LARGE SHAREHOLDERS AND DIVIDEND PAYOUT IN MALAYSIA

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ABSTRACT

The dividend puzzle remains an interesting subject especially in emerging markets where agency problem is severe. This study examines the issues by assessing the large shareholders controlling interest in manager owned firms and corporation owned firms. A sample data of 762 Malaysian public listed firms covering the period from 2008 to 2014 are examined. The results show a statistically significant non-linear relationship between the largest shareholder (LO) and dividend payout for manager owned (MO) firms. MO firms reduce dividend distribution according to assets and revenue when the largest shareholder's controlling stake is low. However, at a higher level of controlling stake, MO firms increase dividend distribution, irrespective of firms share prices, assets and revenues. The study shows that corporation owned (CO) firms do not associate significantly with the dividend payout, but MO firms pursue different types of dividend distribution policies. Lastly, there is a need to improve the role of the second largest shareholder as a governance mechanism.

Keywords: Large shareholder; Dividend policy; Expropriation; Emerging market; Manager owned; Corporation owned; Agency theory

1. INTRODUCTION

Some literature on dividend policies has focused on the issues of agency conflict perspectives. There are possibilities that managers use dividends as the instrument to expropriate shareholder value (e.g., Faccio, Lang and Young, 2001). Generally, the free cash flow hypothesis argues that high payment of dividends could limit the cash available for the firm's managers and subsequently reduce the agency conflict (Jensen, 1986). However, in the countries such as in East Asia, a considerable portion of the corporate wealth are in the hands of few individuals or family members or owned by another corporations- corporation owned or conglomerate firms. In the former scenario, the largest shareholder with voting rights and being part of the management team can take the opportunities to extract benefits at the expense of minority by hoarding the cash instead of distributing the cash as dividends to shareholders. La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) observe that in most Asian countries like Malaysia, the firms are owned by family

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members with the largest shareholder having an active role in the firm's management. Therefore, the monitoring duty has been taken over by the firm's manager instead of using the dividend to reduce the agency conflict. In the latter case, a public listed firm controls another firms to achieve empire building objectives and unrelated business expansion. The structure gives firms opportunities to create "tunneling benefits', whereby paying out dividends are deemed to purposely transferring the financial to another affiliate firms (Claessens, Djankov and Lang, 1999).

Past studies on firms in Malaysia did not touch on the aspects of possible expropriation by the largest shareholder through dividend payouts. For example, Isa (1992) and Kester and Isa (1996) found that firms in Malaysia tend to follow a steady dividend policy, as dividends pay-out ratio moves consistently with price over earnings ratio. Annuar and Shamsher (1993), Gupta and Lok (1995) and Pandey (2003) in their studies of firms listed on Bursa Malaysia found that the dividends payout of the firms are positively related to the firm's earnings. Tam and Tan (2007) found that Malaysian firms illustrate a high ownership concentration structure. Generally, firms in Malaysia will pay a higher dividend as the large shareholder's controlling interest in the firms increase (Ramli, 2010; Benjamin, Wasiuzzaman, Mokhtarinia and Nejad, 2015). In a study on the factors that determine ownership structure in Malaysia, conglomerate firms are found to pay out more dividends than family-owned firms for sample firms in 1996, a year before East Asian Financial crisis (Chu and Cheah, 2006). Benjamin, Zain and Wahab (2015) in their study found that politically connected firms will prefer to pay a lower dividend while corporation owned (CO) firms will demonstrate higher dividend payouts.

Despite the above empirical work on Malaysia firms, dividends payout is deemed to benefit controlling owners more than minority shareholders in emerging economies and it changes according to business cycles. Comparing to Chu and Cheah (2006) and Ramli (2010), the study takes a step further by looking at the issues of the largest and second shareholders towards dividend policies in management owned (*MO*) and corporation owned (*CO*) firms. The differences between MO and CO firms illustrate different agency costs and different objectives of firms. With the improvement of corporate governance in the country, dividend policies in family-owned firms and corporation owned firms may change due to different time-span. Therefore, a study on the second largest shareholders on the different type of ownership structure and the different sample period is essential.

This research aims to investigate the influence of the largest shareholder towards dividend payments in the Malaysian context. In particular, the study focuses on the discretion of the largest shareholder in management owned (MO) firms and corporation owned (CO) firms to pay out dividends. Four types of dividend measurement- dividend pay-out, dividend yield, dividend payout relative to total assets, and dividend payout relative to sales are used to examine the issues. The sample covers 762 firms from 2008 to 2014. The paper is structured as follows: Section 2 provides a review of the prior literature and hypotheses development for the study. Section 3 discusses the data, the methodology and variables used in this study. Section 4 presents the results and the discussion of the analysis. Lastly, Section 5 contained a summary of the findings and ended with a conclusion.

