CORPORATE DETERMINANTS OF DIVIDEND POLICY: EMPIRICAL EVIDENCE FROM MALAYSIAN PUBLIC LISTED FIRMS

Cleopatra Leai Anak Suel and Chee-Ling Chin*
Faculty of Economics and Business,
Universiti Malaysia Sarawak, Malaysia
*Corresponding email: chlchin@unimas.my

ABSTRACT

This study investigates the determinants of dividend policy among 30 firms listed on the FTSE Bursa Malaysia KLCI (FBMKLCI) from 2015 to 2023. Drawing on signaling theory and agency cost theory, the analysis examines the influence of liquidity, profitability and leverage on dividend payout ratios (DPR). Using pooled OLS regression with robust standard errors, the results reveal that control variable of growth opportunities have a significant and positive effect on dividend payout, suggesting that Malaysian firms use dividends as a credible signal of financial strength and future prospects. In contrast, liquidity, profitability, and leverage are statistically insignificant, indicating that these financial factors are not the primary drivers of dividend decisions among large-cap firms. The findings extend existing evidence from emerging markets and also provides practical insights for managers, investors, and policymakers in developing dividend strategies that enhance market confidence and shareholder value.

Keywords: Dividend policy, liquidity, profitability, leverage, Malaysia

INTRODUCTION

Dividend policy remains one of the most debated topics in corporate finance, as it represents a critical decision that influences both investors and firms. The decision regarding how much profit should be distributed to shareholders or retained for reinvestment has long intrigued researchers and practitioners alike. According to Modigliani and Miller (1961), dividend policy is irrelevant under perfect market conditions, yet in reality, imperfections such as taxes, information asymmetry, and transaction costs make dividend decisions highly significant to firm valuation. In Malaysia, dividend policy continues to attract attention, particularly in the post-pandemic period, as firms strive to balance liquidity management and shareholder expectations (Bakri et al., 2021).

The Malaysian corporate environment presents unique characteristics that make dividend policy analysis crucial. The majority of listed companies consist of family-owned or government-linked firms, where dividend decisions are often influenced by ownership structure, profitability, and financial stability. Furthermore, investor preference for dividend-paying stocks reflects the market's perception of dividends as a signal of firm performance and financial health (Jensen, 1986). Despite the extensive literature, inconsistencies remain regarding how firm-specific financial factors such as liquidity, leverage, and profitability affect dividend distribution decisions in Malaysia.

Past studies have yielded mixed results. Some reported that firms with strong profitability and liquidity tend to pay higher dividends (Amidu & Abor, 2006), while others found no significant

relationship between certain financial ratios and dividend payouts (Ahmad et al., 2018). These inconsistencies highlight the importance of examining the dividend behavior of Malaysian firms, particularly within the context of market stability and recovery.

Therefore, this study aims to examine the factors influencing dividend policy among Malaysian listed firms on the FBMKLCI from 2015 to 2023, focusing on liquidity, leverage, and profitability. By identifying the relationship between these financial variables and dividend payout decisions, this study contributes to a deeper understanding of corporate financial behavior and offers insights beneficial to investors, policymakers, and corporate managers in Malaysia.

LITERATURE REVIEW

Over the years, extensive research has examined how firms determine their dividend policies and why these decisions differ across industries and countries. Early work by Modigliani and Miller (1961) argued that dividends are irrelevant in a perfect market. However, subsequent studies recognized that real-world imperfections such as taxes, information asymmetry, and agency conflicts make dividend policy a key factor influencing firm value. Several theoretical perspectives, particularly signaling theory and agency cost theory, have been developed to explain corporate dividend behavior.

According to signaling theory, dividend payments serve as credible signals to investors regarding a firm's future performance (Spence, 1973; Bhattacharya, 1979). Managers may use dividends to convey private information about firm stability and profitability, especially when information asymmetry exists. In the Malaysian context, where investors often perceive dividend announcements as indicators of financial strength, this theory remains particularly relevant. Bakri et al. (2021) argue that Malaysian firms tend to use dividend declarations to signal managerial confidence and long-term earnings potential.

