BOARD CHARACTERISTICS AND DIVIDEND PAYOUT OF MALAYSIAN COMPANIES

By

ISLAM I. H. BOLBOL

Master of Science in Finance

UNIVERSITI UTARA MALAYSIA

JUNE 2012
BOARD CHARACTERISTICS AND DIVIDEND PAYOUT OF MALAYSIAN COMPANIES

A thesis submitted to Othman Yeop Abdullah Graduate School of Business

In partial fulfillment for the degree

Master of Science (Finance)

University Utara Malaysia

ISLAM I. H. BOLBOL

JUNE 2012

All Rights Reserved
DECLARATION

I certify that the substance of this thesis has never been submitted for any degree and currently is not being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged in this thesis.

Islam I. H. Bolbol

808840

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 Sintok, Kedah.

June, 2012
PERMISSION TO USE

In representing this thesis for requirement for Master of Science Finance (MSc Finance) from Universiti Utara Malaysia, I agree that the university library shall make it freely available for inspection. I further agree that permission of copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor Associate Professor Norafifah Ahmed, or, in her absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Requests for permission to copy or to make other use of materials in this thesis, in whole or in part should be addressed to:

Dean
Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman
The issue revolving corporate governance has always been an essential and critical element for both private and public sectors particularly in Malaysia. Malaysia’s Prime Minister has even stressed for more concentration on the issues of governance for the purpose of overseeing the effective running of the public and private sector through a check and balance system. Moreover, the Prime Minister argued the need of the firms in the country to benchmark to an effective system that emphasizes on positive issues such as ethics, openness, accountability, transparency, and integrity in the public and private sector. After 1998, Malaysian government decided to adopt corporate reform that could enhance the quality of good corporate management practice. This reform is clearly stated in the code and rules of corporate governance. This included the introduction of the new Malaysian code and rules for corporate governance. The debate of corporate governance in Malaysia are often limited to agencies involved directly in law enforcement such as the Ministry of Finance, Bursa Malaysia Securities, security Commission (SC) and Registrar of Company. Therefore, this crucial issue has to be addressed accordingly in order to enhance firms’ dividend payout.

Good corporate governance is believed to be a critical factor in the improvement of firm value in both developing and developed financial markets. However, this belief overlooked the fact that the relationship between corporate governance and the value of a firm varies in these markets owing to the character of the corporate governance structures on dissimilar social, economic and regulatory conditions.
This reality calls for the need to examine and comprehend the differences affecting the firm value for the purpose of academic, financial and management practices and public regulation of markets and corporations.

The core aim of the present study is the examination of the relationship between board characteristics and dividend payout of Malaysian firms listed on Bursa Malaysia with focus on the construction sector. For the purpose of the study, data was collected from a sample of 50 companies for the financial year of 2010 with elimination of other 56 firms that they did not pay dividend. Among corporate governance’s various variables, seven were chosen to be included in the study. They were board size, board composition, CEO duality, family linked companies, board of director ethnicity, gender of board of director, and managerial ownership. Other financial measurements (investment opportunity set, firm leverage, firm size, and firm performance) were also tested against dividend payout.

Regression analysis was utilized for the examination of the relationship between board characteristics and firm dividend payout. The result indicates that the relationships between investment opportunity set, firm size, firm performance, and managerial ownership and dividend payout are positive, but not significant. Firm leverage, board size, board composition, family linked, ethnicity of board of director, and gender of board of director are negatively insignificantly correlated to dividend payout. CEO duality and dividend payout is also negatively correlated but the relationship is significant. Finally, this study is using the firm leverage, firm size, firm performance, and CEO duality role as control variables against dividend payout.
ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and Most Merciful

Above all things, I give praise, glory, and honor unto Allah for allowing me to complete this project. And also praise to Allah for all his blessings and guidance which provided me the strength to face all the tribulations and trials in completing this project.

I offer my sincere appreciation to my beloved father, mother, and family members for their patience, prayers and understanding over the entire period of my study. I am most indebted to my father, Ismail Hamdan Mousa Bolbol, for his care and love. He works industriously to support the family and spare no effort to provide the best possible environment for me to grow up and attend schools. My deepest gratitude goes to Am Usama my mother; she is simply perfect. I have no suitable words that can fully describe my everlasting love to her.