2. LITERATURE REVIEW AND HYPOTHESES

Although dividend is the residual income, which is to be distributed to shareholders for the objective of maximization of shareholder value, many firms have failed to pay out the dividend for the above objective. Instead, this "free cash flow," if not used for future growth and expansion, may be utilized in inefficient investments, particularly upon preferred diversification and R&D (Jensen, 1986). Agency cost is particularly relevant in explaining the level of dividend payout. Agency conflicts occur when there is a separation of ownership and control or divergence of interests between the firm's managers and the external shareholders (Jensen and Meckling, 1976). The underlying assumption is that managers, who are controlling the firm, may not act in line with maximizing the shareholders' wealth. When the retained earnings are high, managers may channel the extra funds into projects that do not increase the shareholders' wealth. Hence, in a firm which has a higher agency cost, such as family and conglomerate firms, where information asymmetry is relatively high, firms are also capable of expropriating wealth through special dividends (Anderson and Reed, 2003). Similarly, Mensa, Michaely and Schmalz (2014) also concluded that among all the reasons like taxes and asymmetric information, the dividend payout was found to be most affected by the agency conflict.

2.1. Large Shareholder

The literature on market-based system argues that firms controlled by large shareholders value less and do not pay dividends (Thomsen, Pedersen and Kvist, 2006). The market-based system suggests the presence of the large shareholder to monitor management in firms and ensure maximization of shareholders' value (Claessens, Djankov and Lang, 2000). The largest shareholder can coordinate some board governance mechanisms (Grinstein and Michaely, 2005). However, the issues of agency cost are significant in a society where type II agency conflicts prevail, where the conflict is between large shareholders and minority shareholders and expropriation of shareholder value is prevalent.

Generally, the literature hypothesizes that a large shareholder who controls the firm has a higher monitoring ability. The dividend arguably provides a partial remedy and could act as a substitute of the monitoring device in firms where agency cost is severe (Rozeff, 1982). Empirically, the propensity to pay dividends is higher in the less concentrated structure and shareholders' value in well protected countries such as USA, Canada, UK, Germany, France and Japan (Denis and Osobov, 2008). In contrast, a firm with a large shareholder tends to pay fewer dividends and lead to expropriation of resources. All else equals, we propose that:-

Hypothesis 1:- there is a positive relationship between the largest shareholder and dividends payout.

Studies on other large shareholder suggest that the second largest shareholder will exert pressure on the firm to disgorge cash in situations where the minority shareholders are very likely to be exploited by the largest shareholder. The second largest shareholders, therefore, work as a monitoring system on the largest shareholder (Bolton and von Thadden 2002; Pagano and Roell 1998). Some empirical works show that large shareholder may collude with the other shareholders to expropriate firms' value (Faccio et al., 2001; Pagano and Roell, 1998). Maury and Pajuste's (2002) showed that dividend payout is negatively related to the second largest shareholder in

Finland while Gugler and Yurtoglu (2003) found a positive relationship between the second largest shareholder and dividend payout in Germany. Similarly, La Porta et al. (2000) in a worldwide survey, found that lower dividend rates are observed in their study on the dividend payout together with the largest and the second largest shareholder, which suggest a collusion to misappropriate shareholders' value,. Therefore, given the significant role of the second largest shareholder in improving shareholder value, we propose that

Hypothesis 2:- there is a positive relationship between the second largest shareholder and dividend payout.

2.2.   Management Owned Firms

In contrast to market-based system firms, firms in East Asia usually are family owned, where the largest shareholder, usually the founder and entrepreneur of the company is managing the company. Therefore, the largest shareholder in the management owned firms (Insiders) can influence financial policies (Gugler and Yurtoglu, 2003). Besides, the insider could extract resources for personal use or invest in unprofitable projects that provide benefits to them (Grossman and Hart, 1988; Gomes, 2000). The firm managers, being the largest shareholders may choose to pursue their interests at the expense of other small shareholders. Hence, large shareholders may incline to decrease the dividend pay-out, so that they can use the residual income for other inefficient purposes.

The payment of dividend can reduce the agency conflicts in the firms (Bohren, Josefsen and Steen, 2012). Consequently, external shareholders are inclined to choose dividends pay-out firms rather than cash-rich firms. The failure to utilize free cash flow is viewed as the diversion of cash by insiders of the firm. In the nine Eurozone countries, a higher dividend and stable dividends pay-out could reduce the negative perception of expropriation in management owned firms (Pindado, Requejo and de la Torre, 2012).

Despite the above, following the argument of alignment of interest and entrenchment effects (Jensen and Meckling, 1976), the objective of maximization of shareholders value will follow a non-linear term, which a priori is uncertain because of the institutional differences. Gugler and Yurtoglu (2003) found an inverted U-shaped relationship between the voting rights of the largest shareholder and dividends pay-out in a sample of German firms which proves that as the shareholding percentage of the largest shareholder increases, the dividend payout will increase due to the effective monitoring. The largest shareholder is viewed as having a strong incentive to monitor and increase the governance mechanisms to improve their effectiveness in monitoring (Grinstein and Michaely, 2005). A recent study also confirms that managers in weakly governed firms are inclined to meet outside large shareholders' needs on dividend payout (Ngo, Duong, Nguyen and Nguyen, in press).   In a study where legal protection of minority shareholder is prevalent, Aoki (2014) found that manager owned firms follow an inverted U-shaped relationship with dividend distribution.

