2000). Substitute hypothesis means that there is a relationship between outside directorship and dividend payout. If they had no relationship then it would be null hypothesis. The study contributed to the literature in three dimensions in a significant and original way. First and foremost, this is the first set of thorough assessments that take into account all known criteria that could influence dividend decisions in distressed and non-distressed firms. Second, it makes use of a large-scale dataset that spans a 5 year time period. Finally, impact of ownership structure is seen in Pakistan (Ilyaas, 2016) but there is still no research done on outside directorship in Pakistan so it will contribute to literature. This is the first study that we are aware of that shows association between dividend distribution and outside directorships in Pakistan.

1.1 Research Gap

Although research has been done in different countries but there is not much research done in Pakistan on outside directorship and dividend payout in distressed and non-distressed firms (Non-Financial firms). Impact of ownership structure on dividend payout (Ilyaas, 2016) has been done in Pakistan on non-financial firms. Impact of dividend policy under mediation of agency factors on firm characteristics (Tayyaba Ashraf, 2020) is another study recently done in Pakistan. Since there is no study related to outside directorship on Pakistan so this would be gap that we tried to fill and it has provide literature for future researches.

1.2 Problem Statement

Since research on distressed and non-distressed enterprises is conducted in different nations, there is no study on distressed and non-distressed firms in Pakistan (non-financial firms). Non-financial enterprises in Pakistan are family-owned, which creates an agency problem. Because of the agency problem, companies are unable to pay greater dividends. As a result, their dividend payout is modest.We'll explore if independent directors in distressed and non-distressed enterprises (non- financial firms) can assist decrease agency costs in our study.

1.3 Research Question

A. What is the impact of outside directorship on dividend payout in distressed firm?

B. What is the impact of outside directorship on dividend payout in non-distressed firms?

1.4 Research Objective:

A. To find out the impact of outside directorship on dividend payout in distressed firm?

B. To find out the impact of outside directorship on dividend payout in non-distressed firm?

1.5 Significance of Study

The majority of previous studies examined the relationship between dividend payout and outside directorship were undertaken in different nations. In Pakistan, some research has been done on financial enterprises, but there is less evidence on non-financial firms. Our research strategy, on the other hand, would look into the influence of outside directorship on dividend payouts in both distressed and non-distressed companies (Non-Financial Firms). Furthermore, this study will aid in the understanding of how various factors affect dividend payouts in distressed and non-distressed companies. Similarly, the research would be extremely valuable and beneficial to academics. This report will supply academicians with literature for future research because there is no proof about non-financial enterprises. Stakeholders would benefit from this research as well. As they will be able to check whether or not a non-financial corporation pays dividends before investing. Is the firm paying a high or low dividend? Furthermore, corporate governance codes will be used to improve the corporate policies. If independent directors in distressed and non-distressed firms are effecting positively then government agencies could increase independent directors in firm. So this study will help corporate policy makers in making policy decisions.

2. Literature Review

2.1 Dividend Payout

Despite the fact that dividend payout is an important economic choice, it remains a conundrum in corporate finance. Many studies have looked into how useful dividends are for investors in forecasting a company's future success (Hanlon et al., 2007), while others have looked into why corporations pay dividends. For a long time, the study of the factors that influence firm dividend behavior has been a hot topic in finance research. Business-specific characteristics (such as profitability, liquidity, company size, and growth potential) and corporate governance elements have been included in previous research as key determinants (such as insider ownership and outside directorships). Our models use common characteristics that have been contested in past research to determine dividend distribution policy (Aivazian et al., 2003; Ho, 2003). Traditional agency-cost theory arises from conflicts of interest between shareholders (the principal) and management, based on Berle and Means' (1932) notion of the modern company, in which capital is divided among small shareholders but control is concentrated in the hands of managers (the agent). Numerous studies of principal–agent conflict (originally created by Jensen and Meckling, 1976; Easterbrook, 1984; Jensen, 1986) in the corporate dividend policy literature imply that cash dividend

payments help minimise agency conflicts between management and shareholders. Indeed, according to Easterbrook (1984), paying big dividends diminishes internal capital available for managers' discretionary usage, requiring them to seek external financing to meet the financial demands of new projects. Similarly, it is proposed that shareholders want large dividend payments to decrease the amount of free capital that management may utilise unprofitably, for as by investing in negative NPV projects or making rash purchases (Jensen, 1986), or misappropriate for their personal gain (Jensen and Meckling, 1976).

Independent directors on the board keep an eye on the directors' decisions. According to agency theory, independent directors are a useful tool for monitoring executive directors' conduct and, as a result, reducing agency conflicts of interest within a firm (Jensen and Meckling, 1976; Jensen, 1993). Independent directors may be able to provide good governance by scrutinising directors' actions and restraining their opportunistic behaviour due to their independence from business management and strong incentives to advertise their directorial reputation and knowledge to the market (Westphal, 1998; Anderson and Reeb, 2004). (1983, Fama and Jensen). As a result, they may be better positioned to protect the interests of outside shareholders, especially in developing countries where minority investors are not fully protected by law. When independent directors have control over holdings, minorities' interests are best protected. As a result, if independent boards have the capacity to monitor and regulate CEO behaviour, they will diminish the necessity for cash dividends as an internal disciplinary tool for corporate executives. This means that board independence and dividend distributions can be used to mitigate agency issues in family businesses.

Companies, on the other hand, avoid appointing directors who might jeopardise their control, and thus frequently seek to diminish independent director representation and/or effectiveness (Shleifer and Vishny, 1997; Anderson and Reeb, 2004; Setia-Atmaja et al., 2009). If independent directors believe that their direct oversight of management is ineffective, they may urge for large dividend payouts to reduce the amount of internal funds that can be manipulated to the detriment of outside shareholders. As a result, it appears that independent directorship and dividend policy are complementing tools for reducing such conflicts. The above discussion clearly illustrates independent directors' important role and their crucial impact on dividend policy to balance controlling power and mitigate problems between directors and shareholders in countries with poor legal protection.

The number of non-executive directors on a board of directors is equal to the number of outside directors. This variable was chosen because it has previously been established as a key factor of dividend policy (Schellenger et al., 1989; Kaplan and Reishus, 1990; Bathala and Rao, 1995; Cotter and Silvester, 2003; Belden et al., 2005; Borokhovich et al., 2005). These factors are briefly explained in the next paragraphs. We'll start with the variable that we're most interested in. Then we'll look at some other elements that may influence dividend policy.

