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Ownership Structures and Dividend Policy: Evidence from Listed Plantation Companies in Malaysia

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ABSTRACT

This research analyzed the relationship of ownership structures with dividend policy using a sample of 43 plantation companies listed on Bursa Malaysia from 2013 to 2015. The results of the Ordinary Least Square (OLS) analysis find that foreign ownership has a positive and significant influence on dividend policy while state ownership has a negative and significant influence on dividend policy. Furthermore, it was also found that Government Linked Investment Companies (GLICs) ownership has an insignificant influence on dividend policy. This study provides evidence to policymakers of government through their GLICs and states in selecting and deciding their dividend policies. Furthermore, it also provides evidence to shareholders and managers that companies with foreign ownership pay higher dividends while companies with state ownership pay lower dividends. This study is among the early studies that contributes to the finance and corporate governance literature by examining the relationship between GLICs as whole and foreign ownerships with a dividend policy in Malaysia.

Keywords: *Dividend Policy, GLICs Ownership, State Ownership, Foreign Ownership, Malaysia*

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INTRODUCTION

Dividend policy is the process of a board of directors or management decisions regarding the distribution of a company's net income to the dividends or retained earnings. A company would distribute a part or all of its net income to shareholders for their investments in a company as dividends would retain a part or all of its net income in the balance sheet of a company as retained earnings for reinvestment purposes (Albouy, 1990). Thus, the decision of distribution of net income would affect the objective of a company's financial management in maximizing shareholders value. Black (1976) discusses the reasons why investors need to generate a return on their investment in a company and suggests that a company pays dividends to reward their existing shareholders and attract new shareholders to invest in its common stock at a higher price because they can value the dividends.

Damodaran (2011) classifies dividends paid into four ways. First, dividends could be paid in additional cash or stock. Second, stock dividends paid out to the investors raise a company's outstanding shares and reduces its stock price per share. Third, regular dividends are paid out to investors at regular intervals in either quarterly, semiannually, or annually. Last, a liquidate dividend that will be viewed by the internal revenue service, is a company paid out dividend that exceeds its recorded retained earnings. Damodaran (2011) states that a dividend policy could be measured by either the dividend yield ratio or a dividend payout ratio. The dividend policy is a concerning issue to investors because it is a more important source of income while investors are likely to monitor the performance of their companies through a dividend policy. Since a dividend policy has a major influence on the companies' share price, asset pricing, capital structure, capital budgeting, and mergers and acquisitions, policymakers often face a heavy task to set up a proper dividend policy (Allen & Michaely, 1995).

Miller and Modigliani (1958) provide evidence based on dividend irrelevance theories that the valuation of a company is not effected by its dividend policy in perfect capital markets. The reason behind this is that investors who participate in perfect capital markets are indifferent to receive their returns as dividends or as capital gains because both forms of returns have no further implications for the investors. According to the Bird in the Hand theory developed by Lintner (1962), investors can enhance a

preference for dividends to counter the imperfections of markets such as limited certainty and asymmetry information. Michaely and Roberts (2006) claim that changes of the level of dividends and smoothening them over time would reduce the volatility of a company's stock price reaction in response to dividend announcements. Rozeff (1982) argues that the optimal level of dividends is a tradeoff among higher dividends which would raise agency costs and transaction costs associated with outside financing.

The Agency Theory indicates that a high dividend payout assists in reducing funds available for consumption by the agents of a company. Shareholders will put pressure over the agent to give out the excess income or liquidity from the year as a dividend, which in turn forces the agents to seek for more funds from equity markets or debt markets if investment opportunities arise. Therefore, agency costs will be eliminated (Easterbrook, 1984; Rozeff, 1982). Particularly, large shareholders and institutional investors choose to avoid engaging in costly monitoring activities by demanding higher dividends (Haye, 2014). DeAngelo, DeAngelo and Stulz (2006) argue that the optimal level of a dividends payout policy is identified in order to distribute companies' free cash flow. Furthermore, they also discuss, due to the existence of the life cycle theory that companies pay lower dividends in their initial years. Their excess investment opportunities as compared to their internal funds are revealed as a reason of this behavior.