Miles (2009) argued that family run business in Asian markets such as Malaysia faces the challenge to have good corporate governance practices as the family-owned business would object to any transparency and accountability. The business founder dominates the overall business practice

typically and makes all the major decisions. In the view of the alignment of interest effects and entrenchment effects, which a priori uncertain, we propose that:-

Hypothesis 3:- there is a non-linear relationship between the largest shareholder and dividend payout in manager owned firms.

2.3. Corporation Owned (CO) Firms

Corporation owned firms or conglomerate firms is a type of structure where another public listed firm controls a public listed firm. The structure illustrates a complex system where the firm objectives diverted from initially founder or entrepreneur objective (Chu and Cheah, 2006). Under this corporation owned structure, firms' objectives are to achieve empire building and economic growth. The corporation owned firms in East Asia are generally attempt to perform "tunnelling activities " which transfer firms resources from one firm to another firm via the cross-holding and pyramid structure which allow them to be in control via minimum corporate control structure (Morck and Yeung, 2003; Claessebs, Djankov et al., 1999). Therefore, as compared to manager owned firms, the purpose of paying dividend benefits the ultimate control owner rather than minority shareholders. In Malaysia, Chu and Cheah (2006) showed that conglomerate firms tend to pay a higher dividend which may benefit the ultimate owner prior to East Asian financial crisis.

In the advanced states, Allen and Michaely (2001) found that there is a higher dividend payout if the largest shareholder is a financial institution. Similarly, Barclay, Holderness and Sheehan (2009) found that large shareholders who are financial firms tend to give out higher dividend compared to non-financial firms. Short, Zhang and Keasey. (2002) found that institutions who are the largest shareholder have a preference for cash dividends over retained earnings. Hence, the hypothesis for this study is as follows:

Hypothesis 4:- there is a positive relationship between the largest shareholder and dividend payout in corporation owned firms.

3. METHODOLOGY

To examine the hypotheses in the study, two equations are set, with four different definitions of dependent variables. The issues of agency conflict are presented by the largest and second largest shareholders and dummy for manager-owned vis-à-vis corporation-owned firms. The equation is as follow:-

$$Div_{i,t} = \beta_0 + \beta_1 LO_{i,t-1_{i,t}} + \beta_2 LO2_{i,t-1} + \beta_3 MO + \beta_4 MO_{i,t-1} + \beta_5 Lev_{i,t} + \beta_6 ROA_{i,t} + \beta_7 TobinQ_{i,t} + \beta_8 Size_{i,t} + \beta_9 Age_{i,t} + \beta_{10} Cash_{i,t} + \epsilon_{i,t} \quad \text{----EQUATION 1}$$

where DIV is defined as dividend payout firms (*DIVD*), dividend yield (*DIVY*), dividend over assets (*DIVA*) and Dividend over sales (*DIVS*), respectively.
Logit (*DIVD*) = log [p/1-p] for the dependent variable *DIVD*---- Model 1 (Logit model) .
If *DIVY, DIVA and DIVS*, respectively > 0, otherwise 0. -----Model 2, 3 and 4 (Tobit Model).

The dependent variable uses the dividend dummy (*DIVD*), which takes the value of 1 if the firm pays dividends and 0, otherwise. The logit model will be applied to the first model. The second measurement is the dividend yield (*DIVY*), which measures total return as compared to share price. The measurement is defined as the ratio of dividends to the market capitalization (*DIVY*) of the firm. Dividend yield measures the return of dividend relative to share price. The ratio of dividends to the assets or the book value (BV) of its assets (*DIVA*) is the third measurement. *DIVA* reflects whether a firm uses fixed dividend policy relative to assets to ensure shareholders' value are protected. Lastly, the study applied the ratio of dividend to sales (*DIVS*), which reflects shareholders could earn the dividend from firms' operation. These three measurements will be examined using the Tobit model. By using the Tobit regression model, all negative dividend payout ratios are censored and zeroed instead of excluding it from the sample firms.

Prior studies also consider the non-linear relationship between ownership and dividends Truong and Heaney, 2007; Aoki, 2014). In order to address non-linear controlling stake, the study applied a piecewise linear regression. The model is performed separately on manager owned and corporation owned firms, respectively. The dummy variable for manager owned is set as 1 as compared to corporation owned firms, 0.

$$Div_{i,t} = \beta_0 + \beta_1 DLO_{i,t} + \beta_3 DLO2_{i,t} + \beta_4 Lev_{i,t} + \beta_5 ROA_{i,t} + \beta_6 TobinQ_{i,t} + \beta_7 Size_{i,t} + \beta_8 Age_{i,t} + \beta_9 Cash_{i,t} + \epsilon_{i,t}$$ ---------- EQUATION 2

$\left(\begin{matrix} LO \\ LO2 \end{matrix} \middle| \begin{cases} DLO > square\ of\ LO,\ 0\ if\ < square\ of\ LO \\ DLO2 > square\ of\ LO2, 0\ if\ < square\ of\ LO2 \end{cases} \right)$ —Model 5. The independent variables of largest shareholder (DLO) and second largest shareholder (*DLO2*) are set to be at the point of non-linear beyond the largest shareholders' point by squaring *LO* and second largest shareholder's controlling stake, respectively.

