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STOCK LIQUIDITY AND DIVIDEND PAYOUTS IN THE EMERGING MARKETS

MOHD ASHARI BIN BAKRI

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Thesis Submitted to the Putra Business School in Fulfilment of the Requirements for the Degree of Doctor of Philosophy

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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

STOCK LIQUIDITY AND DIVIDEND PAYOUTS IN THE EMERGING MARKETS

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January 2020

Chairman : Associate Professor Bany Ariffin Amin Noordin, PhD
Faculty : Putra Business School

The stock liquidity and dividend empirically state having a negative relationship in earlier research. However, recent empirical evidence claims that this study neglects the informational effect of stock liquidity and discover contradictory findings in their research relative to the previous study. The mixed findings leave room or gaps to uncover what may strengthen or weaken the relationship, which contributed to the mixed discovery in the previous literature. Furthermore, since an earlier study concentrated in developed markets and a recent study focused on emerging markets, this should leave room to discover how these two significantly different markets may influence this relationship.

The study uses a sample from twenty-two (22) emerging market countries for the period of 2006 to 2015, the study aims to achieve three objectives using panel Tobit and panel Logistic regression both with random effect. Firstly, the study examines the nature of the relationship between stock liquidity and dividend payout across emerging market countries. Secondly, the study examines the country level moderating effect, namely financial market development and governance quality on the relationship between stock liquidity and dividend payout. Third, the study investigates the firm-level moderating effect, which is the moderating effect of a family business on the link between stock liquidity and dividend payout.

The results reveal that stock liquidity and dividend payout are positively related and consistent with different proxies of liquidity. The first country-level moderating factor, namely financial market development, positively moderates the relationship between stock liquidity and dividend. It indicates that financial market development enhances stock liquidity, mitigates information asymmetry, and increase firm incentives to pay a dividend. In contrast, second country-level moderator, namely governance quality, negatively moderates the relationship between stock liquidity and dividend. Governance quality negatively moderates the relationship between stock liquidity and dividend payout because firms use dividends as a substitute for weak governance, which aligns with substitute hypotheses. Family business as moderator at the firm level shown to have a positive moderating effect on stock liquidity and dividend payout relationships. It indicates that family business reduces dividend payout by positively moderate the negative relationship between stock liquidity and dividend, which initially has a positive relationship without interaction from a family business firm.

The study contributes to the literature in two ways. First, the study introduces three new moderating factors on the relationship between stock liquidity and dividend payout. Secondly, unlike past studies, which assume that governance quality should reduce information asymmetry and increasing incentives to pay dividends, and family business should increase information asymmetry and reduce dividend payment, the study found the contrary. This study found that under the condition of weak governance such as in emerging market countries, firms rely on dividends as a substitute for poor governance to maintain good relationships with investors, which results in a negative moderating effect of governance quality. The result also shows that family business reduces dividend payout because family business positively moderates the negative relationship between stock liquidity and dividend, which initially has a positive relationship without the interaction with the family business firm.

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

KECAIRAN STOK DAN PEMBAYARAN DIVIDEN DALAM PASARAN PESAT MEMBANGUN

Oleh

MOHD ASHARI BIN BAKRI

Januari 2020

Pengerusi : Profesor Madya Bany Ariffin Amin Noordin, PhD
Fakulti : Putra Business School

Hubungan antara kecairan stok dan dividen telah dinyatakan mempunyai hubungan negatif dalam kajian awal. Tetapi, penemuan empirikal yang baru menyatakan kajian sebelum ini mengabaikan kesan maklumat kecairan stok dan mereka menemukan hubungan yang tidak selari dengan kajian sebelum ini. Penemuan yang bercampur memberikan ruang untuk mendedahkan apa yang menguatkan dan melemahkan hubungan yang menyumbang kepada penemuan bercampur dalam kusasteraan kajian lepas. Tambahan pula, kajian awal tertumpu di negara membangun manakala kajian terkini tertumpu di negara pesat membangun, perkara ini memberi ruang menemukan bagaimana dua perbezaan yang ketara antara kedua pasaran ini berkemungkinan mempengaruhi hubungan ini.