In contrast, the agency cost theory (Jensen & Meckling, 1976; Jensen, 1986) emphasizes the role of dividends in mitigating conflicts between managers and shareholders. By distributing free cash flows as dividends, firms reduce the funds available for potential managerial opportunism and inefficient investments. Empirical studies, such as Amidu and Abor (2006), found that firms with higher free cash flows are more inclined to distribute dividends to alleviate agency problems. However, the strength of this relationship varies depending on ownership structure, governance quality, and market environment—factors particularly relevant in emerging economies like Malaysia, where concentrated ownership is prevalent.

Liquidity reflects a firm's capacity to meet short-term obligations and maintain stable dividend payments. According to signaling theory, firms with greater liquidity tend to pay higher dividends as a signal of financial strength and stability. However, empirical findings are mixed. Le et al. (2019) reported no significant relationship between liquidity and dividend policy in rising ASEAN markets, while Anuar et al. (2023) found similar results for Malaysian listed companies. Conversely, Bagh (2019) observed that more liquid firms, particularly in the banking and consumer sectors, were more inclined to distribute dividends. Despite inconsistent evidence, the theoretical expectation suggests that liquidity enhances a firm's ability to sustain payouts.

Hypothesis 1: Liquidity has a significant positive relationship with dividend policy.

Profitability is a central determinant of dividend policy, reflecting a firm's ability to generate earnings for distribution. Under signaling theory, profitable firms are more likely to declare dividends to convey confidence in future performance. Empirically, Bakri et al. (2021) and Anuar et al. (2023) found a strong positive relationship between profitability and dividend payout, indicating that higher earnings promote greater dividend distribution. Nevertheless, Hartono et al. (2021) and Bagh (2019) highlighted that dividend decisions may also depend on managerial discretion and reinvestment priorities. Considering the dominance of evidence supporting a positive linkage, this study anticipates that profitability increases the likelihood of dividend payments.

Hypothesis 2: Profitability has a significant positive relationship with dividend policy.

Leverage represents the extent of a firm's debt financing and is commonly viewed through the agency cost lens. High debt levels increase mandatory interest and principal repayments, leaving less cash available for dividends. Accordingly, leverage is expected to exert a negative influence on dividend decisions. This expectation is reinforced by empirical studies such as Rohov et al. (2020) and Ghasemi et al. (2018), which documented significant negative relationships between leverage and dividend payout. Similarly, Anuar et al. (2023) and Hutagalung et al. (2022) found that highly leveraged firms tend to reduce dividend payments to manage financial constraints or risk exposure. Therefore, leverage is anticipated to have a negative association with dividend policy.

Hypothesis 3: Leverage has a significant negative relationship with dividend policy.

In summary, the literature reveals that dividend policy is influenced by multiple financial and strategic factors, with empirical results varying across contexts. This study extends prior work by investigating how liquidity, profitability and leverage collectively affect the dividend policy of large-cap firms listed on the FBMKLCI from 2015 to 2023.

METHODOLOGY

This study focuses on 30 firms listed on the FTSE Bursa Malaysia KLCI (FBMKLCI), representing Malaysia's largest and most liquid public companies. These firms are selected because they play a pivotal role in shaping the country's corporate financial policies, including dividend policy, due to their size, stability, and market influence. The sample covers a nine-year period from 2015 to 2023, allowing for a comprehensive assessment of dividend behavior across different economic cycles.

The focus on FBMKLCI constituents ensures consistency with prior Malaysian studies (Bakri et al., 2021; Anuar et al., 2023) and enhances the validity of the findings within the local context. These companies are subject to the Malaysian Code on Corporate Governance (MCCG) and Bursa Malaysia's disclosure requirements, ensuring high standards of transparency and corporate reporting. Limiting the sample to 30 large-cap firms allows for more accurate panel data analysis by reducing heterogeneity and minimizing bias that may arise from smaller or less stable firms.

