The influences of company’s size and past year’s dividend information to the public listed companies in Malaysia

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Abstract: The dividend policy is determined by the management of a company to decide on the composition of earnings that will be paid to the shareholders as dividends or kept as retained earnings. Some companies pay dividend and some do not. This may influence the investors in making their investment decisions on listed companies. Hence, understanding the factors that may influence the decision on dividend payout is crucial to investors. Although there are many studies conducted to understand the factors that influence dividend payout, there is still no consistent explanation as to date. With limited studies done in the context of Malaysia and no unanimous conclusion whatsoever, this paper aims to understand and shed more light onto the determinants of dividend payout in Malaysia by focusing on the Oil and Gas and Consumer Products industry, being the two largest contributing sectors in the country's gross national product. Secondary data were collected from Malaysia’s stocks exchange for a period of six years (2010-2015). This study applies the multiple regression analysis to examine the relationships between the independent variables, which are profitability, leverage, company size, and past year's dividend payout, and the dividend payout ratio. The results show that only company size and past year’s dividend payout significantly influence the dividend payout in Malaysia for the Oil and Gas and Consumer Products industry. This study contributes significantly to the empirical which is still scarcely researched in emerging countries. This provides managers and shareholders with better insight into the determinants of dividend policy, hence, allowing them to make better dividend and investment decision in meeting potential investors’ expectations.

Keywords: Dividend policy, Malaysia’s listed companies, emerging economy, dividend payout ratio. JEL classification: G35
1. INTRODUCTION

Ever since the research of Lintner (1956) and Miller and Modigliani (1961), dividend policy has always been a heated topic in financial literature throughout the years, and researchers are still on their quest to find the explanation to why and how dividend payment decisions are made by corporate managements. After Black (1976) pointed out the “dividend puzzle” in his research, various researches attempted to clarify this phenomena but none have come to a clear and unanimous justification. This controversy started in the early years when Lintner (1956) had a research done on American companies in the 1950s and concluded that dividend payouts are influenced by the company’s current profitability and previous year’s dividend payout. While contrasting Lintner’s results, Miller and Modigliani (1961) hypothesised a theory stating that in a perfect market, where there are no taxes and bankruptcy costs, dividend decisions are actually irrelevant and do not have any effect on the value of the firm nor shareholder’s wealth. Generally, companies have two options to raise funds for their investments or projects which can be categorized into internal and external sources. Internal sources would refer to retained earnings or accumulated profits, while external sources are new loans and borrowings or issuance of new shares to the public (Salehi, Mahdi, Mahdi Moradi, 2010). Issuing new shares is a common method used by companies to expand its business without the help of loans from external financial institutions. As investors purchase the company’s shares, it increases the company’s available internal cash, which in turn increases the company’s capital. This increase in cash flows allows the company to be able to invest in more investments that would generate even more future cash flows for the company.

In return, companies will pay back their investors with dividends, which is one of the ways for a company to increase the wealth of its shareholders. Dividends are the profit distributions made by the company to its shareholders, which can be in the form of cash or shares (Ross, Westerfield, Jaffe and Roberts, 2002). Other than satisfying its shareholders, paying dividends is also a way to retain and attract more investors by indicating that the company is earning well, but it may also influence the company’s ability to expand in the future as it is distributing part of its resources to the shareholders instead of retaining it to invest in other profitable investments (Baker and Powell, 2005). To assist financial managers in making this decision, which would affect the company and its shareholders, companies would have dividend policies that serves as a guideline for financial managers to maintain the equilibrium in distributing cash between dividends and retained earnings. But how does the company come up with the dividend policy? And what are the determinants in this matter? On the investors’ side, they would first analyse the company’s performance before investing in companies and the most common financial ratio that investors use in analysing the company’s health and capability is the dividend
payout ratio, which measures the percentage of the company’s profit that is distributed as dividends to its shareholders. In other words, it helps investors by indicating how much dividend payments are made by the company based on its earnings. As the dividend payout ratio is based on how much dividends the company pays, it is crucial to understand what affects the company’s dividend decision and how do these factors affect the ratio. This research aims to examine whether profitability, leverage, company size and past year’s dividend payout influence the dividend payout policy of public listed companies in Malaysia, which, answers to what extent is the magnitude and direction of relationships between the determinants and the dividend payout ratio. This paper consists of five sections and will be organised as follows. Section 2 is the summarised in-depth literature review which covers the theories of dividend and empirical reviews. Section 3 presents the research methodology employed. Section 4 contains the results of the research and its implications will be discussed. The conclusion of the study will be reported in Section 5 along with the limitations of the research and recommendations for future studies.

