

## CHAPTER 4

### **DIVIDEND PAYOUT, GROWTH AND CORPORATE GOVERNANCE: A REVIEW AND SYNTHESIS OF LITERATURE**

#### **4.1. INTRODUCTION**

The issue on dividends and dividend payout have always been the subject of much debate and research (Lintner, 1959; Gordon, 1959; Miller & Modigliani, 1961; Amidu & Abor, 2006; Al-Twajjry, 2007; Sawicki, 2009). Dividend payout is defined as a firm's dividend payout ratio (the ratio of cash dividend paid divided by net income and net income refers to profit after tax). As dividends have an effect on share price, future investment and growth of the company, there should be a suitable dividend strategy in place to monitor it. Primarily, there are three basic approaches towards dividend payout i.e. a hundred per cent retention of profits, a hundred per cent distribution of dividends and part distribution and part retention of profits. However corporate management takes into consideration all other salient variables before deciding on the how and when dividend payout is made. The factors affecting dividend payout and the related theories have been discussed in Chapter 2. Clearly an important factor in the dividend puzzle that emerged was growth (proxied by IOS). Furthermore, it was found that dividend payout behaviours need to be examined in the context of the institutional environment and corporate governance. This was discussed in Chapter 3.

The purpose of this chapter is to bring together the earlier discussions in Chapter 2 and 3 and examine further the extant literature on dividend payout, growth and corporate governance and highlight the research gaps to enable the formulation of the research questions for this study. The remainder of the discussion in this chapter is organised as

follows: Section 4.2 provides the background on dividend payout issues. Section 4.3 discusses the dividend payout as a measurement for performance and governance. Section 4.4 concludes the chapter.

## **4.2. BACKGROUND: DIVIDEND PUZZLE**

As discussed in Chapter 2, many researchers for example Baker & Powell (2000), Al-Twajry (2007), Pal & Goyal (2007), Leng (2007), Ling *et al.*(2008) and Sawicki (2009) have examined the different factors influencing the dividend payout decisions and policies. Black (1976) observed that the harder the dividend policy is looked into, the more it looks like a puzzle, with pieces that do not fit together. This is because, there are many reasons as to why companies should or should not pay dividends. Bernstein (1996) and Aivazian & Booth (2003) revisited the dividend puzzle and found that there have been many questions yet to be answered. Thus setting corporate dividend policy is very subjective and controversial.

Further as discussed in Chapter 2, there is recent consensus by (Denis & Osobov, 2008; Ling, 2008; Rashid, 2008; McKnight & Weir, 2009) that there is no just one explanation towards a dividend policy. Brook *et al.* (1998) argue that there is no reason to believe that corporate dividend policy is driven by one single goal. However, most of the studies have concentrated on developed countries and as such the conclusions reached may not be applicable to the developing markets with different culture, political and economic background. Interestingly one of the main findings of Glen & Brain (1994) is that firm managers from emerging markets are more concerned about their dividend policy now than in the past.

In Malaysia, there have been no precise rules governing the dividend payouts (Chan & Susela, 2009). Companies are generally free to decide on the distribution of dividends. The Companies Act 1965 (section 365) only stipulates that dividends should be distributed from profits but does not indicate whether it should be current profits or accumulated profits. Thus this has led to inconsistent administration of dividend policies (Ling *et al.*, 2008). This also provides an opportunity to examine to how dividend payouts occur when there is less restriction about the link to profitability and therefore, performance and cash flows. Thus raising questions about the applicability of the FCF theory and contracting theory discussed in Chapter 2.

It is important to note that in the developed countries such as UK and Australia, considerable amendments to the Companies Act have occurred. For instance, the definition of distributable profits under the U.K Companies Act 1985 is: accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less accumulated, realised losses, as far as not previously written off in a reduction or reorganisation of capital. Further, the U.K companies legislation also stipulates that the undistributable reserves of a public company are its share capital, share premium, capital redemption reserve and also the excess of accumulated unrealised profits over accumulated unrealised losses at the time of the intended distribution and any reserves not allowed to be distributed under the Act (Leyte, 2004).

In the case of Australia, the Corporation Law (Australia) Section 263(3), under the distribution rules, the main substantive provision in the Act stipulates that realised profits and losses is

...a company's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated

realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made (Ho, 2003, p315).

Further, in Australia, there is a requirement for a solvency tests to ensure the firms are solvent when declaring dividends. As noted in Chapter 2, it is clear that the theoretical perspectives on dividend payout have also yielded mixed evidence. The institutional context is critical in examining the payout behaviour and in this context, the corporate governance mechanisms, both internal (board composition and size and duality of chairman) and external (ownership structure and concentration and investor protection rules), are relevant (La Porta *et al.*, 2000; Denis & Osoboc, 2008). Generally, there have been considerable studies done in developed countries and rather limited studies in developing countries to evidence dividend payout and corporate governance nexus. Furthermore, as noted earlier, trends on dividend payouts differ mainly between the fast emerging/developing countries and developed countries. The main difference in the literature can be attributed to institutional peculiarities relating to structure, legal system, level of investor protection and ownership concentration, both by family businesses and state controlled firms (as discussed in Chapter 2 and further evidenced in Chapter 3). However, this is more evident in the Malaysian environment, where there is concentrated ownership in family and state owned firms.

#### **4.3. DIVIDEND PAYOUT AND GOVERNANCE LITERATURE: RESEARCH GAPS**

In the context of dividend payout research, CG is viewed as a set of mechanism that ensures a proper return to investors and generally high dividends are evidence that the mechanisms are working properly and therefore dividend payouts are of particular interest in unravelling the effects of external and internal corporate governance. The

separation of ownership and control has led to the selection of appropriate governance mechanisms to ensure an efficient alignment of interests for principals and agents. Shleifer & Vishny (1997) view corporate governance from a straightforward agency perspective that deals with the ways investors ensure that they get their investment back from managers. In this section the gaps in CG and dividend payout research are discussed from two aspects: (i) the internal corporate governance mechanisms; and (ii) the external corporate governance mechanisms.

#### **4.3.1. Gaps in the Internal Corporate Governance Mechanism Research**

In this section, three areas of the literature that are relevant to the study are reviewed. First, the literature on board size, focusing on the significance of the board size in dividend payouts is discussed. Second, the literature on the board composition focusing on the number of independent directors representing the board as a whole is discussed and thirdly, literature on duality focusing on the extent to which the chief executive officer (CEO) and the role of the chairman of the corporate board is merged into one.