$\left(DIV \left\{ DIV \middle| \begin{matrix} MC \\ CO \end{matrix} \right\} \right)$ ----Model 6. Lastly, the study also compares the difference in scenarios of agency cost on dividend policy pay-out, between managers owned and corporation owned firms, The other independent variable definitions are as follows:-

LO   = The largest shareholder ownership. This is defined as the percentage of shares that are owned directly by the largest shareholder.
LO2 = The second largest shareholder ownership in the firm
MO   = The manager owned dummy. It will take the value of 1 for firm manager owned and 0 for corporation owned.
Lev = Leverage (Ratio of the firm's total interest-bearing debt to the total assets)
ROA = Profitability (Ratio of a firm's earnings before interest to its total assets)
TobinQ = Investment Opportunities (Ratio of market value of equity divided by the firm's total assets)
Size = Firm Size (The natural logarithm of the book value of the firm's total assets)
Age = Firm Age (The natural logarithm of the number of years the firm has been established)
Cash = Firm Cash (Ratio of cash and equivalents to the firm's total assets)
μ   = Error term which represent the unexplained variations in the model.

The other financial variables are selected based on standard theories related to dividend policies. The signaling theory indicates that when a higher dividend is declared, it implies that firms are performing well; therefore there is a positive relationship of return on assets (ROA) and availability of cash in the companies. On the similar notes, there is less debt and interest to be served by firms, and thus a negative relationship between leverage and dividend. A big size firm is expected to pay a higher dividend, in view that shareholders have invested more capital in the firm. The age and Tobin's Q variable measures life cycle theory, as an older firm is expected to increase dividend distribution, while a higher Tobin's Q value will have a negative relationship as less dividend will be distributed because of the needs in the company for future growth.

This study is to measure the effects of the largest shareholder on the dividend policy in Malaysian context. A total 762 firm listed on Bursa Malaysia Main Market from 2008 to 2014 are included in the study (Table 1). Firms from financial institutions category are excluded due to their specific operations. This study then categorizes the largest shareholder into two groups, manager owned (MO) firm and corporation owned (CO) firms. MO firms are firms whereby the largest shareholder is an individual and CO firms are firms whereby the largest shareholder is another corporation or also known as an outsider. From the MO firms list, this study has eliminated firms where the largest shareholder (LO) is not an internal firm manager. The shareholders are considered as an internal firm manager when they are closely related to the firm. This includes employees, managers, directors or family member.

Table 1: Sample Composition

No of Firms Listed on the Main Market as of 2014	814
Less No of Firms Classified under Financial Category	44
Less No of Firms with missing information	4
Less No of Firms that does not meet the 5% requirement	4
Firms available for this study	762
No of Firm Observations available for 7 years period (2008-2014)	5334

As for the CO firms, they are selected based on the largest shareholder (LO) being another corporation. This study is left with 5334 firm observations for both the manager owned (MO) and corporation owned (CO) firms. With this, the study covered 93.6 percent of the total firms listed on the Bursa Malaysia as of 2014. The study collects financial data from Datastream database on Malaysia's public listed firms' financial data. The second type of data is the firms' ownership data. The largest shareholder (LO), the second largest shareholder (LO2) and the manager own are collected from the annual reports published by the firms. For this study, largest shareholder is defined as shareholders who own at least 5% of the total shares, either directly or indirectly in the firm.

4. FINDINGS

Table 2 reports the dividend per share of the sample firms. Majority of the dividend-paying firms in Malaysia are from manager-owned firms. Corporation owned (CO) firms give out dividends in order to instill good corporate governance in the firm whereby high payment of dividends could reduce the amount of free cash available for managers. When the earnings are being given out to

the shareholders as dividends, firms will need to seek help from the capital markets in the future if the firm needs financial assistance to implement a project. As for manager owned (*MO*) firms, the payment of dividends not only help to achieve good corporate governance but also can reduce the conflict between the largest shareholder and the second largest shareholder (*LO2*).

Table 2: Dividend Per Share Pay-out of Malaysian listed Firms, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Average	0.045	0.042	0.04	0.049	0.054	0.054	0.055
Median	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Minimum	0	0	0	0	0	0	0
Maximum	2.63	1.89	2.36	2.47	2.56	2.78	2.99
Std Dev	0.131	0.111	0.12	0.134	0.147	0.155	0.165
No of MO Firms	252	238	241	265	244	246	242
No of CO Firms	163	168	175	166	165	154	152

The sample is classified into manager-owned (MO) firms, whose largest shareholder is an internal firm manager and corporation-owned (CO) firms, whose largest shareholder is another corporation.

From the table above, the dividend per share pay-out of Malaysian listed companies from 2008 to 2014 has an average pay-out of RM0.045 in the year 2008 and increase up to RM0.055 in the year 2014. There were two occasions whereby the average dividend payout was lesser which happened during the year 2009 to 2010. The decline in dividend payout during these two years was due to the financial crisis that originated from the U.S. Generally, Malaysian firms do not pay the significant amount of dividends and do not tend to increase the dividend payout enormously during good times. The low standard deviations for dividend per share during different time varying conditions further confirm this.

