

Dividends, leverage and endogeneity: a simultaneous equations study on Malaysia

ABSTRACT

Drawing upon preceding empirical studies on the potential endogeneity of both debt and dividends in developed markets, this study investigates two-way causal relationships that can exist between payout decisions and debt policies in Malaysian listed companies. The analysis is performed by applying a simultaneous equations model (SEM) on a sample of 267 listed firms on the Main board of Bursa Malaysia during 2006-2014. The main findings indicate that when dividend is treated as endogenous, there is a positive impact on leverage. However, leverage is found to have a simultaneous negative impact on dividends. The findings also show that liquidity and performance positively affect dividends, although they have a negative effect on leverage. Additionally, this study documents an inverse relation between tangibility and debt, a direct relation between reputation and debt, and also confirms that larger firms tend to pay out a higher percentage of dividends per share.

Keyword: Agency theory; Bursa Malaysia; Dividends; Endogeneity; Leverage; Simultaneous equations models