Table 4.1 presents 3 separate elements of corporate governance based on published data for seven countries. The first index on the quality of legal system, measures the level of quality of the legal system in the country that ranks from 0-10 i.e lowest to highest and Malaysia obtained a score of 0.89, which is rather low.

The second index on the protection of minority shareholders interest, Malaysia scored 4/10 compared to Singapore, Taiwan and Hong Kong which scored 6 and above. Lastly, on the legal environment index where the scores provide a sum score for judicial efficiency of law, rule of law and quality of legal system, Malaysia obtained a

mean of 16.69 compared to Singapore and Taiwan which obtained a mean score of 26 and 23.2 respectively.

**Table 4.1**  
**Measures of Corporate Governance**

Measures	Korea	Malaysia	Singapore	Taiwan	Thailand	Indonesia	Hong Kong
Quality of Legal System	0.96	0.89	7.4	3.2	2.08	0.70	5.06
Minority Shareholders Interest	2	4	8	6	4	2	6
Legal Environment Index	12.36	16.69	26	18.5	11.68	7.2	23.26

Source adopted from Hasan *et al.* 2008

#### 4.3.1.1. Board size

The purpose of a board is mainly associated to hiring and firing of incumbent management in the event of poor management performance. According to (Jensen, 1993) the board's duty is to hire, fire and compensate the Chief Operating Officer (COO). Hart (1995) described two additional theoretical alternative governance mechanism i.e agency problem and transaction costs. Agency problems usually occur due to conflict of interest between members of the organization e.g owners, managers and creditors and transaction costs which cannot be resolved by merely a single contract which encompassed all eventualities.

The issue of corporate governance generally arises when one departs from the normal orthodox and moves towards the separation of ownership and control. This is because only under the separation of owner and control the right towards bearing uninsurable risk is considered. Yermack (1986), emphasise on the quality of monitoring and decision making and highlights on the problems associated with co-ordination,

communication and effective decision making for an enlarged board. Likewise (Lipton & Lorsch, 1992 and Jensen, 1993) contend that large boards may lead to reluctance to hold open discussions over key executive decisions.

Other studies by (Steiner, 1972; Hackman, 1990 and Holthausen & Larcker, 1993), further evidenced that board size among other variables to influence executive compensation and company performance. Hermalin & Weisbach, (2003) elaborated that large boards are symbolic in nature and does not serve the true nature of the board. Magnet (1992) added on to say that directors from the large boards hesitate to criticise the policies of top managers or to candidly discuss on corporate performance. Other studies which support the negative effect on board size are (Huther, 1997; Conyon & Peck, 1998; Postma *et al.*, 2003; Loderer & Peyer, 2002).

Many observe that it is becoming a trend for average board size to shrink over time (Bacon, 1990 and Huson *et al.*, 2001). Large boards may also be prone to increase in board diversity in terms of experience, skills, gender and nationality. Furthermore, Yermack (1986) noted that large boards affect the value of a firm in a negative fashion as there is an agency cost involved when the board size is large (Dalton & Dalton, 2005). However, the drawbacks of a small board are that the expropriation of wealth by the CEO is comparatively easier due to smaller number of outside directors. Members on the small boards are also usually preoccupied with their decision making process that they have lesser time for monitoring activities. They also lack the advantage of expert advice due to less spread of the board members.

Further, on the negative association between board size and performance was tested and reported by (Yermack, 1986; Eisenberg *et al.*, 1998; Barnhart & Rosenstein, 1998;

Ajay, 2007; McIntyre *et al.*, 2007) using models such as fixed effects, random effects and OLS estimates with regressions substituted with other proxy variables, the same results persisted confirming the fact that firms with smaller boards perform better than firms with larger board size (Yermack, 1986; Eisenberg *et al.*, 1998; Bamhart & Rosenstein, 1998).

Echoing the above findings, (Vafeas, 2000) posit that firms with the smallest board (on average five members) are better informed about earnings and can be regarded as having better monitoring abilities. Mak & Yuanto (2003) based on their findings document that listed firms valuations of Singaporeans and Malaysian firms are at highest when the board members are limited to five. In support of this, Nguyen & Faff (2007) document that shareholders value in Australia is best preserved when board size are small and partly represented by female directors.

Cheng *et al.* (2008) report a significant association between smaller boards and better firm performance before passage of antitakeover laws as compare to after takeover restrictions. Further, Rashidah & Fairuzana (2006) document that larger boards, seem to be ineffective in discharging their monitoring duties, due to their management dominance over board matters.

However, contrary to the above findings, there are studies supporting the fact that a large board size has a positive impact on performance (Mak & Li, 2001; Adams & Mehran, 2003; Dalton & Dalton, 2005; Nordin *et al.*, 2005). However, Adam & Mehran (2003) results suggest that performance is more related to industry type and board size is more suitable for a certain type of industry depending on the firm's organisation structure. A meta-analysis between 131 studies by (Dalton & Dalton,



2005) revealed that board size had a positive impact on performance as compared to an earlier results obtained by a meta-analysis conducted by (Dalton *et al.*, 1999).

Further, Zubaidah *et al.* (2009) found that for a randomly selected sample firms of 75 companies listed on the Bursa Malaysia, board size has a positive impact on firm performance. This evidence, suggest that a larger board size performs effectively and there seem to be no communication and coordination problem among the board members. However this is contrary to many US studies which found that small board size is more effective and performs better.

Further, there are also a number of studies which found no conclusive evidence on the relationship between board size and performance (Bhagat & Black, 2002; Yoksihawa & Phan, 2003; Bonn, 2004; Chin *et al.*, 2004). Bhagat & Black (2002), based their results on the fact that board size should be taken to be endogenously related to other control variables that may correlate with performance and if similar control variables are used similar to those used in Yermak (1986), the approach taken are bound to cause different results.

In summary, there have been many studies with numerous suggestions and recommendation on the ideal board size that should be maintain by a board however it has been rather subjective and varies from country to country and company to company. The KLSE listing requirement in 2002, place restrictions on the number of directorships that a director may hold. As cross-directorship is legal in Malaysia, the KLSE listing requirement has recommended a maximum of 10 directorships in public listed companies and a maximum of 15 directorships in private companies. In general,

empirical research on board size in most cases is negatively related with firm performance.

As seen in Chapter 2, several factors associated with profitability have been seen to impact dividend payouts. Whilst the findings from the Asian context as well as Malaysia have been inconclusive as to the impact of CG on performance, it will be interesting to examine if whether there is a relationship between board size and dividend payout. This will evidence the institutional context and its impact on dividend payout and its relationship with IOS.

