

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

NOHASNIZA BINTI MOHD HASAN ABDULLAH

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by

NOHASNIZA BINTI MOHD HASAN ABDULLAH

801918

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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

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Thank you.

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ABSTRAK

Kajian ini meneliti hubungan antara jenis struktur pemilikan dan bayaran dividen daripada syarikat yang berdaftar di Malaysia. Silang kajian analisis digunakan ke atas 150 sampel syarikat yang disenaraikan di papan utama Bursa Malaysia pada tahun 2007. Kajian menguji kekuatan tiga alternatif dividen model, penyesuaian penuh model, model pelarasan separa dan Waud model yang diuruskan oleh kesan mungkin lima jenis struktur pemilikan, iaitu pemusatan pemilikan, penyebaran pemilikan, institusi pemilikan, pengurusan pemilikan dan pemilikan asing. Pemusatan pemilikan diukur oleh dua proksi, yang Herfindahl Indeks dan bentuk yang baru diukur dengan indeks penjumlahan peratusan saham dikendalikan oleh dua pemegang saham utama. Penyebaran pemilikan diukur dengan nisbah jumlah pemegang saham terhadap jumlah saham, pemilikan institusi diukur dengan peratusan ekuiti yang dimiliki oleh pelabur institusi, sementara, pengurusan pemilikan diukur dengan menambah peratusan jumlah saham secara langsung diselenggarakan oleh non-eksekutif independen pengarah di syarikat, dan pemilikan asing diukur dengan jumlah semua saham di tangan pemegang saham asing dalam senarai pemegang saham terbesar tiga puluh, baik yang diselenggarakan melalui calon syarikat atau syarikat lain pemilikan saham asing. Kedua-dua pembolehubah pemilikan pemusatan ditemui untuk secara positif dan secara statistik signifikan dalam mempengaruhi dividen dalam setiap jenis model dividen. Temuan ini konsisten dengan teori agensi kerana pembayaran dividen yang tinggi boleh digunakan untuk mengurangkan konflik agensi kerana dividen boleh digantikan pemantauan pemegang saham. Oleh kerana itu, pemegang saham besar mempunyai insentif yang kuat untuk meminta bayaran dividen yang lebih tinggi untuk mengurangkan kos pemantauan. Meskipun demikian, kajian ini menunjukkan bahawa keputusan dividen syarikat Malaysia tidak dipengaruhi oleh struktur pemilikan.

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

<i>E</i>	:	<i>Earnings</i>
<i>ECHG</i>	:	<i>Earning Change</i>
<i>D</i>	:	<i>Dividends</i>
<i>CONC</i>	:	<i>Ownership Concentration</i>
<i>DISP</i>	:	<i>Ownership Dispersion</i>
<i>INST</i>	:	<i>Institutional Ownership</i>
<i>MNG</i>	:	<i>Managerial Ownership</i>
<i>FOR</i>	:	<i>Foreign Ownership</i>
<i>FAM</i>	:	<i>The Full Adjustment Model</i>
<i>PAM</i>	:	<i>The Partial Adjustment Model</i>
<i>WM</i>	:	<i>The Waud Model</i>

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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