1.1. Research Gaps and Problem Statement

Ever since Fischer Black’s research in 1976, which pointed out the “dividend puzzle”, many researchers and academicians has come up with various theories and opinions to explain how various factors can influence the dividend payout ratio (Amidu and Abor, 2006; Fama and French, 2001; Lintner, 1956; Miller and Modigliani, 1961). Nevertheless, after two decades of continuous research, these theories still could not fully explain the relationships between the determinants and the dividend payout ratio. There are still conflicts in opinions and the relationships between the affecting factors and the dividend payout policy still remains ambiguous. In spite of the extensive research done on the factors affecting the dividend payout ratio, most of the studies (Pereira, Teixeira and Tavares, 2015; Pornumpai and Suntraruk, 2013; Tahir and Mushtaq, 2016) focused on other countries such as Pakistan and Portugal. The factors affecting the dividend payout ratio will differ among countries as each country have their own rules and regulations, culture, and policies which would influence the effect of each of the determinants on the ratio in various ways (Chay and Suh, 2008). This statement is also supported by a study that was done to examine the country’s influence on dividend policy (Michel and Shaked, 1986). To a large extent, most of the researches are also focused on developed countries and less research has been directed towards emerging economies such as Malaysia. As emerging and developed countries behave differently from each other, the same factor may affect the dividend payout ratio differently according to the development stage of the market (Aivazian, Booth, and Cleary, 2003). Thus, more extensive research needs to be done in order to
understand how the dividend payout ratio behave in different countries of different developmental phases, as companies would have different financial needs according to the situation of the economy.

Moreover, Malaysia has recently switched its corporate tax system to the single tier tax system (Inland Revenue Board of Malaysia, 2008), which would impact on how dividends paid are taxed. Researchers have already found effects of the transition and shown that company dividend payouts behaviour have changed due to this implementation (Ismail et al., 2017). Hence, it would be interesting to see how the selected variables’ influence on dividend payout would differ from other studies in this context. Even though there have been several studies on the determinants of dividend payout ratio in Malaysia, the findings on this topic are still inconclusive as different results regarding the relationships between the determinants and the dividend payout ratio have been found, the results of the studies by various researchers (Issa, 2015; Mui and Mustapha, 2016) did not achieve a consistent conclusion. This can be seen as Mui and Mustapha (2016) and Issa (2015) both adopted the same independent variable, which is profitability, but disclosed different results. Mui and Mustapha (2016) concluded that profitability has an insignificant negative relationship with dividend payout, indicating that more profitable firms pay lesser dividend and profitability has little influence on the dividend decision. While Issa (2015) concluded the complete opposite, showing that profitability has a significant positive relationship with dividend payout, implying that more profitable firms pay more dividends and profitability has a significant impact on the dividend payout ratio.

As the analysis of previous studies provided no uniform answer to the determinants of dividend payout ratio, this paper aims to further understand what influences the dividend payout ratio of public listed companies in Malaysia being an emerging economy. Four determinants are selected to be analysed along with the dividend payout ratio in order to understand their relationships and how the ratio is being influenced. The four selected independent variables included in this paper are profitability, leverage, company size, and the previous year’s dividend payout. While the relationship between profitability, leverage, company size, and dividend payout ratio has been researched before in Malaysia, the results of previous researches are still contradictory and inconsistent. The relationship between past year’s dividend payout and the dividend payout ratio was one of the findings of Lintner (1956)’s in his early research, but as of now, this variable has rarely been in Malaysia. Hence, in shedding light onto this topic, this study will examine the four selected determinants and will focus on the two leading industries in Malaysia, namely the Oil and Gas Industry and the Consumer Products Industry.
2. LITERATURE REVIEW

