DETERMINANTS, SPEED OF ADJUSTMENT AND OWNERSHIP STRUCTURE OF DIVIDEND POLICY

NOR ANIS BINTI SHAFAI

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By

NOR ANIS BINTI SHAFAI

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment of the requirement for the degree of Doctor of Philosophy

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By

NOR ANIS BINTI SHAFAI

October 2019

Chairman : Professor Annuar Md Nassir, PhD
Faculty : Economic and Management

Dividend policy remains an unresolved puzzle in corporate finance despite the voluminous amount of past studies on the subject. Against this background, the purpose of this study is to examine the dividend behaviour by identifying the key determinants and ownership structure of dividend policy across three distinct countries with different market micro-structure; namely Singapore (developed market), Malaysia (developing market) and Saudi Arabia (emerging market) using Generalized Method of Moments. Speed of adjustment and target payout ratio are estimated by using Lintner model. The study uses data of top 100 listed firms in each country over 2007 until 2016. The results suggest that firms' dividend policy for the three countries influenced by different determinants. For Singapore as a developed market, profitability and size are shown to significantly and positively related to dividend payout ratio, whereas leverage, business risk and growth opportunities exert significant and negative effect. Meanwhile for Malaysia (a developing market), only firm size is a significant and positive determinant. Leverage and business risk however are negatively and significantly associated to dividend payout ratio. Conversely, for Saudi Arabia as an emerging market, firm size and leverage is positively and negatively influence dividend payout ratio respectively. In term of speed of adjustment, the findings indicate that Singapore has the highest speed with low payout ratio, illustrating the constant change in the dividend payments of the listed firms in Singapore. Speed of adjustment for Malaysia is within the 50 percent range and more than 50 percent of the target payout ratio. This revealed that Malaysia firms on average pay more than 50 percent of their earnings as dividend to shareholders. In contrast, Saudi Arabia firms rapidly adjust their dividend compared to Singapore and Malaysia while the target payout ratio support the results by Lintner (1956). For ownership structure, Singaporean firms show that institutional ownership, foreign ownership and profitability have positive significant impact on dividend payout ratio. For Malaysia concentrated ownership and foreign ownership are positively related. However, the dividend payout for Saudi Arabia firms is positively affected by foreign ownership

and profitability while concentrated ownership has negative impact on the dividend payout ratio. The study contribute significant inputs and effective guidelines to managers, shareholders, investors, policy makers, analysts, banks and governments in making decisions on dividend policy.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PENENTU, KELAJUAN PELARASAN DAN STRUKTUR PEMILIKAN DASAR DIVIDEN

Oleh

NOR ANIS BINTI SHAFAI

Oktober 2019

Pengerusi : Profesor Annuar Md Nassir, PhD
Fakulti : Ekonomi dan Pengurusan

Dasar dividen masih kekal sebagai satu teka-teki yang tidak dapat diselesaikan dalam sektor kewangan korporat meskipun telah banyak kajian telah dibuat tentang perkara ini. Merujuk kepada keadaan tersebut, tujuan penyelidikan ini dijalankan adalah untuk melihat tingkah laku dividen dengan mengenal pasti penentu utama dan pemilikan struktur dasar dividen di tiga negara yang berbeza yang mempunyai pasaran mikro-struktur yang berbeza; iaitu Singapura (pasaran maju), Malaysia (pasaran membangun) dan Arab Saudi (pasaran baru muncul) menggunakan kaedah *Generalized Method of Moments.* Kelajuan pelarasan dan sasaran nisbah pembayaran dianggarkan dengan menggunakan model *Lintner*. Kajian telah menggunakan data daripada 100 buah syarikat terkemuka yang tersenarai di ketiga-tiga negara bagi tahun 2007 hingga tahun 2016. Keputusan menunjukkan dasar dividen syarikat untuk ketiga-tiga negara dipengaruhi oleh penentu-penentu yang berbeza. Bagi negara pasaran maju seperti Singapura, keuntungan dan saiz sangat berkait rapat dengan nisbah pembayaran dividen, manakala keumpilan, risiko perniagaan dan peluang-peluang pertumbuhan ditunjukkan kesan yang ketara dan negatif. Bagi Malaysia (pasaran membangun), hanya saiz firma adalah penentu yang ketara dan positif. Bagaimanapun, keumpilan dan risiko perniagaan memberi kesan negatif dan ketara terhadap nisbah pembayaran dividen. Begitu juga untuk Arab Saudi sebagai pasaran baru muncul, saiz firma memberi impak yang positif, manakala keumpilan memberi kesan negatif terhadap nisbah pembayaran dividen. Dari segi kelajuan pelarasan, penemuan kajian menunjukkan bahawa Singapura mempunyai kelajuan tertinggi dengan nisbah pembayaran rendah, yang menggambarkan perubahan yang berterusan dalam pembayaran dividen firma yang disenaraikan di Singapura. Kelajuan pelarasan bagi Malaysia ialah dalam lingkungan 50 peratus dan lebih daripada 50 peratus daripada nisbah sasaran pembayaran. Ini mendedahkan bahawa firma di Malaysia pada dasarnya membayar purata lebih daripada 50 peratus daripada pendapatan mereka sebagai dividen kepada pemegang saham. Sebaliknya, firma di Arab Saudi dengan tangkasnya boleh mengawal dividen mereka berbanding dengan Singapura

