International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 3, June 2017

ANALYSIS ON DIVIDEND PAYOUT: EMPIRICAL EVIDENCE OF PROPERTY COMPANIES IN MALAYSIA

Sahaida Laily Binti Md Hashim
Department of Finance & Economics, College of Business & Accounting (COBA), Universiti Tenaga Nasional Sultan Haji Ahmad Shah Campus, 26700 Muadzam Shah, Malaysia.
Sahaida@uniten.edu.my

ABSTRACT

This study is attempt to identify the determinants of dividend payout on property companies listed in Malaysia. By employing a static panel data method, this study applying a yearly data for 11 years started from 2004 until 2014 for 50 selected companies in property sector. The dependent variable in this study is dividend paid out ratio while liquidity, leverage, profitability and size of company represent as the independent variables. The data being tested using Pooled Ordinary Least Square (POLS) Regression, Random Effect (Breusch-Pagan Lagrangian Multiplier Test), Fixed Effect (Hausman Fixed Effect) and Random Effect Generalized Least Square (GLS) Regression and has adopted Random Effect model. The finding shows that only profitability resulted in significant negative relationship with dividend payout while the others have no relationship respectively with dividend payout of property companies.

***Keywords**:* Property companies, Dividend payout ratio, Panel data, Random Effect, Fixed Effect

INTRODUCTION

Dividend policy is one of the most interesting topics in finance and it requires a depth understanding since dividend is highly integrated in the field of finance. Dividend is being an important financial decision through the company which serves a clear basis for the companies' performance in a period of time. The decision making regards to dividend payout by the management has much affected the companies' financial situation whereby it may be a signal for investors and outsiders in making an investment decision towards the companies. Dividend referring to the amount of return that those companies has to pay to the shareholders depending on the companies' performance or fix dividend rate at a certain period of time agreed by the management of the companies. The decision in paying dividend is crucial and requires good top management skills as it may directly affects the capital structure of the companies.

Generally, there are two ways in financing a business either through internal or external sources. Internal sources consist of retained earnings and depreciation, while external sources are concern on issuing new shares or new borrowings, relatively through debt or equity respectively. A theory stated that the companies will primarily use the internal sources and later on finance the business through debt and finally equity, which is by issuing new shares to public. If the company decided to issue new shares, there will be more shareholders in the company hence the existing shareholders will receive a fewer dividends as it will decrease the portion of ownership. Therefore, internal sources are more favorable for the companies in order to maximize the shareholders' wealth as that is the primary goal for the companies. The more profitable the companies are, the higher the dividends payments for the shareholders or investors as claimed by Uwuigbe et al. (2012). By employed 50 samples companies in Nigeria for five (5) years, they found a significant positive impact between dividend payments on company's performance. They also revealed that ownership structure and size of company are insignificant with dividend payout of the company.

A lot of researches have been done in terms of dividend policy, but yet relatively not on property companies. An issue has raised whereby the dividend payment from property companies is higher as compared to finance companies. In a certain period of time, the shareholders of property companies may receive less dividend payment and also may receive a higher dividend. The dividend paid to them is quite volatile as they are varying over time mostly depending on the companies' performance. Property companies are involved in buying, selling and renting properties including lands and building, as their nature of business, which involved high value of money and a long period of time. Before the completion of the selling, buying or even renting the property, the company need to invest a lot of money and may pay less or no dividend to the shareholders due to high cost and no profit generated yet. However, the payment of dividend may vary by the time they are complete and disburse the dividends among the shareholders. Therefore, there is a need to know the factors that actually influence the dividend payment among property companies especially for the existing shareholders and potential investors. Dividend payment is a good signal on the company's performance over time, thus the companies itself have to maintain, sustain and increase the dividend paid if possible in order to achieve the company's goal.

The objectives of this study are to investigate the relationship between liquidity, profitability, leverage and size of company on dividend payout. Moreover, researcher wants to determine the impact between liquidity, profitability, leverage and size of company on dividend payout besides identify the most significant factor that affects dividend payout on properties companies in Malaysia. This study benefited the companies' management in announcing dividends constantly. It can be used by them in order to analyze the company's performance and its effects on dividend payout ratio. This paper also can lead the company to perform well by managing their liquidity, profitability, leverage and assets in order to maximize their shareholders' wealth. Besides that, investors or shareholders of the company may need this study in order to know the factors that actually affect the dividend payment. It may affects

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

their investment decision either want to invest more in the company, maintain the proportion or even sell all their shares. The shareholders are seeking for high dividend payment as their return on investment, thus the disbursement of dividend is important to them in analyzing the company's current and future performance respectively. Therefore, the significance of study increases when, those who want to buy and sell shares need information about the determinants of dividend payout on property companies. Other than that, this study can be used as a reference and guidance for the other researchers for further research in this area.