Mengunakan sampel daripada dua puluh dua (22) negara pesat membangun untuk tahun 2006 hingga 2015, kajian ini bertujuan untuk mencapai tiga objektif mengunakan panel Tobit dan panel Logistik regresi keduanya mengunakan kesan rawak. Pertama, kajian ini mengkaji hubungan di antara kecairan stok dan pembayaran dividen di seluruh negara pesat membangun. Kedua, kajian ini mengkaji faktor penyederhana pada tahap negara yang dinamakan sebagai pembangunan pasaran kewangan dan kualiti tadbir urus. Ketiga, kajian ini mengkaji faktor penyederhana pada tahap firma yang dinamakan sebagai faktor penyederhana firma keluarga dalam hubungan di antara kecairan stok dan pembayaran dividen.

Keputusan menunjukkan bahawa kecairan stok dan pembayaran dividen adalah berkait secara positif dan konsisten mengunakan proksi kecairan yang berlainan. Faktor penyederhana pertama pada tahap negara iaitu pembangunan pasaran kewangan menyederhana hubungan diantara kecairan stok dan pembayaran dividen secara positif. Ini menunjukkan pembangunan pasaran kewangan meningkatkan kecairan stok, mengurangkan jurang maklumat dan meningkatkan inisiatif firm untuk membayar dividen. Manakala faktor penyederhana kedua iaitu kualiti tadbir urus menyederhana hubungan diantara kecairan stok dan pembayaran dividen secara negatif. Kualiti tadbir urus menyederhana hubungan diantara kecairan stok dan pembayaran dividen secara negatif kerana firma mengunakan dividen sebagai ganti kepada kualiti urus tadbir yang lemah yang mana seiring dengan hipotesis pengganti. Firma keluarga sebagai penyederhana menunjukkan hubungan penyederhanaan positif di antara kecairan stok dan pembayaran dividen. Hal ini menunjukkan bahawa firma keluarga mengurangkan pembayaran dividen kerana secara positif menyederhana hubungan negatif antara kecairan stok dan dividen yang pada asalnya berhubung secara positif tanpa interaksi dengan firma keluarga.

Kajian ini menyumbang kepada kesusateraan dengan dua kaedah. Pertama, kajian ini memperkenalkan tiga faktor penyederhana dalam hubungan di antara kecairan stok dan pembayaran dividen. Kedua, tidak seperti kajian lepas yang menganggap bahawa kualiti urus tadbir mengurangkan jurang maklumat dan meningkatkan inisiatif untuk membayar dividen manakala firma keluarga yang sepatutnya meningkatkan jurang maklumat dan mengurangkan inisiatif untuk membayar dividen, kajian ini menemukan sebaliknya. Kajian ini menemukan dalam keadaan kualiti urus tadbir yang lemah seperti di negara yang sedang pesat membangun, firma bergantung kepada dividen untuk menggantikan kualiti urus tadbir yang lemah lalu mengakibatkan hubungan penyederhana negatif oleh kualiti urus tadbir. Kajian ini juga menemui bahawa firma keluarga mengurangkan pembayaran dividen kerana firma keluarga secara positif menyederhana hubungan negatif antara kecairan stok dan dividen, yang pada asalnya berhubung secara positif tanpa interaksi daripada firma keluarga.

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I certify that the Thesis Examination Committee has met on 16 January 2020 to conduct the final examination of Mohd Ashari Bin Bakri on his thesis entitled "Stock Liquidity and Dividend Payouts in the Emerging Markets" in accordance with the Universities and Universities Colleges Act 1971 and the Constitution of the Universiti Putra Malaysia [PU (A) 106] 15 March 1998. The committee recommends that the students be awarded the Doctor of Philosophy.