The study of the factors that influence company dividend behavior is a popular topic in many researches. Profitability, liquidity, firm size, growth opportunity, and insider ownership are some of the elements that are considered control variables. Our models' chosen criteria are based on the standard factors that have been debated in previous writings in order to conclude profit paying t technique. Outside directorship is our independent variable whose relationship with dividend payout we will investigate. Independent directors are defined as the total directors on a company's senior management team. We chose these factors because previous research has identified it as major element of profit paying out plan.

2.2 Outside directorships on the board:

This figure represents the total number of non-executive directors on the board. Outside directors on the board of directors, according to Belden et al. (2005), are thought to minimize the firm's agency costs. It was also stated in his article that shareholders' interests are also protected and represented by outside directors. As a result, the more independent directors a company has, the higher the amount of dividends it is willing to pay. This is in line with the findings of Kowalewski et al. (2007), who discovered that when insider directors were on the board, shareholders preferred dividends because they were concerned about how management would allocate their earnings.

Furthermore, a high debt ratio, according to Bathala and Rao (1995), indicated a significant risk, resulting in an agency dilemma. Non-executive directors should be added to the board of directors to defend shareholders' rights. A relationship between board independence and dividend payout % has been identified

in several studies (Jiraporn et al., 2008; Borokhovich et al., 2005; Bathala & Rao, 1995). Al-Najjar and Hussainey (2009a) looked at the relationship between dividend payout and independent directors in a survey of 400 non-financial UK enterprises. There was a link between the number of outside directors and dividend disbursements, they discovered.

Furthermore, according to Cotter and Silvester (2003), managers should declare their interests to shareholders in order to settle the interest conflict between them and their shareholders. Managers should enhance their stock ownership, and enterprises should boost the payout ratio and leverage ratio, according to the authors. They did, however, look into the dividend payout and the number of independent directors and discovered no link.

Since the publication of M&M's (1961) original study on dividend irrelevancy, a lot of work has gone into identifying the components of dividend payouts. The agency hypothesis is an important concept that has been thoroughly investigated in the literature and proven to be correct. To understand out what factors might influence dividend payouts, we apply agency theory. Senior administration make financial choices for company. Shareholders, not the company, own the earnings. If business insiders have priorities that differ from those of the shareholders, the firm's shareholders will face the expense of decisions. Managers profit handsomely from principled and self-interested actions, while shareholders pay a high price as a result of these decisions. Dividend distribution is one of the most successful ways that managers can utilize to alleviate agency conflicts within the firm, according to the agency theory literature (Rozeff, 1982; Bathala and Rao, 1995). Agency conflicts are reduced due to dividend payout within the firm for some reasons. The FCF payment reduces the dividend possibly used for their own purpose at stakeholder cost. (Grossman and Hart, 1982).

Previous researchers have inspected association of profit payout and independent directors on governing body. In any case, the outcomes are blended. In Bathala 1995, creators explored the causes of board synthesis in organization hypothesis structure. Specifically, they inspected the degree to which board structure subs for elective organization instruments like obligation, profit strategy and insider proprietorship. In light of an example some out of the country companies in late 80’s, they tracked down a adverse relationship of chiefs and profit strategy.

Also, Borokhovichetal. (2005) analyzed the relationship of freedom of chiefs on sheets and profit paying as an example of international firms. The aftereffects of past examinations showed that when a firm have enormous number of outside chiefs utilized on the board, they deliver lower profits. All the more as of late, a researcher utilized an example of international firms with example time frame of 2 years to inspect a similar concern. As a result, Organizations using additional external chiefs on sheets deliver greater profits. At last, review by renowned author tried affiliation of autonomy of chiefs with profits paying out for international business. Summarizing previous research we will inspect a similar issue of the effect of outside directorship on profit payout. No examination has analyzed the elements that may influence the profit payout. The investigates disregard various elements that could influence profit payouts like company's size, development that could influence firm's choice to deliver profits. A portion of these studies have some strategic issues (for example the utilization of a basic connection examination in Schellen (1989); the utilization of occasion concentrate. At long last, these researches depend on international information, apparently, this exploration issue has not been investigated in the Pakistan. In view of the blended outcomes, we would reconsider effect among profits paying and the quantity of external chiefs on loads up for test of Pakistani non-monetary firms covering longer timeframe. We will likewise consider all potential factors that may influence profit choice. We will utilize distinctive measurable tests to inspect our speculations.

2.3 Profitability

This might be described as a company's ability to make money. The current earnings of the corporation determine the dividend payment ratio (Baker and Powell, 2000). The higher the earnings, they asserted, the higher the dividends given to investors. According to Al-Najjar and Hussainey (2009a), the firm's profitability has a significant impact on the dividend paid to shareholders. When a corporation expects less cash flow in the future, however, management decides to pay smaller dividends today in order to deal with future changes, according to Bradley et al. (1998). Furthermore, according to Kowalewski (2007), businesses with higher earnings and fewer investment options paid higher amount out.

Dividend policy has historically been influenced by the extent of a company's profit. When the company has produced enough profit to warrant dividend payments, the board of directors usually recommends that they be paid. Profitability is one of the most important factors that has a direct impact on dividend policy. Kuwari Al-Kuwari Al-Kuwari Al-Ku (2009). According to Pruitt and Gitman (1991), current and prior year profitability, as well as year-to- year and prior-year dividends, are all critical elements that determine dividend policy. As a result, firms who earn more profit are more likely to pay dividends than non-profitable companies (Eriostis and Vasiliou, 2003; and Ahmed and Javid, 2009). There may be a link between dividends and profitability, according to Gill et al (2010). As a result, the impact of profitability on dividends changes sign after a certain level of profitability.

The net effect of a set of policies and decisions is profitability (Brigham, 2014). A company's viability can only be maintained if it is lucrative. In general, profitability refers to a company's ability to profit from all available resources and capabilities, such as sales activities, cash, capital, number of employees, number of branches, and so on (Harahap, 2013). In other words, profitability is a measurement of a firm's ability to produce profits or of the efficacy of its management, where the ability to earn profits can be measured using the company's own capital or all of the funds invested in the company (Wiagustini, 2010).

Past analysts have found that firms who are productive, deliver profits to show their great financial execution (Chang and Rhee, 1990; Ho, 2003; Aivazian et al., 2003). Similarly, the hierarchy hypothesis shows that firms utilizes venture open doors in a specific request: with the held profit and with obligation financing and in conclusion from outer assets. Assuming the expenses of giving obligation and value are thought of, then, at that point, firms who earn less profit are not capable to deliver profits. Firms who earn more profit find it more important to deliver profits in this manner, and they will be more willing to have retained income.