Data analysis was conducted using Stata, which facilitates robust estimation and diagnostic testing for panel data models. Overall, this sample selection strategy provides a relevant, credible, and representative basis for examining the corporate determinants of dividend policy in Malaysia.

Empirical Model of the Study

$$DPR_{it} = \beta_0 + \beta_1 LQ_{it} + \beta_2 PF_{it} + \beta_3 LV_{it} + \beta_4 FS_{it} + \beta_5 GO_{it} + \epsilon_{it}$$

Where:

DPR = Dividend payout ratio
LQ = Liquidity
PF = Profitability
LV = Leverage
FS = Firm size
GO = Growth opportunity
β = Intercept
ϵ = Error term

The dependent variable in this study is the Dividend Payout Ratio (DPR), which measures the proportion of earnings distributed to shareholders as dividends. It is calculated as the ratio of dividends per share (DPS) to earnings per share (EPS), representing the extent to which firms return profits to shareholders.

The key independent variables include liquidity (LQ), profitability (PF), and leverage (LV). Liquidity is measured by the current ratio, defined as current assets divided by current liabilities, indicating a firm's ability to meet its short-term obligations. Profitability is proxied by return on equity (ROE), computed as net income divided by total equity, reflecting the efficiency with which firms generate earnings from shareholders' investments. Leverage is measured as the ratio of total debt to total equity, capturing the firm's reliance on debt financing relative to equity capital.

Two control variables are included to account for firm-specific characteristics. Firm size (FS) is measured as the natural logarithm of total assets, representing the scale and operational capacity of the firm. Growth opportunity (GO) is measured as the ratio of market value to book value, which reflects investors' expectations of future growth prospects.

RESULTS AND DISCUSSIONS

Descriptive Analysis

Table 1: Descriptive Statistics

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
DPR	256	0.968	4.01	0.036	55.097
LQ	262	1.294	1.071	0.09	6.941
PF	268	19.532	43.331	-20.513	331.667
LV	257	1.058	2.359	0.002	11.883
FS	268	24.444	1.476	20.688	27.658

GO	260	5.292	12.929	0.317	80.84

Table 1 presents the descriptive statistics for six variables examined in this study. The variables include the dividend payout ratio (DPR), liquidity (LQ), profitability (PF), leverage (LV), firm size (FS), and growth opportunity (GO). The descriptive measures reported are the mean, standard deviation, minimum, and maximum values.

The dependent variable, dividend payout ratio (DPR), records a mean of 0.968 and a standard deviation of 4.010, with values ranging from 0.036 to 55.097. The wide dispersion suggests considerable heterogeneity in dividend policies among the sampled firms. While most firms distribute a moderate proportion of earnings as dividends, a few exhibits extremely high payout ratios, potentially reflecting one-off special dividends or limited reinvestment opportunities.

Among the independent variables, liquidity (LQ) has a mean of 1.294, indicating that most firms maintain adequate short-term financial flexibility, as current assets generally exceed current liabilities. Profitability (PF) shows a mean of 19.532 with a notably high standard deviation (43.331), implying substantial performance variation across firms, possibly due to industry-specific conditions or cyclical effects. Leverage (LV) averages 1.058, suggesting that most firms rely on a balanced mix of debt and equity financing to fund their operations.

Regarding the control variables, firm size (FS) records a mean of 24.444, reflecting that FBMKLCI constituents are large, well-established companies. Meanwhile, growth opportunity (GO) averages 5.292, but with a wide range (0.317 to 80.840), indicating significant differences in market valuation and expansion potential among firms. The high dispersion underscores that while some firms are mature with limited growth prospects, others remain in active expansion phases, influencing their dividend distribution behavior.

The number of observations varies across variables due to differences in data availability throughout the study period. Such variation is common in panel datasets involving multiple firms and time spans and does not materially affect the validity of the regression results, as the pooled OLS estimation effectively accommodates unbalanced panels.