LITERATURE REVIEW

Smith & Chamberlain (2009) noticed that most of companies will use large portion of the company's earning to pay dividends rather than keep it as retained earnings for future planning. It depends on the company's strategic management to manage the dividends policy. It needs to be efficient because most of important decisions will effect on each other. It is supported by the research done by Lintner (1956), which claimed that current earnings or profit influence the amount of dividend that will be paid. Besides that, he also found that one of the major determinants of dividend payout will be the changes in earnings with existing dividend rates. There are many types of dividend policy and one of them is zero dividend policy. It is an easy way to prevent the company from any costs associated with dividends paid as concluded by Watson & Head (2004). Most of newly established and formed companies decided to pay no dividends due to less capital and required more capital for their business's operation. All the profit that the company has is retained and keeps for the expansion of business. From that, the company can roll over its capital and aiming for generating more profits. So, the companies are unable to pay dividends to the shareholders at first place, thus it's better for the company to declare zero dividend policy based on its capability in paying it.

A research conducted by Naeem & Nasr (2007), indicated that the liquidity of a company and dividend payout has a negative relationship. The company will announced less cash dividend if it has more liquid in common shares. This research has negative result as compared to other researchers. Normally, liquidity and dividend payout has positive relationship, but this time it determined an inverse relationship. According to them, if the company has high liquidation, the cash that the company has will be used as investments, for example buying new fixed assets or expanding the business by opening a new branch. The company also might buying new machineries for the company's operation in order to increase operation capacity therefore will gain more profit due to producing new products. A negative result also has been found by Alam & Hossain (2012), together with profitability, leverage and market capitalization which have negative impact on dividend payout. They used a sample of UK companies listed in London Stock Exchange. Despite a negative relationship, Fakhra et al. (2013) indicated a positive relationship between liquidity, leverage, earning per share and size and dividend whereas profitability and growth were relatively insignificant with dividend

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

payout. A research done by Kajola et al. (2015) shown there is insignificant result of liquidity towards dividend payout by employed 25 non-financial companies listed on Nigerian Stock Exchange between 1997 to 2011. Researchers used panel data method where fixed effect and random effect model were tested in the study.

A negative result between leverage and dividend payout has been shown by Al-Malkawi (2008) by assessing corporate decisions in Jordan companies. An analysis on Nigerian listed banks from the year 1990 to 2010, Osegbue et al. (2014) claimed that all the independent variables used by them in the study shown insignificant result regards to the dividend payout. Free cash flows, leverage, profitability, business risk and tax paid found to have no relationship at all with dividend payout.

Profitability of a company will determine the company's performance for the year ended financial period. It is well related to dividend decision where some portion of the profit will be paid as dividends. The more profitable the company is, the higher dividend will be paid. As found by Okpara (2010), the company with greater profitability will give effects on its dividend yield. So, the company with lower profitability ratios automatically has lower dividends yield and more risky compared to other companies in a same industry. In terms of profitability, the company which is can fulfill their short term needs and make improvement from year to year, are willing to pay dividends. The earnings generated from the company's operation will determine the dividend paid out ratio with consent of its shareholders. Furthermore, a positive relationship between profitability ratios and dividends payout also can be determined by research conducted by Al-Kuwari (2009). He examined a research on the determinants of dividend payout in emerging stock exchange. From the data gathered and result interpreted, there is a strong relationship between those variables, where if the company has high profit, then it will pay high dividends. It is directly affected each other because of the company need to build good reputation. If the companies can constantly paying dividends due to its profitability for a certain period, it will attract more investors as to increase its confidentiality of current shareholders. Therefore, the companies need to perform well in order to be able to generate high profit. Despite the positive result, Grullon et al. (2005) found a negative relationship between profitability and dividend policy with a sample of listed companies on New York (NYSE) and American (AMEX) Stock Exchange. The data gathered through Center for Research and Security Prices (CRSP) between the years 1963 to 1997.