#### *4.3.1.2. Board composition*

The Companies Act 1965 requires every company to have at least two directors without any requirement on the composition of the board. In a survey by KLSE/Price Waterhouse in 1998, showed that almost 49% of the companies under the survey have two independent directors and 23% have three independent directors. The two criteria for directors independence are i) the executive power is part of the management and ii) significant shareholding (para 4.23 MCCG). The Malaysian listing requirement clearly defines independent director as a director who is independent from the management, free from any business or other relationship which could interfere with the exercise of independent judgement.

An important dimension under the issue of Boards is the extent to which the level of directors' independence is grounded in agency theory (Johnson *et al.*, 1996). According to Jensen & Meckling (1976) agency theory focuses on the control and separation of duties by directors and agency theory treats the company as a nexus of contracts

through which various participations transact with each other. As assets are the property of the shareholders, a principle and agent relationship arises where managers have to maximise the returns for the benefit of the owners. Therefore installing board of directors with independent non executive directors enables a transparent board, to be effective enough to decrease the agency costs (Fama & Jensen, 1983). With the above reasoning it can be said that independent board members or outside directors are expected to monitor management self interest more effectively than dependent or inside directors.

With regard to the characteristic of boards, the component within the board is very important to judge the effectiveness of a particular board in monitoring. Board composition is ordinarily defined as the “proportion of outside directors to total directors” (Baysinger & Butler, 1985; Kesner (1987). The appointment of managers as directors (insiders) has the advantage of having more information and commitment as compared to outside directors. Fama (1980) pointed out that directors provide incentives to independent non executives to monitor board failing and that directors are removed from the board if they do not perform.

Further, the study by Craven & Wallace (2001) argued that the appointment of outside directors leads the board to be more independent in monitoring and thus reduce the agency conflicts and improve performance. Consistent to this, studies by Rosentein & Wyatt (1990) suggest that outside directors are positively related to abnormal stock return and fraudulent reporting (Beasley, 1996). Furthermore, the domination by insiders might lead to transfer of wealth to managers at the expense of the shareholders and these pushes up the agency cost of the company (Beasley, 1996; Fama, 1980).

However, the critics on the role of non-executive directors are of the opinion that independent directors perform little in monitoring the board due to their lack of independence, time and insufficient information (Gilson & Kraakman, 1991; Patton & Baker, 1987). Keasy & Wright (1993) raised concerns on the ability of independent directors to supervise management and also on the availability of qualified and calibre independent directors. Stiles & Taylor (1993) also raise the issue on limited pool of talented independent directors to serve the board. Another area of concern was on the issue of independent directors not holding any shares or insignificant shares in the company. Conyon & Peck (1998) argue that the incentives to monitor management and to contribute on the pursuit of shareholders interest are at the minimum.

However, there have been also a number of studies which evidenced the relationship between independent directors and corporate performance. Baysinger & Butler (1985), Hambrick & Jackson (2000) and McIntyre *et al.* (2007) found evidence on the proportion of independent directors to be positively correlated to accounting measures of performance. Another study by Hermalin & Weisbach (1988) found that the proportion of independent directors tends to increase when the company is poorly performing. Abdullah (2004) found that Malaysian company's boards are generally dominated by outside directors. Further, Abdullah (2007) also document that corporate governance is associated with corporate transparency and posit that having more outside directors on boards should bring independent views to the company and this result in the company maintaining proper internal control systems which enables the board to manage the risk.

Xia Li *et al.* (2007) argued that higher proportion of independent directors are less likely to encounter financial distress and this evidence is consistent with the 'monitor

and control' proponents hence suggesting that independent directors could provide meaningful counterweight and constraint power to the manager. However, Saleh et al. (2005) argued that more independent director's representation on the board cannot limit the action of CEO-Chairman towards earnings management practices. Further, Nordin *et al.* (2005) and Zubaidah *et al.* (2009) found that board composition has a positive impact on firm performance. This is because besides the expertise and the diverse background possessed by independent directors, the independent directors also play a vital role on the long term performance of the company and contribute significantly to the intellectual resources of the firm.

On the contrary, studies by (Klien, 1998; Bhagat & Black, 1997; Hermalon & Weisbach, 1991; Coleman & Biekpe, 2007) found that the proportion of independent directors is negatively correlated to accounting measures of performance. Another study by Sing & Ling (2008) found that there is no association between board composition and performance mainly because independent directors in Malaysia play a passive role in strategic decision making as their appointments are merely based on listing requirements. However, studies by (Lawrence & Stapledon, 1999; Chin *et al.* 2004) took another angle and found that there is no significant difference between the proportion of independent directors and performance. Abdullah (2002) based on the Malaysian scenario reiterated that the choice of board composition is complex and it is based on other factors such as size of the board, the extent to which the directors are independent of management, the extent of director's shareholdings, CEO duality and the presence of large shareholding. Other studies that support the above connotation are such as (Ponnu, 2008 and Zubaidah *et al.*, 2009).

In summary, the findings are mixed on the impact of board composition and there seemed to be more evidence that the effects of outside directors are not strongly correlated to company's performance (Abdullah, 2004; Ponnu, 2008 and Zubaidah *et al.*, 2009). Although, in the Malaysian context, the independent directors might appear to be independent, the process involved in the selection of independent directors may not be truly independent. This is because the selection depends on the availability of talented individuals and drawing from a limited talent pool may adversely affect the oversight functions.

Therefore, it will be timely to examine the relationship between board composition and IOS and dividend payout and in this context also examine whether the board composition moderates the relationship between IOS and dividend payout. This will extend the dividend payout literature on the significance of board composition on influencing the relationship between IOS and dividend policy in the Malaysian context.

#### *4.3.1.3. Duality*

Duality has been defined as a board structure control mechanism which comprises chief operating officer (CEO) and chairman of the Board as the same person. Fama & Jensen (1983) argue that the BODs is ineffective when the decisions of top management cannot be evaluated and controlled and is deemed ineffective when CEO duality exists. Further, the Cadbury report, 1982 do not condone such practice because it assumes that too much power would be invested on one single person. In support of this, Abdullah (2004) and Rashidah & Roszaini (2005) found that the majority of the Malaysian companies in their study, practice the non-dual leadership structure and in terms of performance, perform better than companies that do not practice non-duality.