Correlation Analysis

Table 2: Pearson Correlation Coefficient

Variable	DPR	LQ	PF	LV	FS	GO
DPR	1.000					
LQ	0.109	1.000				
PF	-0.021	-0.192	1.000			
LV	-0.043	-0.224	-0.053	1.000		
PS	-0.025	-0.088	-0.382	0.281	1.000	
GO	-0.007	-0.219	0.937	-0.059	-0.485	1.000

Table 2 reports the Pearson correlation coefficients among the study variables: dividend payout ratio (DPR), liquidity (LQ), profitability (PF), leverage (LV), firm size (FS), and growth opportunity (GO). The results indicate that DPR is positively correlated with liquidity ($r = 0.109$), suggesting that firms with stronger cash positions tend to distribute slightly higher dividends. This observation supports the signaling theory, which posits that liquid firms use dividends to signal financial strength and stability to investors.

Conversely, profitability (r = –0.021) and leverage (r = –0.043) show weak negative relationships with DPR, implying that more profitable or highly leveraged firms are less inclined to pay dividends. These findings are consistent with agency cost theory (Jensen, 1986), which suggest that firms prefer internal financing and may restrict dividends to manage debt obligations.

For the control variables, firm size (r = –0.025) and growth opportunity (r = –0.007) both exhibit weak negative correlations with DPR, indicating that larger or high-growth firms may retain earnings to support future expansion (Fama & French, 2001). A strong positive correlation between profitability and growth opportunity (r = 0.937) suggests that profitable firms are often growth-oriented, consistent with Nor et al. (2020). Overall, no evidence of severe multicollinearity is detected except for the strong correlation between profitability and growth opportunity, which will be further evaluated through the variance inflation factor (VIF) test.

Regression Analysis

Panel diagnostic tests—namely the Breusch–Pagan Lagrange Multiplier (LM) test and the Hausman test—confirmed that neither random nor fixed effects were appropriate. Therefore, the pooled OLS regression model was selected as the most suitable approach. After correcting for heteroskedasticity using robust standard errors, the model satisfied key OLS assumptions, ensuring reliable and unbiased coefficient estimates.

Table 3: Regression Results

	DPR
Liquidity (LQ)	0.4424
	(0.195)
Profitability (PF)	-0.0121
	(0.115)
Leverage (LV)	-0.0411
	(0.167)
Firm Size (fs)	0.0283
	(0.575)
Growth opportunities (GO)	0.0448
	(0.068)*
Number of Observations	239
F-statistic	1.90
	(0.0954)*
R-squared	0.0146

*Robust Standard errors are in parentheses. *, Statistically significant at 10% level. **, Statistically significant at 5% level. ***, Statistically significant at 1% level.*

Table 3 presents the results of the pooled ordinary least squares (OLS) regression analysis examining the determinants of the dividend payout ratio (DPR) among firms listed on the

FBMKLCI. The independent variables include liquidity (LQ), profitability (PF), and leverage (LV), while firm size (FS) and growth opportunity (GO) are incorporated as control variables.

The overall model is statistically valid, as indicated by the F-statistic, which confirms that the explanatory variables collectively influence dividend payout decisions. However, the R-squared value of 0.0146 suggests that only 1.46% of the variation in dividend payout ratio is explained by the included variables, implying that other non-financial or firm-specific factors may have greater influence over dividend decisions among Malaysia's blue-chip firms.

Individually, liquidity and profitability show positive but statistically insignificant effects on dividend payout, while leverage exhibits a negative but insignificant relationship. These results lead to the rejection of Hypotheses 1, 2, and 3, as none of the variables were found to significantly affect dividend policy. Among the control variables, growth opportunity shows a significant positive relationship with dividend payout, while firm size remains insignificant.

The regression results reveal that liquidity, profitability, and leverage do not significantly influence dividend payout ratios among FBMKLCI firms, leading to the rejection of all three hypotheses. These findings diverge from traditional dividend relevance theories, particularly the signaling theory and agency cost theory, which have long been central in explaining corporate dividend behavior.