Members of the Thesis Examination Committee were as follows:

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Professor
Putra Business School
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Putra Business School
Universiti Putra Malaysia
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Nazrul Hisyam Abdul Razak, PhD
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Faculty of Economics and Management
Universiti Putra Malaysia
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Nurul Shahnaz Ahmad Madhzan, PhD
Associate Professor
Faculty of Business and Accountancy
University of Malaya
(External Examiner)

Bany Ariffin Amin Noordin, DBA
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Representative of Supervisory
Committee/ Observer)

PROF. Ts. Dr. M. IQBAL SARIPAN
Deputy Vice Chancellor (Academic and International)
Universiti Putra Malaysia

Date :

On behalf of,
Putra Business School

The Thesis was submitted to the Senate of Universiti Putra Malaysia for the fulfillment of the requirement for the degree of Doctor of Philosophy. The Members of the Supervisory Committee were as follows:

Bany Ariffin Amin Noordin, DBA
Associate Professor
Faculty of Economics and Management
Universiti Putra Malaysia
(Chairman)

Matemilola Bolaji Tunde, PhD
Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

Lau Wei Theng, PhD
Senior Lecturer
Faculty of Economics and Management
Universiti Putra Malaysia
(Member)

PROF. Ts. Dr. M. IQBAL SARIPAN
Deputy Vice Chancellor (Academic and International)
Universiti Putra Malaysia

Date :

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I hereby confirm that:

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- The research conducted and the writing of this thesis was under our supervision;
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Chairman of Supervisory Committee

Signature : _______________________________
Name : Assoc. Prof. Dr. Bany Ariffin Amin Noordin
Faculty : School of Business and Economics, UPM

Members of Supervisory Committee

Signature : _______________________________
Name : Dr. Matemilola Bolaji Tunde
Faculty : School of Business and Economics, UPM

Signature : _______________________________
Name : Dr. Lau Wei Theng
Faculty : School of Business and Economics, UPM

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Figure **Page**

CHAPTER 1

INTRODUCTION

1.1 Background of the study

Every financial year, all public listed firms must resolve whether to distribute their profits or not and if so, how much will it be in the form of dividends. The dividend was considered by Black (1976) as a puzzle because different dividend policies will have different effects on not only shareholders' wealth but also other policies such as investment and financing. Even after more than a decade of dividend research, its mystery remains unsolved, just like the pieces of a puzzle that do not fit together (Baker, Powell, & Veit, 2002). For example, a firm that pays a dividend will experience a reduction in cash and, therefore, must decide on how to finance their projects with the remaining sources of cash available. An optimal cash distribution is crucial to fulfil shareholders' requirement and simultaneously, make a wise investment and financing decision that will not jeopardise the firm's performance. Furthermore, the dividend decision is important not only among insider shareholders but also to outside shareholders. Outside shareholders demand firms to pay dividend, and therefore, a firm that pays a higher dividend will have a higher valuation, consequently resulting a higher firm value. On the contrary, a firm that pays a low dividend will have a lower firm value due to the lower valuation by investors. This relationship is explained in detail by the dividend signalling theory.

One of the dividend puzzles that received little attention until late 2000 is how stock liquidity affects the dividend policy. In 2007, Banerjee, Gatchev, and Spindt (2007) proposed a negative link between stock liquidity and dividend. This proposition derived from Miller and Modigliani's (1961) traditional irrelevance theory of dividend. According to this proposition, liquidity enables a homemade dividend created at low or no cost. A rational investor will demand a homemade dividend relative to the dividend if the fee involved (higher liquidity lower fee and vice versa) to convert the stock into cash is low. In other words, the fee involved plays a crucial role in determining the preferences on homemade dividends over the dividend. This effect is known as the substitution effect. By using a sample from the US market, the study finds that a firm that has high liquidity is less likely to pay a dividend. Following Banerjee et al. (2007), more empirical studies have been done, such as by Griffin (2010) and Gul and Lai (2014), which support the negative link between stock liquidity and dividend.

