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

By

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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 di 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 mempengaruhi secara signifikan keatas nisbah pembayaran dividen. Pengarah bebas juga didapati signifikan dalam mempengaruhi nisbah pembayaran dividen dalam arah negatif. Hasil kajian ini akan menambah baik 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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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
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Kowalewski, O., Stetsyuk, I., & Talavera, O. (2007). Corporate governance and dividend ratio in Poland: *Discussion papers//German Institute for Economic Research*.