Likewise, Sora & Natale (2004), document the effects if companies are to maintain duality i.e merged roles of CEO-Chairman only leads to absolute power which can destroy the purpose of the corporation and enables the power for personal gains. Further, Saleh *et al.* (2005) found that discretionary accruals as a proxy for earnings management is positively related to the existence of CEO–Chairman duality. Importantly, Bliss *et al.* (2007) document that one of the considerations for auditor’s in the Malaysian market, to measure inherent risk, is the existence of CEO duality and auditors provide a significant check to moderate CEO dominance in firms where CEO duality is present.

In contrast, Weir *et al.* (2002) found that duality showed no role on improving performance in the U.K firms. Bloyd, (1994) found similar results in the U.S. Further, Elsayed (2007) argued that the impact of CEO duality on corporate performance varies with the corporate characteristics and/or industry context, that is, CEO duality benefits some firms while separation will be more advantageous for others. Lam & Lee (2007) found that in Hong Kong, CEO duality and performance is contingent on the presence of family control, where CEO duality is good for non-family firms while non-duality is good for family controlled firms. Further, Chahine & Tohme (2009) documented that under pricing is higher in IPO firms and lower for corporations and other industry related investors that have CEO duality. Further, a study on the board structure and corporate performance in the Malaysian context, by (Nordin *et al.*, 2005; Ponnu, 2008; Zubaidah *et al.*, 2009) found no association between CEO duality and performance.

In summary, though the literature consistently supports separate individuals for the post of CEO and Chairman, the real unresolved issue is whether this would lead the board to

better monitor and thus increase the value of the firm. Proponents of CEO duality are of the view that by combining both the roles, it would create a clear focus for objectives and operations (Anderson & Anthony, 1986; Stoeberl & Sherony, 1985). In contrast, there are also studies that argue that there are both cost and benefit on the separation of CEO and Chairman (Brickley *et al.*, 1997; Abdullah, 2002; Rashidah & Roszaini, 2005). The gap with respect to dividend policy is that there is no conclusive evidence to show that duality has a direct effect on the firm's dividend payout.

#### **4.3.2. Gaps in the External Corporate Governance Mechanism Research**

As discussed in Section 2.6.1., a unique feature of the Malaysian political economy is the presence of Government linked companies (GLCs). However, GLCs have been established in many countries since independence for numerous reasons and at various times, often as an integral part of national development and economic development (Turner & Hulme, 1997). Malaysia, and other developed countries too, established many GLCs for one reason or another. Malaysia established many GLCs as part of the affirmative action policy initiated in 1971 to bring social balance (Thillainathan, 1979 and Salleh & Osman-Rani 1991) as noted in Chapter 2.

These large GLCs have recently come under the Government's supervision. However, there are no generally acceptable criteria to assess GLCs (Thillainathan, 1975a; Affandi, 1979 and Zakaria, 1984). Abdul-Aziz *et al.* (2007) identified four (4) aspects i.e social responsibility, competition, efficiency and income generation. These are suggested based on the fact that firstly, GLCs are created to fulfil certain social obligation (Puthuchery, 1999). Secondly the commercial obligations are meant to represent Bumiputera entrepreneurs (Thillainathan, 1975b) and thirdly, to ensure the efficient usage of the government fund and policy money (Affandi, 1979). Lastly, for



commercial reasons to enable the entities to be profitable (Puthucheary, 1979) Table 4.2 provides statistics on the market capitalisation of GLCs for the period 2004 to 2006 and the market capitalisation of the government linked companies is on the rise i.e from 11 percent in the year 2004 to 40 percent in the year 2006.

**Table 4.2**  
**Total Market Capitalisation by Government linked and Non-Government linked Companies in Malaysia**

	No of Companies	%	Market Capitalisation RM (Billions)					
			2004	%	2005	%	2006	%
Government linked Companies	32	10.67	196,693	39.30	199,943	39.70	237,721	39.44
Non-Government linked Companies	268	89.33	303,750	60.70	303,750	60.30	364,954	60.56
<b>Total</b>	<b>300</b>	<b>100.00</b>	<b>500,443</b>	<b>100.00</b>	<b>503,693</b>	<b>100.00</b>	<b>602,675</b>	<b>100.00</b>

Extracted from OSIRIS

#### *4.3.2.1. Evidence on Government linked Companies*

As noted in Chapter 2 and in section 3.5.2.3., in Malaysia, there exists a high concentration of ownership among public listed companies. In examining ownership concentration of listed companies in 1998 Abdul Samad (2002) found the means for the largest shareholder and the five largest shareholders to be about 30% and 60% respectively. Hence, supporting the notion that public listed firms in Malaysia are less diffused and dominated by companies with substantial shareholders, who are typically families or government owned or promoted institutions. This is also evidence by La Porta *et al.* (1998) that owners extend their resources through the use of pyramiding and management appointments, as well as through frequent cross-ownership and the

use of (less frequently) shares that have more votes. At the 20% cut-off level, by way of market capitalisation, state ownership becomes much more pronounced i.e 34.8% and the control for widely-held financial institutions and corporations is diminished, so is the control by families. Thillainathan (1999), confirm the fact that cross-holdings of share ownership or pyramiding, is more common in Malaysia.

Prior studies on the separation of ownership by Berle & Means (1932) and Blair (1995), state that varying levels of government ownership are expected to affect management incentives and corporate policy choices. Two prior studies by Smith & Watts (1992) and Gaver & Gaver (1993) provided evidence on the relationship between growth opportunities and corporate finance and dividend policy decisions are at least similar to, institutional ownership and emphasized the fact that there is strong likelihood that the monitoring hypothesis may apply. Gugler (2003) found that consistently, state-controlled firms are most reluctant to cut dividends when the cuts are warranted and firms with low growth opportunities optimally disgorge cash irrespective of who controls the firm.

Although the literature on the relation between government ownership and corporate dividend policy is as yet unexplored, there is relatively more evidence on the institutional ownership literature that provides relevant linkages. For example, the amount of pressure institutional investors exert on managers does have an impact on managers' incentives (Brickley *et al.*, 1988; Pound, 1988 and Bushee, 1998). There is some anecdotal evidence that suggests a positive association between government ownership and dividends since firms with government ownership have relatively less difficulty raising funds to finance investments and can therefore afford to pay dividends.

Ang & Ding (2006) based on their studies on the financial and non-financial performance of GLCs and non-GLCs, where each has a different set of governance structures and key difference being government ownership, found that Singapore GLCs have higher valuations and better corporate governance than a control group of non-GLCs. On another note, the study also found that Singapore's government owned enterprises are comparable to privately run enterprises in efficiency as it showed that share issue privatisation has some positive impacts on their performance.

