THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND DIVIDEND PAYOUT RATIO: EVIDENCE FROM MALAYSIA

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ABSTRACT

The main objective of this study is to find the relationships between corporate governance mechanisms and dividend payout ratio among the Malaysian public listed companies. A sample of 164 Malaysian companies for the year 2013 was selected from the Bursa Malaysia website. This study examines the relationships between board compositions, board size, CEO Duality, proportion of family members on the board, direct ownership, institutional ownership, concentrated ownership as the corporate governance variables and dividend payout ratio among the Malaysian public listed companies. The control variables include leverage, firm size, and profitability while the dividend payout ratio as the dependent variable. The findings of this study show that only institutional ownership and concentrated ownership are found to be positive and significant in influencing the dividend payout ratio. But, the independent director is also found to be significant in influencing the dividend payout ratio in negative direction. The finding of this study will enhance the literature in the field for future studies and will also be worthwhile for the companies, investors as well as the policy makers and regulators in Malaysia by providing information on the effectiveness of some corporate governance mechanisms that influence the firm dividend payout ratio after the implementation of revised Code on Corporate Governance 2012 to make important recommendations for the improvement in the corporate governance practices in Malaysia and to safeguard the interest of minority shareholders.

Keywords: Dividend, Corporate Governance, Ownership Structure

ABSTRAK

Objektif utama kajian ini ialah untuk mengkaji hubungan di antara mekanisme tadbir urus korporat dan nisbah pembayaran dividen di kalangan syarikat awam di Malaysia yang disenaraikan di bursa saham. Sampel kajian ini ialah 164 syarikat awam Malaysia yang di senaraikan pada tahun 2013 diambil daripada laman sesawang Bursa Malaysia. Kajian ini menganalisis hubungan di antara komposisi lembaga syarikat, saiz lembaga syarikat, keupayaan ketua pengawai operasi, peratusan ahli keluarga dalam lembaga syarikat, pemilikan pengarah, pemilikan institusi, pemilikan bertumpu sebagai pembolehubah tadbir urus korporat dan nisbah pembayaran dividen antara syarikat awam Malaysia yang tersenarai. Pemboleh ubah yang dikawal termasuklah leveraj, saiz firma dan keuntungan manakala nisbah pembayaran dividen sebagai pemboleh ubah bersandar. Hasil kajian ini menunjukkan hanya pemilikan institusi, pemilikan bertumpu, saiz firma yang menunjukkan hasil yang positif dan mempegaruhi secara signifikan keatas nisbah pembayaran dividen. Pengarah bebas juga didapati signifikan dalam mempengaruhi nisbah pembayaran dividen dalam arah negatif. Hasil kajian ini akan menambahbaik ulasan karya sebagai panduan kajian pada masa hadapan dan ia juga akan memberi sumbangan kepada syarikat, pelabur dan juga pembuat dasar dan peraturan di Malaysia dengan memberikan maklumat tentang keberkesanan sesetengah mekanisma pengurusan korporat yang mempengaruhi nisbah pembayaran dividen setelah mengimplementasi Kod Urus Tadbir 2012 yang telah disemak untuk memberikan cadangan penambahbaikan kepada praktis urus tadbir korporat di Malaysia dan menjaga kepentingan pemegang saham minoriti.

Kata kunci: Dividen, Tadbir Urus Korporat, Struktur Pemilikan

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All praises are to ALLAH the most high, the creator of the world and the heavens, as I come to the end of this project paper. Praise and peace be upon His beloved and our Prophet Muhammad (SAW), his families and his companions.

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TABLE OF CONTENT

TITLE PAGE i

CERTIFICATION ii

PERMISSION TO USE iii

ABSTRACT iv

ABSTRAK v

ACKNOWLEDGEMENT vi

TABLE OF CONTENT vii

LIST OF TABLES xi

LIST OF FIGURES xii

LIST OF ABREVIATIONS xiii

CHAPTER ONE: INTRODUCTION 1

1.1 Background of the Study 1

1.2 Problem Statement 6

1.3 Objectives of the Study 10

1.4 Research Questions 10

1.5 Scope of the Study 11

1.6 Significance of the Study 11

1.7 Organization of the Study 12

CHAPTER TWO: LITERATURE REVIEW 13

2.0 Introduction 13

2.1 Dividend Payout Ratio 13

2.2 Dividend policy in Malaysia 15

2.3 Corporate Governance in Malaysia 15

2.4 Agency Theory 17

2.5 Board Characteristics and Firm Dividend Ratio 18

2.5.1 Board Composition and Dividend Payout Ratio 18

2.5.2 Board Size and Firm Dividend Payout 19

2.5.3 CEO Duality and Firm Dividend Ratio 21

2.5.4 Family Members on Board and Firm Dividend Payout Ratio 22

2.5.5 Directors' Ownership and Firm Dividend Ratio 23

2.5.6 Institutional Ownership and Firm Dividend Ratio 24

2.5.7 Concentrated Ownership and Firm Dividend Ratio 25

2.5.8 Firm Size and Dividend Ratio 26

2.5.9 Profitability and Dividend Ratio 27

2.5.10 Leverage and Firm Dividend Payout 28

2.6 Summary of the Chapter 28

CHAPTER THREE: RESEARCH FRAMEWORK AND METHODOLOGY 30

3.0 Introduction 30

3.1 Research Framework 30

1.2 Conceptual Framework 31

3.3 Hypothesis Development 31

3.3.1 Independent Non-executive Directors 32

3.3.2 Board Size...33

3.3.3 CEO Duality 34

3.3.4 Proportion of Family Member on Board 35

3.3.5 Director's Ownership...36

2.3.6 Institutional Ownership...36

3.3.7 Concentrated Ownership...38

3.4 Data Collection 38

3.4.1 Sampling Method...38

3.4.2 Data Collection and Analysis 39

3.5 Model Specification and Multiple Regressions...40

3.6 Measurement of Variables...41

3.6.1 Dependent Variable 41

3.6.2 Independent Variables 42

3.6.3 Control Variables..43

3.7 Summary of Chapter 44

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS OF THE STUDY 45

4.0 Introduction 45

4.1 Descriptive Analysis......45

4.2 Correlation Matrix of the Variables......48

4.3 Multicollinearity......51

4.4 Robust Regression Analysis......52

4.5 Summary of the Chapter......54

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS......55

5.0 Introduction......55

4.1 Discussions......55

5.2 Conclusion......57

5.3 Recommendation for Future Research......58

References......59

LIST OF TABLES

Table Number	Table Description	Page Number
Table 3.1	Sample of Study	39
Table 4.1	Descriptive Statistics	45
Table 4.2	Correlation Matrix of Variables	50
Table 4.3	Model Summary	52
Table 4.4	Variance Inflate Factor (VIF)	52
Table 4.5	Regression Analysis	53

LIST OF FIGURES

Figure Number	Figure Description	Page Number
Figure 3.1	Research Framework	31

LIST OF ABREVIATIONS

Abbreviation	Description of Abbreviation
BOD	Board of directors
BCOMP	Board composition
BS	Board size
CEO	Chief Executive Officer
CONWN	Concentrated ownership
DOWN	Director ownership
PFMOD	Proportion of family members on the board
IND	Independent non-executive director
INSTWN	Institutional ownership
FS	Firm size
DPR	Dividend payout ratio

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

According to Investopedia (2009), dividend is paid to the shareholders from the profit earnings made by the company for a given financial year and it is declared by the board of directors. The board of directors of a company has the responsibilities for deciding whether to pay dividends to the shareholders or not, determining what proportion of the company's earnings will be distributed to shareholders, and determining what portion will be retained for reinvestment. Accordingly, dividend payout represents a portion of company's earnings distributed to the shareholders of that company which are usually declared at the annual general meetings of the company by the board of directors (Agyei & Marfo-Yiadom, 2011).

The issue of dividend payout has been a debatable topic in the financial management literature. Many researchers have carried out studies in this area, in order to clarify some of the issues pertaining to dividend payout. Among the areas of studies are: (1) The reasons for paying dividends to shareholders and the importance to maintain a dividend payout ratio; and (2) The possible association between shareholders' investment decision and dividend payment. It is also of significant importance for the company to apprehend the need for the best dividend payout ratio, which can help to safeguard its investments as well as to maximize the shareholders' wealth (Abdullah et al., 2005). However, the impact of dividends on shareholders' wealth, on stock valuation, as well as

on the future expectations of shareholders for cash flows from dividend payout ratio still remained a controversial issue among financial management scholars (Kania & Bacon, 2005).

However, the decision with regard to dividend payout policy is being made by the companies' management and can be influenced by board of directors' roles (Abdullah, Ahmad, & Roslan, 2012). This is because the board of directors has fiduciary responsibilities to make decisions with regard to how to finance the company operations and expansion, how to make an investment for the company, as well as how to distribute dividends to the shareholders. Thus, the agency problems that may exist among the managers and shareholders as a result of conflicting of interests in a company up to some extent could probably be solved by distributing the available funds in the form of dividend. Accordingly, the conflict of interest occurs because the shareholder interest is to get a dividend, while managers prefer to retain the earnings for the purpose of sustaining higher control over the company resources (Jensen, 1986).