Table 3: Descriptive Statistics

	Mean	Median	Min	Max	Std. Dev	Obs.
DIVD	0.463	1	0	1	0.141	5334
DIVY	0.023	0.01	0	0.487	3.016	5334
DIVA	0.02	0.005	0	0.903	0.048	5334
DIVS	0.033	0.007	0	0.233	0.093	5334
MO	0.637	1	0	1	0.481	5334
LO	0.282	0.286	0.05	0.955	0.225	5334
LEV	0.192	0.162	0	2.592	0.209	5334
ROA	0.041	0.039	-5.551	0.978	0.14	5334
TobinQ	0.429	0.43	0.2	4.31	2.464	5334
SIZE	5.242	5.48	2.05	8.044	1.304	5334
CASH	0.138	0.091	0.008	1	0.135	5334

DIVD, a dummy variable that takes the value 1 if a firm pays dividends and 0 otherwise; *DIVY*, the ratio of dividends to market capitalization; *DIVA*, dividends divided by total assets; *DIVS*, dividends divided by sales; *MO*, a dummy variable that takes the value 1 if the largest shareholder is a firm manager and 0 otherwise; *LO*, the percentage of shares that are held directly by the largest shareholder; *LO2*, the percentage of shares that are held directly by the second largest shareholder (LO2)*; LEV*, the ratio of total interest-bearing debt to total assets; ROA, the ratio of net income to total assets;

TobinQ, the total amount of total debt and market capitalization divided by total assets; *SIZE*, the natural logarithm of total assets; *AGE*, the natural logarithm of the number of years since the firm's founding; and *CASH*, the ratio of cash and equivalents to total assets

Table 3 provides the descriptive statistics for this study. The mean value of *DIVD* is 0.463 implies that 46% of the sampled firms pay out the dividends to the shareholders, an increased figure as compared to Ramli's (2010) of 29 percent of the Malaysian public listed firms from the year 2002 to 2006. Dividend yield (*DIVY)*, which comparing dividends to the stock price, has the mean value of 0.023, implying that shareholders are get an average of 2.3 cents as dividends for every one ringgit invested in the shares. The dividend over assets (*DIVA)* shows an average value of 0.02 cents of return for each ringgit of assets available in the firm. Moreover, sales generated in firms are able to contribute to 3.3% of dividends to shareholders, a figure which is closed to the findings in Truong & Heaney (2007) for Malaysian firms.

On average, 63.7 percent of firms are manager owned (*MO*) as the owners are sitting as the board member and manage the company. The large shareholder has the median value of 28.6%, with the maximum value more than 75% due to indirect controlling interest in firms. The sample in this study has an average firm's leverage level ratio of 0.192 of debt over assets. A higher firm's leverage level ratio means that the firm will need to divert a higher amount of their profits for debt payments instead of giving it out as dividends. The average value of profitability of the firm, *ROA* is 0.041. Malaysia firms show a low value of future growth (Tobin's Q) at 0.429, indicating that Malaysia firms may not use the retain profit for future investments. Similarly, the cash over assets is low at 0.138. The low cash corresponding to low dividend pay-put in Malaysia firms during the sample period.

Table 4 (Correlation coefficients) shows that firms with large shareholders are likely to payout higher dividend. A correlation of 0.14 and 0.12 of the dividend over assets and sales, respectively show that largest shareholders are paying out a dividend of 14% and 12% from companies' assets and sales, respectively. The significant positive relationship of 0.09 between dividend yield shows that shareholders earn a 9 percent return from dividend as compared to share prices. The significant dividend yield may indicate the large shareholder declare a cash dividend for their private benefits, because of their significant controlling stake. Interestingly, firms with manager owned are found to have the consistent significant negative relationship with *DIVD, DIVY, DIVA and DIVS*.

Given that the correlation between the *MO*, the dummy variable for firms owned by the firm's manager, and dividend payout is negative, this study can conclude that firms which are held by managers tend to pay out a lower dividend. The scenario happens when the largest shareholder has the intention to exploit the wealth of other shareholders by hoarding the cash for expropriation. The largest shareholder, being an internal firm manager is seen as tending to reserve the cash for future investment, as shown by the negative relationship between *MO* and cash, but positive relationship between *MO* and Tobin's Q value.