2.4 Liquidity:

Liquidity estimates how much a firm can meet its payment requirements. It is viewed as a significant component that impacts the firm's capacity to deliver cash profits. Firms that have high liquidity proportions for example firms with huge measure of money accessible and almost cash resources, deliver a greater number of profits to investors with large amount of cash. The positive connection among liquidity and money is upheld by past writing and flagging hypothesis (Ho, 2003).

The factors that influence dividend payout have been the subject of numerous research. There are few studies that look at the impact of information on dividend payouts. There are few research that look into the informational influence of liquidity on dividend payout. Deshmukh (2005) uses a log of an analyst following a firm as a proxy for information asymmetry in a pecking order paradigm to investigate the relationship between knowledge asymmetry and dividend payout.

Hussainey and Walker (2009) studied the same issue using a different proxy for distorted information on share price anticipation of results (voluntary future oriented disclosure in financial reports). Optional future disclosure and dividend payouts, they believe, are two more avenues for stock market investors to receive connected information (i.e. shareholders). The findings are in line with signalling theory. Hussainey and Al-Najjar (2011) investigated the relationship between future oriented voluntary disclosure and dividend policy in order to re- validate Hussainey and Walker (2009)'s findings by adjusting for other factors that influence corporate dividend levels. They establish a strong direct link between dividends and voluntary disclosures.

Dividends and liquidity are inextricably linked, and companies that pay out dividends must evaluate their liquidity status. Free cash flow, or the amount of operational cash flow left over after capital expenditures have been paid, is used to determine cash dividends. If the cash dividend is less than the free cash flow, the firm has residual cash; if the cash dividend is larger than the free cash flow, the firm requires financing to meet the cash dividend need, according to Liu and Hu (2005). According to Amidu and Abor, cash flow and dividend payment ratios have a favorable relationship (2006). Cash flow, according to Anil and Kapoor (2008), is a major factor of dividend payout ratio. Dividend payments are more dependent on cash flows, which indicate the company's ability to pay dividends, than on current earnings, which are less influenced by accounting practices, according to Alli et al (1993). They claimed that the company's existing

earnings do not accurately represent its ability to pay dividends.

According to Ross, Westerfield, and Jordan (2011), young and unprofitable firms tend to pay low dividends due to low liquidity, as much of their earnings are used for investment; however, as the firm matures, it generates cash flows in excess of what is required to fund profitable investments, and this surplus must be distributed as dividends to shareholders to avoid agency problems. Watson and Head (2007) show that a firm's liquidity must be examined before it can pay dividends, refuting the misconception that a profitable company can afford huge payouts. They explained that earnings are not the same as cash, and that the amount of dividends paid must reflect both the company's ability to pay dividends and its profits. According to Okpara (2010), liquidity has a positive impact on the dividend payout ratio. Investors should not be concerned about future dividends or capital appreciation, according to Miller and Modigliani (1961). (Dividend Irrelevance Theory). Despite being one of the most important in finance, this theory presupposes that markets are frictionless and that trade costs are neither direct nor indirect. Despite the fact that trading friction is common in financial markets, Banerjee et al. (2007) argued that it may lead one to believe that the more liquid a company is, the better, and that investors do have a dividend preference based on liquidity. Investors' liquidity needs are met by dividend-paying stocks. This is especially true for thinly traded stocks, where buyers may have to wait a long period or accept a potentially lower price. According to Graham and Koski, information asymmetry impacts liquidity depending on whether information travels freely among all market participants, and so market reactions vary based on whether an event's timing is known in advance (2006).

2.5 Firm size:

The decision to pay dividends to shareholders is believed to be influenced by the company's size (Al-Najjar and Hussainey, 2009a). As a result, huge firms, according to Ho (2003), are better able to pay dividends than smaller corporations. This corresponds to the findings of Aivazian et al. (2003), who discovered that larger enterprises have easier market access and are expected to pay higher dividends.

For statistical tests, firms can be classified according to their size. We shall use absolute resources as a firm size option in our research study. T turned into a critical variable in past writing to disclose the firm's choice to deliver profits. All the more specifically, Holder et al. (1998), contended that huge companies are bound to be established and simpler admittance to capital business sectors, and ought to have the option to deliver more profits. This demonstrates that enormous firms can stand to deliver higher profits than the more modest ones. Finally, they stated that firm size can set a record for the cost of outside obligation finance, and that firm size and profit strategy have a positive relationship, implying that large enterprises will have lower giving expenses.

2.6 Growth opportunities:

Growth refers to a company's ability to maintain its current level of growth at a rate that is expected to be higher than that of competitors (Al-Najjar & Hussainey 2009a). Companies having a high growth potential, according to Ho (2003), are more likely to invest in new expansion initiatives. As a result, the dividend paid to stockholders would be cut. Rhee and Chang both came to the same conclusion (1990). More expansion potential, they asserted, demanded more finance. As a result, rather than paying dividends, earnings are retained. Myers and Bacon (2004), on the other hand, asserted that companies require an excess of equity capital to support expansion, and that they will use debt to distribute dividends in order to convey a positive signal that reflects the company's successful performance. They came to the conclusion that bigger dividend payouts corresponded to greater growth chances.

This idea relates to the point at which a company promotes development at a speed that is considered high in association to other companies. In previous research, the growth possibilities variable was used as a key determinant of profit strategy. According to a study, organizations with high growth potential have a stronger need for assets to fund expansion, and are more likely to hoard profits rather than release them as profits. Other academics, such as Myers and Majluf (1984), believed that firms with more growth would be expected to have unique speculating chances, and as a result, they predicted low-profit instalments for high-development firms.

2.7 Insider ownership:

The percentage of a company's normal offer held by insiders as a percentage of the number of exceptional offers is known as insider ownership. In previous studies, this variable was extensively used as an element of profit strategy (Mehar, 2002; Al-Malkawi, 2007). Mehar (2002) hypothesised and discovered that if a business has a high concentration of ownership, the odds of profit are higher since profits will go into the pockets of the top executives. If a significant quantity is delivered as a profit to outsiders, the chances of profit instalment are slim. Chiefs will be compensated for this scenario through the leader compensatory benefits. The chiefs consider how they might increase their profit, either through profit or by remuneration for their leaders. Al-Malkawi (2007), on the other hand, calculated and observed that insider ownership is negatively related to profit strategy. He said that if the amount of insider ownership is increased, the company's expenses may be reduced. As a result, there is no requirement for companies with larger inside directors to use profits as a tool to reduce office costs.

