CORPORATE GOVERNANCE AND CASH FLOW AS DETERMINANTS OF DIVIDEND PAYOUT

By:

NOR HASMADILA BINTI MUKHTAR

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DECLARATION

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

Nor Hasmadila Binti Mukhtar

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Othman Yeop Abdullah Graduates School of Business

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ABSTRACT

This study investigates the relationship between corporate governance characteristics and operating cash flow, including control variables (leverage and firm size) with dividend payout on the 100 largest companies listed on Bursa Malaysia's main board. It examines the roles of board size, CEO duality, individual ownership, managerial ownership, operating cash flow, leverage and firm size in influencing dividend payout performance. In general, the study contributed to the literature on dividend payout theory in Malaysia and supported the existing literature. Hence, the study used data of the 100 largest companies from all sectors are available in Bursa Malaysia but excluded financial sector companies and missing data. Furthermore, this study covered the data in the year 2012 within Bursa Malaysia. This study finds a positive relationship between board size, managerial ownership and operating cash flows. Managerial ownership and operating cash flows are significant, means it is strongly influenced dividend payout. Meanwhile, CEO duality, individual ownership and control variables (leverage and firm size) have a negative relationship with a dividend payout. These findings are consistent with previous studies by (Hafza & Mirza 2010; Zabihi & Ghaleb 2013).

Keywords: dividend, corporate governance, operating cash flow

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Nor Hasmadila Mukhtar

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INTRODUCTION

1.1 Background of Study

Dividend policy is one of the most importance issues in modern financial literature. It is one of the topics that has created the most interest, and thus has been extensively researched (Al-Gharaibeh, Zurigat, & Al-Harahsheh, 2013). Dividend policy is regarded as one of the most controversial subjects in finance among researchers. This situation has led to the emergence in a number of researchers who competed to write out the theoretical explanations about dividend policy. In previous studies, majority of the empirical work did not have sufficient explanations regarding the dividend policy matters and corporate values in firms (Al-Malkawi, 2007).

Dividend policy can be defined as a company's policy which determines the amount of dividend payment and also the amount of retained earnings a firm wish to invest back in a new business project. Dividend policy is also indirectly related to firm's capital structure. Different dividend policy requires different capital structure (Hashemijoo, Arkedani, & Younesi, 2012). Besides that, dividend has been used as a mean to transfer excess funds from a company to its shareholders either in the form of cash dividends or stock dividend. In a company, the cash dividend that will be paid will require outflow of fund from the company, meanwhile, stock dividend will affect a company's number of shares outstanding rather than company's cash level.

Companies around the world must achieve growth and development in their business to attract sources of fund owned by investors. Investors normally have to ensure that the financial condition of the companies that they are interested in is secure and stable before they invest their funds (Mallin, 2007). Besides that, the company also must possess the ability to gain profit in the longer period and also have the ability to maximize shareholder profit (Mohamed et al., 2007). If the position of the company is not as promised, it will definitely not be as attractive to investors as the company hopes it to be. Failure to attract investors' attention will reduce the capital of the companies and normally will lead to negative impacts in the business of the company.

Investors always want to maximize their wealth once they invest in a company. Additionally, investors want to gain benefits from their investment rather than to become part of the management in the companies. There are no investors who are willing to invest with the goal of making a loss. On the other hand, since the profitability and the performance of companies may change over a period of time, it is quite common if the companies tend to adjust dividend payouts in accordance with their profitability. The investors who are looking at the stability of dividend payout may get a wrong signal from the companies which consequently will affect the company performance. Therefore, investigation about the dividend payout must be continued from time to time in order to identify the important and recent factors that affect the dividend behavior.

Previous studies have already covered many aspects of dividend such as the effects of dividend payout on firm value, reasons for firms paying dividends, the determinants of dividend policy and dividend trends and many other aspects. In addition, there were various characteristics in firms and markets that have been used in previous research and have become important factors which have high potential in determining the dividend policy of a firm (Al-Malkawi, 2007). These attempts by the researchers to study the dividend policy have added useful information in a large modern literature review.

Many types of firm's specifics have been identified by previous researchers as the potential factors that are important in deciding the dividend payout decision (Adil, Zafar, & Yaseen, 2011). Apart from that, corporate governance factors also are considered as important factors in determining the dividend payout. According to financial scholars, the development of studies in dividend policy has found a new dimension of variables to be included in their research after the corporate governance code was introduced by the government in every country (Abdelsalam, El-Masry, & Elsegini, 2008). Gillan & Starks (1998) said that corporate governance would control the operations of a company by the use of the system of laws and rules available in that company.

Code of Corporate Governance Malaysia introduced in March 2000 include stock exchange demutualization in Central Bank of Malaysia. It also includes a discussion the board of director roles in a company (Monsod, 2010). The latest Code of Corporate Governance that was amended in Malaysia took effect on 31st December 2012 after the reconsidering and altering of the previous Malaysian Code of Corporate Governance 2007. The new Code of Corporate Governance (2012) that was revised by the Securities Commission (SC) has adopted a new structure which provides greater clarity. Besides that, it provided more information to all companies and allowed a benefit reading for companies that properly applied this code.

In previous studies, there are many researchers that used corporate governance mechanisms as factors to determine the dividend payout. In Malaysia, studies on dividend have been conducted by quite a number of financial scholars' in last two decades. In addition, dividend policy in Malaysia has some unique characteristics that are different with other developed countries. Mitton (2001) identified that firms have a higher dividend payout if firms have stronger and stable corporate governance. The result supported by Kowalewski, Stetsyuk, & Talavera (2007), said that corporate governance practices in a company give a strong positive relationship to the dividend payout. Meanwhile, Gugler & Yurtoglu (2003) indicated different thought that the stronger corporate governance took effect on a company, dividend payout will decrease.

Alias, Rahim, Nor, & Yaacob (2012) study on dividend policy in listed companies in Malaysia point out that size of board influenced dividend policy. Board size is also potentially related to the ability of directors to monitor and control managers (Lipton & Lorsch, 1992; Jensen, 1993), even though the direction of the influence is unclear. The result supported by Bokpin (2011) in their study on Ghana's companies, indicated that larger size of boards increase the dividend payout by the companies. Salehnezhad (2013) also found that there was a positive relationship. Meanwhile, contradict result were pointed out by Subramaniam & Devi (2011) that also study on Malaysia listed companies has found that board size does not affect dividend payout.

On the other hand, previous studies that included CEO duality as one of their variable in identifying dividend payout in Malaysia listed companies found that the CEO duality does not influence the dividend behavior (Alias et al., 2012; Subramaniam & Devi, 2011). These arguments have been supported by the study of Yermack (1996) who found that firms are more valuable when the CEO and board chair positions are separate. Besides that, Gill & Obradovich (2012) indicates that CEO duality gives a positive effect on dividend payout. There was limited previous studies that found a positive relationship between CEO duality and dividend payout.

The other corporate governance mechanism that used in previous studies are ownership structure. Majority previous studies found that individual ownership gives negative influence on dividend payout. Studies by Zabihi & Ghaleb (2013) said that, individual whose held shares in a company tend to pay lower dividend that associated with the negative findings that obtained in their study. Other studies that supported the finding are (Hafza & Mirza, 2010; Khan, 2005). On the other hand, Paivi (2007) identified different result which is a positive relationship between individual ownership and dividend payout in Norway's companies.

Besides that, managerial ownership factor has been founded as a factor that give a negative effect to the dividend payout. Previous studies that supported the finding are (Hafza & Mirza 2010; Abdelsalam, El-Masry, & Elsegini 2008; Al-Gharaibeh, Zurigat, & Al-Harahsheh 2013). The large number of managerial ownership in a company does not ensure the greater dividend payment by the companies. The contradict result was found by (Zabihi & Ghaleb 2013; Hu & Izumida 2008) argued that the large number of managerial ownership will give a high dividend payment.

Apart from that, Hossain, Sheikh, & Akterujjaman (2013) argued that firms specifics factors also were important in determining the dividend payout. Cash flow is important factors that were used by the managers to make the decision. Hafza & Mirza (2010) mentioned that, from the companies' point of view, cash generated from operations plays an important role in deciding the amount of payout. Companies having greater cash flow generated from operations are expected to be in a better position to pay cash dividends rather than companies having negative operating cash flows. Hashemi & Zadeh (2012) supported the finding that operating cash flows have a positive relationship with dividend. Meanwhile, Alias et al., (2012) found that the operating cash flows do not have a relationship with dividend.

The level of financial leverage that a company faced also become an important factor in determining the dividend of the company. Bokpin (2011) pointed out that when the faced high financial leverage, the dividend payout becomes lesser. Darling (1957) argued that firms with higher debt ratios require more liquidity to allow for payoffs on potential claims. Debts besides levering up company's profit also put the company in danger of insolvency due to non-payment of interest and have an adverse effect on the firm's liquid position. Hafza & Mirza (2010) also argued that financial leverage in a company caused a worse dividend payment decision to the shareholders.

Furthermore, Abor & Fiador (2013) in their study revealed that firm size affects the dividend payout in a company. They mentioned that large firms tend to have high cash flow and can pay high dividends. Hafza & Mirza (2010) supported the argument said that small firms on the contrary, having limited access to external market try to increase the level of internally generated funds by increasing their retention ratio which potentially reduces the small firm's capability of paying dividend. Contradict with the findings, Bokpin (2011) argued that the size of firms caused a negative effect on dividend payment as firms preferred to keep the cash for reinvesting in new projects.

Referred to the statistic that obtained by the UHY, the international accounting and consultancy network found that the number of new companies in Malaysia was increased from year to year. Among the companies, there has a company that practice the corporate governance and otherwise. Nance-Nash (2013) in her article said that there was a difference in corporate governance practice between small firms and large firms. Larger firms usually practice the corporate governance more than smaller firms. Fenwick (2011) also pointed out that the large firms have a strong board of directors that practice the corporate governance in the organizations. Besides that, larger companies always contributed to the high performance of the a company because of the stability revenues in their business (Majumdar, 1997).

The empirical findings in previous studies on the impact of corporate governance and firm specific characteristics of dividend payout behavior are inconclusive and mixed. Existing studies have focused on the dividend behaviors of companies in developed economies like USA and UK, but the evidence from emerging economies is very limited. As the researcher knowledge, in Malaysia, studies about the corporate governance and dividend payout that particularly focuses on large firms are limited. Besides that, the evidence on impact of operating cash flows on the dividend payout also limited. The present study is different from the previous studies in Malaysia based on the variables used as determinants of dividend payout. Therefore, the present study attempts to extend this literature by examining the impact of corporate governance characteristics (board size, CEO duality, individual ownership and managerial ownership) and operating cash flows including control variables (leverage and firm size) with dividend payout.

1.2 Problem Statement

In Malaysia, dividend payment has become one of the most important elements that investors pay close attention to before they invest in a company. The dividend is the amount of profit that was distributed by the companies to shareholders which were depending on their firm's performance. Investors normally search for higher dividend or stable dividend from the company to make sure that their investment is worthwhile and in a secure place. Identifying the factors that determine the dividend payout behavior will give advantages to the companies and investors.

There were variety types of factors that affected the dividend payout behavior which have been found by the previous studies in their research. Mitton (2010) pointed out that firms that have stronger corporate governance have high performance and have the ability to pay high dividends. Meanwhile, Gugler & Yurtoglu (2003) found that after the corporate governance adopted in a company, the dividend paid by the company decreased. In corporate governance, as an example, previous studies found board of director and ownership structure have a high potential to influence the dividend payment (Hafza & Mirza 2010; Zabihi & Ghaleb 2013).

Apart from that, firms specific also have been found in previous studies as a potential factor to influence dividend payout. As an example, Hafza & Mirza (2010) found a positive relationship between operating cash flow and dividend payout. Another example of firms specific characteristics are financial leverage and firm size have been revealed as the important factors in influencing dividend payout in both positive and negative effects. Meanwhile, there also have studies that found the contradict result (Alias et al., 2012).