According to Baker and Powell (2005), the company manager should decide on how much out of the company's profit should be distributed and how much should be reinvested in the form of accumulated profits in the company. Although paying dividend can directly affect the stockholders, it also affects the company's ability to accumulate profit for growth opportunities. Marfo-Yiadom and Agyei (2011) also believed that companies are confronted with the problem of either to distribute its earnings in the form

of dividends to its shareholders or to hold for reinvestment for the purpose of firm expansion. Similarly, Jensen (1986) and Rozeff (1982) argue that if managers do not pay dividend to shareholders they will use the earnings for their own personal interest. Thus, dividend payout ratio is seen by the shareholders as a mechanism that will both serve to minimize the agency problems and a function of a company's performance (Arshad, Akram, Scholar, Amjad & Usman, 2013).

Besides dividend payout ratio, corporate governance is also used as a mechanism for mitigating agency cost though it can also influence the firms' dividend payout. Corporate governance is regarded as the pool of processes, guidelines and regulations for directing or controlling of both individuals and organizations as a whole, for an ultimate goal of improving organizational performance and to minimize the agency cost of protecting the right of shareholders and those that can be affected by the firms' dividend ratio (Afzal & Sehrish, 2011). The bodies that are responsible for the good conduct of corporate governance practices are management, board of directors and shareholders (Bebczuk, 2005; Kowalewski et al., 2007). So the main reason that necessitates for the need of corporate governance is to restore investors' confidence with regard to the business activities through transparency, accountability and responsibility of the managers due to the agency relationship (Mansourinia, Emamgholipour, Rekabdarkolaei & Hozoori, 2013).

Therefore, examining the relationship between dividend payout ratio and agency problems is regarded as the controversial issue in the financial literature on how such payment could be used as a tool in mitigating the agency cost. The agency theory was promulgated by Ross (1973) and which was extended by Jensen and Meckling (1976), describes the conflict of interest between the managers of an organization who serve as agents and the shareholders who are the ultimate owners of the business, and disclosures that dividend payment offers incentives to managers in order to decrease costs related to the agency relationship. As in the case of a company whereby the top management/or directors holds a significant number of shares, they can influence the firm dividend payment decision through the use of their power. Similarly, Easterbrook (1984) argues that the payment of dividends will subject the firms to be scrutinized by capital market in order to secure more capital for expansion.

According to Arshad et al. (2013), ownership structures of a company can influence the dividend payout ratio of that firm. As it is claimed that an agency cost will be reduced when an insider (directors/managers) owned substantial shares in that company that may result in the alignment of interests between the principal and agents, therefore the need for paying the dividend will be reduced (Jensen & Meckling, 1976; Rozeff, 1982; Jensen, Solberg & Zorn, 1992). Short, Zhang and Keasey, (2002) argued that investors with significant ownership in a company would be more motivated to oversee the executive decision-making process. This is because they have greater access to company management and therefore can monitor the activities of the company more efficiently, as such their enriched control in relation to the minority shareholders may work as an

alternative governance mechanism for dividend payment. However, in the case of large individual and institutional shareholders they may demand the companies to pay higher dividend so that to subject them into the capital market where their undertakings are open for the public examination instead of engaging in a costly monitoring. Similarly, large controlling investors may impose agency costs on minority shareholders by removing private privileges and paying lower dividends (Schleifer & Vishny, 1997).

Additionally, in the situation whereby the family members have substantial ownerships and controlled such companies, there will be no major conflicts of interest or great asymmetries of information between management and the owners. This is because managers and large family stockholders are both the same persons, and therefore, they are the residual claimants bearing of almost all the costs as well as getting almost all benefits resulted from their decisions, or the large investors have enough motivation and ability to have efficient direct monitoring of management. If monitoring is direct through ‘‘voice’’ or if the owners-managers are the residual claimants, payment of dividends and/or stability in dividend payment are less valuable as they may likely cut dividend payment when necessary (Gugler, 2003).

Consequently, it becomes very important to re-examine the relationship between the board characteristics, ownership structures and dividend payout ratio, especially in Malaysia, where limited studies have been conducted such as the study by Ramli (2010) examines the possible impact of large shareholders on the Malaysian listed companies’

dividend payout ratio from 2002 to 2006 periods. The finding indicates a positive relationship between largest shareholding as well as for the second largest shareholder and the firm's dividend payout. Abdullah (2009) by using a sample of 150 listed companies in Malaysia for the year 2007 and the result shows that ownership concentrations in Malaysia have a positive impact on the firm dividend payout ratio. Similarly, Abdullah et al. (2012) also examine the relationship between ownership structures and dividend payout among Malaysian public listed companies for the year 2010. The results show a significant positive relation between concentrated ownership and dividend payout, but negatively related to ownership dispersion, managerial ownerships, institutional ownership, as well as the foreign ownership. On the other hand the study of Mat Nor and Sulong (2007) indicates a positive relationship between concentrated ownership and dividend payout ratio but with minimum impact on Malaysia companies.

1.2 Problem Statement

The issue of dividend payout has attracted the attention of both academicians and researchers as it was listed as the part of the top ten unresolved issue in financial literature (Brealey & Myers, 2003). Many Scholars established different theoretical models which describe some of the factors that could influence corporate managers' decision when coming up with a dividend payout policy, which are the major causes to this debate in the financial management literature (Kinfe, 2011). Black (1976, p. 5) claims that "the harder we look at the dividends picture, the more it seems like a puzzle,

with the pieces that do not fit together". This deliberation on the relevancy of dividend payout started from the pioneer work of Miller and Modigliani (1961) which proposed that dividend is irrelevant in determining the value of a company under the perfect capital market and given investment ratio. But later on, the Bird-in-the hand theory was proposed by Lintner (1962) and Gordon (1963) which states that investors prefer to receive dividend now rather than to wait for the risky capital gain in the future.

Similarly, Ross (1973) proposes an agency theory which was extended later by Jensen and Meckling (1976) describing the conflict of interest that may occur between the managers and shareholders and that dividend payment could be served as a mechanism that will minimize the relative cost of principle agent relationship especially where the managers/directors have substantial stake in the company shares. They are expected to use their power to influence the decisions with regard to dividend payment of the company. However, different corporate governance mechanisms (such as ownership structure, board composition, board independence) have been proposed by many researchers for the attainment of a stable alignment between the managers' and shareholders' interests and to stay within the agency agreements (Haniffa & Hudaib, 2006; Afzal & Sehrish, 2011).

According to Malaysian Code on Corporate Governance 2012, the confidence of Malaysian investors has been affected severely by the recent Asian financial crisis. Similarly, Claessens and Fan (2002) describe the nature of Asian corporate governance

that is associated with the issue of lack of protection of the minority shareholders' rights, especially in Malaysia where ownership structures are highly concentrated and most of the public listed companies belong to a family. In such concentrated ownership style family owned about 67.2% of the companies, financial institutions 10.3% and the government owned about 13.4% (Taufil-Mohd et al. 2013). So there may have a conflict of interest of paying dividend rather than for company expansion. Similarly, the Asian financial crisis of 1997 also resulted in most of the Asian countries in seeking to strengthen their corporate governance, transparency and disclosure level (Ho & Wong 2001).

In line with that, several studies have been conducted to investigate the impact of different corporate governance mechanisms on the dividend payout ratio, but still there is no consensus on the results about those factors that will influence the firms' decision. Studies by Abor and Fiador (2013), Adjoud and Ben Amar (2012), Afzal and Sehrish (2011) show that there is a significant positive relationship between board compositions and dividend payout ratio. However, Abdelsalam et al., 2008 Mansourinia, 2013, and Subramaniam and Devi, 2011) confirm insignificant relationship. While a study by Ghabayen (2012) shows a negative relationship between board compositions and dividend payout ratio. According to studies by Arshad et al. (2013) and Obradovich and Gill (2012), CEO duality has a significant relation to firms' dividend payout ratio, contrary to the findings by Ajanthan (2013). For the concentrated ownership, Abdullah et al. (2012) examine the impact of ownership structures of the dividend payout ratio and the result shows that only concentrated ownership has significant positive relationship

on the dividend payout ratio among Malaysian companies. Thanatawee (2012) show that there is a significant positive relationship between concentrated ownership and firms' dividend payout, but on the other hand, Khan (2006) and Harada and Nguyen (2011) show a negative relation. Bolbol (2012) using a sample of 50 Malaysian construction companies to determine the impact of board characteristics on dividend payout ratio. Shows insignificant negative relation between board size, board composition, family link company and firm dividend payout ratio. But the managerial ownership shows insignificant positive relation which is contrary to the study by Nor and Sulong (2007) which has significant positive relation and the CEO duality has significant negative relation with dividend payout. While Subramaniam (2011) shows a significant negative relation between board size, board composition and firm dividend ratio among Malaysian listed companies from 2004 to 2006.

From the above discussion, we can understand that there is the need for this kind of study, especially from a Malaysian perspective since the numbers of studies conducted are inconclusive. Although there are series of revisions to Malaysian Code of Corporate Governance, yet the issue on their impact in restoring the Malaysian investors' confidence with regard to those factors that can affect the return of their investment produced mixed results. This study will fill up the gap of previous studies for not considering the impact of revised Malaysian code corporate governance 2012 (MCCG 2012), by re-examining the relationship of those variables that produced mixed results on the firms' dividend payout ratio which need to be re-examined. Therefore, to the best of my knowledge this is the first study to examine the influence of corporate governance

mechanisms on the firm dividend payout ratio after the revised Malaysian code of corporate governance 2012 and also consider the whole sectors in the Malaysian main market.