2.8 Asset Structure:

By dividing tangible assets by total assets, the asset structure is derived (Al-Najjar and Hussainey 2009a). In other words, total assets divided by total fixed assets = total assets (total assets minus current assets). Aivazian et al. found a negative relationship between business tangibility and the amount of dividend paid to shareholders (2003). Their reasoning was that increased asset tangibility resulted in fewer short-term assets, causing banks to refuse firm loans. As a result, the dividend payment amount will be altered. This is consistent with Al-Najjar and Hussainey's (2009a) finding that the dividend and tangibility have a negative relationship.

They claimed that greater tangibility equates to a lower short-fixed asset. As a result, the corporation will be forced to rely on long-term debt and will have to pay dividends from earnings. As a result, because the company intends to spend its funds elsewhere, the dividend will be decreased. A corporation with more fixed assets and lower reported debt has tax benefits, according to Koch and Shenoy (1999), and is more likely to employ dividend policy to foster asymmetric information. As a result, a corporation's tangibility and dividend policy have a positive association.

Total assets minus current assets divided by total assets is asset structure. This definition is consistent with previous research (Aivazian et al., 2003). According to Koch and Shenoy, firms with more tangible assets have higher tax benefits without relying on debt, and hence may be more ready to use dividend policy to reduce information asymmetry and agency costs (1999, p. 26).

As a result, a favourable relationship between the company's asset structure and dividend payout is expected. On the other hand, Aivazian et al. (2003, p. 381) observed that asset tangibility had an inverse relationship with dividend distribution. They asserted that banks have fewer short-term assets to lend against when assets are more tangible. As a result, businesses operating in more primitive financial systems, where short-term bank financing is the primary source of debt, confront financial limits. Ho has also backed up this negative association between asset tangibility and dividend distribution (2003).

2.9 Debt Level:

Debt level is defined as total debt represented as a percentage of shareholders' funds. The total debt is presented below as a percentage of the shareholders' fund. It also determines how much money a corporation receives from other sources (Al-Najjar & Hussainey 2009a). The debt ratio of a corporation is thought to be one of the most critical elements in deciding whether it will pay dividends or not (Jensen et al., 1992; Aivazian et al., 2003). A corporation with a low debt- to-equity ratio is more likely to pay dividends, they said. This fact supports the agency theory, as the company is required to pay dividends due to the low debt stated in its financial statements (Al-Najjar & Hussainey 2009a). Chang and Rhee (1990), on the other hand, demonstrated the inverse effect when they stated that the corporation employed debt to distribute dividends. As a result, the larger the debt-to-equity ratio, the higher the dividend paid to shareholders. The corporation would wish to convey the investor that the company is in good shape, which is backed by signaling theory.

Borrowing ratio determines how much of a company's funding comes from outside sources. Dividend payments and capital structure, according to agency models, can help to mitigate data irregularity issues. Dividends and borrowing ratios can be utilised to keep cash flow under control and reduce agency

problems. As a result, there is likely to be a negative relationship between dividend policy and capital structure. Jensen et al. (1992) and Aivazian et al. (2003, p. 380) both argued that a company's leverage is a crucial factor to consider when deciding whether or not to pay a dividend. They established a relationship between the leverage of a corporation and its payouts. According to the research, "companies with less debt and more tangible assets have more financial slack and are better able to pay and retain dividends." Companies with a low debt-to-equity ratio are more likely to pay bigger dividends, according to this data. The agency costs theory of dividend policy backs up this conclusion. Chang and Rhee (1990, p. 23) discovered a positive relationship between leverage and dividend policy, implying that companies borrow money to pay dividends. Firms with high payout ratios are usually financed with debt, whereas those with low payout ratios are usually financed with equity.

2.10 Theories:

2.10.1 Bird in Hand theory:

Gordon and Lintner's "Bird in Hand Theory" asserts that the present dividend value determines the firm's value. Gordon's mathematical model was used to determine a company's market worth based on its payment strategy. The goal of this strategy is to ensure that the value of a company's stock does not exceed its current and future amount payouts. The argument illustrates why "having a bird in hand (dividend) is preferable than having a bird in the bush (capital gain)" because dividends are safer than capital gains since they reduce future cash flow risk. Dividends are preferred by investors above capital gains (Amidu, 2007). Dividends and capital gains are not exact equivalents for each other (Tversky, 1982).

Dividend payments by a company might help to alleviate cash flow uncertainty by bringing cash in from shareholders (Manos, 2001). However, in a perfect market with rational investors, this model fails. According to Hanafi (2016), the Bird in the Hand Theory, also known as the high-paid dividends theory, dividend payments minimise uncertainty, which reduces risk, and hence lowers the rate of return required by shareholders. High payouts will help to alleviate uncertainty and agency conflicts between shareholders and managers.

2.10.2 Agency theory:

(Rozeff, 2015) claims that shareholders pay for managers' behavior training, which is done implicitly to prevent friction between shareholders and management. To ease the tensions between shareholders and managers and align their interests, the manager's finances may be reduced. When a company's cash flows are excessive and it needs to invest them, an agency problem occurs because the company is focused on its own interests rather than the interests of its shareholders. Managers must make decisions in the best interests of shareholders to alleviate agency difficulties (Da Silva, 2004). Shareholders oversee management, and the cost of this monitoring is borne by the agency. In this case, the dividend is a way to reduce the cost. Large dividend payments limit a company's cash flow, forcing it to raise capital market funds (Kent.H, 1999).

According to Richardson R, relevant evidence will be communicated to market participants through changes in dividend stages. When there is possibility of fcf and it is appropriate to keep the higher payout rate, firms are interested in increasing dividends, however when cash flows are insufficient to keep dividend rates, dividends are reduced, and dividend payments may be used as a method of signaling the firm's ability to liquidate and making money power. Until the degree of cash flows can be validated, management's dividend omission offers the image of a robust institution.