However, the results from previous studies are inconclusive and mixed. These studies are limited in emerging countries. Malaysia, for example, has some unique characteristics of dividend policy that are different from those in the developed markets (Pandey, 2011 and Al-Twaijry, 2007). There is also a lack of studies in Malaysia that investigate the impacts of corporate governance and operating cash flows in larger companies. Therefore, the present study attempts to extend this literature by examining the impact of corporate governance characteristics (board size, CEO duality, individual ownership and managerial ownership) and operating cash flows, including control variables (leverage and firm size) on the dividend payout in publicly listed companies in Malaysia, with a particular focus on large companies.

1.3 Research Questions

Research questions are the statements that refined the specific terms of the research problems. Although the terms of the research problem in the specific terms have been evaluated, further details may need to develop as an approach.

- Does the board size of the CEO affect dividend payout?
- Does the CEO duality in the company affect dividend payout performance of the company?
- Does the managerial ownership in the company affect dividend announced by the company?
- Does the individual ownership in the company affect dividend payout of the company?
- Does the operating cash flow that hold by the company affect dividend payout performance of the company?
- Does the financial leverage faced by the company will affect the company performance on dividend payout?
- Does the firm size of the company affect dividend payout performance?

1.4 Research Objectives

1.4.1 General Objective

To examine the effect of corporate governance characteristics (board size, CEO duality, individual ownership and managerial ownership) and operating cash flow, including control variables (leverage and firm size) on dividend payout behavior in 100 large companies listed in Bursa with particular a focus on larger companies.

1.4.2 Specific Objectives

- To examine the relationship of corporate governance characteristic (board size, CEO duality, individual ownership, managerial ownership) with the dividend payout of the company.
- To examine the relationship of operating cash flow and control variables (leverage and firm size) with the dividend payout of the company.

1.5 Significance of Study

In Malaysia, although there have a large number of studies on dividend payout, only a few studies used both corporate governance characteristics and operating cash flows as their variables. Besides that, the studies that have done in Malaysia have a limited number of studies in larger firms that listed on Bursa Malaysia. Therefore, this study will add the literature on dividend payout performance in Malaysia, and support the existing literatures on the finance area generally, and dividend theory specifically.

Besides that, study in dividend performance can provide guideline that will benefit to the investor in making right decisions and also to the management in making a decision on dividend payout. Furthermore, this study can provide useful information to academician and future researcher who want to study about the related issues.

1.6 Scope of Study

In this study, the researcher focused on non-financial companies in all sectors that listed on Bursa Malaysia. This study did not involve non-listed companies and financial companies because they have different practices and regulations from other companies. The total non- financial companies listed on Bursa Malaysia in year 2012 is about 991 companies. Then, the researcher chooses only 100 largest companies that measured by the natural logarithm of total asset from all sectors. The study focuses on larger companies because its have a greater corporate governance practices and have a better performance level.

1.7 Limitations of study

This research is confined by several limitations. However, researcher tries to minimize the possibility of error that caused by these limitations which can change the result of this study. The limitation that the researcher faces is the availability of complete secondary data. For corporate governance data, the majority of it will be reveals by the company in their annual report. The problems were occurring when the companies are avoiding providing transparent data and incomplete information in their report.

1.8 Organization of study

The rest of the study is organized as follows:

In Chapter 2, introduce the background of the existing literature that relating to the dividend payout performance, the literature about the corporate governance factors and company's characteristic factors.

1.9 Summary of the chapter

Present chapter described the introduction of the study, study background, problem statement of study, and research objectives, and research questions, also the significance of the study, scope and limitations of the study and the organization of remaining chapters.

CHAPTER TWO

LITERATURE REVIEW

2.1 Reviews of Related Literature

The previous literature on dividend payout behavior was unlimited. There were many studies about the dividend payout behavior in all over the countries which were claimed that the dividend behavior of a company was an important factor to shareholders. The previous studies usually comprised all the industry sectors in a country such as construction, consumer product, plantation, industrial product and other available sectors. The most interested sector those previous researcher's studies regarding dividend payout behaviors are at the larger sector companies that gave many contributions to the country (Hafza & Mirza, 2010).

In financial overview, there are many studies done regarding the dividend payout because one of the most important rights for investors to obtain is a dividend (Setiawan & Phua, 2013). They also point out that minority shareholders are preferred to obtain the dividend rather than reinvest the earnings in the firm. This ensures the investors that their investment will return them benefits and profit. The previous researchers have considered the variables from all aspects that they assume to have potential criteria to impact the dividend payout.

Thus, there were several numbers of factors that have been identified in previous studies which have high potential to influence the manager's decision on the firm's dividend payout. With the useful information gathered from previous studies, it indirectly spread a little knowledge of the new investors whose interest to invest in a company. Furthermore, the researchers in previous studies also have pointed out various types of different theories regarding the factors that affect a firm's dividend payout (Adil, Zafar, & Yaseen, 2011).

Referred to previous studies, the definition of dividend payout performance varies among the studies. Because of the reason, there were many different approaches that have been used to examine the studies regarding dividend payout (Setiawan & Phua, 2013). Since there were large numbers of previous researchers' studies about this issue, here the present researcher has reviewed few previous studies, particularly that used ordinary least squares (OLS) method as an approach to obtain the best analysis result. The present study also has chosen the ordinary least square (OLS) method as an approach to perform this study.

Hafza & Mirza (2010) used ordinary least square approach to examine the firm specific factors impact on the behavior of dividend payment by the companies. Ordinary least squares (OLS) approach has allowed the independent variable and dependent variable to be correlated. In that study also, they said that this model approach has become amongst the most appropriate model used to conduct the research regarding dividend behavior in the company. The previous study also stated that the consistent outcomes were revealed from the ordinary least square estimator when the regression was exogenous and when the multicolinearity is no perfect. In addition, Zafar & Shah (2008) also used ordinary least square approach as their method in determined the dividend policy of the firm by observing the importance of cash flows in that firm.

Other than that, another study that used ordinary least square approach is Subramaniam & Devi (2011) that study about the dividend policy relationship with the Investment Opportunity Set variables in Malaysia listed companies. Harada & Nguyen (2011) also choose ordinary least square approach to performed their study regarding ownership concentration in Japan that the sample used is within the period 1995-2007.

2.2 Dividend Payout

Dividend was defined in a simple word as a percentage of earnings that paid to shareholders in term of dividend. In previous studies, the researchers found that there were various types of characteristics that might have a relationship with the dividend payout. The various types of characteristics are the profitability of firms, growth opportunities, investment opportunities, financial leverage and others (Adil, Zafar, & Yaseen, 2011).

Al-Gharaibeh, Zurigat, & Al-Harahsheh (2013) point out that since the year 1960, dividend policy was thought as a unique puzzle to the organization. The companies that pay the dividend also always thought that the puzzle of the dividend acts as an important element in the financial area that they should manage. They also have mentioned that, based on the majority economists, they suggest that the investor should not only focus on whether a firm pays dividends or otherwise. This is because the investor already owned the firm by investing in that firm and they will just either obtained the dividend or just invest it back in the firm business.

Referred to Setiawan & Phua (2013), in their research stated that minority shareholders preferred the dividend payment more than reinvested firm’s earnings to the company. That is one of strategy that the investors used to ensure their rights on dividend payment that have promised by the company. In the investor’s thought, the dividend payment was an important right that they should obtain when they invested in any company’s stock. There were no investors that willing to invest in one company with not obtaining the profit.

Research by Ullah, AsmaFida, & ShafiullahKhan (2012) have suggested that dividend payment that announced by a company could create a conflict among the managers and shareholders. This is because managers are more willing to maintain the resources rather than pay the dividend to shareholders. Besides that, managers are more interested to follow the growth strategies at their companies because the growth of a company will benefit more to them such as obtained more power control of resources. Besides that, shareholders more preferred on dividends because if profits are not paid to shareholders in the form of dividend, the managers might change their goals toward the benefit which only for management. Here, agency conflict will occur as the goal of managers and shareholders were different.

In the previous research by Easterbrook (1984) stressed that, dividends play an important role to controlled the agency problem between manager and shareholders. Thus, by monitoring the capital market activities, it indirectly will control the firm's performance. This is because the probability that one company will sell new common stock market will increase if the firms have the ability to pay higher dividends. This performance that shows by a company attracted the attention from many shareholders such as a financial institution, bank, capital supplier and others.

Smith & Casey (2009) mentioned that a firm could be forced by the dividend payment to frequently focus only on the external market. Because of that, the company must lead the investigation in the external market and also must raise the new capital through the regulatory communities to protect their performance. Apart from that, the researchers also mentioned that the dividend payments used in a company acts as a bonding or as a function that monitored the companies to decrease the agency costs of equity in their business framework.

Research by Al-Najjar & Hussainey (2009) revealed that the dividend payout was a major corporate decision that faced by managers, but it will remain as one of a puzzle in the corporate finance that have been mentioned in few studies. There were a huge number of studies that have been done to examine the extent to which the dividend provides a value and relevant information for investors to predict the company's future performance.

Moreover, referred to the research by Al-Shubiri, Al-Taleb, & Al-Zoued (2012) said that decisions to pay the dividend is one of the fundamental items in corporate policy and on the other hand have been classified as one of the issues that interest in financial research literature. The dividend is a reward to the shareholders for their fund invested and for uncertainty risk bearing that they faced. But it was depended on several types of factors that will interfere between their dividend payout performances. Dividend also will act as the level of profit in one company that will notice by the investors as a level of a company's performance. The previous research by Alias, Rahim, Nor, & Yaacob (2012) stressed that dividend payment has a long relationship to the firm's profitability and also the performance matters.

According to the research by Murekefu & Ouma (2013) that study in Kenya, the researchers found the result that the major factor which has affected the performance of one company is the dividend payout. The result obtained was strong means that managers need some enough time to decide the dividend payout because it will show the level of a company's performance to the new investors. It is important to examine whether having certain characteristics of board structure and firm's specific factors can enhance or can weaken or neither both with the firm's performance level.

2.3 Corporate Governance Characteristics

2.3.1 Board Size

Board of director’s was one of the corporate governance factor acts as the main role in one company. This is because the board of director’s roles in one company was controlled and managed that company well by following their strategy. To understand the relationship between the boards of directors with the performance of the company is very important to everyone's knowledge. Because of that, the size of the board of directors should be considered which to determine the dividend payout behavior of a company in the present study.

In previous research by Abor & Fiador (2013) that study about the corporate governance effect on firm’s dividend payout policy in sub-Saharan Africa found that there is a positive correlation between board size and dividend payout policy in Ghanaian firms but negatively correlated in Nigeria and Ghana firms. It means that the larger board size, the higher it will affect the dividend payout in Ghanaian firms. On the other hand, in Nigeria and Ghana, the larger board size will lower the dividend payout in their firms. They also mentioned that the larger boards attracted the management attention to maintain profits in financing their investment opportunities. Besides that, to monitor the behavior of the dividend payout, management by corporate boards are the one who were responsible for it and have ensured that the company promotes the shareholder’s interests.

According to the study by Bokpin (2011) that also identified the same result that there was a positive relationship between size board of director and dividend payment from the companies in Ghana. The researcher stated that increased in the number of sizes of the board in one organization gave a significant result of the shareholders dividend because the boards of directors have become stronger to make a decision. The study supported that the boards have been found to be one of the important factors to stabilize the interest of managers and the shareholders in the company. On the other hand, in a study by Abdelsalam, El-Masry, & Elsegini (2008) found that there was no significant relationship between board size and dividend payment ratio in the Egyptian listed companies.

Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori (2013) that examines the effect of board size of the dividend policy in Tehran listed companies also found that there was a significant relationship between board size and dividend policy of companies. The result shows that when the amount of board size increase, the company was pursuing more payout policies and further will announce a higher dividend payment to their shareholders. Contradict result was found in the research by Subramaniam & Devi (2011) that the board size does not affect the dividend policy in the Malaysia's listed companies. They were doing the research that concerned about the role of corporate governance, which also was included the board size as a variable to examine the effect of growth opportunities that measured by the researchers in terms of the investment opportunity set (IOS) and dividend payout in an emerging economy of Malaysia.