As indicated by Black (1976), “The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don’t fit together.” Throughout the years, many researchers have conducted numerous studies on this dividend puzzle, and through the process, theories surfaced to further explain this phenomenon, as well as the factors that influence the dividend payout ratio. The Dividend Irrelevance Theory is one of the most influential theories which was developed by Miller and Modigliani (1961). It states that in a perfect world where taxes and bankruptcy costs do not exist, a company’s dividend policy is irrelevant to investors and does not affect the company’s market value nor its capital structure. In this theory, it also assumes that share costs and transaction costs that incur in the issuances of shares do not exist, shareholder’s wealth is not affected by dividends, and leverage does not affect the company’s cost of capital. With these assumptions and as long as the firm does not change its investment policy, dividends would become insignificant to shareholders and they will be indifferent between gaining in terms of dividend payments or capital gains. Modigliani and Miller (1961) explain that this is due to the fact that in order to make dividend payments, the required capital would have to be raised by the company through the issuance of new shares. When new shares are issued, the share’s price will decrease with equivalent proportions to the payment of dividends which will eventually cancel out each other. They also explained that dividends will be insignificant to investors because they can make their own “homemade” dividends. This may happen when dividend payments exceed the investor’s expectation, the surplus cash flow will be reinvested into the company’s share. When dividends are lesser than expected, investors will sell part of their shares to create a comparable cash flow that was expected to be received from the share (Ang and Ciccone, 2009). Hence, investors are uninterested about a company’s dividend policy as they are equally well off regardless of the dividend payment.

Even though this theory has been supported by a few researchers (Black and Scholes, 1974; Miller and Scholes, 1978), Modigliani and Miller’s theory would be impractical in the real world as taxes and flotation costs when issuing new shares are not avoidable for most companies. With the existence of flotation costs, the choice between internal and external financing will have a certain degree of impact on the cost of capital of the company, resulting in the assumption of leverage having no impact being inappropriate. The existence of transaction costs also causes shareholders to prefer dividends more as they are charged when shares are sold to realise capital gains. Therefore, Modigliani and Miller’s theory may be theoretically true, but it will not be applicable in the real world. To counter Modigliani and Miller’s Dividend Irrelevance Theory, Gordon (1963) and Lintner (1964) developed the Bird-in-the-Hand Theory, which mainly states that dividends has a certain
degree of impact on the company’s value or share price and emphasises on the point that investors are believed to be risk-averse. Shares that pay current dividends are more preferred by investors rather than shares that first retain their earnings and make dividend payments in the future. This is because capital gains and dividends that will be received in the future have a higher uncertainty level and current dividends are more certain in comparison. Capital gains are less predictable than current dividends as share price is not determined by the managers but by market forces, thus it has a greater level of uncertainty (Keown, Martin, Petty, and Scott (2003). Even though the share may provide higher returns in terms of capital gains than current dividends, due to the high level of uncertainty, the investor is not guaranteed to be able to accumulate the said return (Gordon, 1963). As the level of risk and the length of time are positively correlated, investors are more willing to invest in companies that pays current dividends which are less risky than dividends that are paid after a longer duration of time. Therefore, investors are more willing to invest more or pay a higher price for companies that pay current dividends. This justifies the need to examine the contributing factors that have influenced the level of dividend payout among public listed companies. Potentially to identify companies that may pay higher dividend to shareholders.