Further, Abdul Wahab *et al.* (2007) found that although there is no evidence that politically connected firms perform better, political connections do have a significantly negative effect on corporate governance, which is mitigated by institutional ownership. Interestingly, Guo & Ni (2008) document that firms with higher institutional ownership are more likely to be dividend payer's i.e the firms with higher institutional ownership are more likely to pay and continue to pay dividends. Further, Dang Chang *et al.* (2008) document that, the negative relationship between institutional investor ownership and firm performance is stronger for firms with higher investment opportunities, due to the involvement of investors in corporate governance matters and concerned with firms' long term performance which in turn reduces the management's incentives to manage earnings upwards.

#### *4.3.2.2. Family Controlled firms*

As discussed in Chapter 2, family controlled firms, especially related to the Chinese ethnic community which typically controls the businesses, is a common feature in Malaysia. Generally, however, it is observed that most of the firms in the world are

family controlled and they are dominant among publicly traded firms especially in the Western Europe, South and East Asia, the Middle East, Latin America and Africa (La Porta *et al.*, 1999) and (Faccio & Lang, 2002). Furthermore, even in US and UK, some of largest traded firms are family concerns such as Wal-Mart Stores and Ford Motors. The pattern of separation and ownership varies from country to country. In US, the separation of ownership is maintained via hiring professional managers to run the business. In such a situation professional managers have substantial control of the company (Berle & Means, 1932).

Ownership structure is a very significant element in determining a firm's objectives, shareholders wealth and how managers of a firm can be disciplined (Jensen, 2000). Berle & Means (1932) have extensively discussed the extent of separation of ownership and management under the structure of ownership. Any conflict of interest between managers and interest of owners can lead to agency problems. However, agency problems can be mitigated by way of effective monitoring by concentrated shareholders (Berle & Means 1932; Fama & Jensen, 1983; Shleifer & Vishny, 1997). Jensen & Meckling (1976) counter the argument by saying that holding of shares by managers can induce managers to maximise firm performance and shareholders benefit.

On the basis of implication on the ownership structure for firm performance, it not only concentrates on the ownership but also extends to the firms' identity. Shleifer & Vishny (1997) suggest that ownership concentration measures the power of shareholders to influence managers and further the identity of the owners have implication for their objectives and the way they exercise their power and this is reflected in company strategy with regard to profit goals, dividend, capital structure and growth rates. The identity for each country differs and according to Blair (1995) and Shleifer & Vishny

(1997), the different identity of concentrated owners and shareholders tend to have different monitoring skills and incentives in managing the firms' objectives and performance.

There is also another school of thought on the relationship within managerial ownership and firm performance. According to Morck *et al.* (1988), there is also an opposite relationship between managerial ownership and firm performance. Managerial shareholders do not always encourage positive firm performance. In fact, they suggest that a certain portion of the shareholding managerial shareholders hold on to their powers for personal gains and not for the overall benefit or performance of the company. Generally thus far, majority of the previous studies have been conducted in developed countries such as UK and US where its ownership structure is typically different from that of the developing markets. Generally, developed countries have low ownership concentration and the legal protection for minority shareholders is relatively strong.

According to the World Bank report (1996) in more than half of the public listed companies, the five largest shareholders owned 60% or more of the company's equity. The largest shareholder groups among the top five shareholders are nominee companies (45.6%), followed by non-financial companies (25.1%) and the government (17.2%). However, Claessens *et al.* (2000) document that countries such as Korea, Singapore, Thailand and Taiwan have large family controlled firms that display a significant wedge between ownership and control. Further, the study also found that older firms are more likely to be family controlled firms, as smaller firms and the concentration of control gradually diminishes with the country's economic development (Claessens *et al.*, 2000).

Claessens *et al.* (2000) survey of the East Asian Corporations, found that of the sample of 238 Malaysian companies taken, 10.3 percent are widely held, 67.2 percent are owned by families and 13.4 % by the government while financial and non-financial institutions owned 2.3 % and 6.7 % respectively. Based on the above stated facts, it could be envisaged that family owned and government companies are a common feature in Malaysia.

#### *4.3.2.3. Evidence on Family Controlled firms and performance*

Lim (1981) document the ownership structures of the largest 100 corporations in Malaysia and found a high degree of concentration in Malaysia's corporate economy. The study identified the stock ownership as highly concentrated on the hands of a few wealthy families and that a large amount of capital is controlled through a sophisticated system of interlocking. Alpay *et al.* (2008) also found that the family controlled firms appear to maximise sales and shareholders' value.

McConaughy *et al.* (1998) observe that over fifth of the largest one (1) thousand public firms in the U.S are Founding Family Control Firms (FFCFs). Outside the U.S., FFCFs are even more common: virtually all non-SOE (State Owned Enterprise) Indian firms, almost all Korean firms, the majority of Canadian firms and most medium-sized German and Austrian firms are FFCFs. De Angelo & De Angelo (1985) noted that family control provides incentives and monitoring. McConaughy *et al.* (1998) and Anderson & Reeb (2003) add on to suggest that family control should enhance firm. Another study, Jaggi *et al.* (2009) show that the monitoring effectiveness of corporate boards is moderated by family controlled firms, either through ownership concentration or the presence of family members on the corporate boards.

Further, Jasani (2002) stresses that families invest in an efficient manner because they are concerned with the wealth transfer to the next generation. McConaughy (1998) goes further by stating that the family firms had higher growth opportunities but are similar with respect to operating risk, suggesting that the size and industry matching is close. Other studies by (La porta *et al.*, 1999; Claessens *et al.*, 2000; Facio & Land, 2002; Dyck & Zingales, 2003) add on to suggest that generally, most of the Continental Europe and Asia, is characterised by a greater ownership concentration in the hands of individuals, families, governments or industrial groups.

As in terms of the Malaysian environment, Jasani (2002) find that Small and Medium Scale Enterprises (SME) are managed by founder and anchored to the family via funding and employment. The firm's activities are generally concentrated and focused primarily on manufacturing, trading and retailing. Jasani (2002) also found that 59 percent of the businesses in Malaysia are managed by the founder whereas 39 percent are managed by second generation and the majority of the founders are children. In addition to it, almost 56 percent of the founders reign is linked to Small Medium Enterprises (SMEs).