According to Alias et al., (2012) that study about the dividend policy in listed company in Malaysia also found that there was a relationship but not significant between size of directors in the sample and dividend payout. By referring to the previous studies, there were two studies in Malaysia who's found that board size does not have a relationship with the dividend payment. Furthermore, in the study by Arshad, Akram, Amjad, & Usman (2013) revealed that board size has positively related with dividend payout but was statistically insignificant. It means that, increase in the number of board size does not purposely affect the dividend policy in Pakistan. But the study has recommended that board size has a slighter influenced in the dividend payout issues when compared to other corporate governance variables that have been done in Karachi Stock Exchange.

Research by Setiawan & Phua (2013), that study about the corporate governance that impact on dividend policy on firms in Indonesian Stock Exchange from year 2004-2006 stressed that there was no correlation between corporate governance variables with the dividend policy. This is because of the poor corporate governance that was practiced in Indonesia at that time. The same result also was identified in the working paper that used pooled cross sectional observation in Ghana which has been done by (Asamoah, 2011). The result reveals that there was no relationship between the size of the board of directors and dividend policy in firms that were listed on the Ghana Stock Exchange.

According to the research by Salehnezhad (2013) that used fuzzy regression analysis to examine the relationship between the dependent and independent variables has found that board size has a significant relationship with the dividend payout. It means that if the board size increased in number, the dividend payout will increase because larger boards can manage the company well. The result from the studied by Eisenberg, Sundgren, & Wells (1998) was contra with the result above. The studied found that there was a negative correlation between the size of the board and firms value. It means that, the largest numbers of boards have been appointed; the firm's value will be decreased. The negative relationship also has found in the study by Gill & Obradovich (2012) on the sample of firms in USA.

Yermack (1996), that study a sample of 452 large industrial, corporate in the U.S. in the year 1984-1991 on board size and firm value identified that there was a negative relationship between board size and firm value. They stressed out that, when boards become large, the incremental costs occurred with a higher amount as the size of boards changed from small to medium. That research concluded that little number of boards will result on higher dividend payment.

2.3.2 CEO Duality

The definition of CEO duality was referred to the situation when the CEO of the firm also holds the position as a chairman on the board. The firms will benefit if their duality CEO works closely with the board of directors' objective which is to maximize the shareholder wealth. In an organization, the board of directors was appointed to monitor the management on the behalf of the shareholders. In order to know the efficiency of management in one organization that contributed to the dividend payment behavior, the CEO duality factor must be considered.

In previous research that study about the relationship between CEO duality and dividend payout in sub-Saharan Africa by Abor & Fiador (2013) have found that there has a negative significant effect on dividend payout but it was only in Nigeria. On the other hand, in both the South African and Ghanaian, CEO duality shows the insignificant result in the sample that the researchers were studied. It means that, CEO with dual role tends to lower the dividend payout paid to their shareholders. On the other hand, as also mentioned by Abor & Fiador (2013), firms which have separate roles of their CEO and chairman distribute the high dividend payout to attract the attention from the shareholders. The differences results for the three samples that the researcher has studied might because of the financial market development in the three samples were on a different level.

According to Bokpin (2011), in the study about the interaction between corporate governance variables which are the ownership structure of the firms and dividend payout performance of the Ghana Stock Exchange found that there was a positive but an insignificant relationship between CEO duality and dividend payout. It means that the CEO who also acts as a chairman in the firms has worked seriously to increase the performance of the firms. When firms gained higher profit, the firms will announce the higher dividend payment to the shareholders. On the other hand, in the study by Subramaniam & Devi (2011) that was focused on the listed companies in Malaysia, has provided the result that there is a significant negative correlation between CEO with dual roles in the companies toward the dividend payout that announced by the companies.

Furthermore, when referred to the research by Abdelsalam, El-Masry, & Elsegini (2008) that study about the dividend policy in an emerging capital market in a country that was under a transitional period found that there is no correlation between CEO duality and the dividend payout by the company in Egyptian firms. The same result was also found in the study by Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori (2013), and the result shows that the CEO duality and dividend policy of the sample companies have no significant relationship between its. The result has rejected the researchers' hypothesis which assumed that between both CEO duality and dividend policy there was a significant relationship in the sample of companies that listed on the Tehran Stock Exchange.

According to the previous study by Alias et al., (2012) that study about the direct and interactive effects of firms' characteristics on dividend per share as a proxy of a firm's performance in non-financial Malaysia's listed companies found that there has a significant negative effect between the presence of the duality role of CEO and the dividend payment that has announced by the companies. In one company, although the CEO and the chairman were the same person, but if he or she cannot manage the companies' well, so the companies cannot retain the achievement of their performance. The duality CEO should sacrifice their personal interest toward interest of other shareholders to increase the performance of the companies.

Furthermore, research by Arshad, Akram, Amjad, & Usman (2013) that study about the potential alliance between ownership structures and dividend payout policy on Karachi Stock Exchange stated that the relationship between the CEO duality and the performance of the companies is negative. In addition, they studied done by Chen & Cheung (2005) also found the same result that the CEO duality and companies' performance of Hong Kong public listed was negative correlation. The studied also indicates that CEO duality might be valuable in a company that was controlled and managed by the family members.

Besides that, according to the studied by Gill & Obradovich (2012) that study about the dividend payout in the USA found the result that CEO duality has a positive relationship with the dividend payment in the companies. On the other hand, in the research that studied by Chen, Lin, & Yi (2008) found that CEO duality did not improve the performance of one company. It means that, the CEO duality does not affect the performance of the company. The study also mentioned that, the number of firm's changes the structure from duality to non-dual CEO was increased recently. It shows that, the company realized that the CEO duality did not give advantage to the company's profitability.

According to the study by Carty & Weiss (2012) that study about the effects of CEO duality to corporate performance in the US banking system has found that there was no relationship between the performances of bank in the US with the CEO duality variable. Referred to the studied by Sridharan & Marsinko (1997), the studied revealed that there have many arguments that have been discussed by financial, academic regarding the advantage and disadvantage of CEO duality in one company. In that study the result shows that the CEO duality gave a good performance to the margin and product utilization of assets that reflected in a higher market value of the companies. Here, it indicated that CEO duality has a positive relationship with the performance margin in the paper and forest product industry.

Feng & Sirmans (2007) used CEO entrenchment to examine the relationship with the dividend policy of real estate investment trust (REITs). CEO entrenchment has two types which included of CEO duality and CEO tenure. Result of CEO duality that identified in the study was the significant impact of the dividend policy in a group of without nomination committee. In the previous research by Chang & Dutta (2012) used firms that were listed on the Toronto Stock Exchange as their sample found that a large number of CEO duality in Canadian contributed to the higher dividend payment by the companies in the year 1997-2005.

2.3.3 Individual Ownership

Individual ownership was a right that belongs to the individual if they held the shares in one company. It was measured by the proportion of shares owned by the individual from all the shares outstanding that issued by the companies. This individual ownership must prepare that all risk of loss in the business was under he or she responsibility which there is no legal distinction between the owner and the business. In an individual ownership firm, the owner will receives all profit and also has unlimited responsibility for all losses and debt. There have the advantages and disadvantages of individual ownership in the firm performance so that the researcher has considered studying the relationship between individual ownership with the dividend payout in the companies.

According to the previous study by Thanatawee (2013) that examined the relationship between ownership structure and dividend policy in Thailand companies. Result found that the coefficient on the individual ownership variable was significantly negative relationship. It indicated that when the individual shareholders were higher, the firms pay a lower dividend to the shareholders. The evidence found from the study shows that the relationship was strong between individual ownership and the dividend payout. Besides that, the study also mentioned that, when an individual investor appeared as major shareholders, they turned to extracted private benefits by not distributed it to minority shareholders in the companies. After that, they will further make a decision to pay out lower amount of dividends to the rest shareholders.

Referred to the previous research by Zabihi & Ghaleb (2013) that study in different industries of the Tehran Stock Exchange, suggested that there was a negative correlation between individual ownership and the division policy of the firms. It means that, the individual ownership does not affect the dividend payout in the firms on the Tehran Stock Exchange. Other than that, when referred to the study by Hafza & Mirza (2010) found that individual ownership has negative correlation and significant finding which shows that the dividend over capital gain was not become the most preferable by the firms that owned by the individual investors. This was caused by the double taxation burden on dividend and no tax on capital gain. Furthermore, the study also mentioned that speculated the profit that gained by shareholders and investors have become the most interested behavior that preferred by the majority of individual investors instead of retained the long term investment in the shares of the companies.

Further, a study by Khan (2005) about ownership characteristics of firms towards the dividend behavior of firms in UK during year 1985-1997. Result from the study point out that individual shareholders in the firms sample was negatively correlated with the dividend payout of the firms. The study also mentioned that management whose does not apply value maximizing behavior in their company caused the negative relationship between individual ownership and dividend payout. Besides that, the low dividend payout also was caused by the individual who’s owned large share and tend to increase the cash flow at their disposal.

In addition, the previous research by Ehsan, Tabassum, Akram, & Nasir (2013) done study of 100 listed firms on Karachi Stock Exchange which has excluded the financial firms during year 2007 to 2011. Result from the research found that individual ownership was negatively significant with the dividend payout. It means that, the more individual ownership held the shares in the company, the lower dividend payout was distributed by the company. Furthermore, the empirical analysis of non listed companies on Norwegian small and medium-sized enterprises by Paivi (2007) found contradicting results that individual ownership influenced firms' performance as it contributed to the outstanding profitability than institutional ownership that evidenced from Norway companies.

According to the study by Lauterbach & Vaninsky (1999) that investigated on 280 Israel firms regarding the ownership structure and firm performance found that firms that controlled and managed by the individual partnerships have a negative relationship with the firm performance. Firms with less outstanding contributed to the lower dividend payment to their shareholders. Another previous research that supported the result above is Wang (1997) that study on Chinese Stock Companies. The results of the research stressed out that individual ownership in the sample of firms were either having a negative correlation with the firm's performance or not correlated at all.

2.3.4 Managerial Ownership

According to the Mehrani, Moradi, & Eskandar (2011), they defined the managerial ownership as the proportion of stock that owned by the manager and the board of directors from the total outstanding shares in the company for that year. Besides that, managerial ownership also was defined as the number of shares that owned by the directors and divided by the total number of shares issued by the company (Zabihi & Ghaleb, 2013).

In a previous study by Abdelsalam, El-Masry, & Elsegini (2008) that examined the dividend policy on an emerging market in Egyptian has obtained a result that there was a significant negative correlation between the managerial ownership and the dividend payout. It means that a large percentage of managerial ownership held by the manager does not help align the interest of managers and shareholders that was resulting in a lesser performance of dividend payout.

According to the studied by Hafza & Mirza (2010) that studied about dividend payout in the emerging economy of Pakistan, has revealed that there was a negative relationship between managerial ownership and dividend payment and it was significant. The studied also has mentioned about the management practices in Pakistan that were not efficiently controlled by corporate law authorities of the country. That could be the reason that the corporate managers usually have a greater interest to increase funds under their control and to distribute low dividend payouts in the company.

Followed the research by Zabihi & Ghaleb (2013) that studied about the profitability on the policy of division in different industries on the Tehran Stock Exchange found that their research hypothesis have confirmed that the relationship between division policy and managerial ownership was significant. The result means that managerial ownership will give the high dividend per share to the shareholders of the companies in the different industries.

According to the study by llah, AsmaFida, & ShafiullahKhan (2012) who's focused on corporate dividend policy which was important factors in corporate decision which is. In the context of agency relations, corporate dividend policy can give a greater impact on the sentiments of the shareholders and also mostly that will be considered. The studied proposed that between the dividend payout ratio and the managerial share ownership, there was a negative relationship. It means that, the higher the percentage of the managerial ownership held in the firms, the high probability that dividend payout will become lower. The studied also mention that the reason of a negative relationship between managerial ownership and dividend payout was because of an increase in the managerial share ownership that was used as an internal governance mechanism information the behavior of the firm manager.