dan Malaysia sementara nisbah pembayaran sasaran menyokong hasil mengikut *Lintner* (1956). Untuk struktur pemilikan, firma Singapura menunjukkan bahawa pemilikan institusi, pemilikan asing dan keuntungan mempunyai kesan yang sangat positif kepada nisbah pembayaran dividen. Untuk Malaysia, secara positifnya pemilikan pekat dan pemilikan asing adalah sangat berkait rapat. Walaubagaimanapun, pemilikan asing dan keuntungan memberi impak positif terhadap pembayaran dividen bagi firma di Arab Saudi manakala pemilikan pekat mempunyai kesan negatif ke atas nisbah pembayaran dividen. Kajian ini menyumbang input penting dan garis panduan yang berkesan untuk pengurus, pemegang saham, pelabur, pembuat dasar, penganalisis, bank-bank dan kerajaan dalam membuat keputusan dasar dividen.

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This thesis was submitted to the Senate of the Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Doctor of Philosophy. The members of the Supervisory Committee were as follows:

Annuar Md Nassir, PhD
Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Norhuda Abdul Rahim, PhD
Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Fakarudin Kamarudin, PhD
Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Nor Hayati Ahmad, PhD
Professor
Faculty of Islamic Finance and Banking
Universiti Utara Malaysia
(External member)

ZALILAH MOHD SHARIFF, PhD
Professor and Deputy Dean
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Signature: ______________________

Name of Chairman of Supervisory Committee: Prof. Dr. Annuar Md Nassir

Signature: ______________________

Name of Member of Supervisory Committee: Dr. Norhuda Abdul Rahim.

Signature: ______________________

Name of Member of Supervisory Committee: Dr. Fakarudin Kamarudin

Signature: ______________________

Name of Member of Supervisory Committee: Prof. Dr. Nor Hayati Ahmad

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LIST OF ABBREVIATIONS

AGM	Annual General Meeting
BSE	Bombay Stock Exchange
CEO’s	Chief Executive Officer
GDP	Gross Domestic Product
FCF	Free Cash Flow
FEM	Fixed Effect Model
GCC	Gulf Cooperation Council
GMM	Generalized Method of Moments
ISE	Istanbul Stock Exchange
KLSE	Kuala Lumpur Stock Exchange
NPV	Net Present Value
OLS	Ordinary Least Square
REM	Random Effect Model
SOA	Speed of Adjustment
SSE	Shanghai Stock Exchange
STI	Singapore Stock Exchange
TPR	Target Payout Ratio
UK	United Kingdom
USA	United States of America

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Dividend policy is determined by a company's board of directors (BOD) and is used to make dividend decisions. In order to maximise shareholder wealth, managers must ensure that the dividend policy is aligned with the company's goals. This decision affects the value of their firms' share as the share price is an important determinant of the shareholders' wealth (Van Horne & Wachowicz, 2001). The payout policy also relies on the size and rhythm of cash distribution in terms of dividend paid to the shareholders over time. Dividend is a fragment of a firm's distributable earnings[1] that is announced by the firm's BOD with inputs from senior management (Baker, 2009). The dividends are determined according to the class of the firm's shareholders. In particular, dividends illustrate an investor's share of the firm's profits that is distributed, to acknowledge his or her partial ownership of the firm. Dividends can be given out as payments in cash, shares of stock or other assets. Dividend payment also affects the firm's ability to continue its earning in sustaining growth opportunities and shareholder wealth. Pruitt and Gitman (1991) proposed that dividend, investment and financing decisions are related to each other as the management cannot consider dividend policy separately from other decisions.

Abdullah, Wan and Ismail (2005) found that dividend payment signals firms' performance. Dividend-declaring firms normally consist of larger firms that tend to issue regular dividends to maximise the shareholders' wealth compared to start-ups and high-growth firms. These firms offer dividends because most of the profits are reinvested to support the growth and expansion of the firms. Previous studies suggest the inability of dividend policy in changing shareholders' wealth under perfect and complete market firms (Miller & Modigliani, 1961). Hence, firms tend to pay out a substantial portion of their earnings in the form of dividend due to the assumption that investors do not need to be concerned with the firm's dividend policy since they have the option to sell a portion of their shares in case they need an extra money or cash in advance.