Further, Malaysia being a multi-racial country, the Chinese continue to play a significant role in the economy. The Chinese practice a distinctive Chinese business culture in the running of their business. Hence, the adoption of the prescribed leadership structure of separating the Chairman and CEO positions is not likely to improve the financial performance of Chinese controlled companies. The study using 218 Chinese controlled public listed companies in Malaysia show that the prescribed corporate governance code on the listing requirements to maintain a structure of

separate Chairman and CEO has no significant impact on the financial performance of the companies (Lai, 2007).

Another study on the corporate takeovers in Malaysia, Imm Song *et al.* (2007) found that there is an interaction effect between family ownership and premiums paid which has contributed positively to the post take over performance and hence suggest that family ownership mitigates agency problem in corporate takeovers, Further, Imm Song *et al.* (2008) posit that ownership by family aligned the interests of the owners to that of the shareholders rather than in the expropriation of minority shareholders.

With regard to the influence of family controlled firms and the pattern of investment in firms on five East Asian countries including Malaysia, the study found four stylised facts. Firstly, that the corporate investments of family controlled firms is determined by profitability, cash flow and credit risk. Secondly, family control firms face more severe internal funds constraints on investments than non family controlled firms. Subsequently, comparison of pre-crisis and post- crisis periods confirm the result that family controlled firms face more severe internal funds constraints of investment than independent firms and lastly, there is no evidence that highly profitable firms with more investment opportunities pass up these opportunities due to excessive debt problems (Hanazaki & Liu, 2007).

Further, Nowland (2008) found that family controlled firms in East Asian countries, which started with worse corporate governance are catching up with those with better board governance practices and it does appear that corporate governance codes and other regulations have enticed the average firms to improve their board performance.



The results also show a positive association between the splitting of CEO and Chairman, position with subsequent operating performance and market value of firms.

Miles (2009) argue that family run business in Asian markets including both Hong Kong and Malaysia, presents difficulty in evolving positive corporate governance practice as there is a strong resistance to transparency and accountability. The main reason being where the founder dominates the overall business practice and makes all major decisions.

#### *4.3.2.4. Corporate governance, dividend payout and concentration of ownership*

On a study of family owned firms in a developed country, it is envisage that family owned businesses pay a lower dividend and do not smooth their dividends. The reason being they do not emphasise on dividend payout and therefore, dividends payout is more volatile. Agency costs are lower due to the close monitoring by the controlling shareholder. Hence, dividends policy is not expected to play a major role in family owned firms as a monitoring device but is expected to be more correlated to earnings and cash flow (Li *et al.*, 2006).

With regard to Government controlled firms in developed countries, Gugler (2003) investigated the potential impact of a range of different types of shareholders on dividends for a sample of Austrian firms which have similar control structures as German firms and found that state owned controlled firms have the highest dividends payout and practices dividend smoothing. The reason for the high dividend payout is attributed to the lesser motivations by citizens/individuals to monitor the management. Government controlled firms are likely to suffer from this agency problem as they are

controlled by a large number of citizens. Hence, managers of government controlled firms prefer a stable dividend policy with high dividends payout to keep the principles happy.

With regard to developing countries, Lemmon & Lins (2003) document the endogeneity problems arising from the joint determination of many of the relationships being tested in the literature weaken the reliability of the tests. Dividends have been shown to play an important role in corporate governance. Interestingly, Rozeff (1982) models dividends as a function of growth, beta and agency costs and underlying the model is the visibility that dividend payout creates. His study used ownership concentration as proxy for agency costs and the evidence show a negative relationship between dividends and concentration confirming the significance of payout policy in managing managers.

Most importantly, Kose & Knyazeva (2006) found that firms with weak governance pay higher dividends and the relationship is stronger for firms with high free cash flow. Faccio et al. (2001) also found that ownership to be negatively related to dividends in Asia. However, La Porta *et al.* (2000) provides an alternative view in that where family and state ownership are common, outsiders have cash flow rights but few control rights and need to protect themselves from expropriation by controlling shareholders. Claessens *et al.* (2000) support and show that risk of appropriation is the major principle-agent problem for firms in East Asia as oppose to empire building.

Further, Chen *et al.* (2005) also found little relationship between dividend policy and family ownership. Only for small firms there is a significant negative relationship between dividend payout and family ownership of up to 10% of the company stock.

Further, Hanasaki & Liu (2007) document that the majority of the family controlled firms face severe internal financing constraints than non-family-controlled firms, hence suggest that the mechanism in East Asian with regards to smooth reallocation of money among investment projects is not working well.

Gadhoun *et al.* (2007) found that dividends are used as a protective mechanism for minority shareholders against the possibility of expropriation by large shareholders and the hidden reason is the control that families exert on the dividend payout policy. Further, Gugler (2003) found that family controlled firms are least reluctant to cut dividends when cuts are warranted and this results hold for firms with good investment. However, firms with low growth opportunities optimally disgorge cash irrespective of who controls the firm.

#### *4.3.2.5. Dividends as a substitute for corporate governance mechanism*

In the case of developing countries, Sawicki (2009) show evidence that dividends and corporate governance are closely related and there is evidence of a pre-crisis negative relationship between dividends and governance which indicate that dividend act as a substitute for other corporate governance mechanisms during those difficult periods. Poorly governed firms may find that dividend payout can be value-enhancing by, for example, soaking up free cash flow that insiders might otherwise squander. Although there are several monitoring and control practices that act as governance mechanism which protect minority shareholders from expropriation by corporate insiders, their effectiveness, especially in countries with weak institutions and little protection of property rights, is not well researched or understood (Sawicki, 2009). Further, a recent

study by Duha AI-Kuwari (2010), reveal that dividends are paid to reduce agency conflict, avoid exploiting minority shareholders and enhance the company's reputation.

#### *4.3.2.6. Protection of minority interest*

Based on developing countries, (Claessens & Fan, 2002 and Faizah, 2002) provide a comprehensive picture of corporate governance in the region, confirming the lack of protection of minority interest rights as a major issue, in an environment of low transparency, extensive group structures and risky financial structures. Lemmon & Lins (2003) document that on the potential for expropriation by insiders, with a ratio of cash flow rights to control rights and found a positive relation between ratio and value erosion during the crisis, hence confirming the vulnerability of minority shareholders to expropriation. In support, La Porta *et al.* (2000) posit that protection of minority shareholders depend not only on country level governance but also on firm level governance practices. The study also show evidence that Southeast Asian countries is a ideal laboratory to relax the governance practices as firms in different legal regimes have attributes that offer shareholders a differential voice in the governance of the corporation depending upon proper/improper governance practices of the firm.