According to Al-Gharaibeh, Zurigat, & Al-Harahsheh (2013), that studied about the relationship in ownership structure and well established dividend decision and dividend payout models in a rising market condition. The studied found that by using the Partial Adjustment Model to analyze the research, there was negative coefficient in managerial ownership, but there was significant critical value have been found. Full Adjustment Model results were positive and significant relationship with dividend payout. As mentioned by the researchers in the Jordanian firms, the firms did not use dividend payment as a medium to decrease the agency cost between management and the shareholders so there will obtains unexpected results in managerial ownership in that studied.

Followed the studied by Hu & Izumida (2008), said that high level of managerial ownership, which also insider ownership helps align the interest of managers and shareholders that were resulting in a good performance of the companies. Besides that, the studied also mentions that high level of managerial ownership increases the probability that the manager devotes significant effort to create a creative activity from misuses the corporate resources in the company. The previous study that examined the relationship between managerial ownership and performance in publicly traded restaurant companies identified that managerial ownership in the restaurant company's influence and has a relationship with the performance of the companies (Kim, 1998)

Wang (2003) identified that ownership structure and firm performance has a negative relationship with their study on the listed and OTC manufacturing companies in Taiwan. The study also suggested that when the number of managerial ownership in the companies increase, it decreased conflicts that occurred between insider managers and outside owners. Other than that, one of the previous research that study about the managerial ownership and firm performance revealed that, the performance of firms in their study was changed when the managerial ownership was charged. It means that, there was a positive relationship between managerial ownership and firms' performance in NYSE, AMEX and NASDAQ market (Cui & Mak, 2002).

In a previous research paper that investigated on the issue of managerial ownership and performance in companies have concluded that in his analysis, managerial ownership have influenced the performance of the companies. He also suggested that a company that have a higher number of shares that owned by their managers do well in their business. The reason was the managers should protect and secure their company's performance in order to attract new investors and customers (Mueller & Spitz, 2002).

2.4 Operating Cash Flows

Cash flows used as a one factor for managed to make a decision on the company's dividend payout to shareholders. Cash flows that an organization obtained have provided the information about the financial situation of one company in the eye of shareholders. The shareholders will enable to evaluate the ability of the companies on gaining huge amount of cash in the future and also can provide a necessary condition in using those cash flows. The cash flows have been considered by the present researcher as a variable in determining the effect to the dividend payout behavior.

According to the study by Hafza & Mirza (2010) that investigated about the cash flows from operation in the firms which impact on dividend payout in the emerging economy of Pakistan stated that there was a positive and significant relationship between operating cash flow on dividend payout behavior. It means that, the operating cash flows were important to determine the level of cash dividend paid by the firms in Pakistan. The study also mentioned that firms that were sensitive to cash flow movement would be reluctant to pay high dividends. On the other hand, the result was not supported in the study by Zabihi & Ghaleb (2013) that study about the cash flow and the dividend in different industries on the Tehran Stock Exchange. In that study, the result suggested that the correlation between operating cash flows and dividend were rejected, means that the operating cash flows does not affect the dividend payout behavior.

Followed the study by Alias, Rahim, Nor, & Yaacob (2012) pointed out that in the presence of high agency costs of free cash flow, the corporate board can act a greater role to influence the dividend payout. The result that they found was contradicted by the statement because in their study, the operating cash flow does not have a relationship with the dividend payout. It means that the manager does not consider the operating cash flow in making the decisions on the dividend payment to the shareholders.

Besides that, according to the study by Hashemi & Zadeh (2012), the hypothesis developed in the study is to investigate the cash flows which that if more cash flows of the company, the more cash dividend will be distributed among the shareholders of the company. The result in the testing of the hypothesis revealed that there was a positive impacted by operating cash flow on dividend policy of the company and the result have supported the hypothesis developed by the previous researchers. The same result was supported in the study by Adil, Zafar, & Yaseen (2011) that used operating cash flow as a proxy of liquidity in their sample of the study. The study confirmed that the coefficient of operating cash flows was significant with the dividend payout of the firms in KSE 100 Index.

On the other hand, Thanatawee (2013), whose study on dividend policy in Thailand found that there was an insignificant relation between the cash flow and the dividend policy in Thailand firms. According to Al-Gharaibeh, Zurigat, & Al-Harahsheh (2013) said that it was better to pay this cash as a dividend if the firms have excess the larger cash because it will reduce the discretionary funds of managerial and also can avoid agency cost of free cash flow. After the testing, the result indicated that the free cash flow was found to be a positive relationship and statistically significant at the 1 % level. It supports the theory that if the firms want to avoid the possibility of manager's behavior in wasting the funds or more intends to satisfy their irrelevant need the dividend payment can be used as the way to prevent it.

According to Mirza & Afza (2014) in their present study examined the influence of free cash flow toward the corporate dividend payment which focuses on four emerging economies in South Asia. Results obtained from the study showed that in India and Pakistan, operating cash flow acted as an important factor and affect the ability of firms to pay the dividend to their shareholders. Meanwhile, in Sri Lanka and Bangladesh firms, operating cash flow in the company does not influence the decision of firms to pay his dividend. The differences of results that obtained in these four emerging markets could be because of the difference in culture and economic scenarios that owned by the markets.

Furthermore, Goldman & Viswanath (2013) study of the firms in exporting and non-exporting in India. The study has developed the hypothesis that firms who's have high volatility on cash flow gave lower dividend payment. After the analysis, the result obtained has strongly supported the hypothesis that developed in the study. Naceur, Goaied, & Belanes (2006) agreed with the result that revealed above. They have mentioned that if the profitability of one firm is stable, it means that the company has more stable earnings and thus will pay high dividend because the company also has a stable cash flow.

Yahyazadeh & Emadi (2011), in their study that investigated on the amount of profit that the companies in Tehran Stock Exchange has divided to their investors by using free cash flow as one of the variables. Result from the analysis revealed that cash flow in the companies does not influence the amount of profit that has divided to the investors. Contradict result found in the study by Papadopoulos & Charalambidis (2007) that examined the impact of a firm's specific in the companies that listed on the Athens Stock Exchange in the year 1995 to 2002 with the dividend payout. The result indicates that cash flow has been identified to be the most important factor in dividend decision and it was a positively related with the dividend payout.

Followed the research by Charitou & Vafeas (1998), concluded two results in their study regarding operating cash flow and dividend payout changes. First, they concluded that to decide the dividend payout, operating cash flow act as an important factor especially when the dividend was relatively low. Second, operating cash flow act as a not important factor when the demand on the cash flow for investment project is highly competing. Besides that, positive relationship between free cash flow and dividend payout was found in the study by (Wang G. Y., 2010). In that previous study has examined the relationship between free cash flow with agency cost and how free cash flow and agency cost affect firms' performance. The correlation between those variables have been revealed in that study.

2.5 Control Variables

2.5.1 Financial Leverage

In the previous study by Mansourinia, Emamgholipour, Rekabdarkolaei, & Hozoori (2013), the previous researchers used financial leverage as a control variable in determining the dividend policy of the sample firms in Tehran Stock Exchange. The financial leverage was measured by the total debt to total assets ratio. The study found the result that financial leverage has a negative and significant relationship with the dividend policy as the error level was less than 1% after the researcher conducted a regression. This resulted was supported by Bokpin (2011) in the study about the dividend performance in Ghana Stock Exchange. The study indicated that there was a statistically significant negative relationship between financial leverage and dividend payout for the firms in GSE. The researcher suggested that highly leverage in a firm has reduced dividend payment and significantly have high probability to meet their obligation especially interest payment.

Followed the study by Alias, Rahim, Nor, & Yaacob (2012) that used fixed effects regression on a sample of non-financial Malaysian listed firms found that the result was also negative relationship and statistically significant between financial leverage and dividend payout. It means that having high amount of financial leverage in a firm, the dividend payment becomes lower. Other than that, referred to the study by Hafza & Mirza (2010) found that leverage was negatively and insignificantly related to the dividend payout which is different from the previous results. From the study, it also mentioned that in Pakistan the establishment of the public debt market was not well and the majority of the loan was authorized on socio-political basis and minority are authorized only for a special project. It revealed the reason that in Pakistan, debt cannot be considered as having a direct bearing on the corporate dividend policy with a company.

The financial leverage relationship on the dividend policy in Iran that a study by Hashemi & Zadeh (2012) found that there was a negative relationship between financial leverage and dividend policy. The study stated that increased financial leverage would make the companies feel burdened with high costs of transaction in providing the external finance. Then, in order to prevent costs occurred and to save internal financial resources, the company will distribute lower cash between shareholders. The result was supported in the study by Al-Nawaiseh (2013) whose also shows a significant and negative relationship between leverage and dividend policy. In other word, the firms with high ratio of debt tend not to pay dividends or pay a lower dividend to the shareholders of the firms. Firms with higher financial leverage must come with other efficiency solution in order to protect and secure their shareholder wealth.

Furthermore, the same result also was supported in the study by Arshad, Akram, Amjad, & Usman (2013) that study about any potential relationship on dividend decision and dividend payout. Referred to the study, the firms leverage in the regression model revealed a positive relationship with dividend decision payment variable but it shows statistically insignificant. The study by Malik, Gul, & Khan (2013) also supported the above finding as the firms leverage was related to the dividend policy of the companies.

In the study by Thanatawee (2013) also revealed the same result that financial leverage does not affect the dividend payment positively. The study measured leverage as total debt divided by book value of total assets and have expects the result of a negative relationship between leverage and dividend. Higher debts in one company are more likely caused the financial constraint and have less priority to pay dividend to shareholders. In addition, the result of a negative relationship between financial leverage a dividend payout also supported in the study by (Al-Gharaibeh, Zurigat, & Al-Harahsheh, 2013).

According to Malik, Gul, & Khan (2013) that study of the managerial decision on dividend payout in financial and non-financial firms found that leverage also has proven in that study as the factor that affect the dividend payout. Emamalizadeh, Ahmadi, & Pouyamanesh (2013) study the sample of companies in Tehran Stock Exchange regarding the impact of financial leverage on dividend payout. Result found that financial leverage affects the dividend payout of the companies.

2.5.2 Firm Size

In the previous study by Abor & Fiador (2013), the researchers found that only in Nigeria that firm size was significantly and positively related to the dividend payout. The study also mentioned that large firms in a country were often held a stable cash flow to pay higher dividend to shareholders. In a situation where large firms have low development in future growth opportunities, more dividend payments would be a better option for the firms because it would not be a good way to retain profits for future investments. On the other hand, the result was contrary to the study by Bokpin (2011) that found that firm size was statistically significant negative relationship with the dividend policy in the firms on the Ghana Stock Exchange.

According to Mansourinia et al., (2013) that study of the Tehran Stock Exchange found that there was a significant and positive relationship between the variables of firm size and dividend performance at error level less than 1%. Besides that, according to the study by Setiawan & Phua (2013) found that there was a negative relationship between firm size and dividend. It means that, firm size does not affect the dividend policy in Indonesia. The previous research concluded that, there was no difference between big and small firm in term of dividend payment to the shareholders in that study.

Another previous study by Hafza & Mirza (2010) supported that firm size having a significant negative relationship with dividend behavior of firms in Pakistan. The study also mentioned that, large firm size preferences have been found to pay lower dividends than small companies. The situation might be because the larger firm size was preferred to keep the cash for reinvesting in assets, whereas smaller companies try to gain investors' attention to improve the demand of their shares by not fail to pay dividends to their shareholders.

Followed the study by Hashemi & Zadeh (2012) that study on Tehran Stock exchange found that there was a positive relationship between the firm's size and dividend payment. The reason mentioned by the researcher is the largest firm size held a good capital market that makes them easier to pay more dividends to the shareholders of the firms with increased the cash and decreasing the costs. Contrary result in the study by Adil, Zafar, & Yaseen (2011), that has found the insignificantly correlation between firms size and dividend payout for firms in KSE 100 Index in order to observe the profitable performance of the firms.