Dividend policy is normally based on profit that is not assigned to the firm. Profit is also known as excess cash and is influenced by the long-term earning power of the firm. However, financial theory suggests that the establishment of dividend policy should be based on the type of the firms, and that management should mainly determine the distribution of the dividend to the shareholders. The directors and

[1] Earnings refer to amount of profit that a firm produces in given period of time that can generally be defined as net income after tax.

financial manager are responsible to deal with the different types of investment strategies regardless of the present cash dividend or future capital gains[2].

A firm that chooses to pay dividends essentially regard profit distribution to the shareholders as ‘profitable’ to it. The management somehow believes that reinvesting profits to achieve further growth will not offer the shareholders higher dividends. Another motivation for a firm to pay dividend is to acquire a steady increase in dividend payments as a solid indication of good performance. This indication lies on the inability to falsify the amount of the distributable dividend.

From the shareholders’ perspective, dividends from older and more established firms are more favourable. Stability often comes from firms that are no longer looking to sustain high levels of growth. A fast-growing firm tends to reinvest or retain its earnings within the firm itself. This is in contrast to a mature firm that prefers to encourage its investors to stay as shareholders. Most of the firm’s growth will become slow once it reaches a certain size, known as large capitalization instead of small or medium capitalization.

Dividend policy additionally is very important to the investors as a supply of cash from the firms in return to the invested cash. In addition, managers should work to make their firm’s dividend policy relevant even though there are controversial arguments by Miller and Modigliani (1961) who regarded that dividend determination based on value of the firm is irrelevance.

Black (1976) said this about dividend puzzle, “the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just do not fit together.” His opinion is supported by other recent studies (Naser, Nuseibeh, & Rashed, 2013; Pal & Goyal, 2007). Despite the voluminous studies, the exact determinants of dividend policy issues remain unsolved (Baker, Powell, & Veit, 2002).

According to Naser et al. (2013), dividend policy is used as a mechanism for a firm to signal its stability and growth. An important reason for the ongoing debate on dividend is the strong dependence on the economic modelling approach without a deep understanding of how investors and managers behave and perceive the dividend (Baker et al., 2002; Baker & Martin, 2011). Chiang, Frankfurter, Kosedag, and Wood (2006) suggested acquisition of the motivations and perceptions behind dividend distribution to resolve the dividend puzzle.

Most prior studies focused more on the developed and emerging markets especially on the patterns of dividends across countries. Al-Kuwari (2009) stated that dividend policy in emerging markets is different from that of the developed markets in terms of

[2] The increment value of capital asset such investment or real estate can be known as capital gain. Once the asset is being sold at higher price than the purchase price it can be considered as a gain (Thomas, 2015). Capital gain can either be in short-term or in a long-term and must be claimed in income taxes.

its nature, characteristic and literature. The present author considered additional insights into the dividend policy from the developing market that is lacking in the literature.

The Asian financial crisis was a wake-up call for all Asian markets to recognise the structural issue that played an important part towards the disaster. Asian firms have however improved their corporate governance and transparency after the crisis. Consequently, the bond markets[3] and equity markets[4] especially in the United States, United Kingdom and Europe started to look into the prices of the Asian market. The investors found sustainable growth and income in the Asian market. Moreover, Asian countries for the last two decades have improved considerably and have been the driving engine for the world economic growth. Since firms in the Asian countries are not just about capital growth, firm's dividends are becoming the main sources of income for investors. Hence, distributing cash to shareholders via alternatives such as qualified dividends, stock splits[5] and stock dividends, has increased significantly in many countries.

Investors are shifting to Asian countries as the market is deemed different and unique. Furthermore, Asian countries can offer wider range and diversified portfolio opportunities for investors to enjoy dividend growth over long term returns. Therefore, the development in dividend- paying culture in Asia prompts escalating interest towards the Asian market. Additionally, Asian firms also offer appealing yields which attract the investors. Favourable demographics, expanding consumption, manufactured goods and commodities are also the key drivers to the growth in the dividend-paying culture.

In response to the market shift, Asian firms have been changing their approach to attract shareholders by improving capital distribution. The move may increase the firms' efficiency and attract larger global investors. It also marks the structural shift towards Asia's own "dividend culture". In Asia, most firms traditionally reinvest their profits into attractive investments that could generate more profits to the firms. Somehow, there are clear visions by some Asian firms as they tend to increase dividend pay-outs to illustrate the strong their financial performance. However, the Asian economic environment is perceived as a short-term challenge for Asian countries. This adversely affects the investors who start to look out for the long-term effects such as cheap stocks over longer investment period. The different dividend policies in the Asian countries are due to the unique features such different financial market, political concern, law and regulatory systems, and various economic infrastructures.

[3] Bond market is known as debt or credit market.
[4] Equity market is known as stock or share market.
[5] Stock splits is the firm's action on dividing the existing share into multiples shares. Even though the number of share outstanding is increased by a specific multiple, the value of the share remains the same because the split does not add any real value.