According to the signaling theory, managers use dividend announcements to convey private information about a firm's future earnings and stability to investors (Lintner, 1956; Bhattacharya, 1979). Higher dividends are typically interpreted as a signal of strong future performance and financial confidence. However, the absence of significant relationships between profitability, liquidity, and dividend payout suggests that Malaysian public listed firms may not rely on dividend adjustments as an information-signaling mechanism. This could be attributed to the dividend smoothing behavior commonly observed among established firms, where management maintains stable dividend payments regardless of short-term profitability fluctuations to uphold investor confidence and reduce market volatility. In such a context, dividends lose their signaling potency because investors perceive consistency, not variation, as a sign of financial strength.

From the agency cost theory perspective (Jensen & Meckling, 1976; Rozeff, 1982), dividends serve as a mechanism to mitigate agency conflicts between managers and shareholders. Higher dividend payouts reduce the free cash flow available to managers, thus limiting opportunities for overinvestment or misuse of funds. However, the insignificance of leverage and profitability in this study suggests that dividend policy among FBMKLCI firms may not be driven by agency cost considerations. Large and mature firms in Malaysia often have concentrated ownership structures and strong governance mechanisms, reducing the severity of agency conflicts. As a result, dividends are less likely to function as disciplinary tools to align managerial and shareholder interests.

Among the control variables, growth opportunity exhibits a positive and significant relationship with dividend payout. In the Malaysian context, this result can be interpreted through the lens of signaling theory—firms with strong growth prospects may deliberately pay higher dividends to signal confidence in their future earnings and financial stability. This behavior strengthens investor trust and attracts long-term institutional investors who value reliability and consistency. Thus, dividends may serve as a strategic signal rather than simply a distribution of excess cash.

Conversely, firm size shows an insignificant and negative relationship with dividend payout. Although larger firms typically enjoy more stable cash flows and lower information asymmetry, their dividend behavior in Malaysia appears unaffected by size differences. Since FBMKLCI firms are already large and well-established, variations in firm size may have limited marginal influence. Moreover, these firms may prioritize financial flexibility and capital preservation, particularly during volatile economic periods, explaining the weaker association between firm size and dividend distribution.

In summary, the rejection of Hypothesis 1, 2, and 3 indicates that traditional financial indicators—liquidity, profitability, and leverage—are not significant determinants of dividend policy among Malaysia's top listed firms. The results suggest that dividend decisions are shaped more by managerial discretion, market expectations, and firm reputation than by short-term financial performance. The low explanatory power of the model reinforces the idea that non-financial factors, such as corporate governance quality, ownership concentration, and investor clientele preferences, may play a more dominant role in influencing dividend behavior. Thus, within Malaysia's mature corporate landscape, dividends serve less as signals of performance or tools of agency control, and more as instruments of strategic communication and financial stability.

CONCLUSION

This study examined the determinants of dividend policy among 30 firms listed on the FBMKLCI from 2015 to 2023, focusing on liquidity, profitability, and leverage. Using pooled OLS regression analysis, the findings reveal that growth opportunities have a significant and positive effect on the dividend payout ratio (DPR). This suggests that Malaysian firms may use dividend distributions as a signaling mechanism, communicating financial strength and confidence in future prospects to the market. In contrast, liquidity, profitability, and leverage were statistically insignificant, implying that these financial indicators are not the primary determinants of dividend policy among large-cap Malaysian firms.

The results contribute to the dividend policy literature by offering updated empirical evidence from an emerging market context. They suggest that dividend decisions in Malaysia are influenced more by strategic and market signaling motives than by short-term financial performance. For corporate managers, the findings highlight the importance of aligning dividend strategies with long-term growth prospects to enhance investor confidence and corporate reputation. For investors, dividend announcements should be interpreted as reflections of management's outlook and commitment to sustainable performance rather than immediate profitability. For policymakers, the evidence underscores the need to strengthen transparency and consistency in dividend disclosure practices, thereby fostering market trust and efficiency in Malaysia's capital market.

