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THE RELATIONSHIP BETWEEN DIVIDEND PAYOUT RATIO AND OUTSIDE DIRECTORS AMONG MALAYSIAN PUBLIC LITED COMPANIES

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ABSTRACT: *The main objective of this study is to examine the relationships between outside directors and dividend payout ratio among the Malaysian public listed companies. The study examines the relationships between independent non-executive directors, CEO duality, the proportion of family members on board, director ownerships and dividend payout ratio. The findings of this study show that only direct ownership and firm size are found to be positive and significant in influencing the dividend payout ratio. The finding of this study will enhance the literature in the field of future studies and will also be worthwhile for the companies, investors as well as the policy makers to make important recommendations for the improvement in the corporate governance and to protect the interest of minority shareholders.*

KEYWORDS: Dividend payout, Ownership Structure, outside directors, CEO

INTRODUCTION

The 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 state that investors prefer to receive dividend now rather than to wait for the risky capital gain in the future.

Outside director is an independent director serving on the board of directors and are regarded as a useful device in minizing an agency problem within a firm through monitoring and controlling of executive actions (Bathala & Rao 1995; Jensen & Meckling 1976). 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).

The main objective of this paper is to examine the relationship between dividend payout and outside directors among Malaysian public listed companies and to see whether if they are substitutes or complements instruments in reducing agency cost. This study is of significant important as most of the previous are based on the developed countries like US and UK but still the finding show mixed results. This make a novel contribution in the literature as to the best of knowledge this is the first paper to examine the relationship between outside directorship and dividend payout in from Malaysian context and also to consider the whole sectors from Malaysian Main Market.

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The remaining part of the paper is organized as follows: Literature review and Hypotheses development, methodology of the study and variables measurement, followed by Data analysis and findings of the study, and lastly conclusion of the study.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Outside director and Dividend Payout

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 independent director 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) show that proportion of outside directors 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 and 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.

Therefore, because of the mixed results in the above discussion, the paper re-examine the relationship between dividends pay-out and proportion of outside directors on boards.

H1: There is a relationship between outside directorships and dividend pay-out.

CEO Duality and Firm Dividend Pay-out

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 show that the decision to pay dividends is a positive function of the

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CEO duality of the firm. But, the results of Mansourinia et al. (2013) show that there is no significant impact of CEO duality on the firm dividend pay-out.

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

H2: There is a relationship between CEO duality and firms' dividend payout.

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 methods 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 directors and the ownership of such family in that company should be at least 20%, of the total shares. 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 pay-out have been established by (Bolbol 2012).

In the study of Setia-Atmaja (2010) on a sample of Australian publicly-listed companies from 2000 to 2005 period. The results show that family controlled firms seem to have higher dividend pay-out ratios when compared with those non-family companies. But on the other hand, the study by Bolbol (2012) the result shows an insignificant negative relationship between family link company and dividend payout.

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

H3: There is a relationship between PFMOB and firms' dividend payout.

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.

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

H4: There is a relationship between directors' ownerships and firms' dividend payout.

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METHODOLOGY

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. Asample 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.

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. Secondary data concerning dividend payout ratio, firm size and leverage are collected through Thomas Reuters DataStream. Lastly the regression analysis was carried out through the use of SPSS.

Model Specification and Multiple Regressions

Multiple regressions were used to examine the relationship between IND, CEO, PFMOB, DOWN, FS 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:

$$DPR = \alpha 0 + \beta 1IND + \beta_2 CEO + \beta_3 PFMOB + \beta_4 DOWN + \beta_5 LFS + \beta_6 LEV + \varepsilon$$

Where: DPR = dividend payout ratio

IND = Independent non-executive director

CEO = CEO duality

PFMOB = Proportion of family members on the board

DOWN = Directors ownership

FS = Firm size

LEV = Leverage

α = Intercept of the model "Constant"

ε = Error term.

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.

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).

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Outside director 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).

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).

DATA ANALYSIS AND FINDINGS OF THE STUDY

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Dev
DPR	0.00	94.59	21.00	26.91
IND	0.27	1.00	0.47	0.14
CEO	0.00	1.00	0.99	0.11
PFMOB	0.00	0.75	0.23	0.22
DOWN	0.00	75.65	36.81	23.19
LFS	9.27	17.80	12.76	1.40
LEV	0.00	0.99	0.41	0.32

From Table 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 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 36.81%, the minimum value of 0% and the maximum value of 75% while the standard deviation show the dispersion of about 23.19%. This indicates that about 36.81% of the Malaysian listed companies are owned by the directors.