Issa (2015) argues that most investors intuitively relate the profitability of a company to a better dividend policy in several countries including Malaysia. However, the pattern of dividend policy varies from country to country, particularly between developed and developing countries emerging markets. It is reported that dividends pay out are more volatile in developing countries emerging markets than in developed countries (Glen, Karmokolias, Miller, & Shah, 1995). A conceptual model has been developed in such a way to provide an easy understanding of the significant variables that drive a dividend policy (Issa, 2015). However, Ahmed and Murtaza (2015), Bhattacharyya, Mawani, and Morrill (2008), Black (1996), Issa (2015), Mahdzan, Zainudin, and Shahri, (2016), and Subramaniam and Devi (2011) argue that a dividend policy is one of the major issues that remains unsolved in the world of finance. Allen and Michaely (2003) argue that further research should consider the significant variables that determine a dividend policy.

Malaysia is a developing country, yet its capital markets, which contain conventional and Islamic capital markets, is more developed than many other emerging markets (Ismail, 2016). To achieve a greater and fairer economic environment, the Malaysian government has implemented some strategies. Among them, the implementation of the Capital Market Master Plan from 2000 to 2010 that helped the capital market grow from a market size of RM717.5 billion (US\$239 billion) in 2000 to RM2.0 trillion (US\$667 billion) in 2010 (Security Malaysia, 2013). Therefore, the capital market in Malaysia grew by 11.1 percent per year between 2000 and 2010, ranking it as the fifth fastest growing market in Asia. Another government strategy in Malaysia is to increase the capital market from RM1.81 trillion (US\$424 billion) to RM4.5 trillion (US\$ 1.05 trillion) by 2020 to achieve the target to become a developed country (Suruhanjaya Sekuriti Malaysia, 2011). Hence, dividend policy makers should come up with policies to attract investors to increase market capitalization.

As reported in the Malaysia Market Focus Investment Strategy in January 2015, following the sharp fall in oil prices, the government's budget for the year 2015 was revised. In addition, several measures were introduced, namely the injection of an additional RM400 million (US\$93.7 million) in the form of dividends from government linked companies (GLCs) and GLICs to boost revenues and rationalize costs accordingly. Moreover, the Malaysian Investment Development Authority in 2016 reported that the government in Malaysia has started to liberalize foreign participations to invest in several sectors. Furthermore, as a part of the government policy in Malaysia, state ownership aims to distribute a dividend income to the Bumiputra unitholders in order to encourage them to participate in the equity market (Chu, 2004).

Malaysia is among the highest dividends paying countries in Asia (Benjamin, Wasiuzzaman, Mokhtarinia, & Nejad, 2016; Yap, 2012). As stated by Markus Rosgen, chief Asia strategist at Citigroup Incorporation that based on a fundamental analysis, dividends work well in Asia, specifically in Malaysia due to the alignment of minority shareholders interest with the majority shareholders i.e., government owners (cited in Benjamin et al., 2016; Yap, 2012). In Asian countries including Malaysia, companies tend to be less scattered and more concentrated in terms of ownership structure. Therefore, the concentration of ownership is found to

be owned by the government or state, families or large corporations unlike in the West countries (Amran & Ahmad, 2013).

Government ownership could be influenced either through the federal government or state government only in Malaysia. Federal government ownership is achieved through shareholdings in companies through GLICs¹ (Abdullah, Abdullah, & Redzuan, 2014; Le & Buck, 2009). The GLICs² ownership is defined as companies that have primary commercial objectives and in which the federal regime of Malaysia has a straight controlling stake to at least appoint board members. While, state ownership is realized through state-owned companies. State ownership is different from government ownership and this type of ownership can be clearly distinguished from government ownership in Malaysia although it is impossible to differentiate these two ownerships in China (Le & Buck, 2009). The research on state ownership is limited in the Malaysian perspective. State ownership here refers to the state-owned assets or control over any asset in the country at the state level.