My special love and appreciation go to my brothers Usama, Wesam, and my sisters for their support, tireless patience, and faith in me to complete this tedious task and my general love and appreciation go to my friends, whether in Malaysia or Palestine, who instill in me the value of hard work and dedication. The innumerable sacrifices which they have made for me are something for which I will always be grateful for.
I wish to express my deepest gratitude and heartfelt thanks to my supervisor, Associate Professor Norafifah Ahmed, for her discerning guidance, positive criticisms and valuable advice throughout the undertaking of this study. She had spent a lot of her time patiently and painstakingly giving valuable information, correcting errors, just to ensure the best effort has been given in the completion and achievement of this study. Her excellent guidance and supervision have rendered me with minimum pressure and has made this learning process an extraordinary experience.

I would like to thank all M.Sc. Finance lecturers, for their outstanding Finance knowledge. To the rest of my family members and friends, thank you all. You have been instrumental in this never-ending academic journey. I really appreciate your support, directly or indirectly. I love each one of you.

Sincerely,

Islam I. H. Bolbol
Table of Contents

DECLARATION .................................................................................................................. III
PERMISSION TO USE ...................................................................................................... IV
ABSTRACT ........................................................................................................................ VII
ACKNOWLEDGEMENT ..................................................................................................... IX
LIST OF TABLES ............................................................................................................... XII
LIST OF FIGURES ......................................................................................................... XIII
LIST OF ACRONYMS (ABBREVIATIONS) ................................................................. XIV
CHAPTER ONE .............................................................................................................. 1
INTRODUCTION ........................................................................................................... 1
  1.1 background ........................................................................................................... 1
  1.2 Problem Statement ............................................................................................. 5
  1.3 Research Questions ............................................................................................ 7
  1.4 Research Objectives .......................................................................................... 8
  1.5 Significance of Study ......................................................................................... 9
  1.6 Scope of Study .................................................................................................. 10
  1.7 Limitations of study ......................................................................................... 10
  1.8 Organization of the study ................................................................................ 10
  1.8 Summary of the chapter ................................................................................... 11
CHAPTER TWO ............................................................................................................. 12
LITERATURE REVIEW ............................................................................................... 12
  2.1 Introduction ........................................................................................................ 12
  2.2 Dividend payout ............................................................................................... 12
3.3.7 Board composition and dividend payout ........................................ 58
3.3.8 CEO duality role and dividend payout ....................................... 60
3.3.9 Family-linked companies and dividend payout .......................... 61
3.3.10 Ethnicity of BOD and dividend payout ..................................... 62
3.3.11 Gender of BOD and dividend payout ....................................... 63
3.3.12 Managerial ownership and dividend payout .............................. 64
3.4 Research Design ............................................................................. 65
3.4.1 Data Collection ............................................................................ 65
3.4.2 Model Specification and Multiple Regressions ......................... 66
3.4.3 Measurement of the Variables .................................................... 67
3.5 Data Analysis ................................................................................ 69
3.5.1 Descriptive Analysis .................................................................. 69
3.5.2 Correlation of Variables ............................................................. 69
3.5.3 Multiple Linear Regression Analysis ........................................... 70
3.6 Summary of the Chapter ............................................................... 70
CHAPTER FOUR .................................................................................. 71
FINDINGS AND DISCUSSION ............................................................. 71
4.1 Introduction ................................................................................... 71
4.2 Descriptive Statistics .................................................................... 71
4.3 Multicollinearity test ...................................................................... 73
4.4 Correlations Analysis .................................................................... 74
4.5 Multiple Linear Regression Analysis ............................................. 76
4.6 Discussion ..................................................................................... 79
4.7 Summary.................................................................................................................. 82

CHAPTER FIVE............................................................................................................. 84

CONCLUSION AND RECOMMENDATIONS.................................................................. 84

5.1 Introduction............................................................................................................. 84

5.2 Summary of the study............................................................................................ 84

5.3 Contributions of the Study..................................................................................... 87

5.4 Limitations of the study. ......................................................................................... 87