According to the study by Al-Nawaiseh (2013) on the firms in Amman Stock Exchange found that there was positive relationship and significant between firm size and dividend policy which indicates that large firms are more able to pay dividends to their shareholder. The same result also have been found in the study by Thanatawee (2013) in a sample firms of Thailand with the positive coefficient and also suggested the same reason that firm with larger size tend to pay high dividends. Other research that found the same result that firm size does not affect dividend policy is Zabihi & Ghaleb (2013) that rejected the hypothesis in their testing.

Other than that, in the study by Al-Shubiri, Al-Taleb, & Al-Zoued (2012) who's examined the payout behavior of dividend for Jordanian industrial firms revealed that firm's size show a negative and significant effect of the dividend and also mention that larger firms are less likely to pay out dividends. Another study also reveals the same result which is the study by Ullah, AsmaFida, & ShafiullahKhan (2012) that study the corporate dividend policy on firms in Karachi Stock Exchange. It also has been supported in the study by Al-Gharaibeh, Zurigat, & Al-Harahsheh (2013) that study of firms in Jordanians corporation companies.

According to the Ehsan, Tabassum, Akram, & Nasir (2013) stated that in the beginning of the study, the previous researches believed that when the size of firms getting bigger, the firms accessed the capital market well and has the ability to pay more dividend. But the study found that firm size has a negative correlation with the dividend payout to the insider and individual ownership structure in the companies. In addition, the study by Redding (1997) also points out the same result as the above study. The study also mentioned that large investors can lower their cost of transaction by investing in large corporations. This is because, large companies tend to pay dividend to their investor while the small companies.

Malik, Gul, & Khan (2013) stated that firm size was related to the dividend payout and has a possibility to influence the manager's decision regarding the dividend payment to the investors. Thus, the similar result also found in the study by Warrad, Abed, Khriasat, & Al-Sheikh (2012), stressed that company size will have a positive relationship with the company in industrial public shareholding company in Jordanian. Another previous study that supported the finding above was Leng (2007), that study on selected Malaysian Public Listed Companies found that size of companies do affect the dividend payout in the companies.

CHAPTER THREE

HYPOTHESIS DEVELOPMENT AND METHODOLOGY

3.1 Introduction

This chapter explains on the theoretical framework followed to the hypothesis formulation. Then, it follows to present the research design used by the researchers in this study and the step of analysis. Besides that, the chapter provides a description in terms of research design conducted; sources of data collected, namely data collection, model specification, multiple regression and measurement of the variables in this study. The chapter also explains about the description of data analysis applied, descriptive analysis, and correlation of variables, ordinary least square regression analysis and lastly the summary of the chapter.

3.2 Research Framework

This study investigated the relationship between board characteristics such as board size, CEO duality, individual ownership and managerial ownership and operating cash flow with form of dividend yield in Malaysian listed companies. In this study, board characteristics and operating cash flow represented as an independent variable meanwhile the firm’s dividend yield represented as the dependent variable.

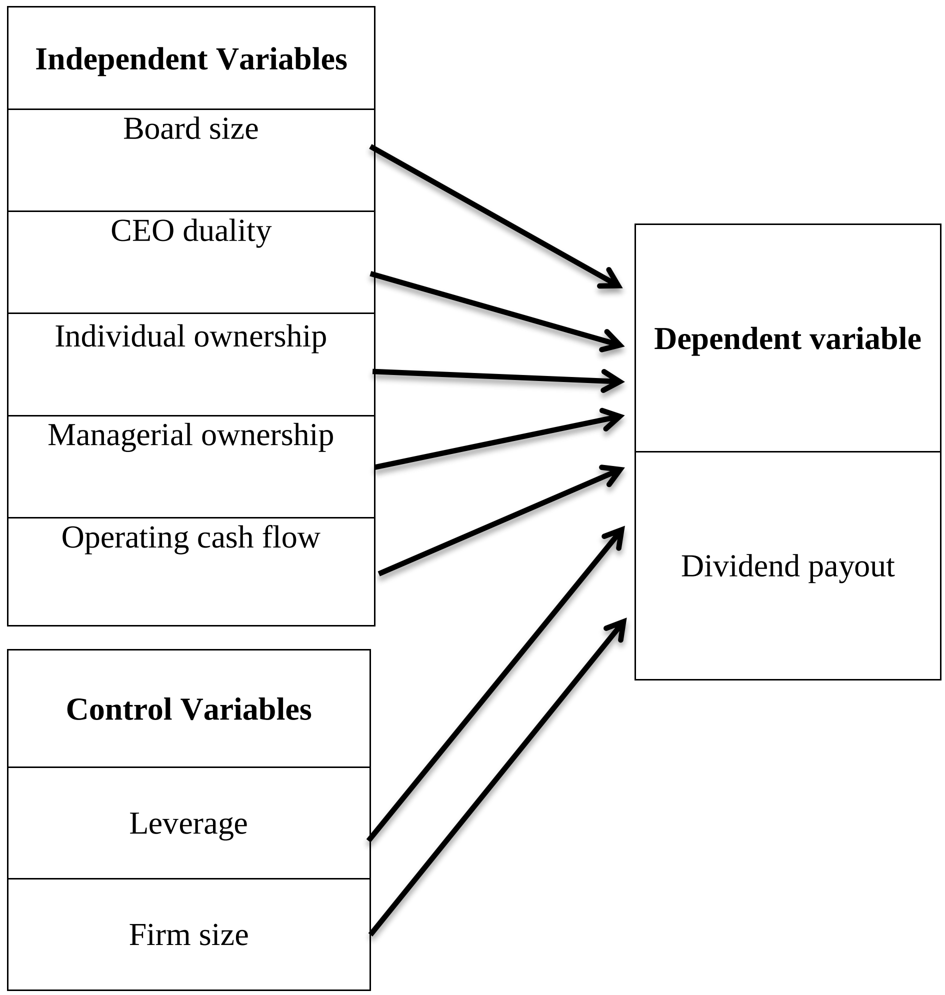

Figure 3.1 Theoretical Framework of Dividend Payout

3.3 Hypothesis Development

A hypothesis is an assumption and unproven statement about a factor that is of interest to the researcher in a study. A hypothesis is a declarative for a study and can be tested empirically. An important role of a hypothesis is can suggest variables to be included in the research design. First, the researcher will discuss about the important and the role of the dividend payout then follow to discuss about the relationship between independent variables and also the control variables.

3.3.1 Dividend Payout

In an organization, dividend payout was important in order to protect the shareholder's position as it shows how much profit that will distribute to the shareholders. Shareholders will consider its before they want to invest in once company. Dividend payout can be measured by dividing the dividend per share and earnings per share (Hafza & Mirza, 2010). Before one organization will make a decision regarding their dividend payout matter, the manager will consider many circumstances which will happen in their company such as the operation is performed and also the efficiency of the management actions. In other word, the dividend payout that announced by the company will represent the profitable performance of once company.

In previous studies, financial researchers have identified at various types of factors which were important that managers can consider making a decision regarding dividend including the firm specifics factors and corporate governance factors.

Differences types of corporate governance mechanism were supported by the agency theory which suggested that the corporate governance is depend on agency cost (Abor & Fiador, 2013). In corporate governance, one of the important mechanisms is the role of the board of directors as it is seen as the main character that will make a decision of the company and also the person that will protect the shareholder wealth. Besides that, cash flow also is an important mechanism in a company specific characteristic that will affect the dividend decision.

In this study, the researcher will focus on the relationship of the independent variables and dependent variables that the researcher chooses, including the control variables that each have a relation with the dividend payout.

3.3.2 Board size and dividend payout

Board size is the number of directors on the board that play the role of decision making. There were few studies by Abor & Fiador (2013), Bokpin (2011) and Mansourinia et al., (2013) found that board size of the board of directors in once company will influence the dividend payout decision. It means that, board size has a positive relationship with the dividend payout. However, it is clear that larger board's size leads to disadvantages to the company. All boards of directors will face a difficulty in making a decision and will bother the work coordination of the company.

On the other hand, smaller boards can help to prevent the careless thought by individual directors and further will increase their decision making. The previous studies that have done in Malaysia by Subramaniam & Devi (2011) and in Indonesia by Setiawan & Phua (2013) supported that the increase number of board size will not affect the company's dividend payout decision. Meanwhile, the rest research that study on board size have that there were positive relationship between board size and dividend payout which were contra with the statement above. Based on the above explanation, the following hypothesis is formulated:

H1: There is a positive relationship between board size and dividend payout.

3.3.3 CEO duality and dividend payout

CEO duality happened when the CEO of the company is also the chairman. There were many previous studies found that CEO duality were significant negative relationship with the dividend payout. This was because the agency problem will highly occur when the same individual holds dual roles. The individual will pursue to gain the own benefit rather than manage the shareholder wealth and continuing to harm the company. This condition will consequently lower the dividend payout by the companies. The previous studies also mention that if the CEO has two roles it will lead to challenging the board's ability to do their monitoring duties and further lead to the weak performance of the company.

The agency theory also suggests that separating the chairman from the CEO will helps to improve the performance and also improve the implementation of systematic plan.

All of this was supported in the studies by (Abor & Fiador, 2013), (Bokpin, 2011), (Subramaniam & Devi, 2011), (Abdelsalam, El-Masry, & Elsegini, 2008) and (Mansourinia et al., 2013). Based on the above explanation, the following hypothesis is formulated:

H2: There is a negative relationship between CEO duality role and dividend payout.

3.3.4 Individual ownership and dividend payout

Individual ownership is the percentage shares that owned by the individual in a company. Individual ownership will receive all profit and also obtained unlimited responsibility for all losses. The previous studies found that the individual ownership has significantly negative relationship between the dividend payout of a company. A company owned by individual ownership turn to pay a lower amount of dividend due to the double taxation on dividend and no tax on capital gain. The previous study also mentioned that individual investor seems to be interested in speculative the profit gain rather than retain the long term investment.

These are according to the study by (Thanatawee, 2013), (Zabihi & Ghaleb, 2013), (Hafza & Mirza, 2010), (Khan, 2005), (Ehsan, Tbassum, Akram, & Nasir, 2013) and (Lauterbach & Vaninsky, 1999). Meanwhile, apart from those previous studies, there was only studying that found that the individual ownership influence the dividend payout (Paivi, 2007). Based on the above explanation, the following hypothesis is formulated:

H3***: There is a negative relationship between individual ownership and dividend payout***.

3.3.5 Managerial ownership and dividend payout

Managerial ownership is the percentage shares that owned by the board of director of a company. In once company, board of director must hold the proportion of shares in order to be voted as a board of director by other shareholders. The research by Abdelsalam, El-Masry, & Elsegini (2008) found that the percentage shares that the board of directors owned caused a negative effect on the dividend payout by the company. The same results also point out by Hafza & Mirza (2010) and Ehsan, Tbassum, Akram, & Nasir (2013), that study the managerial ownership and dividend payout has found that the managerial ownership caused a negative effect on the dividend payout because managers usually were preferred to obtain retained earnings rather than payouts the dividend to the shareholders (Huda & Abdullah, 2013).

In addition, other previous studies that found a negative relationship between managerial ownership and dividend payout were (Al-Gharaibeh, Zurigat, & Al-Harahsheh, 2013), (Wang W. , 2003) and (Ullah, AsmaFida, & ShafiullahKhan, 2012). Meanwhile, other previous studies that found the contra result were (Kim, 1998), (Hu & Izumida, 2008), (Cui & Mak, 2002) and (Mueller & Spitz, 2002). Based on the above explanation, the following hypothesis is formulated:

H4***: There is a positive relationship between managerial ownership and dividend payout****.*

3.3.6 Operating cash flow and dividend payout

Cash that generated from operations by one company acts as the most important sources used to pay dividends. The company cannot maintain its dividend payout over a long time of period if the operating cash that generated by the company was not sufficient to pay the cash dividend. Based on a study by (Hafza & Mirza (2010) found that cash flow effect the dividend payout by the companies and act as an important role in enhancing the company's ability to pay dividends. The result was supported by (Adil, Zafar, & Yaseen, 2011), (Liu & Hu, 2005) and (Hashemi & Zadeh, 2012).