The relationship of various types of ownership structures with a dividend policy has been conducted in many countries including Malaysia (see for example, Abdullah et al., 2014; Al-Najjar & Kilincarsla, 2016; Al-Kuwari, 2009; Benjamin et al., 2016; Ben-Nasr, 2015; Ferreira, Massa, & Matos, 2010; Goyal, Jategonkar, Megginson, & Muckley, 2014; Gordon, 1963; Gul, 1999; Kumar, 2003; Lintner, 1962; Thanatawee, 2014; Mancinelli & Ozkan, 2006; Wang & Yung, 2011; Walter, 1963). Among them in Malaysia, Abdullah et al. (2014), Benjamin et al. (2016) and Ismail (2016) conducted their studies on the effect of government ownership as “a percentage owned by state and seven GLICs² as individual”, family ownership, and largest shareholder ownership, respectively, on dividend policy. Furthermore, it has been recommended by Ismail (2016) that future research can investigate the relationship between other various types of ownership structures such as state ownership, board ownership, and financial institutions with a dividend policy in Malaysia.

1 The individual GLICs name in Malaysian language and their literal English translation: Permodalan Nasional Berhad or National Capitalisation Limited, Khazanah Nasional Berhad or National Treasure Limited, Kumpulan Wang Amanah Pencen or Pension Trust Money Group, Kementerian Kewangan Diperbadankan or Ministry of Finance Incorporation, Kumpulan Wang Simpanan Pekerja or Employees Provident Fund, Lembaga Tabung Haji or Pilgrimage Fund, and Lembaga Tabung Angkatan Tentera or Armed Forces Fund Board.

Therefore, this current study extends the studies conducted by Abdullah et al. (2014), Benjamin et al. (2016) and Ismail (2016). Hence, this study contributes to the area of finance and corporate governance literature at investigating the relationship between GLICs² as whole, state, and foreign ownerships with a dividend policy in Malaysia. Furthermore, this is among the early studies in Malaysia that carries out robust analyses by examining the GLICs, state, and foreign ownerships using dummy variables, which is equal to one if GLICs, state, and foreign owned and zero if otherwise, with a dividend policy. Moreover, this is among the early studies in Malaysia that undertook a robust analyses by examining the nonlinearity effect of GLICs, state, and foreign ownerships on dividend policy.

LITERATURE REVIEWS AND HYPOTHESES

Governments often invest in corporations to give access to extra fund support, to further an enterprise's advancement, and to advance corporate mechanisms by enhancing the monitoring of the corporations (Lau & Tong, 2008; Wade, 2004). Boubakri, Cosset and Guedhami (2009) argue that companies with government ownership can work in the market to develop the fair value of trading practices in the absence of powerful regulators, which may secure market members towards the misuse of market power. Gul (1999) argues that companies with a low or non-government ownership probably encounter trouble raising assets, while it probably depends on retained profit for their reinvestment purposes, which may reduce profit payout. He also found that government ownership has a positive and significant effect on a dividend policy. Al-Kuwari (2009) conducted a research to determine the dividend policies of companies listed on the Gulf co-operation council and shows that government ownership is positively related to dividend policies, indicating that companies with government ownership pay higher dividends. Al-Kuwari (2009) and Gul (1999) claim that the explanation behind the positive relationship is that government ownership itself would attract external assets or funds more easily. Thanatawee (2014) conducted a study in China utilizing a sample of firms listed on the Shanghai Stock Exchange and found that firms with higher government ownership have a positive influence on dividend payout. Nnadi, Wogboroma, and Kabel (2013) analyzed the determinants of dividend policy in Africa using a data of 29 listed firms from 1998 to 2009

and found that either a government's or its agencies ownership in a firm has a positive influence on its dividend policy. They also concluded that government owned firms pay high dividends in Africa, which is consistent with the view of agency costs, where the government is considered as the agent for their citizens.

Thomsen (2004) examined dividends payout as a moderating variable among blockholders ownership and the market stock value of European countries and indicated that a negative and significant blockholders level impact for government ownership and banks while the evidence for family ownership and institutional investors were mixed. Ben-Nasr (2015) found that government ownership is negatively related to dividend policy of multinational new privatized companies in 43 different countries. This result is in line with the prediction of agency costs. He also argued that the level of corporate governance practices in the countries affected the relationship of government ownership with dividend policy. He additionally indicated that the adverse relationship of government ownership with a dividend policy is more articulated in those countries that have weak order and law and also have a lower level of balances and checks.