5.5 Future Research...................................................................................................... 87

5.6 References.............................................................................................................. 89

Appendix.................................................................................................................... 101
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table number</th>
<th>Description of table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.1</td>
<td>Summary of Descriptive Statistics</td>
<td>69</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Correlations of variables</td>
<td>72</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Summary of the Regressions Model (DPP)</td>
<td>76</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>The Coefficients of Multiple Regression Analysis</td>
<td>77</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Summary of the Hypothesis Results</td>
<td>83</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

<table>
<thead>
<tr>
<th>Table number</th>
<th>Description of table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 3.1</td>
<td>Theoretical Framework</td>
<td>39</td>
</tr>
</tbody>
</table>

XIII
## LIST OF ACRONYMS (ABBREVIATIONS)

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description of Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCF</td>
<td>Free cash flow</td>
</tr>
<tr>
<td>CG</td>
<td>Corporate governance</td>
</tr>
<tr>
<td>IOS</td>
<td>Investment opportunity set</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>BOD</td>
<td>Board of directors</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on asset</td>
</tr>
<tr>
<td>ROE</td>
<td>Return on earnings</td>
</tr>
<tr>
<td>RI</td>
<td>Residual income</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>NED</td>
<td>Non–executive directors</td>
</tr>
<tr>
<td>α0</td>
<td>Constant</td>
</tr>
<tr>
<td>DDP</td>
<td>Dividend payout ratio</td>
</tr>
<tr>
<td>MBV</td>
<td>Market to book value of equity</td>
</tr>
<tr>
<td>DTA</td>
<td>Debt to total assets</td>
</tr>
<tr>
<td>LNMKTCAP</td>
<td>Natural logarithm of market</td>
</tr>
<tr>
<td>BSIZE</td>
<td>Board size</td>
</tr>
<tr>
<td>BCOMP</td>
<td>Board composition</td>
</tr>
<tr>
<td>DUALITY</td>
<td>CEO duality role</td>
</tr>
<tr>
<td>FLCs</td>
<td>Family linked companies</td>
</tr>
<tr>
<td>ETHNICITY</td>
<td>BOD ethnicity</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>GENDER</td>
<td>BOD gender</td>
</tr>
<tr>
<td>OWNERSHIP</td>
<td>Managerial ownership</td>
</tr>
<tr>
<td>MBAM</td>
<td>Master Builders Association Malaysia</td>
</tr>
</tbody>
</table>
CHAPTER ONE

INTRODUCTION

1.1 background

Businesses around the world require development and growth in order to attract funding from investors. Before they invest in a particular business, investors normally make sure that the business in question is financially secure and stable and possesses the ability to produce profits in the long run (Mallin, 2007). Hence, in instances where the company position is not as promising, it will not be as attractive to investors as it hopes to be. This failure to attract enough capital normally leads to negative consequences for the business in particular and for the economy in general.

Looking at local and global economic situation, it has been noticed that the economic situation is unstable. Uncertainty of the future of economies is high. However, property sector maybe is more secure and has less variability than other sectors. According to MBAM (Master Builders Association Malaysia) outlook, construction sector will keep stable in the future.

Abu Mansor (2010), explained that while all other sectors recorded negative growth in 2009, construction sector was the only sector that recorded a positive growth in 2009, during every quarter. The importance of construction sectors comes as it is considered as a contributor segment in the Malaysian economy, due to the interaction with other industries.
The contents of the thesis is for internal user only
5.6 References


Adam, T., & Goyal, K. V. (2007). The Investment Opportunity Set and its Proxy Variables. Hong Kong University of Science & Technology (HKUST) - Department of Finance, 1-29.


Financial Management, 18, No. 4, 36-46.


Harada, K., & Nguyen, P. (2006). Ownership concentration, agency conflicts, and dividend policy in Japan. *Graduate School of International Accounting, Chuo University, Tokyo 162-8473, Japan; School of Banking and Finance, University of New South Wales, Sydney, NSW 2052, Australia*, 1-25.


Li, D., Moshirian, P., Pham, K., & Zein. (2006). When financial institutions are large shareholders: The role of macro corporate governance environments. *Journal of Finance, 2975 - 3007.*