Referring to Table 1.1, over the period of 2007 to 2016, gross domestic product (GDP) in selected Asian markets (Singapore, Malaysia, Saudi Arabia, Japan, Thailand, India, Oman, China, Hong Kong, and Indonesia) has increased from USD11,021.6 billion to USD11,321.41 billion with a growth rate of 2.72 percent. The market capitalization, representing the market size is USD14577.2 billion, increased by 32.86 percent in 2016 to USD19, 367 billion. Furthermore, total trade value in 2007 was USD17, 482.9 billion and strongly increased in 2017 by 52.35 percent, to USD26, 635.1 billion. Thus, the results suggest that financial markets in Asia have experienced substantial growth in terms of gross domestic product, market size and trade value over the period.

Table 1.1 : Gross Domestic Product, Market Capitalization and Trade Value of Listed Firms in Asia Countries

Country	GDP ($ billion)			Market Capitalization ($ billion)			Trade Value ($ billion)		
	2007	2016	(%)	2007	2016	(%)	2007	2016	(%)
Singapore	180.94	318.07	75.8%	539.17	640.43	18.78	381.29	188.05	-69%
Malaysia	193.55	296.5	53.2%	325.29	359.79	10.6%	154.64	98.28	-36%
Saudi Arabia	415.97	644.93	55%	-	448.83	100%	681.95	306.38	-55%
Japan	4515.26	4926.67	8.5%	4330.92	4955.3	14.4%	6585.83	5230.24	-20%
Thailand	262.94	412.35	56.8%	197.13	432.96	119%	112.75	324.99	188%
India	1216.74	2290.43	88.2%	1819.1	1566.68	-14%	1143.38	801.88	-29%
Oman	42.08	65.94	56.7%	26.65	23.28	-13%	6.91	2.46	-64%
China	3550.34	1113.79	-68.6%	4472.87	7320.74	63.7%	6305.45	18241.3	189%
Hong Kong	211.6	320.86	51.6%	2654.42	3193.24	20.3%	2015.82	1351.1	-32%
Indonesia	432.21	931.87	115%	211.69	425.77	101%	94.91	90.41	-4%
Total	11021.6	11321.41		14577.2	19367		17482.9	26635.1	
Growth rate	2.72%			32.86%			52.35%		

Source: The World Bank www data.worldbank.org

The selection of the three Asian countries as the sample for this study comprising of Singapore, Malaysia and Saudi Arabia, is based on several factors. Firstly, Singapore, Malaysia and Saudi Arabia are selected due to their different demographic markets, financial structures, corporate cultures and national personalities. Firms in different countries have different dividend policies because each country has different country-specific, institutional and financial structure factors. Thus, each country has different dividend determinants that affect its respective dividend policy. However, most empirical works on dividend policy focused on single-country studies and the impact of these factors on dividend policy has therefore not been adequately addressed. Secondly, a high or modest religious interest has been found to affect ethical judgmental. (Longenecker, McKinney and Moore, 2004). Singapore was previously a part of Malaysia before separating in year 1965, but both countries are multiracial with diverse religions and cultures. Hence, these two countries contain almost similar ethnicities (Malay, Chinese, Indian and others) compared to Saudi Arabia in which 90 percent of its ethnicity is Arab. These effects of ethnicity differences and business practise have been found to influence business, organisational structures and others (Subramaniam, Shaiban, & Suppiah, 2014).

Table 1.2 provides an overview of the dividend payments for the three selected countries, Singapore, Malaysia, and Saudi Arabia, over a period of 2007 until 2016. According to the table, 64.23 percent of the 548 firms listed on the stock exchange of Singapore[6] in 2007 firms had paid dividends. The payout ratio was 22.59 percent and the dividend yield was 2.73 percent. Starting from 2008, the dividend amount plummeted from 54.8 percent to 51.43 percent in 2009. The decrement was due to the financial crisis that had badly affected the Asian countries. According to Campello, Graham, and Harvey (2010), firms have greater cut-down on dividend in 2009 because of their expected smaller cash. Furthermore, the proportion of dividend payer steadily increased to 61.82 percent in 2013 before falling to 56.84 percent in 2015. Meanwhile, the dividend payout ratio gradually increased in 2013 to 23.2 percent. However, it decreased to 21.98 percent in 2016. On average, the average payout ratio was 21.91 percent for every year over the period. The dividend yield ratio increased steadily until 2009 where it reached 5.92 percent but started to decline the following year until 2014 at 2.4 percent.