Warrad, Abed, Khriasat, and Al-Sheikh (2012) analyzed the impact of ownership structures on dividends policy as measured by Tobin's Q utilizing a sample of all Jordanian industrial companies and found an insignificant impact of government ownership on dividends policy. Riaz, Liu, and Ahmad (2016) obtained a sample of all Pakistani companies to investigate the effect of corporate governance on dividends policy from 2009 to 2015. They found an insignificant relationship between government ownership and dividend policy, which is in agreement with Aguenau and Di (2013), who analysed the firms listed on the Casablanca Stock Exchange over the period 2004 to 2010.

Abdullah et al. (2014) conducted a study in Malaysia to examine the effects of seven GLICs as individuals on the dividend policy using a sample of listed companies. They found that the effects of seven GLICs as individuals were not significant on dividend per share as a measure of the dividend policy, indicating that the seven GLICs as individuals did not effect or demand for dividend payments from companies. In comparison this current study is on the relationship between government ownership through GLICs as whole and the dividend policy. Basically, it is hypothesized that:

H₁: GLICs ownership has a significant relationship with the dividend policy of listed plantation companies in Malaysia.

Lakonishok and Lev (1987) state that dividend distribution restricts the ability of a company to pay out dividends in the future which implies that dividend is less likely to be used by state shareholders as such dividend limits their ability to get cash from listed companies in the future. Furthermore, they also state that dividend distribution increases the share's liquidity and its attractiveness to investors. Gursoy and Aydogan (1999) and Yurtoglu (2003) claim that ownership structures are categorized by high family ownership concentration with other large owners such as foreigners and state owned. Wei, Zhang, and Xiao (2004) argue that companies with the level of state shareholders ownership share would probably pay out cash dividends and these shareholders would probably surrender the exercise of stock subscription rights. Su, Fung, Huang, and Shen (2014) investigated the relationship between state ownership and dividends policy in China and found that firms with state ownership shares pay higher dividends than firms with non-state ownership shares. They also concluded that firms with state ownership can easily get such a loan from its related owned banks in China as compared to firms with non-state ownership. Setiawan, Bandi, Phua, and Trinugroho (2016) also conducted a research in China and Indonesia. They found a positive effect of state ownership on dividend policy of the company. They concluded that particularly in China, firms with a higher state ownership distributed more cash dividends to the major shareholders (Lam, Sami, & Zhou, 2012).

Kouki and Guizani (2009) tested the relationship of state ownership share with dividends policy as measured by dividend per share using a sample of Tunisian corporations and found a negative relationship of state ownership with dividends policy. Al-Najjar and Kilincarslan (2016) used a sample of 264 firms listed on the Istanbul Stock Exchange to examine the influence of state ownership on dividend policy from 2003 to 2012. They showed a negative effect of state ownership on dividends policy during the period. Al-Shubiri, Taleb, and Al-Zoed (2012) tested the relationship of state ownership share with dividends policy in Jordan and found that state ownership negatively influences dividend policy. They also indicated that although state ownership is negatively associated with dividends policy, state owned companies still pay more cash dividends than privately owned

companies. On the other hand, Abdullah et al. (2014) found that the effect of state ownership is not significant on dividend per share as a measure of dividends policy, indicating that the state does not effect or demand for dividend payment from companies. Therefore, it is hypothesized that:

H₂: State ownership has a significant relationship with dividends policy in listed plantation companies in Malaysia.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000) claimed that firms with foreign ownership shares have better governance mechanisms that leads them to pay higher dividends and such firms have more incentives to monitor their corporate activities to protect their investments. Lam, Sami, and Zhou (2012) argued that foreign shareholders keep dividends inside their firms to refund investments. As per the view of the agency hypothesis, foreign shareholders are far from the firms to control managers' activities hence, they authorize these managers to pay dividends in order to decrease the free cash flows available with the manager and thus control their behavior. This is consistent with a Pakistani research that focussed on a sample of 17 companies listed on the Karachi Stock Exchange, which found that higher foreign investors in a company led to a higher dividends policy in a company (Ullah, Fida, & Khan, 2012). Setiawan et al. (2016) tested the relationship of foreign ownership with dividend policies using a sample of Indonesian listed companies from 2006 to 2012 and found a positive relationship between foreign ownership with dividend policies. This finding is in agreement with the finding of Bokpin (2011), Setiawan et al. (2016) and Warrad, Abed, Khriasat, and Al-Sheikh (2012). Setiawan et al. (2016) who also concluded that foreign owned firms distributed more dividends than other types of ownerships as the firms try to maintain their reputation in host countries.