Theoretically, one of the contributing factors that may influence the dividend policy is the company’s profitability. Since the beginning of the dividend puzzle, profitability has been suggested as one of the research determinants for many studies on this topic. This is because dividends are a portion of the company’s profit, so there is no doubt that a company’s profitability will affect its dividend payout. Lintner (1956) is one of the earliest researchers to carry out a study on the determinants of dividend payout. He conducted a research on 28 firms in United States and concluded that managers make dividend decisions based on current earnings and past dividend payments. Fama and French (2001) also discovered that bigger firms that have more earnings tend to give out more dividends compared to smaller firms that have lesser earnings. This positive relationship between profitability and dividend payout is also supported by various researches throughout the years, including Baker, Farrellly and Edelman (1985), Baker and Powell (1999) and Amidu (2007). Locally, Pandey (2003) who conducted his study on Malaysia, employed multinomial logit analysis in his study and found that companies’ dividend payouts are sensitive to the changes in their earnings and dividend payout ratios also vary between industries. Leverage is also one of the determinants that is widely researched in this topic. Numerous studies have found that leverage has an inverse relationship with dividend payout policy (Crutchley and Hansen, 1989; Dempsey, Laber and Rozell, 1993; Duha Al-Kuwari, 2009; Lily, Venkatesh and Sukserm, 2009; Van Trang, 2016). A high level of leverage would position the company in a riskier position in terms of cash flows. A company that has a high leverage level will maintain its internal cash flows to meet its debt obligations when it is due instead of distributing it as dividends to shareholders. Companies’ level of risk will increase
due to the increase in debt, which raises their cost of external financing and causes them to be more reliant on retained earnings, resulting in the cut of dividends. Dempsey et al. (1993) points out that companies which are highly levered tend to have lower dividend payout ratios to compensate for the transaction costs that is linked to external financing. Although this negative relationship seems logical, Dhillon (1986) found contrasting evidence showing that there is a positive relationship between the two variables. Yarram and Dollery (2015) also concluded with a significant positive relationship between leverage and dividend payout in Australian corporate firms. Whereas Marlina and Danica (2009), Abor and Bokpin (2010) and Al-Twairjy (2007) discovered that leverage has an insignificant impact on dividend payout. Kuo, Philip and Zhang (2013) also found that leverage is insignificant in majority of the markets but when they used the same method to test companies in developed countries, different results were found instead. Therefore, the relationship between leverage and dividend payout may vary between a developed and an emerging country such as Malaysia.

One of the first studies to use company size as an independent variable in determining the factors that affect the dividend payout ratio was Lloyd, Jahera and Page (1985). They suggested that larger firms pay higher dividends in order to reduce agency costs and noted that they are less sensitive to financial difficulties, thus able to pay more dividends. They proved that larger firms that are financially matured have better access to capital markets, which can help by reducing their reliance on internal funds and enabling them to propose higher dividends to shareholders. Sinabutar and Anggoro (2015) conducted a research on Indonesia’s Consumer Goods industry and also found a positive relationship between the two variables. In addition, Manos (2003), Fama and French (2001) and Hedensted and Raaballe (2008) also came to the same results which indicate that there is a positive relationship between company size and dividend payout. However, there are also other studies that indicate a negative relationship between company size and dividend payout. Lestari (2018) conducted a research on Indonesia’s manufacturing companies and found a significant negative relationship between the two variables. Jin (2000) documented that a smaller company’s share prices have a larger reaction to dividend announcements compared to larger firms. This concept is also supported by Yoon and Starks (1995). Eddy and Seifert (1988) pointed out that bigger companies have lower information asymmetry as they have more publicly available information compared to smaller companies. As there is lower information asymmetry between the management and the shareholders, shareholders have a clearer view of what is going on in the company, resulting in the value of dividend announcements’ information content to be lower. This suggests that as company size increases, the signalling effect of dividend announcements will decrease, which would discourage large companies from paying higher dividends. Even though numerous previous studies have concluded that company size is an important factor
in determining the factors that affect the dividend payout ratio, the measurements used to determine company size still varies among studies. Among the measurements, there are three measurements that are more common, which are natural logarithm of sales (Lloyd et al., 1985), logarithm of the number of employees (Daunfeldt et al., 2009), and market capitalization (Duha Al-Kuwari, 2009). However, Lloyd et al. (1985) stated that there is no difference between using sales or market value of equity as the measurement of company size as results should be roughly the same. Thus, this paper will be using the natural logarithm of total sales to measure company size.

Past dividends have been one of the earliest elements to be discovered as a determinant of dividend payouts. This variable was first introduced by Lintner (1956) in his survey on 28 companies in the United States. Lintner stated that companies are hesitant to increase dividend payouts to a certain level as it may become difficult for them to sustain that amount and companies prefer to maintain a dividend payout that is stable in the long-term. This can be related to the Signalling Effect Theory as a drop or increase in dividend payouts would be perceived as a signal of the company’s performance to the investors. After Lintner’s discovery, many researchers (Allen, 1992; Fitri, Hosen, and Muhari, 2016) over the years have found this concept to be true in many other markets. Baker and Veit (2002) investigated 318 NASDAQ listed firms and confirms that past dividends do affect the managers in making dividend decisions. Although, there are cases where researchers have found that developing markets do not rely on past dividends to decide current dividends. Adaoglu (2000) did a research on dividend policy in Istanbul Stock Exchange (ISE) and concluded that a company’s dividend policy does not rely on past dividend patterns and follows an unstable dividend policy instead. Nidar and Gunawan (2016) found a positive but insignificant relationship between past dividends and dividend payout ratio in their study on Indonesian non-financial companies.