1.3 Objectives of the Study

The main objective of the study is to examine the relationship between corporate governance mechanisms and dividend payout ratio among Malaysian listed companies.

The specific objectives are:

1) To examine the relationship between board's characteristics (board composition, board size, CEO duality and proportion of family members on board, PFMOB) and firms' dividend payout ratio.

2) To examine the relationship between ownership structures (directors' ownerships institutional ownerships and concentrated ownerships) and firms' dividend payout ratio.

1.4 Research Questions

The following are intended research questions:

1) Does the board's characteristics (board composition, board size, CEO, and PFMOB) relate to firms' dividend payout ratio?

2) Does the ownership structures (directors' ownerships, and institutional ownerships and concentrated ownerships) relate to firms' dividend payout ratio?

1.5 Scope of the Study

The sample of this study is comprised of all companies listed on the main market of Bursa Malaysia stock of exchange, excluding bank and financial companies for their special peculiarities as at December 2013. The period to be covered by this study is 2013. However, the choice and measurement selected variables will be based on the previous studies (Arshad., 2013; Huda et al., 2013; Al- Gharaibeh et al., 2013; Ullah et al., 2012; Habibi et al, 2012; Clarke, 2012; Abdullah et al., 2012; Ramli, 2010; and Abdullah, 2009). The corporate governance mechanisms that will be considered include: board characteristics (board composition, board size, CEO duality, and PFMOD), ownership structure (directors' ownerships, institutional ownerships, concentrated ownerships), control variables (firm size, profitability, leverage), and dividend payout ratio.

1.6 Significance of the Study

Form theoretical perspective: The results of this study will contribute to the literature by addressing some of important limitation of the previous studies. The results will also provide additional insights on the relationship between some corporate governance mechanisms and firm dividend payout in Malaysia.

From practical perspective: The findings of this study would be worthwhile for the companies, investors as well as the policy makers and regulators in Malaysia by providing information on the effectiveness of some corporate governance mechanisms that influence the firm dividend payout ratio after the revise of the Malaysia Code of Corporate Governance 2012, so that they can make important recommendations for the improvement in the corporate governance practices in Malaysia and to safeguard the interest of minority shareholders.

1.7 Organization of the Study

The first Chapter of the study contains an introduction of the study including background of the study, problem statement, research objectives, research questions, scope and significance of the study and organization of the study. Chapter two briefly reviews the theoretical literature and empirical literature on dividend policy, dividend payout's theories, dividend policy in Malaysia, corporate governance in Malaysia, and corporate governance mechanisms and firm dividend payout ratio. Chapter three discusses research methodology. Chapter four contains data analysis, and lastly chapter five covers discussion on the findings, summary and conclusion of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Dividend payout policy has been a complicated issue in the financial management literatures that lead to the issuance of different arguments and theories in order to explain the facts about dividend ratio. Therefore, this chapter covers three broad topics that relate to dividend ratio. Which include theoretical review of different theories that have been developed on dividend ratio, and empirical literatures. Finally, the section presents a chapter summary and gap analysis on dividend payout ratio.

Dividend payout is primarily concerned with the decisions on dividend payout and retention ratio of a company. According to Lasher (2000), managers decide on what portion of a company's earnings that should be given to shareholders in the form of dividend and what portion should be retained for further investment. Similarly, Watson and Head (2005) describe the dividend payout ratio as the choice being made by the management of the company of the profit portion that will be distributed to the shareholders and that to be retained.

2.1 Dividend Payout Ratio

According to Investopedia (2009), dividend payout policies can be grouped into four categories which includes: constant or fixed ratio, progressive ratio, residual ratio and zero dividend ratio.

2.1.1 Constant Payout

Under this ratio the company maintains a certain amount out of its profit as dividends to be paid to the shareholders. By applying this policy the company continues to use stable payout ratio. The advantage of this type of policy is that shareholders know exactly the amount to be received from their investments in the company. However, the main disadvantage of this ratio is that they can be chaotic when the company is experiencing fluctuation in profit (Watson & Head, 2005).

2.1.2 Progressive Payout

This dividend payout policy ratio is used by the company in paying dividends in accordance with the given countries' inflation. Companies using this type of policy will make sure they maintain the increase even if it is marginal (Watson & Head, 2005).

2.1.3 Residual Payout

Under the residual payout policy, the company considers future investment projects with positive present value first before it decides on which portion of earnings to be paid to shareholders. This means dividend payment will only take place if there is earnings left over. Therefore, companies need to modify this policy because some time it may lead to zero payout ratio, as a result investors have less preference on dividend are carried along (Kolb & Rodriguez, 1996).

2.1.4 Zero Dividend Payout

This type of policy is mostly adopted by newly formed companies deciding not to pay dividend for the purpose of reinvestment. This is because as a new company it requires huge capital for expansion. The main advantage of this policy is for those investors who choose capital gain over dividend payment to avoid taxation. This policy is easy for the company to administer and also allows companies to escape from all costs pertaining to dividend payment (Watson & Head, 2005).

2.2 Dividend policy in Malaysia

In Malaysia the decision as to when and how much to pay a dividend is rest in the hand of the companies' board of directors for a given financial year as long as they comply with Companies Act 1965. This is because Section 365 of the Act mentions that dividend shall only be paid to the shareholders of any company out of profits. Therefore, there is no standard ratio or method concerning the dividend payments. However, according to "Sections 108 on credits" in Malaysia, dividends received by shareholders is subject to tax exemption effected from the 2008 year of assessment (Shafai, 2012).

2.3 Corporate Governance in Malaysia

During the Asian financial crisis of 1997, the confidence of Malaysian investors is severely affected which called the attention of policy makers to promote the standard of corporate governance by issuing the first Malaysian Code on Corporate Governance in 2000 which marked a significant development in corporate governance in Malaysia. The

code makes some recommendations on corporate governance principles and best practices and also described optimal corporate governance structures.

Thus, companies are required to comply with the code of corporate governance principles. In 2007 the Malaysian Code of Corporate Governance was revised to include substantial improvement from the initial code in order to strengthen the corporate governance practices and to ensure that it is in line with both the domestic and international capital market development and its adoption become mandatory by all companies listed on both Main and Ace market from February 2009. The amendments include the introduction of the corporate disclosure in which all listed companies are advised to disclose more details about key developments, comprising of changes with regard to directors, chief executive officers, financial officers, independent advisers and external auditors (The Star, July 16, 2010). However, the revisions were carried out with the main aim of improving the effectiveness of the board of directors as well as to reinforce the audit committee activities.

In 2011, Malaysian Securities and Exchange Commission issued Corporate Governance Blueprint, which leads to the issuance of MCCG 2012 and it summaries strategic initiatives intended to reinforce self and market discipline among the organizations by going beyond the minimum recommended guidelines. MCCG 2012, like all other codes, promotes the adoption of corporate governance standards by all public listed companies' annual financial statements although observance is not compulsory. It also concentrates

on clarifying the duty of the board of directors in providing good leadership style, improving the effectiveness of the board by strengthening its composition and emphasizing independence. Companies also encouraged to make corporate disclosure policies that will represent principles of good disclosure as well as to show to the public their commitment to shareholder rights protections (MCCG, 2012).

2.4 Agency Theory

According to Jensen and Meckling (1976) agency relationship takes place when the principals engage the agents to perform some of their duties or act on their behalf. Then the agency cost will arise because of conflicting interests of the managers and owners. Similarly, Short et al. (2002) stated that dividend ratio performs a crucial role in reducing agency costs that arise from the conflicting interests of both the parties involved. Rozeff (1982) confirmed that dividend payment can act as a device to reduce agency cost.

According to John and Senbet (1998), agency problems could be controlled through the use of both internal and external mechanisms. The internal mechanisms comprised of the role played by the board of directors, while the markets for corporate control and shareholder activism served as external mechanisms. The internal governance occurs as the board of directors actively seeks to protect the interests of owners. The main important board characteristics include board size, composition of the board, and the CEO role. However, a large board, for instance, has the tendency of subjecting the

management and operation of the companies to greater scrutiny and monitoring of operations (John & Senbet, 1998). With respect to the board composition, Yermack (1996) argues that having a high proportion of non-executive directors are likely to increase the independence of the company's board. High proportion of outside directors provides a better forum for making quality corporate decisions (Fama & Jensen, 1983; Jensen, 1993; Kyereboah-Coleman & Amidu, 2008).

2.5 Board Characteristics and Dividend payout Ratio

2.5.1 Board Composition and Dividend Payout Ratio

Corporate boards play significant roles of monitoring and discipline of corporate management, especially when the board is mixed with a greater percentage of non-executives directors on the board due to their expertise and independence (Farinha, 2003). The board of directors' competency could be enriched when the outside directors are present on the board (Fama, 1980). Many researchers conduct studies on the influence of corporate governance mechanisms in relation to firms' dividend payout (Abdelsalam et al., 2008; Abor & Fiador, 2013; Adjaoud & Ben-Amar, 2010; Afzal & Sehrish, 2011; Ajanthan, 2013; Mansourinia et al., 2013).