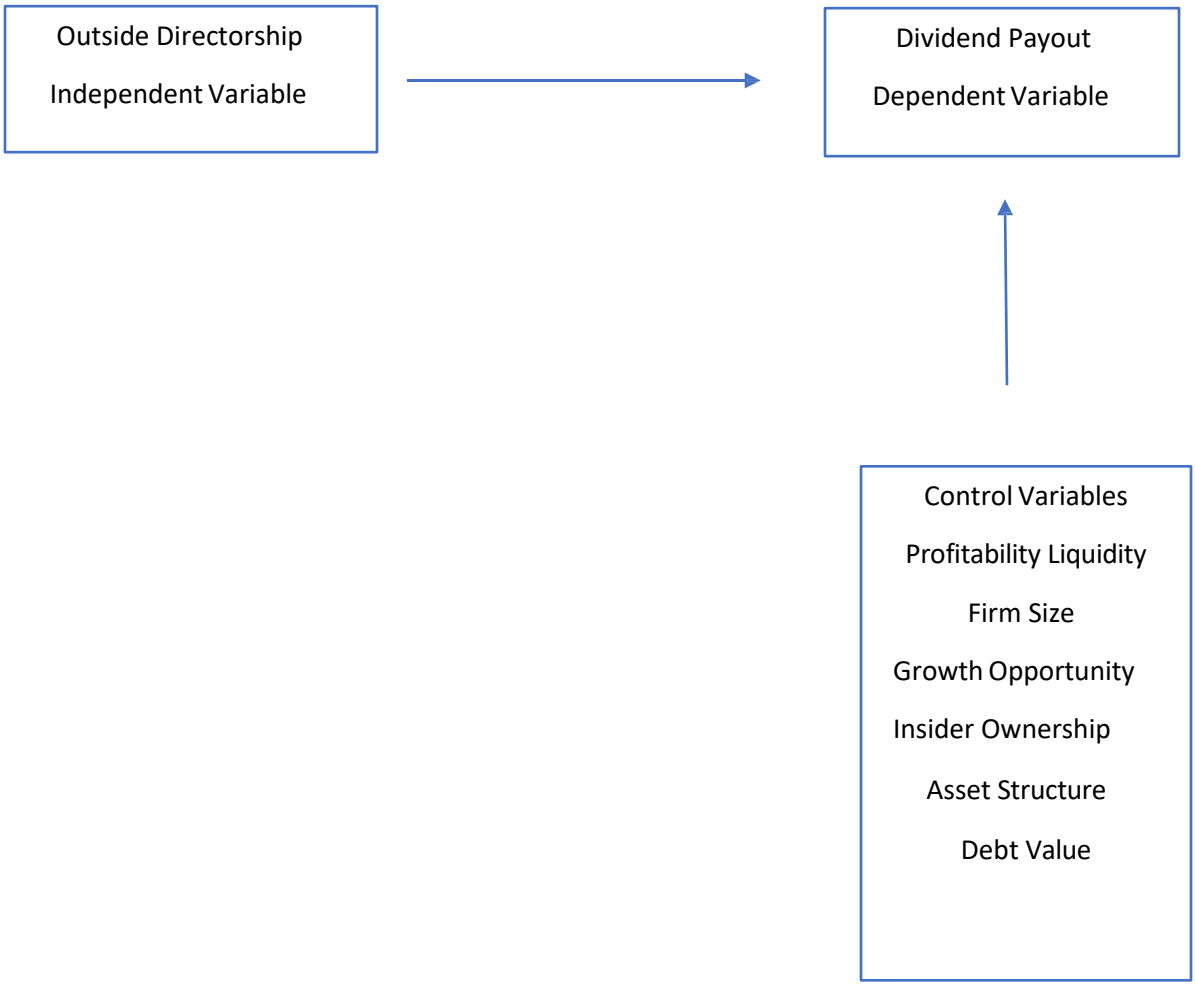
2.11 Hypothesis:

The null hypothesis (no difference, no effect) is tested to see if it can be accepted or rejected using hypothesis testing. If the null hypothesis is rejected, the research hypothesis might be accepted. The justification for the model's rejection or acceptance of the hypothesis is the hypothesis. The majority of the researchers (Duarte Alonso et al., 2018) discovered the hypothesis on previous examinations that were not explained by the current studies or hypotheses. It can be clearly observed that outside directors has significant negative impact on dividend policy. So we can say that there is a relation between then. Other control variables are analyzed and their results show both significant and insignificant impact on dividend

payout in distressed and non-distressed firms.

H1: Increase in outside directorship has negative and significant impact on dividend payout in distressed firms.
H2: Increase in outside directorship has negative and significant impact on dividend payout in non-distressed firms.

2.12 Conceptual Framework:



3. Methodology

The focus of this research is on the effect of outside directorship on dividend payout in Pakistani distressed and non-distressed companies. Only the non-financial sector is considered in the analysis, which spans the years 2016 through 2020. The sample, the data, and the models/tests used for analysis are all covered in this chapter.

3.1 Sample:

All businesses that aren't in the financial services industry are included in this study. As a result, this study focuses on non-financial Pakistani companies. Companies in the study's final sample are those whose data for the chosen variables is kept for the duration of the investigation. Financial services companies with missing data for the relevant variables are excluded from the analysis. The current study's forecasting period spans the years 2016 to 2020. As a result, 152 firms were selected as the final sample for 2016-2020, with 760 total company year observations. Firms were further separated into 136 non-troubled firms and 16 distressed firms after further bifurcation into distressed and non-distressed firms.

3.2 Data Collection:

Secondary sources of data is used for our study. This study has incorporated the data of firms that are listed on PSX over the period from 2016-2020. Moreover the data of independent variables is collected through annual and data of dependent variable and control variables are collected from balance sheet analysis published by SBP. Firms that were paying dividend twice a year were selected and those who haven't paid dividend are excluded from the data.

3.3 Justification of the Sample:

Pakistan has been experiencing political and social challenges as a developing country from the beginning of the twentieth century. Terrorist attacks and global financial problems on September 15th, 2008, have had a significant influence on Pakistan's financial and non-financial sectors. These financial crises had a direct influence on the financial market, while excessive inflation had an impact on non-financial sectors. Investors were hesitant to participate in the financial industry in these circumstances and transferred their capital to non-financial sectors. The said shift is the key reason for the rise in non-financial enterprises in Pakistan. The current study uses annual reports of non-financial enterprises in Pakistan to obtain numbers for the variables employed in the study in order to provide insight into the above- mentioned topic.