Aydin and Cavdar (2015) tested the relationship between foreign ownership and dividend policy among 19 listed companies of the Bursa Istanbul corporate governance index who practised a specific level of the principles of corporate governance from 2007 to 2014. They showed that higher foreign ownership in a company brings a higher dividend payment. Meanwhile, Kowerski and Wypych (2016) found that foreign ownership is positively associated with corporate dividend policy. They also explained that a higher corporate dividend payment is due to the fact

that a dividend is regarded to foreign strategic investors as an attractive source of income. Their result is also in line with the result of Balagobei and Thiruchchenthurnathan (2016), who utilized a sample of Sri Lankan listed plantation companies. They also argued that due to the fact that foreign investors desire dividend distributions rather than retaining the dividends or higher capital gains.

However, Al-Najjar and Kilincarslan (2016) used data from 264 Istanbul Stock Exchange listed non-financial and non-utility firms over a 10-year period from 2003 to 2012. They found that foreign ownership negatively affects dividends policy. This result is consistent with Sakinc and Gungor (2015), who used a sample of 271 companies listed on the Istanbul Stock Exchange from 2004 to 2011 and indicated that increased foreign ownership shares in a company leads to decreased dividends payment in Turkey. Al-Najjar and Kilincarslan (2016) also suggested that since foreign investors have tax benefits on their income from dividends, they invested more in companies with a long run growth potential, rather than the short run dividends income. However, Sakinc and Gungor (2015) concluded that foreign owned firms may not distribute profits to their shareholders or distribute only low amounts and use retained earnings for investment. On the other hand, Aguenau and Di (2013) found that foreign ownership does not effect dividend policy. Thus, it is hypothesized that:

H₃: Foreign ownership has a significant relationship with dividends policy in listed plantation companies in Malaysia.

METHODOLOGY

The population of this study consisted of all plantation companies listed on Bursa Malaysia which sums up to 43 companies. The plantation companies were used in this research because Malaysia's plantation sector is a major contributor to the value of the nation's economy as it does not incur too much of imports compared to other sectors such as the construction, electronics and electrical sectors (Ooi, 2017). Furthermore, Malaysia is one of the world's largest palm oil exporters which supplies 32.7 percent of world palm oil exports (Workman, 2017). Thus, Malaysia's plantation sector is preferred among investors. Even the GLICs have recently announced an increase in

their investments in the plantation sector in order to enhance their portfolio as they believe that the plantation sector will provide sustainable income (Adilla, 2017; Rosli, 2017).

Since the focus was on plantation companies, 43 companies were used as a sample in the current research which follows the study of Balagobei and Thiruchenthurnathan, (2016) on Sri Lankan listed plantation companies. The 43 companies' data covered a period of 3 years (2013-2015) used for this study, resulted in a total of 129 company-year observations. The year 2013 up to 2015 was selected because it covers the issuance time of the Malaysian code of corporate governance, 2012. The variables included three ownership variables namely, GLICs² as whole, state, and foreign ownerships were used as independent variables while one measure of the dividend policy that is the dividend payout ratio was used as the dependent variable. In order to control the relationship between ownership variables and dividend policy, three control variables namely firm size, debt ratio and profitability were used as these are more closely related to shareholders ownerships and have been shown in previous research to be significant in effecting dividend policy. The secondary data used in this study were obtained from the plantation companies' annual reports for 3 years from 2013 to 2015, downloaded from the Bursa Malaysia official website. Table 1 shows the measurements of variables:

