THE INFLUENCE OF OWNERSHIP STRUCTURE ON THE FIRMS DIVIDEND POLICY BASED ON LINTNER MODEL

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MASTER SCIENCE FINANCE
UNIVERSITI UTARA MALAYSIA
NOVEMBER 2009
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by

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A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Science in Finance at the Graduate School of Management, Universiti Utara Malaysia
DECLARATION

I hereby declare that the project paper is based on my original work except for quotations and citations that have been duly acknowledge. I also declare it has not been previously or concurrently submitted for any other Master’s programme at Universiti Utara Malaysia or other institutions.

______________________________________________________________________________

NORHASNIZA BINTI MOHD HASAN ABDULLAH

Date: 23 NOVEMBER 2009
ACKNOWLEDGEMENT

All my praises and gratitude to Allah, the Merciful, for His kindness and for meeting me with many wonderful people who, with His Grace, have had helped me tremendously in the successful completion of this research.

This research would not have been possible without the constructive comments, suggestion and encouragement received from my supervisor who has read the various draft. In particular, I would like to acknowledge my debt to Associate Professor Dr. Yusnidah Ibrahim, without, of course, holding her responsible for any deficiencies remains in this research.

I would like to thank my parents, who have been a continuous source of inspiration and encouragement. Thanks for giving a great support throughout the duration of my studies and unceasing prayers for my success.

In addition, thanks to all my friends that helped, support and provided insight and useful ideas, constructive comments, criticism and suggestion throughout the duration of completing this research.

Thank you.
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ABSTRAK


Kata kunci: dividen, struktur pemilikan
ABSTRACT

This study investigates the relationship between types of ownership structure and dividend payments of Malaysian listed companies. A cross-sectional analysis of 150 sample firms listed on the main board of Bursa Malaysia for the years 2007 is utilized. The study examines the explanatory power of three alternative models of dividend policy, the full adjustment model, the partial adjustment model and the Waud model modified which are moderated by the possible effects of five types of ownership structure, namely ownership concentration, ownership dispersion, institutional ownership, managerial ownership and foreign ownership. Ownership concentration is measured by two proxies, the Herfindahl Index and a newly form index measured by the summation of the percentage of shares controlled by two major shareholders. Ownership dispersion is measured by ratio of the number of shareholders to total outstanding shares, institutional ownership is measured by a percentage of equity owned by institutional investors, while, managerial ownership is measured by adding the total percentage of shares directly held by non-independent executive directors in the company, and foreign ownership is measured by the sum of all shares in the hands of foreign shareholders in the list of thirty largest shareholders, either held through nominee companies or other corporate foreign share holdings. Both ownership concentration variables are found to be positively and statistically significant in influencing dividends in every type of dividend model. The finding is consistent with agency theory since high dividend payments can be used for mitigating agency conflict as dividends can be substituted for shareholder monitoring. Hence, large shareholders have strong incentives to require higher dividend payments in order to reduce monitoring costs. Nevertheless, this study shows that dividend decisions of Malaysian companies are not influenced by the structure of ownership.

Keywords: dividends; ownership structure
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LIST OF ABBREVIATIONS

\[ E \quad : \quad Earnings \]
\[ ECHG \quad : \quad Earning Change \]
\[ D \quad : \quad Dividends \]
\[ CONC \quad : \quad Ownership Concentration \]
\[ DISP \quad : \quad Ownership Dispersion \]
\[ INST \quad : \quad Institutional Ownership \]
\[ MNG \quad : \quad Managerial Ownership \]
\[ FOR \quad : \quad Foreign Ownership \]
\[ FAM \quad : \quad The Full Adjustment Model \]
\[ PAM \quad : \quad The Partial Adjustment Model \]
\[ WM \quad : \quad The Waud Model \]
CHAPTER ONE

BACKGROUND OF STUDY

1.1 INTRODUCTION

Incomes are earned by successful companies. These incomes can be invested in operating assets, used to retire debt or repurchase shares, or distributed to shareholders in the form of dividends. When investors buy an ordinary share in a company, they become a shareholder of the business and to that extent they will have certain entitlements, including the right to receive dividend payments. Dividends are defined as a form of rational income distribution offering to shareholders (Baker et al., 2007). Dividends are a way for companies to reward shareholders for their investment and risk-bearing. Besides, dividends also give shareholders additional returns in addition to capital gains. Normally, dividends will be distributed in the form of cash, though it can also come in the form of stock dividends.

Dividends are decided upon and declared by the board of directors. Nevertheless, this pay-out is not guaranteed and the amount that shareholders will receive varies from company to company and year to year.
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REFERENCES