Moreover, Abor and Fiador (2013) examine the relationship between corporate governance mechanisms and firms' dividend payout ratio from sub-Saharan Africa for the period 1997 to 2006. The findings show that board composition influences the

payment of dividend significantly in Kenya and Ghana. Therefore, the results indicate that the outside members on boards have a tendency to safeguard the shareholders' interests through higher payments of dividend.

Similarly, Afzal and Sehrish (2011) examine the association between corporate governance mechanisms and dividend payout ratio of 42 companies listed on the Karachi stock exchange from 2005 to 2009 using OLS regression, Logit and Probit models for the estimation purpose. The results show that board independence has positive and significant relation with the amount of dividend paid by the firms. Adjaoud and Ben-Amar (2010) confirm further significant and positive influence on dividend payout. But, the study of Ajanthan (2012) indicates an insignificant association between board independence and dividend payout among hotels and restaurant firms in Sri Lanka. On the other hand, Mansourinia et al. (2013) claim that there is no significant impact of board independence on firm dividend ratio. This is in line with the result of Abdelsalam et al. (2008) that there is no significant relation between board composition and dividend payout. Furthermore, in the study conducted by Abor and Fiador (2013) on the company's dividend ratio of Sub-Saharan Africa countries, they confirmed a significant negative influence on board composition of Nigerian firm's dividend payout.

2.5.2 Board Size and Firm Dividend Payout

According to Jensen (1993), for the board to function effectively the minimum number of members should not be less than eight. This is because boards with a small number of

directors are more likely to decide on a certain outcome. But the study by Zahra and Pearce (1989) and Amran (2011) claim that a large board with many members is greater than small one with less members as a result of their resources, capabilities, as well as their broader external contracting relationships. Therefore, the relationship between board size and dividend payout have been established by so many researchers such as the study by Afzal and Sehrish (2011) and Arshad et al. (2013).

Mansourinia et al. (2013) examine the relationship between board independence and dividend ratios of 140 sample companies listed on the Tehran Stock Exchange from 2006 to 2010 using fixed effects, common effects and random effects models to analyze the data. The results show that there is a significant positive impact between board size and firms' dividend payout ratio. Similarly, Afzal and Sehrish (2011) examine the relationship between corporate governance mechanisms and dividend payout ratio of 42 companies listed on the Karachi stock exchange from 2005 to 2009 by using OLS regression, Logit and Probit models for the estimation purpose. The results show that board size has significant positive relation with the amount of dividend paid by the companies. The study by Obradovich and Gill (2013) confirm that the dividend decision is positively influenced by board size.

On the other hand, the study by Arshad et al. (2013) indicate that board size has an insignificant positive relationship with a dividend payout ratio. Similarly, Ajanthan (2012) examines the impact of corporate governance mechanisms and dividend payout

ratio among 17 hotels and restaurant businesses in Sri Lanka from 2008 to 2012 using multiple regressions and descriptive to analyze the data. The findings show that there is insignificant associated between board size and dividend payout among hotels and restaurant firms in Sri Lanka.

Likewise, Bolbol (2012) uses samples of 50 Malaysian construction companies to determine the impact of board characteristics on the dividend payout ratio through the use of regression analysis method. The results show an insignificant and negative impact of board size on firm's dividend payout.

2.5.3 CEO Duality and Firm Dividend Ratio

The relationship between CEO duality and dividend payout has been established by many researchers (Arshad et al., 2013; Mansourinia et al., 2013; Abor & Fiador, 2013; Obradovich and Gill, 2013; Ajanthan, 2012; Bolbol, 2012). The study of Arshad et al. (2013) using samples of Pakistan companies show that CEO duality has significant impact on company's dividend payout. Similarly, the study of Obradovich and Gill (2013) using 296 samples of American service listed companies shows that the decision to pay dividends is a positive function of the CEO duality of the firm. But, the results of Mansourinia et al. (2013) show that there is no significant impact of CEO duality on firm dividend ratio. Similarly, Abor and Fiador (2013) in studying the dividend payout ratio in Sub-Saharan Africa countries document that CEO duality has an insignificant

positive effect using Ghana and South African listed companies while it is contrary in the case of Nigerian companies.

On the other hand, Bolbol (2012) finds a significant negative relationship between CEO duality and dividend payout among the Malaysian listed companies. Similarly, Ajanthan (2012) establishes the influence of corporate governance mechanisms on the firms' dividend payout among 17 hotels and restaurant firms in Sri Lanka from 2008 to 2012 and using multiple regressions and descriptive statistics to analyze the data. The finding shows that CEO duality is negatively associated with the dividend payout.

2.5.4 Family Members on Board and Firm Dividend Payout Ratio

Family-linked company describes the existence of family members on the board of directors and there are different method of measuring the family link company. According to Subramaniam and Devi (2011), a family-link company describes the existence of family members on the board of director sand the ownership of such family in that company should be at least 20%, of the total shares. Family businesses in many countries are very common and most popular among the publicly listed companies as such they play a significant role in the economic growth and the provision of employment (O'Boyle, Solari & Marangoni, 2011). In Malaysia, family firms contribute a large percentage of the country's domestic product and is estimated that about 80% of listed companies in Bursa Malaysia are family-owned businesses (Amran 2011). The

relationship between family link company and dividend payout have been established by (Bolbol 2012).

In the study by Setia-Atmaja, (2010) on a sample of Australian publicly-listed companies from 2000 to2005 period. The results show that family controlled firms seem to have higher dividend payout ratios when compared with those non-family companies. However, the result signifies that there is a significant influence between family control on the dividend payout ratio as a result of significant numbers of independent directors on board of directors. This emphasizes the important roles played by independent directors with regard to the dividend payout policies of the family controlled companies.

But on the other hand, the study by Bolbol (2012) by using a sample of 50 Malaysian construction companies to determine the impact of board Characteristics on the dividend payout ratio through the use of regression analysis method. The result shows an insignificant negative relationship between family link company and dividend payout.

2.5.5 Directors' Ownership and Firm Dividend Ratio

The relationship between director's ownership and dividend payout has been established by many researchers (Huda & Abdullah, 2013; Ullah et al., 2012; Al-Gharaibeh et al., 2013). Huda and Abdullah (2013) examine the impact of ownership structure among the sample firms listed on Chittagong stock exchange from 2006 to 2010 period on the

dividend payout. The results show a significant and positive impact of managerial ownership on the firms' dividend payout.

On the other hand, Ullah et al. (2012) examine the influence of firm ownership structure on the dividend payout ratio among the 70 listed companies in Karachi stock Exchange (KSE) for the years 2003 to 2010. The results of the study show that managerial ownership has negatively influenced the firms' dividend payout in Pakistan. Similarly, Al-Gharaibeh et al. (2013) examine the relationship between ownership structure and dividend payout among 35 sample companies from Jordan. The result shows that there is negative relationship between managerial ownership and firm's dividend payout ratio.

2.5.6 Institutional Ownership and Firm Dividend Ratio

Institutional ownership referred to the proportion of shares held by institutions such pension funds, insurance companies as well as the financing companies with the total number of the company's shares. In Malaysia the main five public institutional investors that represent about 70% of total institutional investors are: Lembaga Tabung Angkatan Tentera and Employees Provident Fund (pension funds), Permodalan Nasional Berhad and Lembaga Tabung Haji (investment funds) and lastly National Social Security Organization of Malaysia as an insurance company (Wahab, How & Verhoeven, 2008). The relationship between institutional ownership and dividend payout have been established by many researchers (Al-Gharaibeh et al., 2013; Al-Nawaseh et al., 2013; Ullah et al., 2012; Thanatawee, 2012; Al-Najjar, 2010; Afzal & Sehrush, 2011; Abdelsalam et al., 2008; Short et al., 2002; Yulianto, 2014; Gill & Obradovich, 2013).

Al-Gharaibeh et al. (2013) and Al-Nawaseh et al. (2013) examine the relationship between institutional ownership and dividend payout and the results indicate a positive and significant influence of institutional ownership on dividend payout ratio. Ullah et al. (2012) find a positive influence of institutional ownership on the firm's dividend payout in Pakistan. Moreover, Abdelsalam et al. (2008) confirm that institutional ownership has a positive and significant influence on dividend payout and is in line with Khan (2006) and Short et al. (2002). On the other hand, the study of Afzal and Sehrish (2011) and Huda and Abdullah (2013) show contrary results.

Similarly, Obradovich and Gill (2013) find that the decision to pay dividends is negatively affected by institutional ownership among American service companies. But, the study of Yulianto (2014) and Al-Najjar (2010) indicate that there is no significant relationship between institutional ownership and dividend payout ratio.