3. DATA AND METHODOLOGY

Malaysia is known as South East Asia’s most dynamic owner of oil and gas reserves, which means that this industry is very important and influential to Malaysia’s economy, thus, it is crucial to understand how factors impact the dividend decisions of this industry. The Consumer Product industry covers a variety of companies, ranging from consumable products to clothing, hence, it is believed to provide a good coverage of companies and different economic contexts as to how dividend decisions are made. Therefore, the Oil and Gas industry and Consumer Products industry are chosen for this paper. Sample data are collected from Thomson Reuter, as well as annual reports that are published online by the sample companies and
Bursa Malaysia. A sample of companies are chosen through probability sampling by randomly selecting a few companies from the Oil and Gas industry and the Consumer Products industry, samples are chosen from a population that consists of public listed companies that are registered in Bursa Malaysia from 2010 to 2015. Companies that do not have sufficient data for the research period are excluded. After removing the companies with incomplete data, out of the remaining samples, 40 companies were chosen randomly, leading to a sample that consists of 30 companies from the Consumer Products industry, while 10 companies are from the Oil and Gas industry. To ensure the accuracy of the results, the collected data has also gone through normality and multicollinearity tests before it is used for the research.

3.1. Proxies of variables

Dividend payout ratio (DPR) is the total dividend paid in a year divided by the year’s net income. This proxy is adopted by Gill, Biger and Tibrewala (2010) and Maldjian and Khoury (2014). Profitability (PROF) is measured by dividing the net income by the total assets (Ahmed and Hasan Murtaza, 2015; Amidu and Abor, 2006; Tahir and Mushtaq, 2016). Whilst, leverage (LEV) is measured by dividing the net asset to the total liability of the companies (Lloyd et.al, 1985; Al-Kuwari, 2009; Tahir and Mushtaq, 2016; Malik, Sajid Gul, Rehman and Khan, 2013; Malik et.al, 2013). Company size is measured by log transformed of total sales (Malik et.al., 2013), and finally, the previous year’s dividend payout’s (Alzomaia and Al-Khadhiri, 2013; and Maldajan and Khoury 2014). Based on studies and theories discussed in the literature review, it is predicted that profitability, company size, and past year’s dividend payout will have a positive relationship with dividend payout; while leverage will have a negative relationship with the said dependent variable. Therefore, the research hypotheses for each of the variables are as follows:

The research hypotheses for each of the variables are as follows:

H1: Profitability has a statistically significant relationship with the dividend payout ratio in the Oil and Gas and Consumer Products industry.

H2: Leverage has a statistically significant relationship with the dividend payout ratio in the Oil and Gas and Consumer Products industry.

H3: Company Size has a statistically significant relationship with the dividend payout ratio in the Oil and Gas and Consumer Products industry.

H4: Past Year’s Dividend Payout has a statistically significant relationship with the dividend payout ratio in the Oil and Gas and Consumer Products industry.
This research will involve a cross-sectional analysis consisting of 40 companies. The two main analyses that would be conducted are Pearson's correlation coefficient analysis and multiple regression analysis (Alzomaia and Al-Khadhiri, 2013; Issa, 2015; Kuo et al., 2013; Mehta, 2012). For this study, 40 public listed companies on Malaysia’s Stocks Exchange are analysed with 6 year’s annual average data. The Pearson’s correlation is tested between the proxies. The advantage of Pearson correlation is that it treats each variable equally and does not take into account of the nature of the variables. However, Pearson’s correlation does not show the direction of the relationships, which is the reason why the multiple regression analysis has to be used for deeper insight. The acceptance or rejection of the null hypotheses will be tested based on a significance level of 0.05, i.e. p < 0.05. In order to ensure there are no normality and multicollinearity issues that would affect the results of the regression model, the skewness and kurtosis of the data, are assessed before it is employed to conduct the regression analysis. Multicollinearity issues are checked by examining two collinearity diagnostic factors, the Variance Inflation Factor (VIF) and the Tolerance value. VIF is used to assess how much multicollinearity is present in the regression analysis, the acceptable range is between 1 and 10, anything outside of this range would indicate a multicollinearity issue and data has to be revised. The recommended tolerance value is higher than 0.10, a value lower than 0.10 would indicate high collinearity (Hair, Black, Babin, and Anderson, 2009).