#### **4.3.3. Growth, governance and dividend payout**

In the context of developed countries, Li *et al.* (2006) analyse the dividend payout behaviour in non-state owned listed companies and found that if compared with the manager, the owner is a more important player that influences the firm's dividend payout. Four major motivational factors as determinations of a dividend payout are identified as:(i) investment opportunities (ii) refinancing ability (iii) stock price and

(iv) potential repayment capacity. Table 4.3 provides a summary of studies relating to dividend and investment opportunity set (growth) based on the evidence obtained from developed countries.

Mitton (2004) evidenced that firms with stronger corporate governance have higher dividend payouts and the negative relationship between growth opportunities and dividend payout is stronger among firms with better corporate governance. Further the positive relationship between corporate governance and dividend payout is stronger with investor protection. However, D'Sauza & Saxena (1999) found their results do not support the negative relationship between dividend policy and investment opportunities. In fact, the dividend payout ratio showed insignificant relationships with past growth rate and market to book value. In contrast, consistent with La Porta et al. (2000), Alonso & Iturriaga (2005) showed that Spain is one of the few countries supporting the 'substitute model' and that high growth companies tend to pay more dividends.

It can be seen that in the developed countries context, there are mixed findings on the relationship between growth and dividend payout and this may be further compounded if one considers corporate governance impact.

On the same note, in the context of Asian countries, Gul & Kealey (1999) showed that for a fixed level of growth opportunity, the Chaebols in Korea carry higher levels of debt and that growth opportunities are negatively associated with leverage and dividends. It was suggested that more detailed studies on corporate governance mechanisms and Korean Bankruptcy laws which might affect the relationship between

the IOS and dividend payout as well as other monitoring mechanism to be considered in examining the growth opportunities and dividend payouts.

In the context of an emerging economy, Ghana, Amidu & Abor (2006) evidence a significantly negative association between dividend payout and risk, institutional holding, growth and market to book value of equity. This is indicative of the fact that growing firms require more funds to finance their growth and as a result would be able to retain a greater proportion of their earnings by paying lower dividends. Similarly, firm with higher market to book value tend to have good investment opportunities and thus retain more funds and record lower dividend payouts.

Mitton (2002) used the differences in firm level corporate governance mechanisms to explain firm performances in Indonesia, Malaysia, Thailand, South Korea and Philippines. Klapper & Love (2004) confirm that better operating performance and valuation are related to better governance and investor protection in emerging markets. Ling *et al.* (2008) posit that Malaysian listed companies are reluctant to cut dividend even when the performance of the company is deteriorating. The reason being the information conveyed by dividend policy is more historical performance and not based on future performance as suggest by signalling theory. Sawicki (2009) extends further the aspect of firm level performance and dividend payout. He used the Credit Lyonnais Securities Asia (CLSA) 2001, the corporate governance ratings for firms from 19 emerging markets and found that higher corporate governance ratings have higher dividends payouts.

Dhameja (1978) classified the Indian listed firms into size group, industry group, growth group and control group and found that there is no statistically significant

relationship between dividend payout, on the one hand and industry and size on the other. However, growth is inversely related to dividend payout and is found to be significant. Further, the study on the Indian market (Singhania, 2005; Amidu & Abor, 2005) found that there is a declining trend of dividend payout from 448 in 1992 to 376 in 2004. The mean of the payout ratio increase with a trend volatility of between 25% and 68% during the period and 50% of the surveyed companies have been distributing dividends partly to shareholders and the rest for retention.

Table 4.4 provide a summary of studies relating to Dividend and investment opportunity set (growth) based on the evidence obtain from developing countries.

In summary, governance mechanism and dividend payout behaviour of firms in developed economies, developing economies and emerging economies vary in terms of industry, size, ownership structure, investment opportunities, refinancing ability and firm level performance. The research gaps are further summarised in the next section.

#### **4.3.4. Research Gaps: A Summary**

As seen in Chapter 2 several factors associated with profitability have been seen to impact dividend payouts. Whilst the findings from the Asian context as well as Malaysia have been inconclusive as to the impact of CG on performance, it will be interesting to examine if whether there is a relationship between board size and dividend payout. This will evidence the impact of the institutional context on dividend payout and its relationship with IOS.

Furthermore, on the issue of board composition, the evidence is mixed. Given the limited talent pool from which to appoint independent directors, the questions regarding the effectiveness of independent directors often arise. Hence, it timely to examine the relationship between board composition and IOS and dividend payout and in this context also examine whether the board composition moderates the relationship between IOS and dividend payout. This will extend the dividend payout literature on the significance of board composition on influencing the relationship between IOS and dividend policy in the Malaysian context.

On the issue of CEO duality, the gap with respect to dividend payout is that there is no conclusive evidence to show that duality has a direct effect on the firm's dividend payout.

On the issue of government linked companies, whilst there is limited evidence that GLCs performance better than non GLCs, there is no empirical evidence regarding the dividend payout behaviour. However, there is some anecdotal evidence that suggests a positive association between government ownership and dividends since firms with government ownership have relatively less difficulty raising funds to finance investments and can therefore afford to pay dividends.

Similarly, family ownership and performance research has also yielded mixed results. Moreover these studies were conducted in earlier periods when CG mechanisms were not fully operational. There is a gap in terms of evidence supporting the relationship between family ownership and dividend payout and growth.



Furthermore in the context of developing economies, the interesting view is that dividends function as a CG mechanism. However, conclusive evidence on the role of CG in dividend payout is limited, especially in context of concentrated ownership and GLCs.

In summary, the dividend payout rules are more ambiguous in Malaysia compared to the developed countries primarily because of Malaysia's unique feature in terms of institutional environment and its political economy. These commensurate with its corporate governance measures such as the board size, board composition, ownership structure and concentration and investor protection rules. These features have not been examined comprehensively in the context of dividend payout and growth. Clearly, the link between IOS and dividend payout and ownership structure as well as the theoretical justification on the contracting explanation based on Jensen's FCF is unclear.

#### **4.4. CONCLUSION**

This chapter provide a review and synthesis of the literature on dividend payout, growth and corporate governance. The dividend payout theories as a disciplining mechanism vary between developed and developing countries and the main reason for the difference have been attributed to its difference in institutional factors. Developed countries are more known for its dispersed ownership structures, effective corporate governance and stronger protection of minority interest and in contrast, developing countries are mainly distinguished by concentrated ownership of firms such as family firms, state owned firms, pyramid and concentrated ownership structures, weak capital

market governance and expropriation of minority shareholders by dominant shareholders.