Table 4: Correlation Coefficients

	SIZE	Q	MO	LO2	LO	LEV	ITA	CASH	AGE	DIVS	DIVA	DIVY	DIVD
DIVD	0.41 (0.00)	-0.16 (0.00)	-0.09 (0.00)	0.05 (0.01)	0.17 (0.00)	-0.14 (0.00)	0.37 (0.00)	0.21 (0.00)	0.08 (0.00)	0.29 (0.00)	0.28 (0.00)	0.66 (0.00)	1
DIVY	0.13 (0.00)	-0.08 (0.00)	-0.08 (0.00)	0.02 (0.3)	0.09 (0.00)	-0.17 (0.00)	0.28 (0.00)	0.23 (0.00)	0.01 (0.55)	0.3 (0.00)	0.29 (0.00)	1	
DIVA	0.15 (0.00)	-0.06 (0.00)	-0.17 (0.00)	-0.06 (0.00)	0.14 (0.00)	-0.11 (0.00)	0.6 (0.00)	0.28	0.08 (0.00)	0.58 (0.00)	1		
DIVS	0.25 (0.00)	-0.08 (0.00)	-0.13 (0.00)	-0.02 (0.28)	0.12 (0.00)	-0.15 (0.00)	0.3 (0.00)	0.26 (0.00)	0.09 (0.00)	1			
AGE	0.22 (0.00)	-0.03 (0.13)	-0.02 (0.32)	-0.01 (0.92)	0.16 (0.00)	-0.05 (0.01)	0.04 (0.06)	0.03 (0.16)	1				
CASH	0.04 (0.06)	-0.1 (0.00)	-0.14 (0.00)	0.03 (0.2)	0.03 (0.14)	-0.3 (0.00)	0.25 (0.00)	1					
ITA	0.24 (0.00)	-0.14 (0.00)	-0.12 (0.00)	-0.01 (0.66)	0.17 (0.00)	-0.08 (0.00)	1						
LEV	0.15 (0.00)	0.04 (0.06)	0.02 (0.27)	-0.03 (0.15)	-0.07 (0.00)	1							
LO	0.23 (0.00)	-0.02 (0.21)	-0.17 (0.00)	0.1 (0.00)	1								
LO2	0.03 (0.11)	-0.03 (0.12)	0.06 (0.00)	1									
MO	-0.13 (0.00)	0.07 (0.00)	1										
Q	-0.27 (0.00)	1											

Pearson correlation coefficients are shown below the diagonal whilst the P-values are shown in parentheses. .DIVD, 1 if a firm pays dividends and 0 otherwise; DIVY, dividends to market capitalization; DIVA, dividends to total assets; DIVS, dividends÷ divided by sales; MO, a dummy of 1 if the largest shareholder is a firm manager and 0 otherwise; LO, the percentage of shares by the largest shareholder; LO2, the percentage of shares by the second largest shareholder; LEV, total interest-bearing debt to total assets; ROA, ratio of net income to total assets; Q- Tobin Q, total debt and market capitalization divided by total assets; SIZE, logarithm of total assets; AGE, the natural logarithm of the number of years since the firm's founding; and CASH, the ratio of cash and equivalents to total assets.

Ramli (2010) found that the presence of a second large shareholder will act as a corporate governance mechanism that constrains the power of the largest shareholder to expropriate wealth

from the minority shareholders. However, with the exception of dividend over assets (*DIVA*), which show a negative significant correlation, apparently, the second largest shareholder (*LO2*) is not able to exert a significant monitoring effect on dividend pay-out. The positive *DIVD* and *DIVY* suggest that the characteristics of second largest shareholder and dividends is unclear whereas previous studies have shown that a coalition of large shareholders has the preference and the ability not to pay out an equal distribution of the firm's profits to all their shareholders. The largest and the second largest shareholder (*LO2*) would rather choose to pay themselves in the form of private benefits (Maury and Pajuste, 2002).

The financial data showed a negative relationship between total interest-bearing debt to total assets (*LEV*) and Tobin's Q. The relationship is consistent with the literature that higher leverage incurs higher interest and therefore reduces dividend payout, while higher growth firms are not likely to pay out dividends. Similarly, there is a positive relationship between dividend payout and *CASH* which is a measure of a firm's ability to pay dividends. Firms are very likely to increase the dividend payouts when the free cash flows in the firm have increased. Other expected correlations are *ROA,* which is consistent with Fama and French (2001) and Truong and Heaney (2007) studies. Logically, profitable firms would pay out more dividends since dividends are actually originated from the profits that the firm has made. Lastly, the correlation result shows that *SIZE* and *AGE* were seen to have a positive correlation with the dividend payout, a finding consistent with Al-Malkawi's (2008) that these two variables are the main factors influencing Jordanian firms' dividend policy.

4.1.   *Large Shareholders and Dividends Payout*

In table 5, there is a tendency of the largest shareholder to pay out dividend, as shown in *DIVD* and *DIVA*, which implies that largest shareholder, could engage in fixed dividend policy which relatively compared to firms' asset rather than based on firms' yearly sales which is insignificant in the finding. Therefore, we find the direct support for hypothesis 1 (*H1*) that:- *There is a positive relationship between the largest shareholder and dividends pay-out.* The finding is more relevant for the fixed payout policy, rather than dependent on share price (*DIVY*) and sales performance (*DIVS*).

The sign of the estimated coefficients on *LO2* is positive for the entire dividend variable but statistically insignificant, implies the role of the second large shareholder is very minimum in exerting governance in firms. Hence, there is no evidence of the second hypothesis (*H2*) being supported.

Apparently, *MO* firms where the largest shareholders who are also an executive board member have a significant negative relationship on *DIVA* and *DIVS*, when comparing to CO firms. There are no significant influences by MO firms as compared to CO firms on *DIVD* and *DIVY*. The findings suggest that at the lower stage of controlling of MO firms, there is a reduction in dividend payout relative to the assets, and the dividend payout do not conform to the firms' sales. To address hypothesis 3, a further analysis is performed in table 6 to confirm the findings by dividing into MO and CO firms, and under conditions of the non-linear term.