4. RESULTS AND DISCUSSION

A descriptive statistic is shown in table 4.1. The table shows that the mean for DPR is 0.53, which means that on average a firm pays around 53 percent of its earnings as dividends over the 6 years. The minimum of 0.0853 shows that the least dividend paid by companies is 8.53 percent of their earnings, while the most is 103.6 percent represented by the maximum of 1.0360. DPR has a standard deviation of 0.28, indicating that the amount of dividends paid by companies do not diverge too far from the mean of 53 percent.

<table>
<thead>
<tr>
<th>Table 4.1 Descriptive statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>N</strong></td>
</tr>
<tr>
<td>DPR</td>
</tr>
<tr>
<td>PROF</td>
</tr>
<tr>
<td>LEV</td>
</tr>
</tbody>
</table>
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<table>
<thead>
<tr>
<th>SIZE</th>
<th>40</th>
<th>17.7500</th>
<th>24.0100</th>
<th>20.1457</th>
<th>1.4310</th>
<th>0.823</th>
<th>0.409</th>
</tr>
</thead>
<tbody>
<tr>
<td>PYDPR</td>
<td>40</td>
<td>0.0935</td>
<td>1.0904</td>
<td>0.5206</td>
<td>0.2795</td>
<td>0.493</td>
<td>-0.838</td>
</tr>
</tbody>
</table>

A univariate normality is established for all variables as the skewness of each of the variables are between the range of 1.96 and 0.319, which is within the acceptable range of -2 to 2, indicating that the data is normally distributed. The kurtosis of the variables is between the range of 4.155 and -1.153, which is also within the acceptable range of -7 to 7, showing that there is a low probability for outliers. As for the independent variables, SIZE has the highest standard deviation of 1.431, showing that the data is widely outspread from the mean of 20.145. While PROF has the lowest standard deviation of 0.07, meaning that the data does not stray far from the mean of 0.105. Next, analysis of the correlation between variables is presented in Table 4.2.

**Table 4.2 Pearson Correlation Coefficient between variables**

<table>
<thead>
<tr>
<th>DPR</th>
<th>PROF</th>
<th>LEV</th>
<th>SIZE</th>
<th>PYDPR</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPR</td>
<td>1.00*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROF</td>
<td>0.463*</td>
<td>1.00*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>-0.146</td>
<td>-0.072</td>
<td>1.00*</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.148</td>
<td>0.026</td>
<td>0.506*</td>
<td>1.00*</td>
</tr>
<tr>
<td>PYDPR</td>
<td>0.697*</td>
<td>0.442*</td>
<td>-0.166</td>
<td>0.065</td>
</tr>
</tbody>
</table>

*denotes level of significance at 5 percent

Table 4.2 illustrates the results of the Pearson Correlation Coefficient where there was a strong, positive correlation between DPR and PROF, which was statistically significant ($r = 0.463$, $n=40$, $p<0.005$). While LEV has a statistically insignificant weak, negative correlation with DPR ($r = -0.146$, $n = 40$, $p > 0.05$). SIZE has a weak, positive correlation with DPR, but also statistically insignificant ($r = 0.148$, $n = 40$, $p > 0.05$). Lastly, PYDPR was found to have a strong, positive correlation with DPR, and was statistically significant ($r = 0.967$, $n = 40$, $p < 0.005$). Therefore, it can be concluded that dividend payout ratio has a statistically significant relationship with profitability and the companies’ past year’s dividend payout ratio. Consequently, to examine in detail the direction and degree of the relationships between the influencing factors and dividend payout ratio. The following Table 4.3 explains the analysis and relationships between the dependent variable, DPR, and the independent variables, PROF, LEV, SIZE, and PYDPR, by using the multiple regression technique. The R squared value shows the multiple correlation coefficient of the model, which is 93.9 percent, indicating that there is a high degree of correlation between the dividend payout ratio and the independent variables. R-square, also known as the coefficient of multiple determination, shows
how much of the variation in DPR can be explained statistically by PROF, LEV, SIZE, and PYDPR, as well as representing the overall model fit. While the remaining 6.1 percent of the variation in DPR is affected or can be explained by factors other than the ones included in this model.