2.5.7 Concentrated Ownership and Firm Dividend Ratio

Abdullah et al. (2012) examine the possible impact of ownership structure of Malaysian public listed company's on dividend payout ratio for the year 2010 and using Lintner model. Their findings indicate a significant and positive effect of concentrated ownership on the firms' dividend payout ratio. Similarly, Thanatawee (2012) examines the impact of ownership structure on the dividend payout ratio among the listed companies in Thailand stock exchange from 2002 to 2010 period. The results of the study show that concentrated ownership has a positive impact on firms' dividend payout

ratio. Furthermore, the study of Nohasniza (2009) examines the relationship between ownership structure and dividend payout ratio among 150 sample companies listed Malaysian stock exchange for the 2007 using a cross-sectional analysis. The results of the study show that there is a significant positive relationship between ownership concentration and dividend payout ratio among the sample companies.

On the other hand, Khan (2006) examines the impact of ownership structure on the dividend payout ratio among sample 330 listed companies in UK stock exchange using panel data analysis. The result of the study indicates that there is negative relationship between concentrated ownership and dividend ratio. Similarly, Harada and Nguyen (2011) confirm a negative and significant influence of concentrated ownership on dividend payout.

2.5.8 Firm Size and Dividend Ratio

The size of the firms has been considered in many studies as a control variable in order to determine the impact of corporate governance mechanisms on firms' dividend payout ratio (Abor & Fiador, 2013; Al-Gharaibeh et al., 2013; Bolbol, 2012; Afzal & Sehrish, 2011; Ramli , 2010; Adjaoud & Ben-Amar, 2010). The study of Abor and Fiador (2013) on the dividend payout ratio in Sub-Saharan Africa countries found that firm size is significantly and positively related with the dividend payout among Nigerian companies.

Similarly, Al-Gharaibeh et al. (2013), Afzal and Sehrish (2011), and Adjaoud and Ben-Amar (2010) confirm the positive and strong influence of firm size on dividend payout. On the other hand, Bolbol (2012) examines the impact of board characteristics on the dividend payout among Malaysian construction companies, and the result shows that firm size has a positive insignificant impact on dividend payout.

2.5.9 Profitability and Dividend Ratio

Profitability measures the ability of firms to generate profit and is considered to be an important factor that can affect firm's dividend payout ratio. This is because the firm that generate more profit can distribute higher dividends to shareholders and hence there is positive expectation between profitable firm and dividend payment (Huda et al., 2013; Arshad et al., 2013; Bolbol, 2012; Afzal & Sehrish, 2011; Abdelsalam et al., 2008).

In the study of Huda et al. (2013), the result shows that return on equity has significant positive impact on firms' dividend payout ratio. Arshad et al. (2013) indicate that return on equity are significantly and positively related to firms' dividend payout ratio among the sample firm in Karachi. Similarly, Afzal and Sehrish (2011) and Abdelsalam et al. (2008) confirmed a significant positive impact of profit on the firms dividend payout decision. On the other hand, Bolbol (2012) finds a positive and insignificant impact on dividend payout.

2.5.10 Leverage and Firm Dividend Payout

Ajanthan (2012) examines the impact of corporate governance mechanisms and dividend payout ratio among 17 hotels and restaurant businesses in Sri Lanka from 2008 to 2012 using multiple regressions and descriptive to analyze the data. The findings show an insignificant association between leverage and dividend payout among hotels and restaurant firms in Sri Lanka. Moreover, the study of Bolbol (2012) shows that leverage has an insignificant negative effect on Malaysian construction companies' dividend payout.

2.6 Summary of the Chapter

This chapter presents numerous contributions from many researchers, but still there is no consensus about the relationship between corporate governance mechanisms and firms' dividend payout ratio and most of them concentrate on the relationship between ownership structures and dividend payout ratio (Arshad, 2013; Huda et al., 2013; Al-Gharaibeh et al., 2013; Ullah et al., 2012; Habibi et al., 2012; Clarke, 2012; Abdullah et al., 2012; Ramli, 2010; and Abdullah, 2009). Even though, board of directors plays an important role in the payment of dividend, only few studies have examined the impact of board characteristics on the dividend payout ratio, especially in Malaysia (Bolbol, 2012; and Subramani & Devis, 2011). The present study examines the relationship between those variables under board characteristics (independent directors, board size, CEO duality, and PFMOB) as well as the types of ownership structure (directors' ownerships, and institutional ownerships and concentrated ownerships) considered by previous studies and produced mixed results in Malaysia. Therefore, this study fills up the

literature gap by providing an insight on how those variables influence dividend payout ratio among Malaysian public listed companies. The findings could be of significant importance considering today's global competitive environment where investors are becoming more concerned about the corporate governance issues as well as the return on their investment.

CHAPTER THREE

RESEARCH FRAMEWORK AND METHODOLOGY

3.0 Introduction

The main objectives of this chapter is to discuss about the research framework, hypotheses development, the population of the study and sample size, research design, model specification, measurement of variables and lastly methods of the data analysis.

3.1 Research Framework

The present study investigates the relationship between a set of corporate governance mechanisms comprising of board composition, board size, CEO duality, the proportion of family members on board (PFMOB), directors' ownership, institutional ownership, concentrated ownership, and firms' dividend payout ratio of Malaysian public listed companies. These board characteristics and ownership structure are considered to be the independent variables, and firm's dividend ratio as the dependent variable. Firms' size, profitability and leverage serve as control variables.

1.2 Conceptual Framework

Based on the Research framework of the study is shown in figure 1:

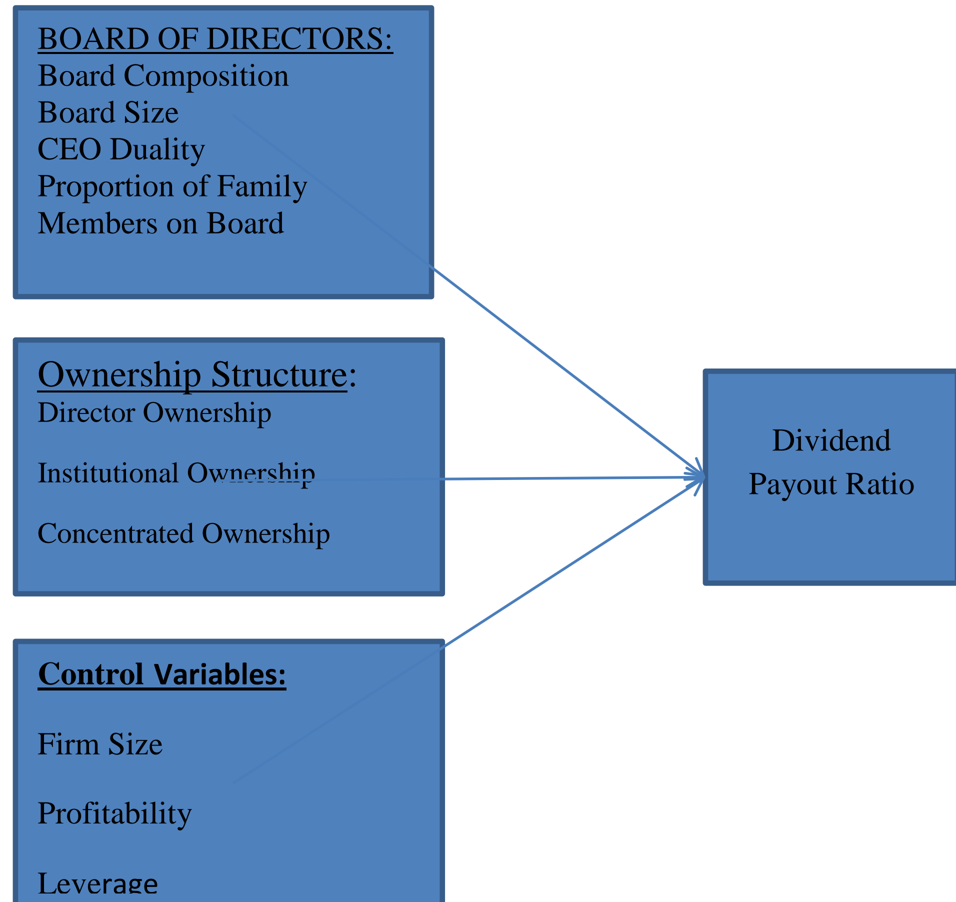

Figure 3.1 Research Framework

3.3 Hypothesis Development

In this part, the possible relationship between independent variables and a dependent variable as well as with the control variables are examined.

3.3.1 Independent Non-executive Directors

Composition of the board refers to the proportion of independent non-executive directors in relation to the total number of directors on the board. An independent non-executive directors are the independent directors who have no connection with the company except for their directorship (Clifford & Evans, 1997). According to the agency theory, due to the separation between ownership and control of the firms, there is a tendency of managers to pursue their selfish interest at the expense of the shareholders (Jensen & Meckling, 1976). Therefore, having independent non-executive directors serving on the board would help in monitoring and controlling the unprincipled behavior of management and also to assist in appraising the management more objectively (Abidin, Kamal, & Jusoff, 2014).

Ajanthan (2012) examines the influence of board independence and dividend payout ratio. The findings show that there is insignificant associated between board independence and dividend payout among hotels and restaurant firms in Sri Lanka. Mansourinia et al. (2013) examine the relationship between board independence and dividend payout ratio. The findings show that there is no significant impact of board independent on the firm dividend ratio. Similarly, Abdelsalam et al. (2008) confirm an insignificant influence of board composition on the dividend payout among Egyptian companies.

