

**THE INFLUENCE OF OWNERSHIP STRUCTURE ON
THE FIRMS DIVIDEND POLICY BASED
ON LINTNER MODEL**



**BAHAGIAN PENYELIDIKAN JARINGAN
INDUSTRI DAN ALUMNI
UITM JOHOR**

BY:

NORHASNIZA MOHD HASAN ABDULLAH

ZURAI DAH AHMAD

SHASHAZRINA ROSLAN

FEBRUARY 2012

Tarikh : 29 Februari 2012
No. Fail Projek : 600-RMI/SSP/DANA 5/3/Dsp (39/2011)

Prof. Madya Ahmad Nawawi bin Haji Yaakob
Timbalan Rektor PJIA UiTM Johor
Bahagian Penyelidikan Jaringan Industri
UiTM Johor

Tuan,

LAPORAN AKHIR PENYELIDIKAN “THE INFLUENCE OF OWNERSHIP STRUCTURE ON THE FIRMS DIVIDEND POLICY BASED ON LINTNER MODEL”.

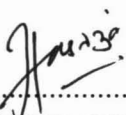
Perkara di atas dengan segala hormatnya adalah dirujuk.

Bersama-sama ini disertakan satu naskah Laporan Akhir Penyelidikan bertajuk “The Influence of Ownership Structure on the Firms Dividend Policy Based on Lintner Model” dan salinan ‘softcopy’ oleh kumpulan Penyelidik dari Fakulti Pengurusan Perniagaan.

Di samping itu, kami sertakan juga borang perakuan penghasilan penyelidikan bagi tujuan pengesahan ke dalam perkhidmatan bagi tindakan pihak tuan selanjutnya.

Segala kerjasama yang telah diberikan dan dihulurkan kami dahului dengan ucapan jutaan terima kasih.

Sekian.



.....
NORHASNIZA MOHD HASAN ABDULLAH
Ketua
Projek Penyelidikan

TABLE OF CONTENTS

ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi

CHAPTER 1: BACKGROUND OF STUDY

1.1	Introduction	1
1.2	Problem Statement	4
1.3	Objective of the Study	9
1.4	Significance of the Study	10
1.5	Limitation of the Study	11
1.6	Conclusion	12

CHAPTER 2: LITERATURE REVIEW

2.1	Introduction	13
2.2	Theoretical Literature	13
2.2.1	M&M Irrelevant Dividend Theory and other Related Theories/Models	14
2.2.2	Lintner Dividend Stability Theory and other Related Theories/Models	18
2.3	Empirical Literature	21

2.4	Conclusion	51
-----	------------	----

CHAPTER 3: RESEARCH METHOD

3.1	Introduction	52
3.2	Research Framework	52
3.2.1	Ownership Concentration	53
3.2.2	Ownership Dispersion	53
3.2.3	Institutional Ownership	53
3.2.4	Managerial Ownership	54
3.2.5	Foreign Ownership	54
3.3	Sample Description and Data Collection	55
3.4	Models on Dividend Policy	56
3.4.1	The Full Adjustment Model	56
3.4.2	The Partial Adjustment Model	57
3.5	Measurement of Variable	58
3.5.1	Dividends	58
3.5.2	Earnings	58
3.5.3	Ownership Concentration	59
3.5.4	Ownership Dispersion	59
3.5.5	Institutional Ownership	59
3.5.6	Managerial Ownership	59
3.5.7	Foreign Ownership	60
3.6	Conclusion	60

THE INFLUENCE OF OWNERSHIP STRUCTURE ON THE FIRMS DIVIDEND POLICY BASED ON LINTNER MODEL

ABSTRACT

This study investigates the relationship between types of ownership structure and dividend payments of Malaysian listed companies. A cross-sectional analysis of 100 sample firms listed on the main board of Bursa Malaysia for the years 2010 is utilized. The study examines the explanatory power of two alternative models of dividend policy, the full adjustment model and the partial adjustment model modified which are moderated by the possible effects of five types of ownership structure, namely ownership concentration, ownership dispersion, institutional ownership, managerial ownership and foreign ownership. Ownership concentration is measured by the Herfindahl Index while ownership dispersion is measured by ratio of the number of shareholders to total outstanding shares. Institutional ownership is measured by a percentage of equity owned by institutional investors, while, managerial ownership is measured by adding the total percentage of shares directly held by non-independent executive directors in the company, and foreign ownership is measured by the sum of all shares in the hands of foreign shareholders in the list of thirty largest shareholders, either held through nominee companies or other corporate foreign share holdings. Ownership concentration variables are found to be positively and statistically significant in influencing dividends in every type of dividend model. The finding is consistent with agency theory since high dividend payments can be used for mitigating agency conflict as dividends can be substituted for shareholder monitoring. Hence, large shareholders have strong incentives to require higher dividend payments in order to reduce monitoring costs. Nevertheless, this study shows that dividend decisions of Malaysian companies are not influenced by the structure of ownership.

Keywords: dividends; ownership structure