Meanwhile, the studies that generated a negative relationship between operating cash flow and dividend payout were found in the research by (Alias, Rahim, Nor, & Yaacob, 2012), (Goldman & Viswanath, 2013) and (Yahyazadeh & M. Emadi, 2011). Results from the studies revealed that cash flow in the companies does not influence the amount of profit that has divided to the investors. Referred to the previous research, the majority of studies regarding operating cash flow show a positive relationship. Other previous research that supported this result is (Naceur, Goaied, & Belanes, 2006), (Charitou & Vafeas, 1998) and (Papadopoulos & Charalambidis, 2007). Based on the above explanation, the following hypothesis is formulated:

H5***: There is a positive relationship between cash flow and dividend payout***.

3.3.7 Financial leverage and dividend payout

Financial leverage was measured by dividing the total debt to total asset and the result shows the companies' performance level. In a previous study by Emamalizadeh, Ahmadi, & Pouyamanesh (2013) found that financial leverage does not affect the dividend payout of a company in Tehran Stock Exchange. Financial leverage also has a negative relationship with the company dividend payout, but it was insignificant (Shah, Ullah, & Hasnain, 2011). The previous study by Al-Nawaiseh (2013), said that firms with high ratio of debt lead to the lower dividend payout by the company to their shareholders because they might have high probability to meet their obligation especially interest payment. Based on the above explanation, the following hypothesis is formulated:

H6***: There is a negative relationship between financial leverage and dividend payout***.

3.3.8 Firm size and dividend payout

Firm size was used in the study by referring to firm's total asset that suggested by (Hafza & Mirza, 2010). Firm size was represented the size of companies that was important for the manager to make a dividend payout decision. The result of a study by Redding (1997), shows that large companies are going to pay a large amount of dividends, but the result was not as strong as saying by the researcher. The same result also was found in the study by Musiega, Alala, Douglas, Christopher, & Robert (2013), said that the firm size was the importance and the main criteria in the dividend payout decision making. Larger firm's size will contribute to the higher agency problem. To reduce the agency problem, the companies will pay high dividend as a solution for the agency problem since the retained earnings can be reduced and brings the management to be more focus on external financing. (Hossain, Sheikh, & Akterujjaman, 2013). Based on the above explanation, the following hypothesis is formulated:

H7***: There is a positive relationship between firm size and dividend payout***.

3.4 Research Design

This study will be conducted by hypotheses testing as it explains about the nature of the relationship between the variable used which involved of board characteristic and operating cash flow in determining of dividend payout. In other words, the hypothesis testing was chosen in order to explain the variance in the dependent variable or to predict the dividend payout performance relationship with the independent variable used.

Besides that, this hypothesis testing method also can be done with the quantitative data analysis for this study as in this study used quantitative data collection rather than qualitative data collection. Quantitative data collections were selected in this study because it will explain the results in more preferable and precisely since this study was related to the performance where the data used numeric figures.

3.4.1 Data Collection

The total number of companies listed on Bursa Malaysia is 991 that governed of all sectors. In this study the numbers of companies were reduced to 952 after deducting the finance sectors. Then, from 952 companies, the researcher chooses only 100 largest companies by referring to the company's total assets. Firms with missing data also were excluded from this sample. The companies' observation was taken over the period of 2012. The researcher chooses the current year in this study in order to provide evidence using the latest data available. Besides that, the findings can update the knowledge of financial person about the current issues regarding dividends.

3.4.1.1 Procedures of Data Collection

The data needed for the study of corporate governance (board characteristic) and dividend payout ratio performance were retrieved and collected from the company's annual reports that were available on the trading market stock website in Malaysia that was known as Bursa Malaysia.

The corporate governance data were collected from the annual reports in particular from the corporate information, statement of corporate governance, shareholder statistic information and also from the director's profile. Then, for dividend payout ratio, operating cash flow, leverage and logarithm of total asset were gathered from DataStream provided in UUM Library and also from financial statement in the company's annual report.

In this study, the researcher collected the secondary data in order to make sure the ease of availability of the data and for the purpose of answering the research questions. The study that used secondary data analysis involves in gathering and analyzing data from previously collected data sets or previously published records and reports. The secondary data is important to this research to get a better picture what the researcher wants to investigate. The data were collected in the year 2012.

3.4.2 Model Specification and Ordinary Least Square Regressions

The ordinary least squares (OLS) regression method is used to examine the relationship between the dividend payout and board size, CEO duality, individual ownership, managerial ownership and cash flow also including the control variables which are the leverage and firm size. OLS is the common method used for analyzing dividend payments by previous study (Harada & Nguyen, 2011; Adil, Zafar, & Yaseen, 2011).

Result from regression analysis that followed the equation developed in this study represented the best assumptions of a dependent variable from several independent variables. This method is used when the independent variables are correlated with one another and with the dependent variable.

The following regression equation model in the study is estimated as follows:

$$\boldsymbol{DPO} = \alpha_0 + \beta_1\, BSIZE + \beta_2\, DUALITY + \beta_3\, IND + \beta_4\, MNG + \beta_5\, OCF +$$
$$\beta_6\, LEV + \beta_7\, FSIZE + \varepsilon$$

Where:

DPO: Dividend payout ratio

BSIZE: Board size

DUALITY: CEO role duality

IND: Individual ownership

MNG: Managerial ownership

OCF: Operating cash flow

LEV: Debt to total assets “firm leverage”

FSIZE: Log total asset

$\boldsymbol{\alpha_0}$: Intercept of the model “Constant”

$\boldsymbol{\varepsilon}$: Error term.

3.4.3 Measurement of the Variables

The measurement of both dependent and independent variables also the control variables are as follows:

3.5.1 Dependent Variables

Dividend payout ratio (DPO) is measured by dividing the dividend per share with earnings per share. It means that the total dividend per share of the company is divided by the earnings per share after tax (Zabihi & Ghaleb, 2013).

3.5.2 Independent Variables

BSIZE: Board size, is measured by taking the total number of directors on the board of directors in the company organization (Abor & Fiador, 2013).

DUALITY: CEO duality means that the CEO has a dual role. It measured by a dummy if the chairman is the same of CEO the value would be "1" & "0" otherwise (Abor & Fiador, 2013).

IND: Individual ownership measure by the proportion of shares held by the individual investor in the company (Zabihi & Ghaleb, 2013).

MNG: Managerial ownership measure by the proportion of shares held by the Board of Director and Executive Director of the company (Zabihi & Ghaleb, 2013).

OCF: Operating cash flow measured by dividing the operating cash flow with total asset (Zabihi & Ghaleb, 2013).

3.5.3 Control Variables

LEV: Debt to total assets "firm financial leverage", which could be measured by dividing total debt on total assets (Hafza & Mirza, 2010).

FSIZE: Firm size, which could be measured by the natural logarithm of total assets (Hafza & Mirza, 2010).

Table 3.1: Research Variables

VARIABLES	ACRONYM	OPERATIONALISATION
Dependent Variables:		
Dividend Payout	DPO	Dividend per share by earnings per share (Zabihi & Ghaleb, 2013).
Independent Variables		
Board Size	BSIZE	Total no of directors on boards (Abor & Fiador, 2013).
CEO Duality	DUALITY	Dummy variable; 1 if the CEO is also the chairperson of boards and 0 is otherwise (Abor & Fiador, 2013).
Individual Ownership	IND	The proportion of individual shares in the company (Zabihi & Ghaleb, 2013).
Managerial Ownership	MNG	The proportion of shares held by the board of directors and executive directors in the company (Zabihi & Ghaleb, 2013).
Operating Cash Flow	OCF	Operating cash flow of total assets (Zabihi & Ghaleb, 2013).
Control Variables		
Leverage	LEV	Total debt by total asset (Hafza & Mirza, 2010).
Firm Size	FSIZE	Log of total asset (Hafza & Mirza, 2010).

3.5 Data Analysis

In this study, the data that the researcher collected were analyzed by using the SPSS 22 software. It provides the findings on descriptive statistics, correlation analysis and regression analysis to answer the research questions.

3.5.1 Descriptive Analysis

The descriptive analysis provides the information regarding the data mean, minimum, maximum and the standard deviation for each variable of the sample that choose by the researcher in the present study. The findings enable us to understand and interpret the data.

3.5.2 Multicolinearity

To test the presence of multicolinearity among the independent variables used in this study, the researcher applied the tolerance and variance inflation factor (VIF) method. Variables with VIF value greater than 10.0 reveals that there is multicolinearity problem exist in the study.

3.5.3 Correlation of Variables

In the present study, the research objective is to determine the relationships between the dependent and independent variables. Correlation matrix of the variables is used to examine the correlation of one variable between one another. The results of the correlation matrix analyses explain the nature, direction and significant between the variables used in the research.

3.5.4 Regression Analysis

This study applied linear regression analysis in order to examine the relationship between corporate governance mechanism and operating cash flows with dividend payout.

3.7 Summary of the Chapter

The chapter contains the illustrated of the methodology that is used in the research and highlighted the development of hypotheses for testing purposes during the course of the study. Furthermore, it also describes the theoretical framework and hypothesis formulation, research methodology, the research design and data analysis.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter, the researcher has elaborated the findings of the study by using descriptive statistical analysis, multicolinearity test, correlation analysis and assumption of linear regression analysis. The result of linear regression analyses will be discussed by the researcher in the final section. To find the result, the Statistical Package for the Social Sciences 22 (SPSS) was applied to the data that was collected from the annual reports and the data stream.

4.2 Descriptive Statistics

In the initial steps, the descriptive statistics for dependent and independent variables have been summarized and presented in the table 4.1 that comprised the data of mean and standard deviation of the variables. With the use of linear regression analysis, the scores may have a great impact on the results and becomes a cause of concern by the researcher. The means and standard deviation resulting from Statistical Package for the Social Sciences 22 (SPSS) were presented in table below.

Table 4.1: Summary of Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DPO	100	.0000	97.4500	36.4750	23.3863
BSIZE	100	4.0000	14.0000	8.7300	2.0978
DUALITY	100	.0000	1.0000	.0700	.2564
INDV	100	.0000	172.9700	7.5068	20.2800
MNG	100	.0000	74.5700	5.9925	13.5133
OCF	100	-.1600	.4300	.0586	.0783
LEV	100	.0000	.7100	.2560	.1567
FSIZE	100	14.0600	18.3000	15.2961	1.0931

DPO: dividend payout, BSIZE: board size, DUALITY: CEO duality, INDV: individual ownership, MNG: managerial ownership, OCF: operating cash flow, LEV: leverage, FSIZE: firm size

Referred to the table 4.1 above, it displays the result for descriptive statistic taken from all the data collected in the study. The summary of the result shows that mean for DPO ratio is 36.475 represented the average amount of dividend paid by 100 companies and the minimum and maximum amount of dividend paid by the companies is 0 and 97.450. The lowest board size of the companies is 4 people and the highest board size that the companies appointed is 14 people. Then, the mean for the board size is 8 shows that the 100 largest companies listed on Bursa Malaysia have a relatively optimal number of board sizes because the larger companies tend to have more directors.

From the data collection of the study, the researcher identified that the CEO that has two roles which also has become a chairman in the 100 companies is just only 8 companies. The lower result is supported by the agency theory that states about the effectiveness in the separation on the role of CEO and chairman of the board. Refer to the summary table, the individual ownership that held shares in the companies has a minimum amount of 0.00% and the maximum number that the individual held shares is 172.97%. The mean percentage of individual ownership is 7.51% and standard deviation is 20.28%. Next, the descriptive results for managerial ownership reveal that the mean amount is 5.99% that has no huge difference with the individual ownership. The minimum amount of managerial ownership is same with individual ownership, which is 0.00% as the annual report stated that there were no managers and directors hold any shares in a company. The maximum amount is 74.57%.

In addition, the operating cash flow for the 100 companies in the present study has a mean of 0.058 which reveals the average number of operating cash flow that the companies owned. The minimum number of OCF is -0.16 and the maximum number are 0.43 and the deviation from it is 0.078. The negative amounts indicate that the companies have insufficient cash to cover the operations expenses of running the business. The descriptive result of control variables which are the leverage and firm size also were included in the table above.