Until recently, past studies held to the idea of a negative link between stock liquidity and dividend. However, in 2017, Jiang, Ma, and Shi (2017) and Lee and Yoon (2017) discovered a contradictory finding to the past empirical studies. Lee and Yoon (2017) posited that the positive link between stock liquidity and dividend policy is due to the omission of a control variable, namely the life cycle effect that was neglected by Kim (2016) in examining the relationship between stock liquidity and dividend in the Korean market. After controlling for the life cycle effect, the study discovered a positive relationship, suggesting that the life cycle is an important variable that neglected in past studies, which may have influenced the result. Meanwhile, Jiang et al. (2017) posited that the positive link between stock liquidity and the dividend derived from the informational effect, which neglected in past studies. Stock liquidity recognized in mitigates information asymmetry by enhancing the information (Jiang et al., 2017). According to market microstructure literature, as market liquidity increases, information asymmetry will reduce (Kanagaretnam, Lobo, & Whalen, 2007). In the standard informed trading model where information asymmetry was proxied by the bid-ask spread, stock liquidity defined as the volume of stocks traded did influence the bid-ask spread. The higher the volume traded on a particular day, the more price will be available for the informed traders to compensate their demand at a different price level. Generally, the more prices are available in the stock market, and the more options will be available for the informed traders to match their bid price. In other words, the differences between the bid price (willingness of a buyer to buy at the highest price) and ask price (willingness of the seller to sell at the lowest price) will become narrower due to the matching of the bid and ask price. Thus, from this argument and supported by market microstructure literature, stock liquidity has the properties of reducing information asymmetry by creating more information.

Since stock liquidity has the properties of mitigating information asymmetry, the dividend policy chosen by a firm might be affected by the level of stock liquidity. Easterbrook (1984) and Jensen (1986), in their literature, posited that dividends act as a mechanism to divert the attention of insiders from using the excess cash for personal use or investing in an unprofitable project. However, the insiders face a dilemma on whether to pay dividends or not. If the information environment is opaque, the tunneling incentives become higher (Stiglitz, 2000; Leuz, Nanda, & Wysocki, 2003). On the contrary, greater transparency makes tunneling activities among insiders much easier to be identified and riskier in the legal perspective (Li & Zhao, 2008; Petrasek, 2012) and, therefore, make the retained earning expropriation cost becomes much higher.

Moreover, keeping too much surplus of retained earnings will not benefit outsiders' perceptions. It may damage the reputation of the firm for the lack of incentives to prevent tunneling activities (Gomes, 2000), which will eventually result in unfavorable assessments (Gomes, 2000; Kalcheva & Lins, 2007; Karpavicius & Yu; 2015) and weaker access to outside sources of finance (Gomes, 2000). Thus, with many disadvantages associated with expropriating retained earnings under the condition of high transparency (low information asymmetry), the net benefit of paying a dividend to be positively associated with stock liquidity (La Porta, Lopez- de- Silanes, & Shleifer, 2000a, 2000b).

The substitution effect in the past literature and informational effect in the recent literature raises a question as to under what condition that these factors are more dominant. Since earlier literature (substitution effect) focused on developed market countries and recent literature (informational effect) focused on emerging market countries, there is a high possibility that the mixed findings are due to the significant differences between emerging and developed markets. Meanwhile, Glen, Karmokolias, Miller, and Shah (1995) discovered the significant differences in term of dividend policies in emerging and developed. In their study, the dividends paid in emerging market countries were only two-third of the dividends paid in developed market countries. This finding is consistent with Ramcharran (2001) that recorded low dividend yields in emerging market countries. There are substantial differences in terms of the method in determining dividend policy in emerging market firms relative to what is common in developed market countries (Glen et al., 1995). In their study, one of the main differences is that the dividend payout ratio is crucial in emerging market countries relative to the dividend paid level, which is the main concern in developed market countries. Thus, dividend payout relatively more volatile in emerging markets compared to the developed market (Glen et al., 1995). Furthermore, there is less concern over dividend volatility, resulting in dividend smoothing becoming less important for countries in the emerging market (Glen et al., 1995).