Furthermore, Abor and Fiador (2013), and Afzal and Sehrish (2011) indicate a significant and positive association of independence of the board of directors and dividend payout. Adjaoud and Ben-Amar (2010) also investigate the impact of qualitative corporate governance attributes and dividend payout ratio among 714 Canadian firms and confirm that with stronger corporate governance mechanisms, payment of dividend tend to be more. Therefore, board composition influence dividend payout in significant and positive ways among the sample companies.

Therefore, the following hypothesis is formulated based on the above discussions:

H1: There is a relationship between board composition and firm dividend payout.

3.3.2 Board Size

The effectiveness of the board of directors can be improved by the increase in the companies' board size as it provides management support in mitigating the agency cost as a result of poor management (Jensen & Meckling, 1976). Similarly, Jensen (1993) argues that for the board to function effectively the minimum number of members should not be less than eight. This is because boards with a small number of directors are more likely to decide on a certain outcome. But the study by Zahra and Pearce (1989), and Amran (2011) claim that a large board with many members is greater than small one with less members as a result of their resources, capabilities, as well as their broader external contractual relationships.

Mansourinia et al. (2013) examine the relationship between board independence and dividend payout ratio, the results demonstrate a positive and significant relation between board size and dividend payout ratio. Likewise, Afzal and Sehrish (2011) in their study confirm a significant positive impact on board size on the dividend payout ratio, which is also consistent with the result of Obradovich and Gill (2013).

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Then again, in the study by Arshad et al. (2013) and Ajanthan (2012) demonstrate that there is an insignificant relationship between board size and firms dividend payout ratio. Contrarily, Bolbol (2012) confirm a negative and insignificant impact of board size dividend payout among the Malaysian firms.

Therefore, the following hypothesis is formulated based on the above discussions:

H2: There is a relationship between board size and firms' dividend payout.

3.3.3 CEO Duality

According to the agency theory, it is important in the companies to separate the CEO and chairman positions in order to establish an effective and efficient check and balance (Bolbol, 2012). The relationship between CEO duality and dividend payout has been established by many researchers such as Arshad et al. (2013). The results show that CEO duality has significant impact on company's dividend payout. Similarly, Obradovich and Gill (2013) show that CEO duality has significant impact on company's dividend payout among American service companies from 2006 to 2011. However, the results by

Mansourinia et al. (2013) show a contrary opinion that CEO duality does not influence dividend payout. Similarly, Abor and Fiador (2013) in their study confirm contrary results among the sample companies in the African countries.

From the above discussion the following hypothesis is derived:

H3: There is a relationship between CEO duality and dividend payout.

3.3.4 Proportion of Family Member on the Board (PFMOB)

The relationship between the proportion of family members on the board has been established in the study by Setia-Atmaja (2010). The findings indicate that family controlled firms seem to have higher dividend payout ratios when compared with those non-family companies. The result reveals that the family control companies could have a significant impact on the dividend payout ratio as a result of their significant influence on the board of directors. Moreover, the finding is also in line with the opinion that independent directors and dividend payout are complementary for control mechanisms. But on the other hand, the study by Bolbol (2012) confirms that the family link company has an insignificant negative impact on firm's dividend payout among the Malaysia construction companies.

Based on the above discussions the following hypothesis is formulated:

H4: There is a relationship between PFMOB and firms’ dividend payout ratio.

3.3.5 Director's Ownership

According to the agency theory that directors' ownership can serve for both monitoring and bonding mechanisms by the managers, so that the agency costs will be minimal by aligning the managements' interest in-line with that of shareholders (Jensen & Meckling, 1976; Rozeff, 1982; Easterbrook, 1984). Directors' ownership refers to the proportion of shares held by directors and their close families. In a study by Huda and Abdullah (2013), the results show that there is a significant positive influence of managerial ownership and dividend payout ratio.

Conversily, Al-Gharaibeh et al. (2013) show that managerial ownership has a negative influence on the dividend payout ratio among the sample companies. Similarly, Ullah et al. (0212) confirm in their study that managerial ownership influence dividend payout in Pakistan but in the negative direction.

Therefore, the following hypothesis is formulated based on the above discussions:

H5: There is a relationship between directors' ownerships and firms' dividend payout.

2.3.6 Institutional Ownership

Large institutional shareholders are expected to monitor management activities more effective than smaller and more diffuse shareholders; therefore the benefits to be driven from the monitoring are more likely to exceed the costs to these large institutional shareholders (Abdullah, 2009). Al-Gharaibeh et al. (2013) examine the relationship

between ownership structure and dividend payout among the 35 sample companies in Jordan and the results show a significant influence of institutional ownership on dividend payout ratio. Similarly, Al-Nawaseh et al. (2013) confirm significant influence of institutional ownership on the firm's dividend payout ratio.

Ullah et al. (2012) observe the influence of firm ownership structure on the dividend payout ratio among the 70 sample companies in Karachi. The results of the study show the influence of institutional ownership on the dividend payout in Pakistan. Thanatawee (2012) examines the impact of ownership structure on the dividend payout ratio among the sample companies and the findings indicate a positive influence of ownership concentration on the dividend payout ratio among the sample companies. In Another study by Abdelsalam et al. (2008) confirm that there is a positive association between institutional ownership and dividend payout ratio and also confirmed that the firms with a higher institutional ownership turn to be paying higher dividend. Khan (2006) indicates that institutional ownership is positively associated with the dividend payout. Moreover, Short et al. (2002) also indicate a significant and the positive influence of institutional ownership and firms' dividend payout through the use of UK panel data. Thus, the following hypothesis is formulated:

H6: There is a relationship between institutional ownerships and firms' dividend pay.

3.3.7 Concentrated Ownership

The relationship between ownership concentration and dividend payout has been established by many researchers such as (Abdullah et al., 2012; Thanatawee, 2012; Nohasniza, 2009). Abdullah et al. (2012) indicate a significant and positive influence between concentrated ownership and firms' dividend payout ratio. Similarly, Thanatawee (2012) shows that concentrated ownership has significant and positive influence on firms' dividend payout among the sample companies. The study by Nohasniza (2009) confirms that there is a significant and positive connection among ownership concentration and dividend payout.

Therefore, the following hypothesis is formulated:

H7: There is a relationship between concentrated ownerships and firms' dividend payout ratio.

3.4 Data Collection

3.4.1 Sampling Method

The population of this study comprised of all total 819 listed companies on the main board of Bursa Malaysia as at 31st December, 2013 excluding all finance related companies as a result of their special peculiarities. A sample of 164 companies that represent 20% of the total companies listed on the Main Market are selected from the population using a stratified sampling technique from each sector. Table 3.1 shows the sample of the study.

Table 3.1

Samples of the Study

Sectors	Population	Sample (20%)
Constructions	44	9
Consumer products	138	28
Hotels	5	1
Industrial products	249	49
IPCs	6	1
Mining	1	1
Plantations	44	9
Properties	88	18
Real estate Investment (REITS)	23	5
Technologies	33	7
Trading/Services	188	38
TOTAL	819	164

3.4.2 Data Collection and Analysis

The data related to the corporate governance are gathered from the individual company's annual reports which are available on Bursa Malaysia or company's website for the 2013 financial year. The year 2013 represents the year after the revision of the Malaysian Code of Corporate Governance 2012, so that to ascertain its impact on firms' dividend payout ratio. Secondary data concerning dividend payout ratio, firm size and profitability are collected through Thomas Reuters DataStream.

The data collected was analyzed for the year 2013. The study uses both descriptive and correlation analyses of the independent variables independent non-executive director (IND), board size (BS), CEO duality (DUALITY), the proportion of family members on board (PFMOB), directors' ownership (DOWN), institutional ownership (INSTWN), concentrated ownership (CONWN). The dependent variable is dividend payout ratio (DPR) and for the control variables the study uses firm size (FS), Earnings before interest and tax (EBIT) and Leverage (LEV). Lastly the regression analysis was carried out through the use of Stata statistical package.

3.5 Model Specification and Multiple Regressions

Multiple regressions were used to examine the relationship between IND, BS, CEO, PFMOB, DOWN, INSTWN, CONWN, FS, EBIT and LEV against DPR for Malaysian public listed companies. The regression model used for the estimation of a dependent variable for many independent variables is estimated as follows:

$$DPR = \alpha 0 + \beta_1 IND + \beta_2 BS + B_3 CEO + \beta_4 PFMOB + \beta_5 DOWN + \beta_6 CONWN + \beta_7 INSTWN + \beta_8 LFS + \beta_9 LEBIT + \beta_{10} LEV + \varepsilon$$

Where:

DPR = dividend payout ratio

IND = Independent non-executive director

BS = Board size

CEO = CEO duality

PFMOB = Proportion of family members on the board

DOWN = Directors ownership

CONWN = Concentrated ownership

INSTWN = Institutional ownership

FS = Firm size

EBIT = Profitability

LEV = Leverage

α = Intercept of the model “Constant”

ε = Error term.

3.6 Measurement of Variables

The list of variables and their measurements are presented in the following and comprised of three classes which are independent, dependent and control variables.

3.6.1 Dependent Variable

The dividend payout ratio is measured as the dividend per share divided by the earnings per share as it has been used by the previous studies (Haye, 2014; Bolbol 2012; Ramli, 2010).