Table 1.2 : Patterns of Dividend Payments in Singapore

		Singapore		
Year	Number listed firms	Dividend Payers (%)	Payout ratio (%)	Dividend yield (%)
2007	548	64.23	22.59	2.73
2008	573	54.8	19.95	2.86
2009	595	51.43	19.53	5.92
2010	637	59.03	21.67	2.59
2011	663	58.98	22.06	2.66
2012	687	60.41	23.28	2.77
2013	715	61.82	23.20	2.23
2014	744	60.08	22.88	2.4
2015	760	56.84	21.93	2.58
2016	783	57.73	21.98	3.18
Average		58.54	21.91	2.99

Sources: Thomson Reuters (Datastream) and Singapore Stock Exchange

As a fast-growing market with a rapid growth, and being in between a developed and an emerging market, the Malaysian capital market requires a special dividend policy that may differ from that used in a developed or an emerging market. This unresolved issue regarding dividend policy in a developing market such as Malaysia, provides another motivation for this study. In particular, the information from the stock exchange of Malaysia (known as Bursa Malaysia) in Table 1.3, shows that more than half (53.78 percent of 753) of the firms listed in Bursa Malaysia[7] were dividend payers in 2007. Meanwhile, the number decreased to 49 percent in 2009. However, dividend-

[6] Singapore's stock exchange is called Singapore Stock Exchange (STI)
[7] Malaysia's stock exchange is known as Bursa Malaysia

paying firms rebounded from 2010 onwards. The mean for payout ratio was 21.56 percent over the period. The ratio depicts the greater tendency of the Malaysian firms to follow a steady dividend payment over the years. In addition, dividend yields showed that on average, the dividend payments per share equalled to 2.71 percent of the market price per share. Additionally, it can be seen that the dividend yield increased in 2009 by 4.53 percent and declined to the lowest point at 1.89 percent in 2015.

Table 1.3 : Patterns of Dividend Payments in Malaysia

		Malaysia		
Year	Number listed firms	Dividend Payers (%)	Payout ratio (%)	Dividend yield (%)
2007	753	53.78	21.42	3.03
2008	776	50.90	19.01	3.54
2009	790	49.11	20.28	4.53
2010	819	54.21	21.26	2.58
2011	847	54.9	22.3	2.72
2012	863	55.61	21.87	2.4
2013	882	55.9	22.41	2.51
2014	900	55	22.1	1.94
2015	914	54.38	22.45	1.89
2016	914	54.38	22.72	1.92
Average		53.82	21.56	2.71

Sources: Thomson Reuters Datastream and Bursa Malaysia

Saudi Arabia as a country applying open-market policies and regulatory efficiency, has lagged behind other emerging economies (Aivazian, Booth, & Cleary, 2003; Al-Kuwari, 2009). According to Osman and Mohammed (2010), firms in Saudi Arabia has a unique feature in terms of dividend policy that is, the firms distribute almost 100 percent of their profits in dividends. The condition leads to Saudi's Capital Market Authority to issue a circular (number12/2003) arguing that the firms should save some of their earnings for rainy days. In addition, Saudi Arabia does not charge taxes on dividends and capital gains because *zakat* is already inclusive of tax on wealth. Saudi's taxpayer's wealth also includes the dividend received which is part of *zakat* tax calculation.

Table 1.4 shows the pattern of dividend payment for Saudi Arabia. In 2007, more than half (62.62 percent) of the firms paid dividend but this figure dropped to 53.08 percent in 2009. Starting 2010 until 2016, the number of dividend payers steadily increased. Other than that, the dividend payout in 2007 was 30.21 percent but started to decline from 2008 onwards until it reached the lowest ratio (26.31 percent) in 2010. After 2010, the payout managed to increase steadily to 54.38 percent. Dividend yields in 2007 for Saudi Arabia was 1.8 percent but slightly declined in 2008 and started to increase from the following year and onwards with an average of 2.6 percent. However, the yields declined again in 2015 and 2016 at 1.94 and 1.92 percent respectively. Fortunately, the dividend yield increased in 2016 at 3.03 percent.

Table 1.4 : Patterns of Dividend Payment in Saudi Arabia

Saudi Arabia				
Year	Number listed firms	Dividend Payers (%)	Payout ratio (%)	Dividend yield (%)
2007	107	62.62	30.21	1.8
2008	122	54.1	27.32	1.66
2009	130	53.08	28	2.6
2010	141	53.19	26.31	2.25
2011	144	56.94	33.62	2.53
2012	152	60.53	33.71	2.54
2013	156	60.9	31.78	2.33
2014	163	57.05	31.35	1.94
2015	166	56.02	32.56	1.92
2016	171	62	31.43	3.03
Average		57.64	30.63	2.26

Sources: Thomson Reuters (Datastream) and Saudi Arabia Stock Exchange

The above table shows the information on dividend payments by listed firms of the three markets. The table illustrates varying dividend-paying tendencies and indicates different patterns of ratio in the markets over the years. Shown also is the percentage of dividend payout ratio, the firms' dividend payers, and the expected dividends to be received by the shareholders. Investors or shareholders are usually interested in dividend payout ratio in order to know if the markets will offer reasonable portion of their net income to investors.