The relationships of financial data are consistent with the literature. In Table 5, the variable *CASH* and *ROA* are positive and statistically significant on *DIVD, DIVY, DIVA* and *DIVS*, confirming the

signaling theory in the literature. Similarly, leverage (*LEV*) has a negative sign and *SIZE* has a positive estimated coefficient. The prospect of future growth (TobinQ) is statistically insignificant whilst the estimated coefficients on *AGE* are not having the same sign and the statistical significant varied, which do not conform to life cycle theory. The result shows that firms with good future investment opportunities do not necessarily cause a lower dividend payout nor cause a higher dividend payout.

Table 5: Largest Shareholder (LO) and Dividends

	DIVD	DIVY	DIVA	DIVS
C	-9.1503***	-0.0793***	-0.1567***	-0.3264***
LO	0.0058*	0.0001	0.0001*	0.0001
LO2	0.0068	0.0001	0.0001	0.0001
MO	-0.0149	0.0011	-0.0030*	-0.0006*
AGE	-0.2038	-0.0093**	0.0096*	-0.0054
CASH	1.3753***	0.0474***	0.0666***	0.1259***
ROA	12.0493***	0.1413***	0.5199***	0.3399***
LEV	-2.6411***	-0.0537***	-0.0447***	-0.1147***
TobinQ	-0.0102	-0.0005	0	-0.0004
SIZE	1.6803***	0.0173***	0.0204***	0.0560***
R^2/ AIC	0.276	-1.5039	-1.5914	-0.9106
LR	992.43	1996.90	2112.48	1213.54

DIVD, a dummy value 1 if a firm pays dividends and 0 otherwise; *DIVY*, dividends to market capitalization; *DIVA*, dividends divided by total assets; *DIVS*, dividends divided by sales; *MO*, a dummy of 1 if the largest shareholder is a firm manager and 0 otherwise; *LO*, the percentage of shares held directly by the largest shareholder; *LO2*, the percentage of shares directly by the second largest shareholder (LO2)*; LEV*, total interest-bearing debt to total assets; ROA, net income to total assets; Tobin's Q, total debt and market capitalization divided by total assets; *SIZE*, the logarithm of total assets; *AGE*, the logarithm of the number of years; and *CASH*, cash and equivalents to total assets. Lagged values are used for MO, LO, LO2 and LEV to adjust for endogeneity. ***Significant at 0.01 level, **Significant at 0.05 level, *Significant at 0.1 level, follow Z statistics. McFaddeb R-Square and LR Statistics Reported in DIVD model. Log likelihood (LR) reported in DIVY, DIVA and DIVS models. AIC reported for DIVY, DIVA and DIVS models.

4.2. *Manager Owned and Corporation Owned firms*

The finding in table 5 although shows the general findings that the largest shareholder tend to associate with higher dividend payout and fixed dividend payout policies in relative to total assets. Moreover, management owned firms are negatively associated with *DIVA* and *DIVS*. But the studies have not considered the scenarios of non-linear impacts of the largest shareholder. The findings are preliminary because there is a non-linear relationship between controlling interest in manager owned firms and the dividend policy.

Following the model 5 in EQUATION (2), the study applied piecewise linear regression after squaring the percentage of ownership of the largest shareholder (LO) and the second largest shareholder (LO2) and regress on the dependent variable. The regressions are regressed on manager owned and corporation owned, respectively. Table 6 reports the findings.

At the higher level of ownership, the square of LO (*DLO*), corporation owned (*CO*) firms do not contribute to the dividend distribution. It is the manager owned firms that consistently contribute

to dividend distribution through *DIVD, DIVY, DIVA* and *DIVS*. Considering the findings in Table 5, the non-linear relationship of MO firms could be found for the dividend payout via DIVA and DIVS. Therefore, the largest shareholder tends to pay less dividend when their controlling stake is low but will be paying more when their controlling stake is increasing, especially relatively comparing to firms assets and sales.

Therefore, we find support for hypothesis 3, *there is a non-linear relationship between the largest shareholder and dividend payout in manager owned firm*. In addition, the findings also show that at the higher degree of control by the largest shareholder, MO firms will distribute dividends, aligning with the value of share price, which will enhance shareholder value.

Table 6: Non-linear Relationship- Largest Shareholder and Dividends

	DIVD		DIVY		DIVA		DIVS	
	MO	CO	MO	CO	MO	CO	MO	CO
C	-11.12***	-10.18***	-0.12***	-0.08***	-0.13***	-0.22***	-0.36***	-0.39**
DLO	0.127**	0.072	0.004**	-0.001	0.004***	0.001	0.034*	0.032
DLO2	0.047	0.005	-0.001	0.002	-0.002**	0.003*	-0.003	0.004
AGE	-0.404	0.415	-0.015**	0.004	-0.005	0.03***	-0.003	-0.002
CASH	1.89***	0.524***	0.058***	0.032***	0.049***	0.08***	0.09***	0.16**
ROA	11.19***	13.42***	0.199***	0.112***	0.191**	0.66***	0.265***	0.36**
LEV	-3.04***	-1.99***	-0.07***	-0.031***	-0.06***	-0.03***	-0.17***	-0.06**
Q	-0.013	-0.009	-0.001	-0.002**	-0.001	0.001	-0.001	-0.001
SIZE	1.67***	1.66***	0.019***	0.015***	0.015**	0.022**	0.056***	0.06**
R^2/ AIC	0.26	0.31	-1.43	-1.65	-1.89	-1.62	-0.93	-0.91
LR	575.26	412.94	1180.89	843.57	1557.70	830.38	770.28	471.43