Research done by Imran (2011) was focused on the factors on dividend payout of Pakistan engineering sector. By analyzing the data of 36 companies listed on Karachi Stock Exchange over the period of 1996 to 2008, the researcher found that the size of company is critically in explaining the dividends paid by the engineering companies in Pakistan. It was a positive relationship between those two factors. Its determined that the engineering companies will pay high dividends due to its large size of company. However, Adil et al. (2011) indicated size of company is insignificant with dividend payout ratio with a sample of companies listed

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

in Karachi Stock Exchange. Besides that, Moradi et al. (2010) explained that the insignificant result between size of company and dividend payout is due to Iranian stock market, which the disbursement of dividend is not mandatory for the specific period in the study.

RESEARCH METHOD

The study concerns on the possible factors that may influence dividend payout on 50 selected property listed companies in Malaysia within a range of 11 years, from the year 2004 until 2014. The data are gathered from Bursa Malaysia and will be analyzed through Pooled Ordinary Least Square (POLS) and later Random Effect Model (REM) and Fixed Effect Model (FEM) are tested. In addition, researcher use Breusch-Pagan Multiplier Test for comparing between POLS and REM and Hausman Fixed Test for comparing between REM and FEM. All of them are run by statistical analysis STATA10. All the variables are selected based on the previous researches done by other researchers. In this study, the selection of explanatory variables is based on alternative theories related to dividend payout and previous variables that were studied in previous empirical studies. The choice is sometimes limited, however, due to lack of relevant data.

Dependent Variable

Dividend Payout Ratio (DPR) is used to represents dividend payout. DPR is the amount being paid by the company to the shareholders relative to the company's net income. Previous researchers used DPR as proxy as per Gill et al. (2010) and Hellstrom & Inagambaev (2012).

Independent Variable

There are four independent variables adopted in this study to be tested as determinants of dividend payout. There are liquidity, leverage, profitability and size of company.

Liquidity
Researcher used current ratio (CR) as proxy towards dividend payout on property companies.

Leverage
Researcher used Debt to Equity Ratio (DER) as proxy towards dividend payout on property companies.

Profitability
Researcher used Return on Equity (ROE) as proxy towards dividend payout on property companies.

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

Size of Company
Researcher used total asset (TA) as proxy towards dividend payout on property companies.

Hypothesis

Two main hypothesis are developed as prior to the objectives of this study.

Hypothesis 1
H_0: There is no relationship between liquidity, leverage, profitability and size of company and dividend payout on property companies.
H_1: There is a relationship between liquidity, leverage, profitability and size of company and dividend payout on property companies.

Hypothesis 2
H_0: There is no significant impact between liquidity, leverage, profitability and size of company and dividend payout on property companies.
H_1: There is a significant impact between liquidity, leverage, profitability and size of company and dividend payout on property companies.

Model Equation

$$dpr = \beta_0 + \beta_1 cr - \beta_2 der + \beta_3 roe + \beta_4 ta + \varepsilon \quad (1)$$

Where:

β_0	=	Constant
$\beta_{i, 1 \dots 4}$	=	Coefficients of Predictor
dpr	=	Dividend Payout Ratio
cr	=	Current Ratio
der	=	Debt to Equity Ratio
roe	=	Return on Equity
ta	=	Total Asset

RESULT AND ANALYSIS

Correlation of Coefficient Analysis

Table 1: Pearson Correlation Test

	dpr	cr	der	roe	ta
dpr	1.0000				
cr	0.0469	1.0000			
der	-0.0422	-0.2069	1.0000		
roe	-0.0328	-0.0908	0.0168	1.0000	

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

ta	-0.0283	-0.1298	0.2179	0.0806	1.0000

Table above shows only liquidity is positively correlated with dividend payout. The other independent variables (leverage, profitability and size of company) indicate a negative relationship. All of them have very weak correlation regards to the dividend payout which is less than 5%.

Regression Analysis

Table 2: Pooled Ordinary Least Square (POLS) Test

Variables	dpr		
	Coefficient	Standard error	P>|z|
cr	0.2408956	0.0713743	0.001
der	0.0003502	0.0266479	0.990
roe	-0.4941503	0.0404096	0.000
ta	0.0096475	0.0426567	0.821
c	4.229305	0.1574412	0.000
R-squared	0.3278		
Adjusted R-squared	0.3206		
F-statistic	45.6		
Prob(F-statistic)	0.0000		

Adjusted R-squared value interprets 32.78% of independent variables are able to explain the dependent variable. The remaining of 67.22% variance in dividend payout is explained by the other possible variables that are not including in the study. As per the probability F-statistic, the model is strong and fit due to value below than 1%, which is significant. POLS test above indicates that liquidity and profitability are significant with positive and negative result respectively. While leverage and size of company are insignificant as referring to the p value of each variables.

