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THE EFFECT OF FOREIGN OWNERSHIP ON DIVIDEND POLICY:
EVIDENCE FROM CHINA

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THE EFFECT OF FOREIGN OWNERSHIP ON DIVIDEND POLICY:
EVIDENCE FROM CHINA

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences (Finance)
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ABSTRACT

This study examined the relationship between foreign ownership and dividend policy in the Chinese market. Panel logistic regression was employed to explain the effect of foreign ownership on the choice "to pay" or "not to pay" dividends. Panel model used in this study is constructed by 142 companies’ data with 1988 observations involving foreign ownership listed on the Shenzhen Stock Exchange from 2003 to 2016. Findings indicate that a higher level of foreign ownership is associated with a significantly higher probability of paying dividend. This finding is consistent to agency theory and clientele effect theory. The significant positive result for retained earnings to total equity provides support to the implication stated in the life cycle theory. However, the signaling theory is not supported as the results show an insignificant relationship between cash flow and dividend payment, and between investment opportunities and dividend payment. The findings of this study indicates that foreign shareholders in the Chinese market have high preference for dividend paying companies, especially for large companies with low leverage. Hence for investors who prefer dividends, they should invest in companies with foreign ownership as the likelihood of these companies to pay dividend is higher.

Keywords: foreign ownership, dividend policies, panel logistic regression
ABSTRAK


Kata Kunci: pemilikan asing, polisi dividen, regresi panel logistik
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<tr>
<td>CSMAR</td>
<td>China Stock Market Accounting Research</td>
</tr>
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<td>CSRC</td>
<td>China Securities Regulatory Commission</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>MM</td>
<td>Miller and Modigliani</td>
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<td>OLS</td>
<td>Ordinary Least Square</td>
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<td>PCP</td>
<td>Percentage of Correct Predictions</td>
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<td>SME</td>
<td>Small and Medium Board</td>
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<td>SSE</td>
<td>Shanghai Stock Exchange</td>
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<td>ST</td>
<td>Special Treatment</td>
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<tr>
<td>SZSE</td>
<td>Shenzhen Stock Exchange</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
<td>United States</td>
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<tr>
<td>USD</td>
<td>US Dollar</td>
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<tr>
<td>VIF</td>
<td>Variance Inflation Factor</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In recent years, rapid development of China's economy has allowed the global population to see the potential of the Chinese market. Stock market plays a critical role in mobilizing savings and investment and this makes it an agent of economic growth and development in any economy. The importance of the stock market in any economy cannot be over emphasized. Compared with other developed countries, China's securities market started relatively late. Since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990, after more than 20 years of development, until September 2017, the market capitalization of Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) is US$4924 billion and US$3627.4 billion respectively. In terms of world ranking, the Shanghai Stock Exchange and the Shenzhen Stock Exchange ranked fourth and eight places (Shenzhen Stock Exchange Fact Book, 2016).

The development of the securities market over the past ten years is shown in Figure 1.1. The black bar in Panel A of Figure 1.1 shows the aggregate market capitalization of the stock exchanges in China during the period 2006-2015. It increases from RMB8.94 billion in 2006 to RMB53.1 billion, which is an increase of six times. The gray color bar illustrates the gross domestic product (GDP). GDP presents a year-on-year
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