Table 1: Measurement of Variables

| Variables | Measurements | References |
|------------------------------|---|--|
| Dependent variable | | |
| DP _{i,t} | One measure of dividend policy was used: Dividend payout ratio was measured by dividends payout/net income in firm i in year t. | Ali Khan and Ahmad (2017). |
| Independent variables | | |
| GLICs _{i,t} | Total share held by seven GLICs ² as whole divided by total shares outstanding in firm i in year t. | Musallam and Muniandy (2017). |
| SO _{i,t} | Share held by state divided by total shares outstanding in firm i in year t. | Musallam and Muniandy (2017). |
| FO _{i,t} | Share held by foreign divided by total shares outstanding in firm i in year t. | Taufil-Mohd, Md-Rus and Musallam (2013). |
| PROF _{i,t} | One measure of profitability was used: Return on Assets of a firm i in year t. It was measured by the ratio of earnings before interest and taxes divided by total assets | Taufil-Mohd, Md-Rus and Musallam (2013). |
| FSIZE _{i,t} | Firm size of a firm i in year t. It was measured by the natural logarithm of total assets. | Taufil-Mohd, Md-Rus and Musallam (2013). |
| DEBT _{i,t} | Debt ratio of a firm i in year t. It was measured by long term debt divided by total assets | Taufil-Mohd, Md-Rus and Musallam (2013). |

This study used the panel data technique which was estimated using the OLS method in order to estimate the relationship of GLICs, state, and foreign ownerships with dividend policy. Therefore, the following regression model was utilized:

$$DP_{i,t} = B_0 + B_1 GLIC_{s,i,t} + B_2 SO_{i,t} + B_3 FO_{i,t} + B_4 PROF_{i,t} + B_5 FSIZE_{i,t} + B_6 DEBT_{i,t} + e_{i,t}$$

Where: The variables are described in Table 1.

RESULTS AND DISCUSSIONS

The descriptive statistics results of this research are summarized in Table 2. It illustrates that the average value for dividend policy in the listed plantation companies is 0.691, which is larger than the average estimation of 0.079 detailed for a sample of Malaysian companies by Abdullah et al. (2014), while it is lower than the average value of 15.13 detailed for a sample of Japanese listed companies over the period of 1995 to 2007 by Harada and Nguyen (2011). However, the range is from -1.932 percent to 8.317 percent with a standard deviation of 1.302 percent.

Table 2: Descriptive Statistics of Variables [Total 129 Observations]

| Variables | Minimum | Median | Maximum | Mean | Std. Deviation |
|-----------|---------|--------|---------|-------|----------------|
| DP | -1.932 | 0.458 | 8.317 | 0.691 | 1.302 |
| GLICs | 0.000 | 0.000 | 0.816 | 0.059 | 0.138 |
| SO | 0.000 | 0.000 | 0.646 | 0.047 | 0.125 |
| FO | 0.000 | 0.027 | 0.548 | 0.063 | 0.099 |
| PROF | -0.177 | 0.046 | 0.912 | 0.059 | 0.106 |
| FSIZE | 7.611 | 8.788 | 10.071 | 8.810 | 0.552 |
| DEBT | 0.000 | 0.030 | 0.440 | 0.083 | 0.117 |

Table 2 also shows that the largest average value of ownership variables in the listed plantation companies is 0.063 reported for foreign ownership with minimum (maximum) value of 0.000 percent (0.548 percent) and a standard deviation value of 0.099 percent. However, the lowest average value of ownership variables is 0.047 reported for state ownership with a minimum (maximum) value of 0.000 percent (0.646 percent) and a standard deviation value of 0.125 percent. Table 3 presents the results of Pearson's correlation matrix of all independent variables used in this research. It shows that the relationships between all independent variables do not reveal a multicollinearity issue (Judge, Hill, Griffiths, Lutkepohl, & Lee, 1988). The highest correlation value is 0.466 reported for firm size and GLICs while the lowest correlation value is -0.142 reported for state ownership and foreign ownership.