The research gaps have been identified. The gaps show a need to examine the relationship between growth (IOS), dividend payout and corporate governance mechanisms in a different setting from that of the developed western economies. In the next chapter, the research questions are formulated and an appropriate theoretical framework is adopted to develop the related research hypotheses.

**Table 4.3****Summary of Studies Relating to Investment Opportunity Set and Dividend: Evidence from Developed Countries**

<b>Author (s)</b>	<b>Method</b>	<b>Sample</b>	<b>Independent Variable</b>	<b>Dependent Variable</b>	<b>Results of Future Research</b>
Smith & Watts (1992)	Cross section & time series	Conference board-survey data for every 4 <sup>th</sup> year from 1965 to 1985 as reported in the stock exchange	Financing policy, dividend policy, compensation & use of incentive plans	Equity value, dividend value, log of real salary existence of bonus plan & existence of stock option plan	The evidence suggest that contracting theories are more important in explaining cross sectional variance in observed financial, dividend & compensation policies than either tax based or signalling theories. Future research could examine other corporate policies such as leasing, hedging and accounting policies.
Gaver & Gaver (1992)	Multiple regression and Factor analysis.	Sample of 237 growth firms and 237 non-growth firms. Obtained data from firms listed on any of the three Compustat files: the primary, supplementary and tertiary files	IOS using MKTBKEQ, MKTBKASS, EPS and R & D as proxy variables	Dividend payout and Dividend Yield	The study found that growth firms have significantly lower debt & equity ratios and significantly lower dividend yields than non-growth firms. Generally, the firm level data supports the industry level results obtained from Smiths & Watts. Future research can be extended to include other corporate policy variables such as accounting policy choice.

**Table 4.1**  
**Summary of Studies Relating to Investment Opportunity Set and Dividend: Evidence from Developed Countries**

<b>Author (s)</b>	<b>Method</b>	<b>Sample</b>	<b>Independent Variable</b>	<b>Dependent Variable</b>	<b>Results of Future Research</b>
D'Sauza and Saxena (1999)	Multiple regression analysis	Taken a sample of 349 companies worldwide	The past three years of sales growth and market to book value of a firm's common stock is used as a proxy for controlling agency cost	Dividend policy of a firm is defined as its dividend payout ratio (the ratio of dividend per share or earnings per share)	The results are generally consistent with past findings however the results do not support the negative relationship between dividend policy and investment opportunities. In fact the dividend payout ratio show insignificant relationships with past growth rate and market to book value.
Mitton (2004)	Used corporate governance ratings developed by Credit Lyonnais Securities Asia (CLSA, 2001)	Sample of 365 firms from 19 countries	Growth opportunities and Corporate governance interacted with growth. Growth is the one year growth rate in total assets	Dividend Payout ratio	Firms with stronger corporate governance have higher dividend payouts and the negative relationship between growth opportunities and dividend payout is stronger among firms with better corporate governance. Further the positive relationship between corporate governance and dividend payout is stronger with investor protection

**Table 4.3**  
**Summary of Studies Relating to Investment Opportunity Set and Dividend: Evidence from Developed Countries**

<b>Author (s)</b>	<b>Method</b>	<b>Sample</b>	<b>Independent Variable</b>	<b>Dependent Variable</b>	<b>Results of Future Research</b>
Alonso and Iturriaga (2005)	Panel data analysis	Sample of 101 observations with five cross sections originating 505 observations panel data. The sample is obtained from large non-financial publicly traded Spanish companies in capital markets for five years 1991-1995. The sample accounts for 72% and 80% of quoted company's capitalisation.	Growth opportunities are computed by way of Price Earnings Ratio (PER)	Dividend policy has been computed by the dividend payments over total assets ratio (DIVTA)	Consistent with La Porta et al. (2000) the results obtained showed that Spain is one of the few countries supporting the 'substitute model' and that high growth companies tend to pay more dividends.

**Table 4.4**  
**Summary of Studies Relating to Investment Opportunity Set and Dividend: Evidence from Developing Country**

<b>Author (s)</b>	<b>Method</b>	<b>Sample</b>	<b>Independent Variable</b>	<b>Dependent Variable</b>	<b>Results of Future Research</b>
Gul & Kealey (1999)	OLS estimation and Common factor analysis.	6695 observations representing 655 companies for fiscal year 1980. Data is collected from Pacific-Basin capital Markets (PACAP) 1994.	Growth opportunities (proxies) MBA, MBE and EPS.	Dividend per share	The results show that for a fixed level of growth opportunity, Chaebol carry higher levels of debt and that growth opportunities are negatively associated with leverage and dividends. This study recommend the following for future studies: i) more detailed studies on corporate governance mechanisms and Korean Bankruptcy laws which might affect the relationship between the IOS and corporate policies ii) cover other monitoring mechanism iii) to examine the growth opportunities and corporate policies affected by these variables

<b>Author (s)</b>	<b>Method</b>	<b>Sample</b>	<b>Independent Variable</b>	<b>Dependent Variable</b>	<b>Results of Future Research</b>
Gul (1999)	Using pool cross sectional observations	Companies listed on the Shanghai Stock Exchange (China) from 1990 to 1995.	IOS is measured in terms of three ratios i.e MBA, MBE & EPS	Dividend policy is defined in terms of dividend yield	Government ownership is found to be positively associated with dividend policy and consistent with prior studies, IOS is found to be negatively associated with dividend payments and debt financing.
Amidu & Abor (2006)	Using panel data regression using fixed, random and OLS panel.	Data derived from financial statements of firms listed on the Ghana Stock Exchange (GSE) during a six year period from 1998 to 2003. In total 22 firms qualified for this study. This number represents 76% of the listed firms in Ghana.	IOS is measured using proxies i.e Growth in Sales & market to book value	Dividend payout is defined as dividend per share divided by earnings per share	The result showed a significantly negative association between dividend payout and risk, institutional holding, growth and market to book value of equity. This is indicative of the fact that growing firms require more funds to finance their growth and as a result would be able to retain a greater proportion of their earnings by paying lower dividends. Similarly firm with higher market to book value tend to have good investment opportunities and thus retain more funds and record lower dividend payouts.

Author (s)	Method	Sample	Independent Variable	Dependent Variable	Results of Future Research
					<p>The following questions should be considered for future research:</p> <ul style="list-style-type: none"> <li>- What determines the decision to pay or not to pay dividends in listed firms</li> <li>- What determines dividend payout ratios in unquoted firms in Ghana</li> <li>- What determines policy decisions of unquoted companies in Ghana</li> </ul>