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Table 2

	DPR	IND	CEO	PFMOB	DOWN	LFS	LEV
DPR	1						
IND	-.138	1					
CEO	.087	-.228**	1				
PFMOB	.009	-.228**	.115	1			
DOWN	.142	-.282**	.114	.352**	1		
LFS	.263**	-.086	.086	-.038	.024	1	
LEV	-.042	.022	-.126	-.080	-.135	.087	1

From the Pearson correlation Table 2 we can see that there is an insignificant negative correlation between IND and dividend payout ratio with (Corr =-138). For the CEO duality, the results show a positive, but insignificant correlation with the dividend payout (corr = 0.087). Besides that, the results also show that the proportion of family members on the board also has an insignificant positive correlation with the dividend payout ratio (corr = 0.009). On the other hand, the results of this correlation analysis show a significant positive correlation between the dividend payout ratios. There is a positive significant correlation between LFS and dividend payout ratio with (corr = 0.263). On the other hand, LEV has insignificant negative correlation with the dividend (Corr = -0.042).

Among the independent variables, there is a significant negative correlation between IND, CEO, PFMOB and DOWN (corr = -0.228; corr = -.0-.228; corr = 0-.282) respectively. There is also an insignificant negative correlation between IND and LFS with the (corr = -0.086) Therefore, from the Table 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 3: Model Summary

Model	R	R^2	Adj R^2	F	Sig
1	.367[a]	.134	.094	3.350	0.002

a. Predictors: (Constant), LEV, IND, DOWN, PFMOB, CEO,LFS Table 3 shows that the independent variables can influence the dependent variable by the value of R^2 in which they explain about 13.4% of the variance in the dividend payout ratio. The Adjusted R^2 of 9.4% 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 3.35 and the overall model is significant at the 1 % level (prob = 0.002). Therefore, the corporate governance variables under the study (IND, CEO PFMOB,DOWN) are vital in determining the dividend payout ratio and they jointly explain 13.4% change in the firm dividend payout ratio and the remaining 86.6% could be explained by the other variables.

Table 4: Coefficients

	B	Std orrr	t	Sig
(Constant)	-31.37	29.56	-1.06	.290
IND	-15.66	15.69	-1.00	.320
CEO	5.77	18.77	0.31	.759
PFMOB	-6.92	9.79	-0.71	.481
DOWN	0.18	0.10	1.90	.059
LFS	3.73	1.63	2.29	.023
LEV	-3.75	6.45	-0.58	.562

The Table 4 shows that the independent variables under the study (IND, CEO PFMOB, DOWN, INSTWN) are vital in determining the dividend payout ratio and they jointly explain 13.4% change in the firm dividend payout ratio and the remaining 86.6% could be explained by the other variables. However, any addition in the number 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 (-6.92 and -31.37) respectively, But on the other hand, any increase by 1 in the DOWN will lead to an increase in the dividend payout ratio by 0.18. For the firm size any increase by 1 will lead to a significant increase in the dividend payout by about 3.73. In the case of leverage any 1 increase will lead to an equal decrease in the dividend payout ratio by about -3.75 but the result is insignificant.

DISCUSSION

The findings of this study show that the results do not support first, second, third and seventh hypothesis which stated that is there is a relationship between IND, CEO Duality, proportion of family members on the board and leverage with the dividend payout ratio. But the relationship is insignificant and negative between dividend payout ratio and IND, proportion of family members on the board and leverage which is consistent with the study of (Ajanthan, 2013; Mansourinea, 2013; Bolbol, 2012, Shehu, 2015; Subramanian, 2011). While in the case of CEO duality the also show insignificant positive relation which also inconsistent with the study of Yarram, (2010).

Furthermore, the finding of the directors' ownership is also in line with the fourth hypothesis that there is a relationship between directors' ownership and dividend payout ratio. The results show that directors' ownership has a significant positive influence on the firm dividend payout ratio and is consistent with the previous studies (Nor and Sulong 2009; Shehu, 2015) With regard to the control variables there significant 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).

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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, director 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.

The researcher concluded that only director ownerships, independent non-executive director and firm size have significant positive impact in influencing the dividend payout ratio among the Malaysian public listed companies for the year 2013, with the exception of independent non-executive director that has a negative effect. Therefore, the findings of this research are current and will be more generalized. This is because the researcher considers all the Malaysian main market sectors in arriving at the study sample size.

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