Nevertheless, this study has certain limitations. The sample is confined to FBMKLCI listed firms, which may limit the generalizability of results to smaller or less liquid companies. Moreover, the analysis focuses primarily on internal financial factors, excluding external and non-financial determinants such as ownership structure, governance mechanisms, and macroeconomic conditions. Future research could broaden the scope by incorporating medium- and small-cap firms and integrating governance and macroeconomic variables to provide a more comprehensive understanding of dividend behavior. Employing dynamic panel models such as GMM may also help address potential endogeneity issues and capture firm-specific effects over time.

Overall, this study reinforces the notion that dividend policy is a multifaceted decision, shaped not only by firm-specific financial conditions but also by managerial signaling intentions and market expectations, particularly within the context of emerging economies like Malaysia.

REFERENCES

Ahmad, Z., Abdullah, N. M. H., & Roslan, S. (2018). Capital structure effect on firms' performance: Focusing on consumers and industrial sectors on Malaysian firms. *International Journal of Economics, Management and Accounting, 26*(2), 479–497.

Al-Najjar, B., & Kilincarslan, E. (2019). Revisiting firm-specific determinants of dividend policy: Evidence from Turkey. *International Journal of Managerial Finance, 15*(5), 689–705.

Amidu, M., & Abor, J. (2006). Determinants of dividend payout ratios in Ghana. *The Journal of Risk Finance, 7*(2), 136–145.

Anuar, A. Z. W., Bakar, N. A., & Rahim, N. A. (2023). Determinants of dividend payout ratio of Malaysian public listed companies: Evidence from post-pandemic recovery period. *Asian Journal of Accounting and Governance, 17*(1), 45–56.

Bagh, T. (2019). The impact of liquidity on dividend policy: Evidence from listed companies in Pakistan. *Journal of Managerial Sciences, 13*(3), 101–115.

Baker, H. K., & Powell, G. E. (1999). How corporate managers view dividend policy. *Quarterly Journal of Business and Economics, 38*(2), 17–35.

Bakri, M. H., Jalil, A., & Hassan, R. (2021). Determinants of dividend policy of Malaysian public listed companies. *International Journal of Academic Research in Business and Social Sciences, 11*(2), 1033–1047.

Bhattacharya, S. (1979). Imperfect information, dividend policy, and 'the bird in the hand' fallacy. *The Bell Journal of Economics, 10*(1), 259–270.

Fauzi, F., & Suharli, M. (2018). The influence of firm performance, growth, and risk on dividend policy: Evidence from Indonesia. *Jurnal Keuangan dan Perbankan, 22*(1), 32–43.

Ghasemi, M., Razak, N. H. A., & Mohd-Sanusi, Z. (2018). The impact of financial leverage on firm performance: Evidence from Malaysia. *Asian Journal of Accounting and Governance, 10*(1), 43–52.

Hartono, U., Nugroho, A. B., & Wijayanti, D. (2021). Profitability and dividend policy: Evidence from manufacturing firms in Indonesia. *International Journal of Economics, Business and Accounting Research, 5*(3), 210–220.

Hutagalung, S., Yuliana, E., & Sihombing, P. (2022). The influence of leverage, profitability, and firm size on dividend policy in Indonesian manufacturing firms. *Journal of Applied Finance and Accounting, 9*(2), 77–89.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review, 76*(2), 323–329.

Le, T. D., Truong, T. T., & Vo, X. V. (2019). Determinants of dividend policy in ASEAN emerging markets. *International Journal of Emerging Markets, 14*(4), 666–686.

Ling, F. Y., Mutalib, H. A., & Osman, N. H. (2020). The determinants of dividend payout policy among Malaysian listed companies. *Asian Journal of Accounting and Governance, 14*(1), 11–20.

Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review, 46*(2), 97–113.

Mitton, T. (2004). Corporate governance and dividend policy in emerging markets. *Emerging Markets Review, 5*(4), 409–426.

Modigliani, F., & Miller, M. H. (1961). Dividend policy, growth, and the valuation of shares. *Journal of Business, 34*(4), 411–433.

Rohov, O., Barros, V., & Ferreira, C. (2020). Capital structure, leverage, and dividend policy in European firms. *International Journal of Financial Studies, 8*(2), 30–44.