3.4 Variables measurement:

We use the distressed/non-distressed classification of firms based on Altman Z-Score discrimination model, Altman (1968), to categorise companies as stressed if they have a score of less than three and non-stressed if they have a score of equal to or greater than three for each firm year in an industry. The Z-Score was invented by Professor Edward Altman and is widely used to predict financial difficulty (Bemmann 2005). A company's financial status is poor if its cut-off value is less than or equal to 1.81, according to Altman's Z-Score. If the cutoff value is more than 1.81, the position is considered strong. If the z-score for non-distressed enterprises is larger than 1.81, our dummy variable is set to 0, and if the z-score for distressed firms in the complete sample is equal to or less than 1.81, it is set to 1. Altman's Z score will give evidence to predict bankruptcy of the failing enterprises in his sample using the aforementioned model (Altman, 1968). The major rationale for adopting Altman's 1968 model, as Grice and Ingram pointed out, is that its "Z score" is industry specific, as it was established for functional manufacturing organisations (2001). The concluding discriminant equation is as follows:

$$Z = 0.012X1 + 0.014X2 + 0.033X3 + 0.006X4 + 0.999X5$$

Where,

X1 = Working capital /Total Assets, X2 = retained earnings/total assets,
X3 = earnings before interest and taxes/total assets,

X4 = market value equity/book value of total liabilities, X5 = sales/total assets, and

Z = overall index

S #	Variable/Proxies	Measurement
1.	Profitability, P_{it}	Cash Flow to Assets (Basil Al-Najjar, 2009)
2.	Liquidity, L_{it}	FCF per share (Basil Al-Najjar,2009)
3.	Firm Size, FS_{it}	Natural Logarithm of total assets (Khaled Hussainey,2009)
4.	Growth Opportunity, Git	Price to book value (Khaled Hussainey,2009)
5.	Insider Ownership, IS_{it}	Insider ownership of a company's common stock as a proxy for insider power.
6.	Asset Structure, AS_{it}	Fixed assets ratio.
7.	Debt Value, DV_{it}	Borrowing ratio
8.	Total # of independent directors divided by total # of board directors	Outside Directors
9.	Dummy Variable take values of 1 for firms paying dividend else 0	Dividend Paid

3.4 Regression model:
The model is as follows:

$$\mathbf{D.P_{i,t} = \alpha_{i,t} + \beta_1 O.D_{i,t} + \beta_2 Prof_{i,t} + \beta_3 Liq_{i,t} + \beta_4 F.S_{i,t} + \beta_5 G.O_{i,t} + \beta_6 I.S_{i,t} + \beta_6 A.S_{i,t} + \beta_6 D.V_{i,t} + \varepsilon_{i,t}}$$

Where,

D.P= Dividend paid (Dependent Variable)

O.D= Outside Directorship (Independent Variable) Prof= Profitability (Control Variable)
Liq= Liquidity (Control Variable) F.S= Firm Size (Control Variable)
G.O= Growth Opportunity (Control Variable) I.S= Insider Ownership (Control Variable) A.S= Asset Structure (Control Variable) D.V= Debt Level (Control Variable)
ε = Error Term

3.5 Panel Data Regression Model:

Longitudinal measurement is a sort of panel research activity that examines the same organizations or groups across time. It is the most common type of longitudinal study in which observers simply investigate the same organizations or groups over time (Neuman, 2007). This type of research is useful for determining the impact of outside directorship over time. The generalized results of outside directorship and the firm's dividend distribution are evaluated in this study using pooled regression. The primary purpose of the study was to investigate the impact of non-financial firms on dividend payout in Pakistan. Fixed effects have been incorporated into our estimation by using dummies as control variables, which accounts for industry-specific heterogeneity. As a result of the aforementioned reasons, no fixed effect model was required to be estimated. Furthermore, Gujrati (2009) claims that random effect models provide biassed conclusions when small amounts of data are crammed into larger observations. As a result, the study did not use a random effect model to assure generalizability and robustness. Furthermore, the majority of outside directorship and dividend payout research published in credible publications employs pooled panel regression. As a result, we've adopted their strategy of targeting generalizable and resilient outcomes.

4. Results and Analysis

4.1 Analysis for non-distressed firms:

4.1.1 Summary Stats

Variable	Obs	Mean	Std. Dev.
Div	680	.6367647	.4812858
Id	680	.2090142	.1282762
Prof	680	.036915	.3526313
Liq	680	-.1924522	.4150089
At	680	.6658874	.3259339
Sz	680	15.92139	1.684956
Br	680	1.465785	10.28216
Mo	680	.2411007	.275583
Tq	680	.60812	.958

The table provides a statistical summary of the variables that were primarily taken into account due to the study's interest. The variables were chosen for both distressed and non- distressed non-financial companies in Pakistan. The table depicts a statistics summary for non- distressed businesses.

Summary stats show the percentage of variables. In non-distressed firms the mean value of dividend of more than 63% which shows that firms are paying dividend more than 63%. Similarly, mean value of independent directors is almost 21% in non-distressed firms. Profitability ratio is 3% which is low. Liquidity of non-distressed firms is negative which shows firms have not much current asset to liquidate. Percentage of tangible assets is more than 66%. Firm size, borrowing ratio and managerial ownership has less than 50% value. Firm growth is 60% showing that with more growth gives dividends more.

4.1.2 Correlation Matrix:

	div	Id	Prof	Liq	at	sz	br	mo	tq
div	1.0000								
Id	-0.0242	1.0000							

P	0.1783	0.0679	1.0000						
liq	-0.1157	0.0825	0.0174	1.0000					
at	-0.1634	-0.0505	0.0006	0.0171	1.000				
sz	0.2968	0.0889	0.1488	-.1024	-.1066	1.000			
br	-0.0333	0.0087	0.0116	-.0056	.0545	-.0083	1.000		
mo	-0.0876	-0.0686	-.0501	-.1563	.1809	-.3192	0.0232	1.000	
Tq	0.0694	-0.0448	0.0454	0.0067	-.0315	-.0294	0.3708	0.0355	1.000

Correlation depicts the relationship between two variables or the direction in which they are related, whether favorably or negatively. It also indicates the degree of the link, whether it is weak, moderate, or strong. Table shows the correlation matrix of independent and dependent variables for the years 2016 to 2020. Correlation matrix is used to check if there is multicollinearity. If the result are less than 50% then it means there is no multicollinearity. Since our results show that all the values are less than 50% so there is no multicollinearity in our data. To address heteroscedasticity, the study winsorizes variables at 1% and 99 percent to eliminate outliers and provide robust results. Table shows the correlation between the variables. Dividends payout and independent directors show negative correlation of -0.0242. Profitability and dividend payout shows positive correlation of 0.1783. The reason for positive correlation is profitable companies are more likely to pay dividends to their shareholders as a result. As a result, the more successful a business is, the more probable it is to pay dividends.

