

UNIVERSITI TEKNOLOGI MARA

**PYRAMIDAL OWNERSHIP
STRUCTURE, DIVIDEND POLICY
AND VALUE RELEVANCE OF
EARNINGS INFORMATION IN
MALAYSIA PUBLIC LISTED FIRMS**

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ABSTRACT

This study provides empirical evidence on the pyramidal ownership structure, dividend policy as governance mechanism on agency problem and value relevance of earnings information in Malaysia public listed firms. For determinants of pyramid structure, all variables with exception to financial institution holding are significant at 1% significance level. The other variables such as cash and dividend payout ratio are insignificant. Meanwhile, the variables such as pyramid structure, risk, size, capital expenditure, debt, dividend payout ratio and liquidity are among the factors that significantly affect the corporate value as well as the dilution of minority interest at 1% and 5% significance level respectively. The effect of pyramid firms on corporate value is more pronounced when the pyramid firms are segregated into high cash flow right (CFR) ratio firms and low CFR ratio firms. For high CFR ratio firms, only four variables are significant which are capital expenditure, duality, stock liquidity and size. For low CFR ratio firms, the variables such as pyramid firm, size, capital expenditure, debt ratio, dividend payout ratio, duality and stock liquidity posit significant relationship with corporate value. The other three variables such as risk, cash and financial institution holding as second largest shareholders are insignificant. The findings imply that for low CFR ratio firms, there is a possibility for the ultimate owner to create private benefit for self-interest without concern to the minority shareholders interests. This result supports the rent-extraction hypotheses. The present study also reveals the results of the factors that influence length of chain. Variables such as risk, cash, size, TobinQ, duality, financial institution and liquidity are statistically significant at 1% level. The result is consistent with the entrenchment effect. The study also ascertains whether higher level CFR in the hand of ultimate owner help to improve the value relevance of earnings information in pyramid structure firms. The coefficient of earnings reported by pyramid firms with the highest level CFR is positive and significant. The result implies that the value relevance of earnings reported by such firms is high (at 1% level) when the separation of CFR and CR is reduced. In contrast, the coefficient of earnings is insignificant for lowest CFR. For dividend analysis, the market reacts negatively to the news of decreased dividend announcement for pyramid firms, while there is a slight positive reaction to the news of increased dividend announcement. Such results provide support for the hypothesis that dividend may help reduce agency problem.

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