Random Effect Analysis

Table 3: Breusch-Pagan Lagrangian Multiplier Test

	Var	sd=sqrt(Var)
dpr	0.6984339	0.8357236
e	0.3028269	0.5502971
u	0.220005	0.469047
Prob>chi2	0.0000	

Breusch-Pagan Lagrangian Multiplier test is conducted for researcher to choose between pooled or panel data method. Probability chi2 represent a lower value than 1% significance level, hence it is significant. Therefore, researcher rejects null hypothesis and concluded that the suitable data method for this study is extend to panel data.

Regression Analysis

Table 4: Random Effects Generalized Least Square Test

Variables	dpr		
	Coefficient	Standard error	P>|z|
cr	0.1211999	0.0766153	0.014
der	-0.0307733	0.0311243	0.323
roe	-0.56669360	0.0414713	0.000
ta	0.0430133	0.0640884	0.502
c	4.587227	0.1776137	0.000
R-squared	0.3209		
Prob(F-statistic)	0.0000		

The above test is to estimate the random effect of panel data. About 32.09% of the variance of dividend payout is influenced by the independent variables of liquidity, profitability, leverage and size of company. The rest 67.91% is due to the omission of other variables that are possible to the determinants of dividend payout. As shows above, only profitability is significant with negative impact relative to dividend payout.

Fixed Effect Analysis

Table 5: Hausman Fixed Test

Variables	Coefficient		(b-B) Difference	sqrt (diag (V_b-v_B)) S.E.
	(b) fixed	(B)		
cr	0.0805934	0.1211999	-0.0406065	0.0445539
der	-0.0583848	-0.0307733	-0.0276114	0.0194484
roe	-0.5889026	-0.5666936	-0.0222089	0.0167713
ta	0.1496334	0.0430133	0.1066202	0.0608368
Prob>chi2	0.2053			

The extension of panel data method will be either random effect or fixed effect model. By analysing the data using Hausman Fixed test, researcher will then comparing the value of probability chi2 in choosing the model. Since the value is insignificant, thus researcher fails to reject null hypothesis and claims that Random Effect Model is selected for this study.

Discussion

Table 6: Discussion

Explanatory Variables	Coefficient	Result	Authors
cr	0.1211999	Insignificant	Kajola et al. (2015)
der	-0.0307733	Insignificant	Osegbue et al. (2014)
roe	-0.56669360	Significant	Alam & Hossain (2012)
ta	0.0430133	Insignificant	Adil et al. (2011)
c	4.587227		

The data above are retrieved from Random Effect Generalized Least Square (refer Table IV) as this model is selected by running all specific tests. Hence, the equation of logarithm is written as follows:

$$\text{dpr} = \mathit{4.587227} + \mathit{0.1212}\ \text{cr} - \mathit{0.0308}\,\text{der} - \mathit{0.5667}\,\text{roe} + \mathit{0.0430}\ \text{ta} + \varepsilon \qquad (2)$$

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

As shown in the Table IV, only profitability resulted in significant impact on dividend payout as the p value is less than 1% significance level. By 1% increase in return on equity, dividend payout ratio will decrease by 56.69% which indicates an inverse relationship. Researcher rejects null hypothesis and concluded that there is an impact of return on equity on dividend. Property companies deals with a large value of money in their business. When they have high profit, the companies are tends to invest the money in capturing or proposing a new project instead of paying dividends to the shareholders. This finding is aligning with past researchers (Osegbue et al. 2014) as they also found a significant negative result. Thus, it shows the significant impact of profitability on dividend payout ratio of property companies. The rest of the independent variables of current ratio, debt to equity ratio and total asset found to be insignificant impact on dividend payout ratio as referring to the p value of the variables. However, the result is supported by the previous researchers as mentioned above in the table.

CONCLUSION

This paper highlights the determinants or factors that affect the dividend payout of property companies listed in Malaysia. Based on the findings of 50 selected companies, researcher employed Random Effect Model and both objectives are achieved by correlation analysis and regression analysis. Liquidity is found to have a negative relationship, whereas profitability, leverage and size of company are positively correlated with dividend payout ratio. Random Effect Model shows that only profitability has a significant impact on dividend payout ratio with relatively negative direction. Every 1% increment in return on equity will subsequently reduce the dividend payout ratio by 56.69% and return on equity found to be the most significant factor that affect dividend payout ratio during the period of time.