The negative correlation between liquidity and dividend payout proxies (-0.1157) shows that companies pay more dividends than those stock liquidity is high throughout the period of 2016 - 2020. The negative relationship between liquidity and dividends means that the more cash dividends a company pays out, the less cash it has, and hence the less asset liquidity it has.

The negative correlation between tangible assets and dividend (-0.1634). As a result, the larger the firm's tangible assets are, the smaller the short-term assets that may be used as collateral for short-term debt financing, and hence the cheaper the debt financing. As a result, businesses will rely more on their retained earnings, lowering their chances of paying dividends.

Firm's size is positively associated with dividend payout (0.2968). It is evident from the previous research that larger companies pay more cash dividend as compared to small companies. Businesses pay greater dividends because they have fewer growth opportunities and more available free cash flow. There is negative correlation of borrowing ratio and managerial ownership with dividend payout. It shows that in non-distressed firms they have less amount to payout.

The growth is positively correlated with dividend payout. The reason for this positive relationship is that when companies have growth opportunities they tend to retain cash within firm and invest in growth opportunities and refrain from paying cash dividends. There is a positive association between firm's growth and dividend payout (Baah et al., 2014).

4.1.3 Random-effects logistic regression

No. of Observations = 680 Wald chi2 (8) = 45.74 Prob > chi2 = 0.0000				
Div	Coef.	Std.Err	Z	P> |z|
Id	-3.555849	1.381343	-2.57	0.010
Prof	5.885804	1.203323	4.89	0.000
Liq	-1.254096	.8893793	-1.41	0.159
At	-1.925553	.6325593	-3.04	0.002
Sz	.3973182	.1449441	2.74	0.006
Br	-.0186875	.0160776	-1.16	0.245
Mo	-.092764	.7844314	0.12	0.906
Tq	.0000923	.000048	1.93	0.054
_cons	-4.07091	2.383788	-1.71	0.088

We have used logit panel model. Firms who are paying dividends, we have given them 1 number and firms who are not paying dividends are mentioned as 0. Random effect regression model is used. Total number of observations is 680. According to F stats our overall model is best fit. Our results are robust.

The findings of the random-effect logit regression analysis are shown in Table I. The outside director is the major variable we're interested in. The figure on independent director is negative and statistically significant (p> 0.01), according to the logit regression. According to the findings, there is a negative relationship between board of director independence and dividend. The primary goal of appointing outside directors to a board of directors is to ease conflicts of interest between insiders (managers) and outsiders (shareholders). Profitability and dividend payment status have a substantial positive link, according to the logit regression study. The coefficient estimate for the profitability variable is positive and statistically significant (p > 0.05). As a result, profitable businesses are more likely to pay dividends to their shareholders. As a result, the greater a company's performance, the more probable it is to pay dividends to its owners. Pecking order theory proposes that corporations fund investment possibilities in the following order: retained earnings first, debt financing second, and external funding third (Myers, 1984; Myers and Majluf, 1984). Profitable companies will prioritize paying dividends, resulting in greater earnings being kept.

Because liquidity and dividends have a negative relationship, the more cash dividends a company pays out, the less cash it has, and hence the less asset liquidity it has (Darling, 2015; Baker et al., 2005; Myers and Bacon, 2016). Our findings, on the other hand, reveal that a company's liquidity condition does not always predict that it would pay higher or lower dividends to shareholders. There is considerable evidence of a negative link between tangible assets and dividend (p > 0.05) based on the data. The agency theory (Ho, 2003) supports this negative connection, which is consistent with previous research (Aivazian et al., 2003). As a result, the larger a company's tangible assets are, the smaller the short-term assets that can be used as collateral for short-term debt financing are, making debt financing cheaper. As a result, corporations will rely more on retained earnings, perhaps lowering dividend payouts.

The logit regression tables show a very significant positive relationship (p >0.05) between business size and dividend payout. Large corporations are more diversified than small corporations, making them less sensitive to financial turbulence and better able to pay dividends to shareholders. This relationship is supported by the transaction cost theory of dividend policy, as well as previous studies (Chang and Rhee, 1990; Holder et al., 1998; Gul and Kealey, 1999; Koch and Shenoy, 1999; Ho, 2003; Aivazian et al., 2003).

A negative, albeit minor, correlation exists between the borrowing ratio and dividend payout, as seen in Table I. This result, which emerges in the logit model, is consistent with agency theory. This negative link could be due to the fact that companies with low debt ratios pay greater dividends. As a result, companies with high debt ratios have less financial flexibility and have difficulty paying dividends to shareholders (Jensen et al., 1992; Aivazian et al., 2003).

Finally, the logit regression demonstrates that insider ownership of a company's common stock is adversely correlated with dividend yield. The logit regression reveals a negative – but not statistically significant – link between dividend payouts and insider ownership. Because both instruments are substitute types of monitoring mechanisms, there is no need for firms with larger insider ownership to utilize dividends as a technique to minimize agency costs, as the negative connection implies. The regression results back up the claim that growth prospects are important in determining dividend policy.

The regression results back up the claim that growth prospects are important in determining dividend policy. The table illustrates that the predicted growth rate of enterprises and dividend payments have a considerable positive relationship.

4.2 Analysis for distressed firms:

4.2.1 Summary stats

Variable	Obs	Mean	Std. Dev.
Div	85	.2235294	.4190826
Id	85	.1901911	.0921367
Prof	85	-.6355481	3.815524
Liq	85	-.4853723	312.7193
At	85	.8458234	.4039994
Sz	85	15.50615	1.631892
Br	85	4.581285	40.80488
Mo	85	.3341421	.3094482
Tq	85	.3486	.3009

The table provides a statistical summary of the variables that were primarily taken into account due to the study's interest. The variables were chosen to represent key Pakistani troubled financial and non-financial entities. The table depicts a statistics summary for distressed businesses.

Summary stats show the percentage of variables. In distressed firms the mean value of dividend is more than 22% which shows that firms are paying dividend more than 22%. Similarly, mean value of independent directors is almost 19% in distressed firms. Profitability ratio is negative which means distressed firms does not have free cash flow to pay dividends. Liquidity of non-distressed firms is negative which shows firms have not much current asset to liquidate. Percentage of tangible assets is more than 80%. Firm size, borrowing ratio and managerial ownership has less than 50% value. Firm growth is almost 0.3% showing that with distressed low growth firms does not pay dividends more.