Table 4.3 The relationship between PROF, LEV, SIZE, PYDPR and Dividend payout ratio

<table>
<thead>
<tr>
<th>Dependent variable:</th>
<th>Standardized Coefficients</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPR</td>
<td>Beta</td>
<td>T test</td>
</tr>
<tr>
<td>PROF</td>
<td>0.046</td>
<td>1.038</td>
</tr>
<tr>
<td>LEV</td>
<td>-0.043</td>
<td>-0.919</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.108*</td>
<td>2.329</td>
</tr>
<tr>
<td>PYDPR</td>
<td>0.933*</td>
<td>20.734</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.939</td>
<td></td>
</tr>
</tbody>
</table>

*denotes level of significance at 5 percent

The regression results from table 4.3 show that only SIZE and PYDPR have a statistically significant impact on DPR as their p-values are both less than 0.05. On the contrary, PROF and LEV do not have a significant impact on DPR as their p-values are 0.306 and 0.365 respectively, which are both higher than 0.05. This is inconsistent with the results from the correlation as it was predicted that PROF and PYDPR would have a significant relationship with DPR, instead of SIZE and PYDPR. The results also match the expected relationships between the independent and dependent variable shown in Section 3, which were predicted according to the theories and past researches whereby PROF, SIZE, and PYDPR having a positive relationship, while LEV possesses a negative relationship with DPR. The results also indicate that there is no multicollinearity issues between the variables as the VIF of the variables are all between 1 and 10 and the tolerance values are all higher than 0.10. Therefore, the outcomes show that only H3 and H4 are supported, while H1 and H2 are not supported. Company Size and Past Year’s Dividend Payout both have statistically significant relationships with the dividend payout ratio in the Oil and Gas and Consumer Products industry. The results show that company size has a positive significant relationship with the dividend payout ratio, which is uniform with the findings from previous studies, such as researches by Hedensted and Raaballe (2008), Lloyd et al., (1985), Manos (2003), highlighted that company size has a high positive impact on a company’s dividend decision in the Oil and Gas and Consumer Products industry. This supports the Life Cycle theory as it proves that larger and more mature firms pay more dividends as they have a more stable cash flow, while younger and smaller firms pay fewer dividends as they need to retain
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profits for growth investments and developments. The Agency Cost theory is also recognized as true as larger companies reduce agency cost by paying more dividends to decrease the opportunity for managers to use their larger cash flows for unbeneficial deeds.

The regression results show that past year’s dividend payout has the largest impact on dividend payout ratio. The positive significant relationship between the two is consistent with the results of prior researches such as Appannan and Sim (2011), Baker and Veit (2002), Lintner (1956). This supports the Signalling Theory as it indicates that the firms in the Oil and Gas and Consumer Products industry pay very close attention to their past year’s dividend payouts and take into account the signal that the public is going to perceive when they issue dividends. Paying dividends that are higher than the past year’s dividend may indicate that the company is having a positive outlook for its future cash flows, which can encourage investors to invest more in the company in expectation of getting higher returns in the future. Thus, managers are very attentive to the history dividend payouts when deciding on upcoming dividend payments. The results indicate that profitability has a positive but insignificant relationship with the dividend payout ratio. This indicates that companies that are bigger and more profitable pay more dividends, which supports the results of previous studies such as Baker et al., (1985), Baker and Powell (1999), but profitability does not have a significant impact on dividend payout, showing that earnings of the firm does little to affect a manager’s dividend decision in the Oil and Gas and Consumer Products industry. The positive relationship also justifies the Agency Cost Theory and the Signalling Effect Theory since one can assume that more profitable companies tend to pay more dividends to reduce agency costs and to signal the investors about the positive future outlook of the company.