1.2 Motivation and Justification of the Study

Dividend policy is one of the noteworthy and intriguing topics in financial literature, particularly in corporate financial decisions. Although it is not a new research area in corporate finance, somehow financial economists and other researchers are still giving attention on the most debated issue that is dividend puzzle, since there remain contradictions in hypotheses, theories and enlightenments for dividend policy (Baker & Powell, 1999).

The main motivation of this study is to determine corporate dividend policy in different segmentation markets: developed, developing and emerging markets, particularly in the Asian market which currently does not have a well-established financial literature. Dividend policy can be very different due to different market developments. According to Jabbouri (2016), dividend policy in an emerging market is often very different from that of the developed markets. Mollah (2015) argued that emerging markets are quite different from developed markets in all aspects such as smaller market size, unstable or volatile environment, and greater financial constraints.

In particular, Singapore, Malaysia and Saudi Arabia each has some interesting features that make this study suitable in terms of policy recommendations for other Asian countries and other countries in other parts of the world, especially in the same market segmentation. First, these countries had experienced a major financial crisis in the past 20 years, their dividend policy might have changed since that period. Second, there is a unique environment in each of these three nations in that tax is not charged on dividends. Third, these three countries have networking in tax treaty. Treaties usually provide for exemption from double taxation of all income forms, restrict taxation of companies residing in the other country by one government, and shield companies residing in one country from disproportionate taxation in the other.

1.3 Problem Statement

The dividend puzzle was introduced by Black (1976), followed by numerous other studies on dividend policy. Dividend policy is a controversial subject among financial decisions due to its effects on other financing decisions, capital structure, investment policies, corporate governance, and firm value. Furthermore, the different effects on dividend payments, particularly on share price and firm value, are caused by several dividend theories. The dissimilarities of dividend policy may arise from different situations and conditions affecting firms' performance and decisions. Allen, Bernardo and Welch (2000) asserted that, "although a number of theories have been put forward in the literature to explain their pervasive presence, dividend remains one of the thorniest puzzles in corporate finance."

In defining the determinants of dividend policy, numerous empirical studies have been conducted in many countries. Earlier studies include Lintner (1956) and Miller & Modigliani (1961). However, application of the dividend policy may be different across countries, either in terms of legal system or firm-specific differences. The differences complicate the transferability of dividend payments and decisions. Thus, dividend policy may vary across countries specifically in Singapore, Malaysia and Saudi Arabia, that over a period of time, has not been empirically investigated.

Persistent focus on the developed market is another issue that endows fuzziness regarding dividend policy. Abandoning the developing and emerging markets also deters further new outlooks (Jabbouri, 2016). Bekaert and Harvey (2000) developed a corporate finance model with the conjecture consistent with the developed countries. However, such model fails if tested in an emerging market. The differences in payout policies between developed and emerging markets is due to the availability of good projects in high-growth economies, the difficulty in raising equity capital, and the influence of controlling shareholders who prefer reinvestment over distribution (Baker, Singleton, & Veit, 2011). Hence, the different stages of market development comprising three different markets might reveal unique findings on dividend policy.

According to Lagoarde-Segot (2013), managerial models are developed in the western world making the models poor in guiding and taking business decisions where application of institutional framework under different context is concerned. The present study aims to revisit established models and consolidate knowledge with regards to emerging and developing markets. Due to the persistent focus on the developed market, there is little attention or scant review on dividend policy for the three types of markets covering developed market (Singapore), developing market (Malaysia) and emerging market (Saudi Arabia). There are certainly substantial differences in the dividend policy between developed and emerging markets because of the different macroeconomic characteristics, corporate governance system, and laws in these countries which have not been captured before. Empirical evidence by Nnadi et al. (2013) on South African-listed firms demonstrated the applicability of the existing theoretical framework on an emerging economy such as the African country. Nnadi et al. (2013) also found similar determinants of dividend policy in the South African firms and developed countries. Due to this issue, various outcomes can be determined by studying different market stages.

Although considerable research have been performed to test the determinants of firm's dividend policy, no research has been undertaken on the determinants of dividend policy that combines the different stages of market developments in Asian countries. Most research mainly focused on a single market across Asian countries (Mahdzan, Zainudin, & Shahri, 2016; Thi & Trang, 2012; Yusof & Ismail, 2016). Besides, previous studies highlighted more on developed countries such the United States and United Kingdom, as well as on emerging markets such as Turkey, Indonesia, South Africa and Poland.

The dividend policy issue somehow remains unsolved. Brealey, Myers, Allen, and Mohanty (2012) listed dividends as one of the most important unsolved issues in finance. Thus, by focusing on Asian countries that consist of different stages of market development, (developed, developing and emerging), the study provides an important re-examination of established dividend models and knowledge for developing and emerging economies (Lagoarde-Segot, 2013). Consequently, by investigating the Asian countries, the debate on dividend policy can provide additional information.