4.2.2 Correlation Matrix:

	Div	Id	prof	Liq	At	sz	br	mo	tq
Div	1.0000								
Id	0.1655	1.0000							
P	0.0964	0.0445	1.0000						
Liq	-0.0815	0.0791	-0.0299	1.0000					

At	-0.2798	-0.2590	-0.0824	-0.0985	1.000				
Sz	-0.1687	0.1010	0.1009	-.01746	-.2026	1.000			
Br	-0.0077	0.0532	0.0274	0.0147	-.0572	.0214	1.000		
Mo	-0.0402	-0.1128	0.1655	-0.0318	-.2524	-.2596	0.0217	1.000	
Tq	-0.0027	-0.0395	0.0508	0.0221	-.0645	.0929	0.4722	0.0109	1.000

Correlation depicts the relationship between two variables or the direction in which they are related, whether favorably or negatively. It also indicates the degree of the link, whether it is weak, moderate, or strong. Table shows the correlation matrix of independent and dependent variables for the years 2016 to 2020. Correlation matrix is used to check if there is multicollinearity. If the result are less than 50% then it means there is no multicollinearity. Since our results show that all the values are less than 50% so there is no multicollinearity in our data. To address heteroscedasticity, the study winsorizes variables at 1% and 99 percent to eliminate outliers and produce reliable results. Table shows the correlation between the variables. Dividends payout and independent directors show positive correlation of 0.1655. Profitability and dividend payout shows positive correlation of 0.0964. The reason for positive correlation is profitable companies are more likely to pay dividends to their shareholders as a result. As a result, the more successful a business is, the more probable it is to pay dividends. Throughout the period of 2016 to 2020, the negative correlation between liquidity and dividend payout proxies (-0.815) shows that companies pay more dividends than those whose stock liquidity is high. Because high stock liquidity reduces the information asymmetry between insiders and outsiders, insiders are unable to hoard capital within the company for personal benefit, causing them to pay higher dividends. The negative correlation between tangible assets and dividend (-0.2798) shows that in distressed firms they don't have tangible asssets and hence they pay low or no dividends. Firm's size is negatively associated with dividend payout (0.1687). It is evident from the previous research that larger companies pay more cash dividend as compared to small companies because growth opportunities are low and free cash flow is more available so they tend to pay more dividends. That is why non-distressed firms pay lower dividends. There is negative correlation of borrowing ratio and managerial ownership with dividend payout. It shows that in non-distressed firms they have less amount to payout.

The growth is negatively correlated with dividend payout. The reason for this negative relationship is that when companies have growth opportunities they tend to retain cash within firm and invest in growth opportunities and refrain from paying cash dividends whereas when companies have no growth opportunities they tend to distribute available free cash flow to the stockholders. There is a negative association between firm's growth and dividend payout (Baah et al., 2014).

4.2.3 Random-effects logit regression

No. of Observations = 680 Wald chi2 (8) = 45.74 Prob > chi2 = 0.0000

Div	Coef.	Std.Err	z	P> |z|
Id	-1.338371	5.825532	-0.23	0.818
Prof	11.02827	6.06429	1.82	0.609
Liq	.0042331	0.0148329	0.29	0.775
At	-1.880517	1.736823	-1.08	0.279
Sz	.2253291	.4497703	0.50	0.616
Br	.0147553	.0516425	0.29	0.775
Mo	1.851852	2.402925	0.77	0.441

Tq	-.0002955	.0010021	-0.29	0.768
_cons	-4.751777	7.805591	-0.61	0.543

The result of random effect logit regression show that independent variable and control variables have no impact on dividend payout in distressed firms. As all the variables are insignificant which shows that dividend payout is not affected by these variables in distressed firms.

5. Conclusion and Recommendations

5.1 Conclusion:

The study was conducted to examine the impact of outside directorship on dividend payout. In this study, we test the impact of independent directors on dividend policy in mitigating agency cost. It also examines the factors and their impact on dividend payout like profitability, liquidity, firm size, borrowing ratio, tangible asset, managerial ownership and growth opportunities. The results were based on data from 152 PSX-listed companies over a five-year period. Annual reports and balance sheet analyses published by Pakistan's state bank were also analyzed for data on factors. Firms who were paying dividend twice were given the dummy variable value 1 and firms who were not paying dividend were given value 0. Azam; Afza (2010) and Ahmad (2019) studied Dividend Policy determinants with some Firm Characteristics in the Pakistani setting, however these research did not address the impact of outside directors. The information on the influence of independent directors on non-financial enterprises in Pakistan is likewise sparse. As a result, this study adds to the current literature by looking at the impact of outside directors and adding new control factors. Further statistical tests were run through Stata to get the result of dependent variable and independent variables. Random effect logit regression and correlation matrix were applied to check the significance, insignificance of variables. Also to check if there is any multicollinearity and heteroscedasticity in data. Our results showed that there is no multicollinearity and heteroscedasticity in our data. Results show outside directorship and dividend payout has significant relationship in distressed and non-distressed non-financial firms. Some control variables have significant relationship with dividend payout and others have insignificant relationship in distressed and non-distressed firms.

5.2 Limitations:

Limitations stifle every research project in one way or another. These can be used as a foundation for future research. There were a few flaws in this study. To begin, non-financial firms were chosen for this investigation, whereas financial firms were omitted. Second, for more reliable results, years of observations may have been extended. Finally, the study solely looked at non-financial companies in Pakistan. This could have been one if more developing and developed companies had been included.

5.3 Recommendations:

Other firm characteristics, such as stock prices, investment decisions, firm performance, and ownership structure, may be included in future studies with certain control variables. It can also work for longer periods of time, as stated in the limits section. Future study could include a sector analysis of financial firms listed on the PSX. This study's findings can be compared to those of other developing, developed, and underdeveloped economies.

5.4 Directions of future research:

The findings could lead to the following research recommendations for the future. It will also be interesting to observe whether there is a link between corporate dividend policy and other corporate governance characteristics like audit committee size, expertise, and meetings, to see if these are complementary or replacement approaches to decreasing insider-outsider conflict of interest. However, such a conversation is outside the scope of our research. More research into how institutional ownership influences dividend payouts might be conducted. Finally, greater research into the relationship between capital structure and dividend policy, as well as the influence this interaction has on a company's corporate governance, is warranted.

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