Overall leverage shows the lower amount of all the companies reveals that larger companies do not have much debt represented by the lower minimum and maximum amount in the table above. In addition, the firm size that measure by the logarithm of total asset shows that there were small difference between minimum and maximum amount.

4.3 Multicolinearity Test

Multicolinearity is a situation where is the two or more assumption's variables are highly correlated to each other. The researcher applied this test and if the result from the test reveals that multicolinearity exist, this act as a critical issue in linear regression due to the obstacles that occurred during the identifying the effect of one variable with the dependent variable.

Research by Hair, Tatham, & Black (1995), mentioned in their paper that multicolinearity is a one out of the many ways used by the researchers to check the existence of an abnormal relationship among independent variables that usually explains the results of which variables affected can be determined by the other variables in the study. The utilization of the Variance Inflation Factor (VIF) for each independent variable became a popular method of detecting the multicolinearity and to measurement the result (Naser, Al-Khatib, & Karbhari, 2002).

The Variance Inflation Factors (VIF) stated that if VIF is more than 10, it shows that the independent variable in the study have high correlations that leads to the multicolinearity problem. In the present study, the researcher applied the multicolinearity diagnostic with VIF when running the linear regression models.

In table 4.2 shows the result of the multicolinearity problem as VIF for all independent variables is less than 10 means that the independent variable is within the range.

Table 4.2: Summary of Multicolinearity Test

Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	BSIZE	.9390	1.0650
	DUALITY	.9510	1.0510
	INDV	.5560	1.7970
	MNG	.5750	1.7380
	CFO	.7990	1.2520
	LEV	.7920	1.2620
	FSIZE	.8080	1.2380

BSIZE: board size, DUALITY: CEO duality, INDV: individual ownership, MNG: managerial ownership, OCF: operating cash flow, LEV: leverage, FSIZE: firm size

4.4 Correlations Analysis

Correlation analysis is used in this study as a statistical tool analysis to determine the level of relationship on one variable to another. This analysis is acknowledged as the initial step in statistical techniques to find the relationship between the dependent and independent variables. Before the researcher want to carry out the linear regression for this study, the correlation matrix is developed to find the initial relationship between the independent variable. The result of the correlation matrix is used in developing the assumptions for the regression because the result might be reveal as there is no relationship if the value of the result is 0. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship. The values are interpreted between 0 (no relationship) and 1 (perfect relationship). Also, the relationship is considered small when r = ±0. 1 to ±0. 29, while the relationship is considered medium when r = ±0.30 to ±0.49, and when r is ±0.50 and above, the strength is considered to be large.

Table 4.3: Summary of Correlation Matrix

	DIV	BSIZE	DUALITY	IND	MNG	OCF	LEV	FSIZE
DIV	1							
BSIZE	0.0166	1						
DUALITY	-0.1651	-0.0772	1					
IND	-0.0729	-0.0155	-0.0538	1				
MNG	-0.0792	-0.0176	0.01	0.6384	1			
OCF	-0.1191	0.0594	-0.0561	-0.0874	-0.0917	1		
LEV	-0.1776	0.0904	-0.0531	-0.051	0.0275	0.0253	1	
FSIZE	-0.128	0.1983	0.1591	-0.3285	-0.2414	0.3853	0.1547	1

BSIZE: board size, DUALITY: CEO duality, INDV: individual ownership, MNG: managerial ownership, OCF: operating cash flow, LEV: leverage, FSIZE: firm size

Refer to the table 4.3 above reveals the correlation matrix between the independent variables and control variables with the dividend payout of the 100 largest companies listed on Bursa Malaysia. The table shows that board size has a positive relationship with the dividend payout and significant at 5%. It means that only three variables have positive correlation with the dependent variables in this study.

On the other hand, for others variables which are the CEO duality, individual ownership, managerial ownership, operating cash flow and also the control variables, leverage and the firm size have a negative relationship with the dividend payout. The negative correlation also was revealed between the CEO duality, individual ownership and managerial ownership at -0.16, -0.07 and -0.07 respectively, and all are not significant with the dividend policy on the 100 largest listed companies in Bursa Malaysia on 2012.

4.5 Linear Regression Analysis

Linear regression analysis is used in the present study as a statistical method to examine the relationship occurred among the dependent variable which is dividend payout and independent variables which comprising of size of board, CEO duality roles, shares held by individual, shares held by managers, operating cash flow, and also control variables which consisted of leverage and firm's size for 100 largest companies that listed in Bursa Malaysia on year 2012.

Table 4.4: Summary of Linear Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	f-value
1	.4300[a]	.1850	.1230	21.9058	.0070

a. Predictor Variables: (Constant), Beta, Board Size, Duality, Individual Ownership, Managerial Ownership, Leverage and Firm Size.

b. Dependent Variable: Dividend payout

Refer to the table 4.4 above, it displays the result of regression that represented the number of R square and Adjusted R square of the explanatory model in the study. R square explains about the percentage number that the independent variables influence on the dependent variable. The table shows that 18.5% of the independent variable explained the dependent variables in the study while the other 81.5% of dependent variable was explained by other variables.

After that, the Adjusted R square that displays on the tables is 12.3%. The amount indicates that in the study, 12.3% of independent variables explained the dependent variable while 87.7% could be explained by other variables. The percentage numbers for both R square and Adjusted R square in the study are low, but it was aligned with the result from previous studies on the corporate governance and dividend payout by (Hafza & Mirza, 2010; Zabihi & Ghaleb, 2013). Besides that, it is slightly higher than the prior study in Malaysia reported by (Subramaniam & Devi, 2011).

Table 4.5: Summary of Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	79.1390	33.5870		2.3560	.0210
	BSIZE	.2400	1.0830	.0210	.2210	.3250
	DUALITY	-13.3420	8.8020	-.1460	-1.5160	.1330
	INDV	-.2170	.2560	-.1070	-.8480	.3990
	MNG	8.960	3.1560	.01390	2.8450	.0150**
	OCF	105.5110	31.4250	.3540	3.3580	.0010***
	LEV	-3.9410	15.7820	-.0260	-.2500	.6030
	FSIZE	-3.1310	2.2410	-.1460	-1.3980	.1160

BSIZE: board size, DUALITY: CEO duality, INDV: individual ownership, MNG: managerial ownership, OCF: operating cash flow, LEV: leverage, FSIZE: firm size

***.significant at 0.01
**.significant at 0.05
*.significant at 0.10

The table 4.5 above displays the result for the coefficient of linear regression on the sample of data in the present study. It shows that if the board size increase by one, the dividend payout will be increased by 0.240. For CEO duality, if it increased by one, the dividend payout will be decreased by 13.34. If individual ownership increased by one, the dividend payout will be decreased by 0.217.

For managerial ownership, if it increased by one, the dividend payout will be increased by about 8.96. If operating cash flow increased by one, then the dividend payout will be increased by 105.51. If leverage increased by one, the dividend payout will be decreased by 3.94. Lastly, if firm size increases by one, then the dividend payout will be decreased by 3.13.

4.6 Discussion and Findings

The regression results in the present study regarding the determination of dividend payout from the corporate governance characteristics variables, operating cash flow variable and also control variables (leverage and firm size) were displayed in Table 4.5 above. The results show the relationship of all the independent and control variables with the dependent variable.

In the table, board size (BSIZE) presents a positive relationship with a dividend payout. The first hypothesis was supported and confirmed with this finding as there was a positive relationship between BSIZE and dividend payout of the companies. From this result, the positive value means that if BSIZE increased, the dividend should be increased and otherwise, but the relationship was not strong as the result was insignificant. The sample of 100 larger companies that listed on Bursa Malaysia has a number of boards of directors that was normal as in one company. This finding was supported by the previous studies by Abor & Fiador (2013) that mentioned about larger size of boards make the management more focused to manage the company well. In addition, the study by Bokpin (2011) agreed that larger board size ensured that the decision makers of the companies must be the best as there were many ideas obtained from large boards members. Meanwhile, other previous studies that identified the positive result are (Mansourinia & Hozoori et al. 2013; Alias & Yaacob et al. 2012). Also, in the study by Arshad et al., (2013) mentioned that the finding in their study shows, if the amount of board size increase, it does not strongly affect the dividend payout.

Furthermore, in the table also displays the result of firm's CEO duality with the dividend payout. It shows that the CEO duality has a negative relationship with the dividend payout. This result reveals that the second hypothesis was supported as there was a negative relationship between the CEO duality and the dividend payout as assumed by the present researcher. The negative relationship means that the organization was preferred to separate the roles between the CEO and chairman because the agency problem might occur in making a decision on the business. The result is insignificant for this study means than CEO duality does not have a sturdy relationship with a dividend payout. The resulted was supported in the previous studies by Alias & Yaacob et al. (2012) mentioned that when the CEO have two responsibilities, that person cannot manage the company well as they cannot focus on two works in a same time. It results to the company performance as the CEO cannot retain the company achieves. Chen & Cheung (2005) in their study suggested a CEO duality role was appropriated in a company that was controlled and managed by the family members. According to Chen, Lin, & Yi (2008), they point out the statement that the number of companies change their management structure from the dual role of non-dual role was increased recently. The statement revealed that, CEO duality does not give many advantages to the company except for family controlled firms. Other previous research that supported the result in this study were (Abor & Fiador 2013; Subramaniam & Devi 2011; Mansourinia et al. 2013; Arshad & Usman et al. 2013).

Individual ownership variable shows that there was a negative relationship between the dividend payout. This finding supported the third hypothesis that there was a positive relationship between individual ownership and dividend payout. The result of this study is insignificant means that individual ownership does not give a strong effect to dividend payout. Double taxation of the dividend also caused the lack interest on dividend over capital gain by the investor (Hafza & Mirza, 2010). The previous study that supported this finding was Thanatawee (2013) who's mentioned that when individuals have a major ownership in one company, the company was likely to pay lower dividend because the individual investors turned to take out the private benefit of the company rather than distributed it to minor shareholders. Besides that, Khan (2005) stated that if the management in the company does not apply value maximizing behavior within the shareholders, it will cause the lower dividend paid by the company as the individual shareholders could influence their decision. Overall the previous study findings similar with the result in the present study as the increase number of individual ownership that held the majority of shares in a company will lower the dividend payout by the company but the effect was not strong. Other previous research that supported the finding obtained from the present study was (Zabihi & Ghaleb 2013; Ehsan & Nasir et al. 2013; Paivi, 2007).

On the other hand, table above also shows that managerial ownership has a positive relationship with the dividend payout. The finding indicates that if the amount of managerial ownership increase, the dividend policy also increases. The finding supports the fourth hypothesis that there was a positive relationship between the managerial ownership and dividend payout. The result also shows that managerial ownership has strong relationships with dividend as the result is significant. The board of directors might align the amount of dividend payout that resulting from the good performance under their management. Hu & Izumida (2008) in their study supported the finding in this study. The study mentioned that a high number of managers that owned major shares in the company increased the probability that the managers will contribute their full effort to increase the business activities in the company. In addition, the study by Mueller & Spitz (2002) point out that the managerial ownership has influenced the dividend because the managers should protect and secure their company performance in order to attract new investors. (Al-Gharaibeh& Al-Harahsheh et al. (2013) used two types of model in their study. One of their model which is Full Adjustment Model found positive relationship between managerial ownership and dividend payout but another result found otherwise. Other research that found the similar findings was (Zabihi & Ghaleb 2013; Kim 1998).