It can be observed that leverage has a negative relationship with the dividend payout ratio, consistent with researches such as Crutchley and Hansen (1989), Dempsey et al., (1993), Duha Al-Kuwari (2009). But it also shows that leverage has an insignificant impact on the dividend payout ratio for companies in the Oil and Gas and Consumer Products industry, expressing that companies that have a high leverage pays lesser dividends in order to meet its debt obligations, but the level of leverage is not an important aspect when deciding on the amount of dividends. This also indicates that leverage does have a similar effect as dividends in reducing agency costs, as managers of highly levered companies will cut dividends to maintain cash flows in order to diminish financial risks, reducing the chance of them using the company’s cash flow for unprofitable investments that contradicts with shareholder’s interest.
5. CONCLUSIONS AND RECOMMENDATIONS

The purpose of this paper was to investigate the determinants of the dividend payout ratio of companies in the Oil and Gas and Consumer Products industry that are listed on Bursa Malaysia. The independent variables, profitability, leverage, company size, and past year's dividend payout, were chosen to conduct this study, along with 6 years’ data average (2010-2015) and a total sample of 40 companies from both industries. The regression results show that only company size and past year's dividends have a statistically significant and positive impact on the dividend payout ratio of companies from the Oil and Gas and Consumer Products industry in Malaysia. This supports the Life Cycle Theory which states that larger and more mature firms pay more dividends as they have a more stable cash flow. The results also show support for the Signalling Effect Theory as it indicates that past year's dividend payment amount would also significantly influence managers’ dividend decisions, they would take into account the effects of paying a higher or lower dividend and the kind of signal that the public would perceive from the dividend announcements, which would affect an investor's investment decision on the company. On the other hand, profitability and leverage both have an insignificant relationship with the dividend payout ratio, expressing that managers are not significantly influenced by these two aspects when making dividend decisions. Therefore, only hypotheses three and four are supported, while hypothesis one and two are not supported; only company size and past year’s dividend payout have statistically significant relationships with the dividend payout ratio in the Oil and Gas and Consumer Products industry in Malaysia.

This research is significant in assisting investors and companies in investment and dividend decisions, as it is now known that company size and past year’s dividend payouts should be focused on in this aspect. Investors that are looking to invest in the Oil and Gas industry and Consumer Products industry should look for companies that are more stable and mature to get the best dividend profits, while smaller companies may be seen as investments for future profits when they become bigger in size and higher dividend payouts. While for company managers, it indicates that larger companies should pay out more dividends in order to reduce agency costs as suggested by the Agency Cost theory, thus managers should consider the size of their company when deciding on how much dividends to pay out and its sufficiency in reducing agency costs. In addition to company size, past year's dividend payouts are also an important consideration for investors and company managers. To get the most profits, investors should invest in companies that have a strong positive history of dividend payouts as this can signal higher dividend payouts in the future. Company managers should take into account what amount of dividend has the company paid out over the years as these signals can affect how investors and
the public perceive the company’s future to be and may affect the company’s image and share value.

5.1. Research Limitations and Recommendations

According to the existing literature on the dividend payout topic, there are still many other variables that can affect the dividend payout ratio other than the ones used in this study, such as investment opportunities, liquidity, and corporate tax. The R-square also indicates that 5.4 percent of the variance in the dividend payout ratio is influenced by other factors. It is also recommended to consider macroeconomic factors such as inflation rates, interest rates, and money supply, which might also have a certain degree of effect on company’s dividend payout as it affects the industry or company’s operating environment. Hence, it is recommended that more variables are to be used in future studies in order to further understand the determinants of the dividend payout ratio in Malaysia. Other industries, such as the plantation and properties industries, can also be added or used to conduct further research. Different industries may have different factors affecting the dividend payout ratio that might be different from the 2 chosen industries in this paper. Adding more industries may also provide more clarified results and enabling one to identify which factors have a stronger influence over dividend payout across industries in Malaysia. As this paper only takes into account the dividends paid in the form of cash, it is suggested that dividends in the form of shares should also be accounted for in future studies, as some companies pay a mixture of cash and share dividends instead of only cash dividends. Therefore, for one to truly understand the determinants of the dividend payout ratio in Malaysia, there are still rooms for improvements and future researches to be carried out in attempt to contribute more insight into this topic. Better understanding about the factors that influence the dividend payout ratio would surely assist corporate management in making dividend decisions, as well as helping investors in understanding the company’s financial health in order to make better investment decisions.

Reference


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