**Table 3: Correlation Matrix between Independent Variables
[Total 129 Observations]**

| Variables | GLICs | SO | FO | FZIZE | DEBT | PROF |
|-----------|-------|-------|--------|--------|--------|-------|
| GLICs | 1.000 | 0.013 | -0.086 | 0.466 | 0.350 | 0.055 |
| SO | | 1.000 | -0.142 | -0.054 | -0.005 | 0.043 |
| FO | | | 1.000 | -0.017 | 0.051 | 0.020 |
| FIZE | | | | 1.000 | 0.529 | 0.319 |
| DEBT | | | | | 1.000 | 0.230 |
| PROF | | | | | | 1.000 |

The empirical results of Model (1) using the OLS estimation are summarized in Column 2 of Table 4. The result shows that foreign ownership positively effects dividend policy. This result is consistent with the proposed (H_3) and statistically significant at 5%. It indicates that higher foreign ownership shares in a company leads to better governance mechanisms and pays higher dividends (La Porta, et al., 2000). This evidence supports the findings of Aydin and Cavdar (2015), Bokpin (2011), Balagobei and Thiruchenthurnathan(2016), Kowerski and Wypych (2016), Setiawan et al. (2016) and Warrad et al. (2012), who found that foreign ownership positively influences dividend policy and brings higher dividend payments. In contrast, this evidence does not support the findings of Al-Najjar and Kilincarslan (2016) and Sakinc and Gungor (2015), who found that higher foreign ownership negatively effects dividend policy and leads to lower dividend payments.

In contrast, the result points out that state ownership negatively and significantly influences dividend policy. The result has the coefficient consistent with the proposed (H_2), which indicates that higher state ownership leads to lower dividend payments. This result is in line with Al-Shubiri et al. (2012), Kouki and Guizani (2009) and Najjar and Kilincarslan (2016), who claimed that state ownership reduces the need to pay dividends to prompt the monitoring of capital markets. However, the finding is not in line with Bradford, Chen and Zhu (2013), Setiawan et al. (2016), and Su et al. (2014), who found that state ownership distributes more cash dividends to major shareholders.

However, insignificant effect is revealed between GLICs ownership with dividend policy, which is not in line with ($H1$), which means that GLICs does not influence dividend payments from companies. This result is

in agreement with Abdullah et al. (2014), who found that the seven GLICs as individuals are associated with dividend policy. They also indicated the reasons behind those results is because of the long-term goals of GLICs that are not seeking short-term income. Other reason is that GLICs also have other investments that would generate more or periodical incomes i.e., obtain fixed incomes from their investments in securities rather than depending on company dividends. The results point out that none of the control variables - firm size, profitability, and debt ratio are related to dividend policy.

Robustness Analyses

To investigate the influence of adjusted outliers on prior findings, a robustness analysis was done to adjust for outliers using a truncated method (Chen, Hong, & Stein, 2002). The findings of Model (2) after adjusting for outliers using the OLS estimation are shown in Column 3 of Table 4, which illustrates that the findings report similar results as in model (1) except for the influence of state ownership becomes insignificant on dividend policy while the influence of firm size becomes significant and positive on dividend policy.

As prior researchers have used different ways to estimate the ownership structure in several countries including Malaysia (i.e., Esa, & Zahari, 2016; Ghazali, 2010) further robustness analysis was also done, on the variables of GLICs, state, and foreign ownerships were used as dummy variables. The results of Model (3) testing GLICs, state, and foreign ownerships as dummy variables using the OLS estimation are summarized in Column 4 of Table 4, which finds that the findings are similar as compared to those shown in model (1) of Table 4.

Table 4: OLS Models by Using DP [Total 129 Observations]