3.6.2 Independent Variables

Board composition is the ratio of independent non-executive directors on the board of directors. Thus, independent directors should not have any connection with the company except their directorship in the company (Clifford & Evans, 1997).

Board size is referred to the total number of directors serving on the board as it has been used in the previous studies (Arshad et al., 2013; Afzal & Sehrish, 2011; Zahra & Pearce, 1989).

CEO duality is measured by “1” if the chairman is different from the CEO or “O” otherwise as it has been used by the previous studies (Gill & Obradovich, 2013; Abor & Fiador, 2013; Bolbol 2012).

The proportion of family members on the board of director is the total number of families serving on the board divided the total number of directors on the board (Prabowo & Simpson 2011).

Directors’ ownership is measured by the ratio of shares owned by directors and their close families as it has been used by the previous studies (Gill & Obradovich, 2013; Short et al. 2002).

Institutional ownership is measured by the ratio of shares held by institutions in the total number of the company's shares. In Malaysia institutional investors are led by several large institutions, such as the Permodalan Nasional Berhad , Employees Provident Fund, Lembaga Tabung Haji (previously known as Pilgrimage Management and Fund Board), and have substantial impact in corporate governance (Saleh et al., 2009) e.g., pension funds, insurance companies as well as the financing companies as it has been used by the previous studies such as the study of Gill and Obradovich (2013), Abdullah et al. (2012), and Short et al. (2002).

Concentrated ownership is measured by using the ownership percentage of the main shareholders (as many shareholders as possible are added up together) with more than 5% of total shares, as it has been used by previous studies such as Habibi et al. (2012).

3.6.3 Control Variables

Firm size refers to the log of total assets as it has been used by the previous studies (Haye, 2014; Gill & Obradovich, 2013; Abor & Fiador, 2013; Abukar H-Sufi, 2012; Ghabayen, 2012; Ramli, 2010; Adjaoud & Ben-Amar, 2010).

Profitability is referred to the earnings before interest and tax as it has been used by the previous studies (Abor & Fiador, 2013).

Leverage refers to the total debt divided by the total assets as it has been used by the previous studies (Arshad et al., 2013; Mansouri, 2013; Huda & Abdullah, 2013; Gill & Obradovich, 2013; Ramli, 2010).

3.7 Summary of Chapter

This chapter presents a discussion on the research framework, conceptual framework based on the agency theory, then followed by the hypothesis development, data collection, sampling method, model specification and multiple regression model, variable measurement and definition. Finally, the method of data collection and data analysis was discussed in the chapter by using Stata statistical package.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS OF THE STUDY

4.0 Introduction

This segment reports the data analysis and the study findings, which comprises of descriptive statistics, correlation matrix of variables and regression analysis. The analysis of this study relates to the research objectives, research questions and hypothesis that were developed in the previous chapters. Descriptive statistics are used to understand the basic characteristics of the data. Regression analysis is done by using the Stata statistical package.

4.1 Descriptive Analysis

Descriptive statistics of the data are presented in the Table 4.1 in which some of the measures of central tendency and central dispersion of each variable for the 164 Malaysian listed companies covered in the study are shown below:

Table 4.1

Descriptive Statistics

	Minimum	Maximum	Mean	Std. Dev	Skewness		Kurtosis	
					Statistic	Std. Error	Statistic	Std. Error
DPR	0.00	94.59	21.00	26.91	1.14	.19	.30	.38
IND	.27	1.00	.47	.14	.89	.19	.69	.38
BS	4.00	12.00	6.92	1.65	.57	.19	.10	.38
CEO	0.00	1.00	.99	.11	-8.97	.19	79.45	.38
PFMOB	0.00	.75	.23	.22	.18	.19	-1.51	.38
DOWN	0.00	75.65	36.80	23.19	-.24	.19	-1.16	.38
INSTWN	0.00	64.65	4.82	9.78	3.44	.19	14.22	.38
CONWN	0.00	76.00	44.72	17.37	-.32	.19	-.63	.38
LFS	9.27	17.80	12.76	1.40	.48	.19	.73	.38
LEV	0.00	.99	.41	.32	.42	.19	-1.24	.38
LEBIT	6.36	14.91	11.91	.65	-2.73	.19	34.67	.38

From Table 4.1, the mean value of dividend payout ratio of Malaysian companies during the year under study is about 21%, with the minimum value of about 0% of earnings per share, the maximum value of 94.59% of earnings per share and the standard deviation of about 26.91%, which shows a higher dispersion in the ratio of dividend payout among the Malaysian companies. In the case of independent non-executive directors on the board, the results show the mean value of 47%, minimum value of 27% and maximum value of about100% while the standard deviation is 14%. This indicates that the minimum number of independent directors on the board of directors is about 27% among the Malaysian public listed companies.

For the Malaysian companies' board size, the results show that the mean number is about 7 directors on the board, with minimum number of 4 directors on the board, while the maximum numbers of the directors on the board are 12 with the standard deviation

of 1.65%. This result is in-line with the previous studies in Malaysia. For the CEO duality the mean value is 0.99, which mean that almost 99% of the sample companies have a CEO different from the Chairman. The proportion of family members on the board shows a mean value of 23%, with the minimum value of about 0%, maximum value of 75% while the standard deviation shows a value of 22%. This indicates that the maximum of number of family members among the Malaysian companies is about 75% of the total directors on the board and the results also show that almost 23% of the Malaysian companies have family members on the board. The results of this descriptive statistics show that the directors' ownership has the mean value of 23%, the minimum value of 0% and the maximum value of 75% while the standard deviation show the dispersion of about 22%. This indicates that about 23% of the Malaysian listed companies are owned by the directors.

For the institutional shareholding the results show a mean value of 4.82%, minimum value of 0% and maximum value of about 64.65% while the standard deviation of about 9.78%. This indicates that about 5% of the Malaysian company's shareholding is owned by the institutional shareholders. In addition, the result of concentrated ownership show a mean value of about 44.72%, minimum value of 0% and the maximum value of about 76% while a standard deviation shows a value of 17.37%. This means that about 44% of shareholdings among the Malaysian companies are highly concentrated. However, the results show a mean value 12.76% of the firm's size, minimum value of 9.27% and the maximum value of 17.80% while the standard deviation of about 1.40%. The results also show a mean value for the leverage is about 41%, the minimum value of 0% and the

maximum value of about 99%, while the standard deviation show a value of 32% and lastly, the mean value of earnings before interest and tax is 11.91%, the minimum value of 6.36% and the maximum of about 14.91% while the standard deviation is about 0.65%. This means that the variation in the level of firms' earnings before interest and tax is very minimal. However, from the Table 4.1 the results of skewness and kurtosis show some element of problems with regard to normality and skwness which need to solved by taking the robust regression of the results.

4.2 Correlation Matrix of the Variables

Correlation analysis is conducted in order to analyze the direction of the relationship between the variables employed under the study as well as to ascertain whether if there is any problem of multicollinearity among the independent variables and control variables. The range of coefficient value is from -1.00 to +1.00 signifies the strength of the relationships while the sign (+/or -) show direction.

From the Pearson correlation Table 4.2 we can see that there is an insignificant negative correlation between IND and dividend payout ratio with (Corr =-14). For the BS and CEO duality, the results show a positive, but insignificant correlation with the dividend payout (corr = 0.07) and (corr = 0.09) respectively. Besides that, the results also show that the proportion of family members on the board also has a positive insignificant correlation with the dividend payout ratio (corr = 0.01). On the other hand, the results of this correlation analysis show that all independent variables from the ownership structures have positive correlation with the dividend payout ratio. DOWN has

insignificant positive correlation with a dividend payout ratio (corr = 0.14). For the INSTWN and CONWN the results also show a significant positive correlation with dividend payout ratio, but at 5% level of significance (corr = 0.208 and corr = 0.208) respectively. There is a positive significant correlation between LFS and dividend payout ratio with (corr = 0.263). Among the control variables LEBIT also has a positive and significant correlation with the dividend at 5% level of significance (Corr = 0.243). This positive correlation is consistent with the signaling theory. On the other hand, only LEV has insignificant negative correlation with the dividend (Corr = -0.04).

Among the independent variables, there is a significant negative correlation between IND, BS, CEO, PFMOB and DOWN at 1% significance level (corr = -0.488; corr = -.0-.228; corr = 0-.228; corr = 0-.282) respectively. There is also an insignificant negative correlation between IND and CONWN, LFS and LEBIT with the (corr = -0.02 corr = -0.09 and corr = -0.03). But for the other two variables the results show insignificant positive correlation between IND, INSTWN and LEV with (Corr = 0.01 and Corr = 0.02) respectively. Therefore, from the Table 4.2 there is no multicolliarity problem since all the correlation values between independent variables are less than 0.80 in accordance with the Gujarati (2003).

