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Board Characteristics and Dividend Payout: Evidence from Malaysian Public Listed Companies

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Abstract
The main objective of this paper is to examine the relationships between board characteristics and dividend payout among the Malaysian public listed companies. A sample of 164 Malaysian companies for the year 2013 was selected from the Bursa Malaysia website. This paper examines the relationships between independent non-executive directors,board size, CEO, proportion of family member on board and concentrated ownerships and dividend payout among the Malaysian listed companies. The findings show that concentrated ownership is found to be positive and significant in influencing the dividend payout. But, the independent director is also found to be significant in influencing the dividend payout in negative direction. The finding of this study will be worthy 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 after the implementation of revised Code on Corporate Governance 2012 to make important recommendations for the improvement in the corporate governance practices in Malaysia.
Keywords: Dividend payout, Corporate Governance, Ownership Structure, CEO

1.0 Introduction

The issue of dividend payout has been a debatable topic in the financial management literature. Many researchers have carried 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).

Besides dividend policy, 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 collection 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 policy (Afzal & Sehrish, 2011). 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. 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.

In line with that, several studies have been conducted to examine 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; Subramaniam & 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). Bolbol (2012) using a sample of 50 Malaysian construction companies to determine the impact of board characteristics on dividend payout ratio. The results show the insignificant negative relation between board size, board composition, family link company and firm dividend payout ratio.

Therefore, the main objective of this paper is to re-examine the relationships between board characteristics and dividend payout among the Malaysian public listed companies after the revised Malaysian code corporate governance 2012 (MCCG 2012).

The specific objectives are:

1) To examine the relationship between board composition and firms' dividend payout ratio.
2) To examine the relationship between board size and firms' dividend payout ratio.
3) To examine the relationship between CEO duality and firms' dividend payout ratio.
4) To examine the relationship between the PFMOB and firms' dividend payout ratio.

5) To examine the relationship between concentrated ownerships and firms' dividend payout ratio.

Research Questions

1) Does the board composition relate to firms' dividend payout policy?
2) Does the board size relate to firms' dividend payout policy?
3) Does the CEO duality relate to firms' dividend payout policy?
4) Does the proportion of family members on board relate to firms' dividend payout policy?
5) Does the concentrated ownerships relate to firms' dividend payout policy?

The paper was organized in the following sections: section Two presents for hypotheses development, sample and Regression model. Section three provides a data analysis and findings. Section four provides discussions of the findings. And the last Section provides conclusion of the study.

2.0 Hypotheses Development

Independent Non-executive Directors

An independent non-executive directors are the independent directors who have no connection with the company except for their directorship (Clifford & Evans, 1997). 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.

Board Size

The effectiveness of the board of directors can 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). Then again, in the study by Arshad et al. (2013) and Ajanthan (2012) demonstrates 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.

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.

Proportion of Family Member on the Board

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 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.

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:

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

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.

3.0 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.

Model Specification And Multiple Regressions

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

The following regression equation model is estimated as follows:

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

Where:

DPR = dividend payout ratio

IND = Independent non-executive director

BS= Board size

Duality= CEO duality

PFMOB= Proportion of family members on the board

CONWN = Concentrated ownership

FS = Firm size

EBIT = Profitability

LEV= Leverage

α: Intercept of the model "Constant"

ε: Error term.

4.0 Data Analysis

This segment reports the data analysis and the study findings, which comprises of descriptive statistic, correlation and lastly the regression analysis. The findings of this study relate to the objectives, questions and hypothesis that were developed in the previous section. Descriptive statistics are used to understand the basic characteristics of the data, correlation analysis, and then followed by regression analysis by using the SPSS.

Table 1
Correlations

	DPR	IND	BS	CEO	PFMOB	CONWN	LEBIT	LFS	LEV
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				
CONWN	.208**	-0.02	0.02	-0.02	0.10	1.00			
LEBIT	.243**	-0.03	.199*	0.06	0.06	0.05	1.00		
LFS	.263**	-0.09	.233**	0.09	-0.04	0.00	.573**	1.00	
LEV	-0.04	0.02	-0.03	-0.13	-0.08	-0.06	0.03	0.09	1.00

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

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

From the Pearson correlation Table1 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 an insignificant positive correlation with the dividend payout ratio (corr = 0.01). On the other hand, the results of this correlation analysis show a significant positive correlation between the dividend payout ratio and CONWN (Corr = 0.208). 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 payout ratio (Corr = 0.243). On the other hand, 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 and PFMOB (corr = -0.488; corr = -.0-.228; corr = 0-.228) 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). Therefore, from the Table 4.3 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 2
Coeffecients

	B	Std. Error	t	P-value
(Constant)	-91.24	40.99	-2.23	0.03
IND	-30.94	16.70	-1.85	0.07
BS	-1.20	1.43	-0.84	0.40
CEO	10.61	18.41	0.58	0.57
PFMOB	-7.15	9.21	-0.78	0.44
CONWN	0.34	0.11	2.96	0.00
LEBIT	5.82	3.66	1.59	0.11
LFS	3.33	1.75	1.91	0.06
LEV	-3.61	6.26	-0.58	0.56

a. Dependent Variable: DPR

The Table 2 shows that the independent variables under the study (IND, BS, CEO PFMOB, CONWN) are vital in determining the dividend payout ratio and they jointly explain 15.8% change in the firm dividend payout ratio and the remaining 84.2% 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 (-1.2; -7.15 and -30.94) respectively, except in the case of independent non-executive director which has a significant negative effect on the dividend payout ratio at 5% level of significance. But on the other hand, any increase by 1 in the concentrated ownership will lead to an increase in the dividend payout ratio by (0.34). For the 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 3.33 and 5.82 respectively. In the case of leverage any 1 increase will lead to an equal decrease in the dividend payout ratio by about -3.61 but the result is insignificant.

Discussion

The findings of this study 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); Subramanian (2011). While in the case of CEO duality the also show insignificant positive relation which also inconsistent with the study of Yarram, (2010). Moreover, for the independent non-executive director the results show a significant negative relationship between independent non-executive director and dividend payout ratio and is in the support of the first hypothesis which stated that there is a relationship between independent non-executive director and dividend payout ratio among the Malaysian sample companies. This result is consistent with Abor and Fiador (2013).

Furthermore, the finding of the concentrated ownership is also in line with the fifth 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 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 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).

5.0 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, 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.

The researcher concluded that only concentrated ownership, 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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