In addition, there was a positive relationship between operating cash flow and dividend payout that shows by the table above. The hypothesis fifth was confirmed by the finding that there was a positive relationship between operating cash flow and dividend payout. It indicates that the operating cash flow variable was important for managers in making the decision on the dividend payout as the result show significant sign. The large amount of operating cash flow held in the company increased the amount of dividend that would be paid to the shareholders because the availability of cash flow in one company represented the company’s performance. Hafza & Mirza (2010) mentioned that companies whose sensitive with cash flow movement tend to give a high dividend to heir shareholders. In addition, Al-Gharaibeh & Al-Harahsheh et al. (2013) suggested that, it was much better if company distributed the cash as a dividend because it reduce the agency cost in the company. In that study also suggested that, one of the ways to prevent the cash flows from useless business activities, the manager could pay the cash as a dividend to the shareholders. Previous research by Naceur, Goaied, & Belanes (2006) has pointed out the relationship between earnings, firm performance and dividend payout. They said that, when the company has stable earnings, it has stable performance and further equivalent with the high dividend payout. Other previous studies that supported the result in the present study were (Adil, Zafar, & Yaseen 2011; Hashemi & Zadeh, 2012; Papadopoulos & Charalambidis2007), while the other studies found another result.

Furthermore, the table also shows the result for leverage as a control variable in the present study. The result shows that there was a negative relationship between leverage and dividend payout. The finding supports the sixth hypothesis that there was a negative relationship between leverage and dividend payout. It means that increased firm’s leverage will cause the decreased amount in dividend payout. Although the large firms held the low leverage, it would affect the dividend as well, but it was not strong as it is insignificant. Bokpin (2011) that found similar results suggested that high leverage in a company has reduced dividend payment, thus the company has a high probability to meet their obligations in credit payment well. Furthermore, in previous research by Hashemi & Zadeh, (2012) stated in their study that when financial leverage increase, it leads the company to feel burdened with high costs of transaction in providing the external source of finance. Thus, to prevent the high costs incurred, the company will distribute lower cash between the shareholders. In the study by Thanatawee (2013), he mentioned that high debt in a company caused the financial constraint for companies to meet their obligation and more likely caused less priority to pay the dividend to shareholders. Other previous studies that supported these findings are (Hafza & Mirza 2010; Alias & Yaacob et al. 2012; Arshad & Usman et al. 2013; Al-Nawaiseh 2013) whose also found the same result as the researcher in the present study.

In addition, the table above shows the result that there was a negative relationship between the firm sizes as a control variable with the dividend payout. The findings rejected the seventh hypothesis which developed in the study that there was a positive relationship between firm size and dividend payout. The result show that if firms sizes that measured by the logarithm of total assets increased, the dividend payout would decrease insignificantly. It means that, the size of the company does not present the higher dividend would be paid to the shareholders. In previous studies, the researchers were frequently used this variable as a control variable. The finding was supported in the study by Setiawan & Phua (2013) that concluded, dividend payment distributed to the shareholders does not take effect whether the company size was bigger or smaller. The decision to pay dividend depends on the company managerial by referring at the company's performance. Furthermore, Hafza & Mirza 2010 indicated that large firms preferred not to pay dividend compared to small firms. This might because large firms more preferred to keep the cash for reinvesting in assets to develop opportunities for business while small firms try to obtain new investors' attention on their shares. Redding (1997) suggested that large investors can decrease their cost of transaction by investing in large firms and the investors also believed that large company tend to pay high dividends. Other previous studies that supported the findings are (Bokpin 2011; Zabihi & Ghaleb 2013; Al-Shubiri, Al-Taleb, & Al-Zoued 2012; Ullah, AsmaFida, & ShafiullahKhan 2012; Al-Gharaibeh, Zurigat, & Al-Harahsheh 2013).

4.7 Summary

This chapter elaborated the outcomes that were resulted from the analysis conducted by the researcher using several tools. All the tools of analyses which are the descriptive analysis, multicolinearity test, correlation analysis and regression analysis that used with the purpose of guaranteeing that the data align with the assumption of linear regressions in the study. Overall the findings show that board size, managerial ownership and operating cash flow have a positive relationship with the dividend payout, but the operating cash flows and managerial ownership were significant and have strong relationships. On the other hand, CEO duality, individual ownership and both control variables have a negative relationship with the dividend payout and insignificant.

Table 4.6 below displays the results based on hypotheses and the findings that the researcher obtained from the analysis.

Table 4.6: Summary of the Hypothesis Results

Hypotheses	Relationship	Expected Findings	Findings	Reject/ Accept Hypothesis
Hypothesis 1	Board Size & Dividend	Positive	Positive	Accepted
Hypothesis 2	CEO Duality & Dividend	Negative	Negative	Accepted
Hypothesis 3	Individual Ownership & Dividend	Negative	Negative	Accepted
Hypothesis 4	Managerial Ownership & Dividend	Positive	Positive	Accepted
Hypothesis 5	Operating Cash Flow & Dividend	Positive	Positive	Accepted
Hypothesis 6	Leverage & Dividend	Negative	Negative	Accepted
Hypothesis 7	Firm Size and Dividend	Positive	Negative	Rejected

CHAPTER FIVE

CONCLUSIONS

5.1 Introduction

In this chapter presents the summary of the results that obtained from the analysis that carried out from the present study. In this chapter also, the researcher provided the possible limitations that occurred during the study and suggestions for future research regarding the variable's relationship with the dividend payout.

5.2 Summary of the study

The study examined the relationship of dividend payout with the corporate governance characteristics (board size, CEO duality, managerial ownership and individual ownership) and operating cash flow variable, also with two control variables (leverage and firm size) in the 100 largest companies that listed on Bursa Malaysia. The data were collected in year 2012 from all sectors of companies. The researcher chooses the companies that have larger size that measured by the logarithm of total assets. In this study, seventh hypotheses have been developed and the hypotheses have been tested by using linear regression in order to find the relationship.

The findings of the study show that board size, managerial ownership and operating cash flow are positively correlated and have a relationship with the dividend payout meanwhile the CEO duality, individual ownership and both control variables (leverage and firm size) has negatively correlated with the dividend payout. All of the variables have been found to have a positive and negative relationship with the dividend variables, and it was insignificant except the relationship of operating cash flow and managerial ownership that have a significant sign.

The findings indicate that the largest number of board size in the 100 companies in Bursa Malaysia would affect the dividend payout. Even though the relationship is not strong, but by appointing the large number of boards in a company, it still can secure the interest of shareholders as the boards will pursue higher dividend payment. The findings were supported in the study by the Alias et al. (2012), that study about the dividend policy in Malaysia, obtained the same result as the largest board size influences the dividend payout by the companies.

Another board characteristic variable was CEO duality, reveals the result that there was a negative relationship between the CEO duality and the dividend payout. In the sample of the 100 largest companies, there were only 8 companies applied the CEO duality. This is because; the companies prefer to separate the roles in order to reduce the agency problems that occurred. Besides that, the number of companies changed the structure from the dual role to non-dual also were increased indicated that the dual role of CEO gives less advantages. The result was supported in the study by Subramaniam & Devi (2011) that was studying about the dividend in Malaysia.

In addition, the ownership variables that were used in this study included the individual ownership and the managerial ownership. The findings show that the individual ownership has a negative relationship between the dividends meanwhile the managerial ownership have a positive relationship. The finding of managerial ownership was supported by the Zabihi & Ghaleb (2013) and the findings for individual ownership was supported by (Hafza & Mirza, 2010).

The operating cash flow variable in this study has a strong positive relationship with a dividend payout. The finding was supported in the studies by Hashemi & Zadeh (2012) and (Adil, Zafar, & Yaseen (2011) that found the positive relationship. This finding indicates that increased operating cash flow in a company will increase the dividend paid by the company. The operating cash flow variable becomes the one of important variable in this study.

Besides that, the control variables in this study, which are the leverage and firm size, show a negative relationship with the dividend payout. The negative relationship of leverage with the dividend has been supported by most of the research in previous studies such as (Bokpin 2011; Alias, Rahim, Nor, & Yaacob 2012; Hafza & Mirza 2010. Meanwhile, the negative relationship between firm size and dividend was supported by (Zabihi & Ghaleb 2013; Setiawan & Phua 2013).

5.3 Limitation of the Study

The limitation of the study that faced by the researcher is the unavailability of the data in the company's annual report, especially the data on shareholder information.

5.4 Recommendation for Future Research

In the future research, the longer period of data sample is recommended because in this study, the researcher only covers the one year period. The researcher also covers only 100 largest companies' data to analyses the study. Future research must aim to increase the number of companies and can focus on, such as 100 largest companies and 100 smallest companies in order to examine the difference result between large companies and small companies. Besides that, the future research also can increase the number of variables in the study and add more corporate governance variables in order to know the latest relationship with the dividend payout.

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APPENDIX 1

NO	COMPANIES	NO	COMPANIES
1	AEON CREDIT SERVICE	51	MALAYSIAN RESOURCES
2	AIRASIA BERHAD	52	MBM RESOURCES BERHAD
3	ALAM MARITIM RESRCS	53	MEDIA PRIMA BHD
4	AL-AQAR HEALTH	54	MKH BHD
5	AXIATA GROUP	55	MMC CORPORATION BHD
6	AXIS REIT	56	MNRB HOLDINGS BHD
7	BATU KAWAN BERHAD	57	MSM MALAYSIA
8	BERJAYA ASSETS	58	NAIM HOLDINGS BERHAD
9	BERJAYA CORP	59	NCB HOLDINGS BHD
10	BERJAYA LAND BHD	60	NESTLE (MALAYSIA)
11	BERJAYA SPORTS TOTO	61	ORIENTAL HOLDINGS
12	BINTULU PORT	62	PARKSON HOLDINGS
13	BOUSTEAD HOLDINGS	63	PAVILION REAL
14	BRITISH AMER TOBACCO	64	PETRON MALAYSIA
15	BUMI ARMADA BHD	65	PETRONAS DAGANGAN
16	CAHYA MATA SARAWAK	66	PETRONAS GAS BERHAD
17	CAPITAMALLS MALAYSIA	67	PJ DEVELOPMENT HLDGS
18	CHEMICAL COMPANY	68	PRESS METAL BERHAD
19	DIALOG GROUP BERHAD	69	PUNCAK NIAGA HLDGS
20	DRB-HICOM BERHAD	70	QL RESOURCES BHD
21	EASTERN & ORIENTAL	71	RESORTS WORLD BHD
22	EVERSENDAI CORP	72	RIMBUNAN SAWIT BHD
23	FRASER & NEAVE	73	SARAWAK OIL PALMS
24	GAMUDA BERHAD	74	SELANGOR PROPERTIES
25	GENTING BERHAD	75	SHIN YANG SHIPPING
26	GENTING PLANTATIONS	76	SIME DARBY BHD
27	GLOMAC BHD	77	SP SETIA BHD
28	GOLDIS BHD	78	STAR PUBLICATIONS
29	GUOCOLAND (M) BHD	79	SUNWAY BHD
30	HAP SENG CONSOLIDATE	80	SUNWAY REIT
31	HIAP TECK VENTURE	81	TA ANN HOLDINGS BHD
32	IGB CORPORATION BHD	82	TAN CHONG MOTOR
33	IGB REAL	83	TDM BERHAD
34	IJM LAND BHD	84	TELEKOM MALAYSIA BHD
35	IJM PLANTATIONS BHD	85	TENAGA NASIONAL BHD
36	IOI CORPORATION BHD	86	TH PLANTATIONS BHD
37	JAYA TIASA HLDGS BHD	87	TOP GLOVE CORP

38	JCY INTL	88	TROPICANA CORP
39	KECK SENG (M) BHD	89	TSH RESOURCES BERHAD
40	KPJ HEALTHCARE BHD	90	UEM SUNRISE
41	KUALA LUMPUR KEPONG	91	UMW HOLDINGS BERHAD
42	KULIM (MALAYSIA) BHD	92	UNITED PLANTATIONS
43	KUMPULAN PERANGSANG	93	UOA DEVELOP
44	KWANTAS CORP BHD	94	WAH SEONG CORP
45	LAFARGE MALAYSIA BHD	95	WCT HOLDINGS BHD
46	LBS BINA GROUP BHD	96	WTK HOLDINGS BHD
47	MAGNUM BHD	97	YNH PROPERTY BHD
48	MAH SING GROUP BHD	98	YTL CORPORATION BHD
49	MALAYSIA AIRPORTS	99	YTL HOSPITALITY REIT
50	MALAYSIAN BULK	100	YTL POWER INT'L BHD