DIVD, a dummy value 1 if a firm pays dividends and 0 otherwise; *DIVY*, the ratio of dividends to market capitalization; *DIVA*, dividends divided by total assets; *DIVS*, dividends divided by sales; *MO*, manager owned firms; CO corporation owned firms; *LEV*, the ratio of total interest-bearing debt to total assets; ROA, the ratio of net income to total assets; Q-TobinQ, total debt and market capitalization divided by total assets; *SIZE*, the natural logarithm of total assets; *AGE*, the natural logarithm of the number of years since the firm's founding; and *CASH*, the ratio of cash and equivalents to total assets. ***Significant at 0.01 level, **Significant at 0.05 level, *Significant at 0.1 level, follow Z statistics. McFaddeb R-Square and LR Statistics Reported in DIVD model. Log likelihood (LR) reported in DIVY, DIVA and DIVS models. AIC reported for DIVY, DIVA and DIVS models. The independent variables of largest shareholder (DLO) and second largest shareholder (DLO2) are set to be at the point of non-linear beyond the largest shareholders' point by squaring LO and second largest shareholder's controlling stake, respectively.

From the table 6, the study could not find significant findings that the largest shareholder in corporation owned (*CO*) firms will be able to exert the influence on dividend distribution as suggested in hypothesis 4. A study which is in contrast to Chu and Cheah (2006), whereby the dividend distribution on corporation owned firms was far higher than manager owned firms in 1996. The insignificant dividend distribution in corporation owned (CO) firms illustrates different objectives of CO firms during different time-varying conditions.

The role of the second largest shareholder at the higher control level is insignificant for both MO and CO firms. In the manager owned firms, future growth (TobinQ) are statistically insignificant for all the dependent variables. With the exception of *DIVY* in CO firms, which show a negative sign, and conform to the argument that firms will pay less dividends when there is an opportunity for future growth. The effects of *AGE* are found to negatively influence DIVY in MO firms but positively influence the CO firms. The findings illustrate the difference in the objectives of both structures. *SIZE* is statistically significant for all the dependent variables similar to the results shown in Table 6. The estimated coefficients on *CASH* and *ROA* are positive and statistically significant for both type of largest shareholders whilst the estimated coefficients on *LEV* remains negative to the dividend payout for both MO firms and CO firms, consistent with the signaling theory.

5.   CONCLUSIONS

Generally, the largest shareholders are inclined to follow firms with fixed dividends distribution which is corresponding to firms' assets. This finding conforms to Grinstein and Michaely (2005) that the largest shareholder can exert a form of governance and ensure maximization of shareholders' value. The study, however, does not find significant evidence of the role of the second largest shareholder in improving dividends distribution. The roles of the largest shareholders in management owned firms, however, follow a non-linear term, where at their lower controlling stake, they tend to reduce the distribution of dividends relative to firms' total assets and sales, which illustrates the tendency of keeping free cash in firms. However, as their controlling stake increases, manager owned firms increase the dividend payments irrespective of firms' share price, total assets and total revenue. The study does not find the association between dividends distribution and corporation owned firms for the sample period from 2008 to 2014 which is in sharp contrast with the findings that Malaysia corporation owned firms declared higher dividend before the East Asia financial crisis (Chu and Cheah, 2006). The insignificant of dividend payout in the corporation owned firms suggest that less 'tunneling" during the sample period as compared to 1996. Nonetheless, the findings suggest the improvement in corporate governance in Malaysia where management owned firms paying a higher dividend, while corporation owned firms have not payout significantly which will benefit their affiliate firms.

Moreover, the studies show firms in Malaysia conform to theories in dividends distribution. Firms pay out more dividends when *CASH* and *ROA* are higher, and lower dividends when there is higher leverage. These signals to the market that firms are managed to align with the resources available and able to maximize shareholders' value. Generally, a bigger size firm in Malaysia will give a higher dividend which illustrates the commitment to the shareholders' value as a larger size firm requires higher capital investment from shareholders. On the product life cycle theory, corporation

owned (*CO*) firms obtain higher dividends as firms grow older as compared to manager owned firms which dividends are declining.

In summary, the findings indicate the role of agency conflicts in influencing dividends distribution. The study concludes that MO firms pursue different types of dividend distribution policies, irrespective of share prices, total assets and total revenue when the large shareholder controlling stake is significant. We find no significant evidence that large shareholders influence *CO* firms in the distribution of dividends. Nonetheless, the roles of alignment of interest and entrenchment effects prevail at the discretion of dividends distribution. The role of the second largest shareholder in governance should be enhanced to reduce entrenchment effects in firms.

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