| Variables | Model (1) [Percentage] | Model (2) [After Removing Outliers] | Model (3) [Dummy] | Model (4) [Non-linearity] |
|---------------------------------------|-----------------------------------|--|------------------------------|--------------------------------------|
| const | 7.148 (0.309) | -1.142 (0.111) | 131.839 (0.195) | 61.153 (0.160) |
| GLICs (D) ⁽²⁾ | - | - | 28.688 (0.222) | - |
| GLICs(P) ⁽¹⁾ | -4.094 (0.628) | 0.096 (0.270) | - | 46.907 (0.079)* |
| GLICS(P ²) ⁽³⁾ | - | - | - | -48.801 (0.097)* |
| SO (D) ⁽²⁾ | - | - | -11.799 (0.207) | - |
| SO (P) ⁽¹⁾ | -2.839 (0.032)** | 0.137 (0.475) | - | -16.981 (0.406) |
| SO (P ²) ⁽³⁾ | - | - | - | 30.004 (0.480) |
| FO (D) ⁽²⁾ | - | - | 3.209 (0.057)* | - |
| FO (P)(1) | 88.649 (0.018) ** | 1.449 (0.008)*** | - | 272.104 (0.234) |
| FO (P2) (3) | - | - | - | -441.855 (0.238) |
| PROF | -31.393 (0.270) | -0.227 (0.726) | -44.770 (0.325) | -28.310 (0.256) |
| FSIZE | -0.881 (0.316) | 0.181 (0.015)** | -14.687 (0.182) | -7.779 (0.163) |
| DEBT | 28.672 (0.201) | -0.263 (0.499) | 10.736 (0.159) | 19.766 (0.118) |
| R2 | 0.041 | 0.058 | 0.046 | 0.062 |
| Adjusted R2 | 0.011 | 0.008 | 0.003 | 0.014 |
| F-statistic | 0.791 | 1.178 | 0.925 | 0.816 |
| P-value(F) | 0.578 | 0.322 | 0.479 | 0.602 |
| Durbin-Watson Test | 1.993 | 2.024 | 2.092 | 2.073 |
| F-critical (dL) | (1.707) | | | |
| White Test | 30.372 (0.297) | - | - | - |

Notes: * Significant at the 0.1 level; ** Significant at the 0.05 level; *** Significant at 0.01 level; (1) GLICs, state, and foreign ownership as the percentage of total equity holdings; (2) GLICs, state, and foreign ownership as a dummy variables; (3) The square of GLICs, state, and foreign ownership as the percentage of total equity holdings.

As prior researchers have also tested the nonlinearity effect of ownership structures (e.g., Morck, Shleifer, & Vishny, 1988; Stulz, 1988) a robustness analysis was also done, on the variables of GLICs ownership and the square of GLICs ownership, state ownership and the square of state

ownership, and foreign ownership and the square of foreign ownership. The results of Model (4) testing the nonlinearity effect of GLICs, state, and foreign ownerships on dividend policy using the OLS estimation are summarized in Column 5 of Table 4. The result points out that GLICs ownership has an inverted U-shaped function for dividend policy. The inverted U-shaped relationship implies that higher GLICs ownership leads to a better dividend policy up to a certain point and beyond that point, GLICs ownership lowers dividend policy. A possible reason for the inverted U-shaped relationship is that at low or intermediate level of GLICs ownership, other blockholders might own more shares, e.g., families and foreigners, and in this case, GLICs would just monitor these blockholders. However, when GLICs own a higher percentage of shares, there are no other blockholders. In contrast, the result points out that state ownership and foreign ownership have a linear relationship function for dividend policy. All other variables report similar results as shown in Model (1) of Table 4.

CONCLUSION

This study analyzed the influence of ownership structures on dividend policy amongst 43 plantation companies in Malaysia over the period 2013 to 2015. The results of the OLS method shows a positive significant association between foreign ownership and dividend policy while a negative significant dividend policy impact is revealed for state ownership. In contrast, GLICs ownership is not significantly associated with dividend policy.

The practical implication of this study is that it gives evidence to policymakers of governments through their GLICs and states in selecting and deciding their dividend policies. It also gives evidence to shareholders and managers that companies with foreign ownership pay higher dividends while companies with state ownership pay lower dividends. However, the theoretical implication is that, this is an early study of its kind in Malaysia that investigates the influence of GLICs² as a whole and foreign ownerships on dividend policy. The results of this study give evidence that companies with foreign ownership have better corporate mechanisms and pay higher dividends, while state ownership has less corporate mechanisms and pay lower dividends.

To examine the influence of ownership structures on dividend policy, this study focussed on seven GLICs as whole, state, and foreign ownerships only. However, other ownership variables such as family and non-family, domestic, board, financial institutions, and blockholders are encouraged for future research. Also, three control variables were used in this study, thus future research may use other variables such as firm age, sales growth and risk. This study also used a sample of plantation companies only. Therefore, other research may use other companies such as financial, industrial products, construction, consumer products, and property companies.

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