A few recommendations and suggestions for future research in order to ensure better result and findings. Firstly, future researchers should enlarge the scope of study, suggested either in Europe countries or Asia countries. It can help researcher to ensure the accuracy and validity of data. However, in order to gather a good data, future researcher needs to decide whether to use time series method or panel data method. The sample period is important as it will affect the validity of data. The longer the period, the more precise the data will be. Furthermore, researcher also needs to use other methods or tools in getting the data. Other than that, researcher should include more variables in future research. Either dependent or independent variables, it will give different result and findings if there are different variables used or tested. For example, other than dividend paid out ratio, researcher may use dividend per share as dependent variable, and it will more concern on per shareholder. There are also many independent variables can be tested other than liquidity, profitability, leverage and size of firm. Future researcher may try to include growth of the company, either sales growth or profit growth, or other indicators of profitability such as return on asset, other indicators of leverage for example debt ratio or long term debt ratio. All of these will generate more results and it can be as a reference for another future research.

International Journal of Industrial Management (IJIM)
ISSN (Print): 2289-9286; e-ISSN: 0127-564x; Volume 2, pp. 61-71, June 2016

REFERENCES

Adil, M., Zafar, N., & Yaseen, N. (2011). Empirical Analysis of Determinants of Dividend Payout: Profitability and Liquidity. *Interdisciplinary of Journal Contemporary Research in Business*, 289-300.

Alam, M., & Hossain, M. E. (2012). Dividend Policy: A Comparative Study of UK and Bangladesh Based Companies. *IOSR Journal of Business and Management*, 57-67.

Al-Kuwari, D. (2009). Determinants of the Dividend Policy in Jordan: An Application of the Tobit Model. *Journal of Economic and Administrative Sciences*, 38-63.

Al-Malkawi, H. (2008). Factors Influencing Corporate Dividend Decision: Evidence from Jordanian Panel Data. *International Journal of Business*, 177-195.

Fakhra, M., Sajid, G., Muhammed, T. K., Shafiq, U. R., & Madiha, K. (2013). Factors Influencing Dividend Payout Decisions of Financial and Non-Financial Firms. *Research Journal of Finance and Accounting*, 35-46.

Franklin John, S., & Muthusamy, K. (2010). Leverage, Growth and Profitability as Determinants of Dividend. *Asian Journal of Business Management Studies, 1(1)*, 26-30.

Gill, A., Biger, N., & Tibrewala, R. (2010). Determinants of Dividend Payout Ratios: Evidence from United States. *The Open Business Journal*, 8-14.

Grullon, G., Michaely, R., Benartzi, S., & Thaler, R. (2005). Dividend Changes Do Not Signal Changes in Future Profitability. *The Journal of Business*, 1659-1682.

Hellstrom, G., & Inagambaev, G. (2012). Determinants of Dividend Payout Ratios: A Study of Swedish Large and Medium Caps. *Umea School of Business & Economics*, 1-77.

Imran, K. (2011). Determinnats of Dividend Payout Policy: A Case of Pakistan Engineering Sector. *The Romanian Economic Journal*, 47-59.

Kajola, S. O., Desu, A. A., & Agbanike, T. F. (2015). Factors Influencing Dividend Payout Policy Decisions of Nigerian Listed Firms. *International Journal of Economics, Commerce and Management*, 539-557.
Lintner, J. (1956). Distribution of Income Corporations among Dividends, Retained Earning and Taxes. *American Economic Review*, 97-113.

Moradi, M., Salehi, M., & Honarmand, S. (2010). Factors Affecting Dividend Policy: Empirical Evidence of Iran. 45-62.

Naeem, S., & Nasr, M. (2007). Dividend Policy of Pakistani Firms: Trends and Determinants. *International Review of Business Research papers*, 242-254.

Okpara, G. C. (2010). A Diagnosis of the Determinants of Dividend Pay-Out in Nigeria: A Factor Analytical Approach. *American Journal of Scientific Research*, 57-67.

Osegbue, I. F., Ifurueze, M., & Ifurueze, P. (2014). An Analysis of the Relationship between Dividend Payment and Corporate Performance of Nigerian Banks. *Global Business and Economic Research Journal*, 75-95.

Smith, A., & Chamberlain, D. (2009). Opportunities and Challenges for Micro Insurance in Ethiopia: An Analysis of Supply Side and Regulatory Environments. *Oxfam America*.

Uwuigbe, U., Jafaru, J., & Ajayi, A. (2012). Dividend Policy and Firm Performance: A Study of Listed Firms in Nigeria. *Accounting and Management Information Systems*, 442-454.

Watson, D., & Head, A. (2004). *Corporate Finance: Principles and Practice.* New York: Pearson Education.