Secondly, past models only focused on identifying the equation of dependent and independent dividend policies rather than the speed of adjustment and target payout ratio. The speed of adjustment equation developed by John Lintner in 1956 stated that dividend policy is inclusive of a speed parameter in which current dividends are adjusted to the target. The theory developed was based on two important foundations that are observed on the dividend policy. The first situation is when firms tend to set long-run target dividends-to-earnings ratios based on the amount of positive net-present-value projects that they have. The second situation is when the increase in earnings is not always sustainable, and dividend policy is not changed until managers expect new sustainable earnings levels. The speed of adjustment in dividend policy is the estimation of how fast the target payout ratio is adjusted in relation to the change in firm's earnings (Gårdängen, 2014).

Furthermore, the speed of adjustment and dividend decisions are concepts well studied in the area of capital structure (Gårdängen, 2014). In particular, the speed of adjustment in examining dividend behaviour among three different regimes in Asian countries is another vital element in dividend policy that has received less attention by previous research. However, current studies have shifted their interest in dividend behaviour by using speed of adjustment adopted from Lintner's model. (Al-Ajmi & Hussain, 2011; Andres, Betzer, Goergen, & Renneboog, 2009; Bahng & Lee, 2011; Ozo, Arun, Kostov, & Uzonwanne, 2015; Persson, 2013; Tran, Thu, & Nguyen, 2014).

The present study examines the behaviour model using the speed of adjustment of dividends towards a long-run target payout ratio in selected listed firms in Singapore, Malaysia and Saudi Arabia. The target payout ratio is determined by the responsiveness of the firm to adjust the current policy to achieve a target. This is also known as "speed of adjustment" (*SoA*) (Persson, 2013).Most previous studies that examined the presence of the speed of adjustment and the rate (factors) have showed that each country have different speed of adjustment factor (rate) (Al-Ajmi & Hussain, 2011). Thus, the current study attempts to fill the gap by examining the speed of adjustment for dividend behaviour under different regimes, financial markets, advanced estimation methodologies, larger and more representative sample, and a longer time period.

Finally, financial decision makings in a firm are usually influenced by the firms' policy itself; dividend policy is said to be affected by corporate ownership structure. Past studies that are empirical in nature included those of Al-Gharaibeh (2013); Al-nawaiseh (2013); Miko & Kamardin (2015); Mossadak, Fontaine, & Khemakhem (2016); and Sakinc & Gungor (2015). Corporate theories believe in the influence of agency problem behind the relationship between ownership structure and dividend payout (Jensen, 1986). Furthermore, the literature on the role and function of the modern firm is based on the conjecture of widely dispersed ownership. In the same line, past literature also shows that some contractions of ownership exist among the largest American firms (Demsetz, 1986; Morck, Shleifer, & Vishny, 1988).

According to La Porta, Lopez-De-Silanes, and Shleifer (1999) and La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998), motivation to pay dividends is different between firms and the controlling shareholders who play important roles in the dividend policy. The ownership structure is the main core of corporate goals. Manager's supervision affects corporate profitability, diversified decision-making process, growth rate and dividend payments. Thus, the unique structure influencing the communication of information in Asian listed firms and affecting the dividend policy is the main management issue. And yet, ownership structure has not been the focus of dividend policy studies in Asian countries. Claessens, Djankov, and Lang (2000) stated that nearly every country across East Asia has changed significantly without altering important patterns such as strong family ownership share within the firms. Short, Zhang, and Keasey (2002) found a high explanatory power between ownership structure and dividend policy in the United Kingdom. Furthermore, Sulong & Ahmed (2011) showed that relationship between ownership structure and dividends has a low explanatory power in Malaysia. The findings from previous studies showed contradicting opinions in developed, developing and emerging markets in terms of explanatory power. The model used in the present study describes the dividends adjustment to changes in several measures of corporate earnings. The model has also been modified by adding dummy variables to determine whether the presence of specific investors' classes in the ownership structure affects the determination of distributable earnings.

Another important issue relating to ownership structure exists across East Asia due to the Asian financial crisis (Claessens et al., 2000). This study is followed by Carney and Child (2013) who noticed the changes in the development and leadership of the Asian countries. The study pointed Hong Kong's transformation in becoming an administrative region of China; Indonesia's embarkation through major democratic reform; South Korea's implementation of substantial corporate governance reform, and Thailand's reliance on one political regime to another. Depending on the situation, ownership structure of a firm has also changed based on the current situation that happened in the country.