Table 4. 2

Correlation Matrix of Variables

	DPR	IND	BS	CEO	PFMOB	DOWN	INSTWN	CONWN	LFS	LEV	LEBIT
DPR	1.00										
IND	-0.14	1.00									
BS	0.07	-.488**	1.00								
CEO	0.09	-.228**	.198*	1.00							
PFMOB	0.01	-.228**	.205**	0.11	1.00						
DOWN	0.14	-.282**	.240**	0.11	.352**	1.00					
INSTWN	.208**	0.01	0.10	0.05	-0.12	-.158*	1.00				
CONWN	.208**	-0.02	0.02	-0.02	0.10	.358**	-0.05	1.00			
LFS	.263**	-0.09	.233**	0.09	-0.04	0.02	.425**	0.00	1.00		
LEV	-0.04	0.02	-0.03	-0.13	-0.08	-0.14	0.10	-0.06	0.09	1.00	
LEBIT	.243**	-0.03	.199*	0.06	0.06	0.04	.307**	0.05	.573**	0.03	1.00

Note: * Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Table 4.3

Model Summary

Model	R	R^2	Adj. R^2	F	Sig.
1	.427[a]	.182	.127	3.28	0.001

a. Predictors: (Constant), LEBIT, IND, LEV, CONWN, PFMOB, CEO, INSTWN, DOWN, BS, LFS

Table 4.3 above shows that the independent variables can influence the dependent variable by the value of R^2 in which they explain about 18.2% of the variance in the dividend payout ratio. The Adjusted R^2 of 12.7% explains the variability between dependent variable and independent variables under the study. In addition the F statistics measure the strength of regression model with a value of 3.28 and the overall model is significant at the 1 % level (prob = 0.001). Therefore, the corporate governance variables under the study (IND, BS, CEO PFMOB, DOWN, INSTWN, CONWN) are vital in determining the dividend payout ratio and they jointly explain 18.2% change in the firm dividend payout ratio and the remaining 81.8% could be explained by the other variables.

4.3 Multicollinearity

Multicollinearity problem exists when there is correlation between one or more independent variables to the other independent. The present study utilized the use of (VIF) variance inflate factored to determine whether if there is any kind of such problem. The value of (VIF) with less than 10% indicate that the independent variables

are free from any multicollinearity problem, while any value greater than 10% show the present of such problem (Gujarati, 1995; Naser et al., 2002).

Table 4. 4

Variance Inflate Factor (VIF)

VARIABLES	VIF	1/VIF
LFS	1.85	0.54
LEBIT	1.63	0.61
DOWN	1.45	0.68
BS	1.44	0.69
IND	1.42	0.70
INSTWN	1.36	0.73
CONWN	1.20	0.83
PFMOB	1.17	0.85
CEO	1.10	0.91
LEV	1.05	0.95

4.4 Robust Regression Analysis

The problem of normality and skewness identified above is solved in this study by employing the robust standard errors of estimation. Therefore, all the following analysis will be based on the robust regression results. The robust regression result is presented in Table 4.5

Table 4.5

Robust Regression

Independent Variable	Coef	robust std. error	P-value
IND	-28.87	17.26	0.097*
BS	-1.51	1.28	0.239
CEO	9.20	7.14	0.200
PFMOB	-6.93	9.11	0.448
DOWN	0.82	0.10	0.435
INSTWN	0.51	0.29	0.082*
CONWN	0.31	0.11	0.005***
LFS	2.62	1.69	0.123
LEV	-3.37	6.33	0.595
LEBIT	4.19	2.91	0.152
Constant	-64.88	34.45	0.062**

The Table 4.5 above shows that the independent variables under the study (IND, BS, CEO PFMOB, DOWN, INSTWN, CONWN) are vital in determining the dividend payout ratio and they jointly explain 18.2% change in the firm dividend payout ratio and the remaining 81.8% could be explained by the other variables. However, any addition in the number of directors on the board, family members on the board and independent non-executive director will lead to an insignificant decrease in the dividend payout ratio of the Malaysian firms by the (-1.51; -6.93 and -28.87) respectively, except in the case of independent non-executive director which has a significant negative effect on the dividend payout ratio at 10% level of significance. But on the other hand, any increase by 1 in the ownership structure variables such as institutional ownership and concentrated ownership will lead to an increase in the dividend payout ratio by (0.51 and 0.31) respectively. For the directors ownership, firm size and earnings before interest and tax where any increase by 1 will lead to an insignificant increase in the dividend

payout by about 0.82; 2.62 and 4.19 respectively. For the leverage any 1 increase will lead to an equal decrease in the dividend payout ratio by about -3.37 but the result is insignificant.

4.5 Summary of the Chapter

This Chapter provides discussion on the data analysis and findings, which comprises of descriptive statistics, correlation matrix and regression analysis. Findings of the study indicate the negative significant relationship between independent directors and dividend payout ratio. Institutional ownership and concentrated ownership are found positively and significantly related to dividend payout ratio. Other variables are not significant.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

The study examines the relationships between some of the corporate governance variables and dividend payout ratio among the Malaysian public listed companies. Some corporate governance variables included in the study are: board composition, board size, CEO Duality, the proportion of family members on the board, direct ownership, institutional ownership and concentrated ownership as independent variables. The control variables considered are leverage, firm size, and profitability while the dividend payout ratio is the dependent variable.

4.1 Discussions

The findings of this study with regard to the board characteristics variables show that the results do not support the second, third and fourth hypothesis which stated that is there is a relationship between board size, CEO Duality and proportion of family members on the board with the dividend payout ratio. But the relationship is insignificant and negative between dividend payout ratio and the board size and proportion of family members on the board which is consistent with the study of Ajanthan (2013), Mansourinea (2013), Bolbol (2012), and Subramanian (2011). While in the case of CEO duality the finding also shows insignificant positive relation which is also inconsistent with the study of Yarram (2010). Moreover, for the independent non-executive directors the results show a significant negative relationship between independent non-executive

directors and dividend payout ratio and is in the support of the first hypothesis which stated that there is a relationship between independent non-executive directors and dividend payout ratio among the Malaysian sample companies. This result is consistent with that of Abor and Fiador (2013).

However, with regard to the ownerships structure variables, the findings is not in support of the fifth hypothesis that there is a relationship between directors' ownership and dividend payout ratio. The results show that directors' ownership has an insignificant positive relationship with the dividend payout ratio among the sample companies which is consistent with the previous studies (Abdullah et al., 2012; Abdullah 2009; Bolbol, 2012). This implies that the Malaysian companies are more likely to increase their dividend payout ratio as directors ownerships owned substantial shares.

In addition to the directors' ownership, the results for the institutional ownership show a support for the sixth hypothesis that there is a relationship between institutional ownership and dividend payout ratio. The results show a positive and significant relationship between firms' dividend payout ratio and institutional ownerships. This means that the dividend in Malaysian context serves as alternative devices for the control of the agency costs and is consistent with the previous studies (Al-Gharaibeh et al., 2013; Al-Nawaseh et al., 2013; Ullah et al., 2012; Thanatawee, 2012; Al-Najjar, 2010; Afzal & Sehrush, 2011; Abdelsalam et al., 2008; Short et al., 2002).

Furthermore, the finding of the concentrated ownership is also in line with the seventh hypothesis that there is a relationship between concentrated ownership and dividend payout ratio. The results show that concentrated ownership has a significant positive influence on the firm dividend payout ratio and is consistent with the previous studies by Abdullahi (2012), Nor and Sulong (2009), and Thanatawee (2012). This means that dividend payment can be used in mitigating an agency conflict as it can serve as a substitute of shareholders' monitoring. Consequently, large shareholders will have the courage to require high dividend payment for them to reduce the monitoring costs. With regard to the control variables there is an insignificant positive relation between firm size and dividend payout ratio. This means that the larger firm pays higher dividends than smaller firm and is consistent with the previous studies (Bolbol 2012). There is also an insignificant positive relationship between earnings before interest and tax (EBIT) and dividend payout ratio. Lastly, the results show that there is an insignificant negative relationship between leverage and dividend payout ratio, which is consistent with the previous studies (Ajanthan, 2013; Bolbol, 2012).

5.2 Conclusion

The main objective of this study is to examine the relationship between corporate governance variables such as independent non-executive director, board size, CEO duality, the proportion of family members on the board, direct ownership, institutional ownership, concentrated ownership and some control variable such as firm size, leverage, and firm profitability with a dividend payout among Malaysian public listed companies for the year 2013.

A sample of 164 companies representing a 20% was selected from a population of 819 listed companies on the main board of Malaysia stock exchange as at 31st December 2013 excluding all finance related companies as a result of their special peculiarities. A sample was selected from the population using a stratified sampling technique from each sector. The data were collected from both companies' financial statement and Thomas Reuters DataStream. Lastly the robust regression analysis was conducted through the use of Stata statistical package. The researcher concluded that only institutional ownership, concentrated ownership, independent non-executive director have significant impact in influencing the dividend payout ratio among the Malaysian public listed companies for the year 2013, with the ownership structures have positive relationship while the independent non-executive directors have negative relationship. The findings of this research can be generalized to all main market in Malaysia stock exchange because the research considers all the Malaysian main market sectors in arriving at the study sample size.

5.3 Recommendation for Future Research

Future studies should cover more time period by using panel data analysis to take into consideration of short and long term effects. Moreover, the future studies should also take into consideration more variables from both board characteristics and ownership structure such as government ownership, and foreign ownership because of the uniqueness of ownership structure in Malaysia and to see how such government/foreign ownerships can influence the dividend payout ratio among the Malaysian companies.

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