Another country suffering from the Asian financial crisis was Malaysia. The ownership structure changed from being family-dominated in 1996 to state-dominated in 2008 for several firms. The crisis has been deemed as a precipitating factor. The political links with Singapore had also affected family ownership during the dramatic reduction in 2008 (Carney & Child, 2013). Meanwhile, Saudi Arabian firms have seen dramatic changes in their ownership structure during the last decade that had significantly affected the dividend policy and payout ratio. The major reason for the changes is insufficient stringent governance measure to boost the level of investor assurance. Meanwhile, Saudi Arabian market models significantly influence the dividend payout trend as most of their business are monopolistic in nature. Hence, there is no competition in the market as there are few investment projects that are available. They also distribute higher dividends compared to other markets (Altoumy, 2015). The current study attempts to extend and contribute to the existing literature by analysing the effect of ownership structure on dividend policy in the three countries in Asia under the three different market developments.

1.4 Research Objectives

Dividend policy is still one of the most debatable issues in theoretical finance. Based on previous studies, dividend policy is one of them as many researchers try to investigate the determinants of dividend policy. The above aim is accomplished by fulfilling the following research objectives. The objectives of this study are:

RO1: Identify the key determinants of dividend policy among firms in Singapore, Malaysia and Saudi Arabia due to different market developments.

RO2: Examine the dividend behavior model by using the speed of adjustment and target payout ratio in Singapore, Malaysia and Saudi Arabia.

RO3: Analyse the relationship between ownership structure and dividend policy in Singapore, Malaysia and Saudi Arabia.

1.5 Research Questions

Based on the objectives, the relevant research questions are developed for this study. The questions are as follow:

RQ1: Do key determinants of dividend payout in Singapore, Malaysia and Saudi Arabia affect the dividend policy?

RQ2: Is the Lintner's model applicable in defining the speed of adjustment and target payout ratio in Singapore, Malaysia and Saudi Arabia listed firms?

RQ3: Is ownership structure related to the dividend policies in Singapore, Malaysia and Saudi Arabia listed firms?

1.6 Significance of the Study

Several recent studies often emphasised the best determinants that affect the dividend policy among firms and markets. However, it is still an open topic in finding the key determinants that may affect dividend policy. Since dividend information is usually used by investors to evaluate dividend performance, there are many elements that needed to be improved on the previous determinants in solving the dividend policy puzzle.

Firstly, investors' confidence depends on the performance of the dividend. The contribution of this study lies on a new information regarding the dividend policy in terms of the legal dividend payout regime especially in the Asian firms. The study also gives a new information to institutional investors in Asia in protecting their current income in the form of regular dividend. Apart from that, this study is useful for shareholders in deciding to either accept dividends or capital gain to enhance wealth and create value. An investor's decision to buy a stock is one of the factors that drives a firm to announce their dividend policy and any expected change in the policy to the public. Hence, an investor could purchase more stock if the firm's dividend is attractive and exceeds his/her expectations. However, a small dividend may make the investor sell some of the firm's stock to duplicate the cash flow that he/she had expected (Ling, Mutalip, Shahrin, & Othman, 2008). This study additionally gives a new knowledge to investors who are interested to invest in Asian firms which exhibit different dividend policy. The difference provides choices for investors to invest in new and fresh market in Asian countries.

Secondly, this study provides a direction and guidance for corporate managers and policy makers in considering several important factors before making serious decisions on dividend policy. A good firm is one that is able to manage the dividend distribution and attract investors to pour in capital. Incoming capital will help the firms to develop their businesses and generate more profit. According to Bebczuk (2004), the importance of policy foundation stems from the interchangeable essentiality of the policy around other financial policies which is also fundamental in the valuation of firm performance.

Finally, the study prepares a resource to the government, researchers and policy makers to formulate policies and regulation in revising and improving future firms' management and operations. It is useful to the regulators in deliberating policies on issues related to dividend policy and corporate governance by determining the direction of future dividend rules for Asian firms.

1.7 Organization of the Study

The remainder of following chapters are organised as follow:

Chapter 1 provides an overview of the background of study, statement of problem, research objectives and questions, significance of, and justification of the study.

Chapter 2 gives an overview of the three sample countries by discussing the background and development of each of the stock markets, their uniqueness and different regimes, including history, growth, scale, sectors and global ranking for each country.

Chapter 3 explains the theories related to the issues of the study. The chapter also provides a review on the empirical findings on dividend policy, starting with general articles on the determinants of dividend policy which cover firm specific factors, dividend behaviour and ownership.

Chapter 4 proposes the research methods adopted, beginning with research design, followed by theoretical framework. Approaches on the model and method, hypothesis testing, measurement of the variables and data collection of specific areas are also included in the chapter. Each of the sections demonstrates the method to achieve the objectives of the study.

Chapter 5 presents the empirical analysis and results of all the three objectives using the methods mentioned in Chapter 4, as well as the findings of the study.

Chapter 6 concludes this study by reiterating the key findings and summarising the observations. Discussions on the contribution to the body of knowledge and recommendations for future studies are included in the last part of the chapter.

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