In another study by Aivazian, Booth, and Cleary (2003), they found that the US and emerging market countries rely on profitability, proxied by return on earnings (ROE), to pay dividends. In other words, higher ROE will result in higher dividend payout and vice versa. On the contrary, the debt ratio has an inverse effect on both the US and emerging markets. These empirical findings show that financial constraints affect the dividend policies of a firm and support the cash flow theory of dividends. They also found that the market to book ratio affects the dividend payout. However, they found little evidence of the effect of risk and size towards dividend policies. Specifically, they found that emerging market countries have an inverse link with the tangible assets of the firm. They suggested this link exists because of the corresponding decrease in the short-term assets available as collaterals for short-term bank debts, which may result in a reduced capacity to borrow from the banks. In general, they found that the same attribute is important to the US market as well. However, they found that emerging markets are likely to be more sensitive towards some of the variables. It suggests that emerging market countries have more financial constraints compared to developed market countries like the US, which most likely limit their resources to finance investment opportunities. According to Kumar and Testsekos (1999), emerging market countries have more financial constraints, more volatility, less information efficiency, and a smaller size compared to those in developed countries. These factors may result in the reliance on retained earnings to invest in their projects, which eventually leads to a lower dividend payout.

Stocks in an emerging market characterized by significantly higher trading costs and greater volatility (Domowitz, Glen, & Madhavan, 2001). Besides, these stocks are thinly traded (Annuar, Ariff & Shamsher, 1994; Cheng, 2000; Yilmaz & Gulay, 2006). In other words, compared to stocks in a developed market, stocks in an emerging market are considered as less liquid due to the lower volume traded in a particular day or year. Therefore, emerging markets perceived to have a higher level of information asymmetry because of the greater level of volatility and less information efficiency for both stocks and dividends. Thus, the information provided by stock liquidity should play a substantial role in mitigating information asymmetry in emerging market countries compared to developed market countries, which already has a relatively lower level of information asymmetry.

This study using an argument from market microstructure literature, which posits that stock liquidity mitigates information asymmetry and raises a firm's motivation to pay a dividend to proposes that there is a positive link between stock liquidity on a dividend. This study further extends the existing literature by introducing three moderating variables with arguments and support from past empirical literature that could potentially moderate the link between stock liquidity and dividend policy. These moderating variables are financial market development, governance quality, and family business.

1.2 Problem Statement

Stock liquidity and dividend relationship have been a controversial relationship in the area of corporate finance since the emergence of new findings between the year 2016 to 2017. Early literature in 2007 by Banerjee et al. (2007) suggested that stock liquidity and dividend have a negative relationship. The relationship derived by questioning the underlying assumption behind Miller and Modigliani's (1961) dividend irrelevance theory. One of the most notable underlying assumptions questioned by Banerjee et al. (2007) was questioning the frictionless market. Although, in reality, the frictionless market does not exist. However, a rational investor would demand a homemade dividend over dividend if the friction is lower and vice versa, the investor would demand dividend over homemade dividend if the friction cost is higher. Based on this argument and supported by their empirical result, they concluded that there is a negative association between stock liquidity and dividend relationship, which suggests a substitution effect between stock liquidity and dividend.

However, recent studies found a positive association between stock liquidity and dividend (Jiang et al., 2017; Hu, Huang & Chen, 2020). Jiang et al. (2017) posit that this argument neglect that stock liquidity has an informational effect that mitigates information asymmetry. According to market microstructure literature, as stock liquidity increases, information asymmetry will reduce. Under the condition of high transparency or low information asymmetry, the cost of expropriating firm earning will become much easier identified and riskier (Li & Zhao, 2008; Petrasek, 2012). Furthermore, the lack of incentives to monitor tunneling activities by keeping too much excess of earning may not benefit outsiders' perception and damage the firm reputation (Gomes, 2000). This resulting unfavorable assessment (Gomes, 2000; Kalcheva & Lins, 2007; Karpavicius & Yu; 2015) and reduce the possibility of accessing external sources of financing (Gomes, 2000). Thus, due to so many disadvantages concerning tunneling incentives under high transparency, they forecast and found that stock liquidity and dividend having a positive relationship.

The mixed findings (Figure 1) between past and recent empirical evidence raise a question on the gaps or unexplored information which may neglect in the past studies that lead to the inconsistent results. This inconsistency could be influence by the moderating factors which may strengthen or weaken the relationship between these two variables. The moderating factors that are potentially weakening or strengthening the relationship between stock liquidity and dividend can be in the form of environmental settings such as policies both at the country and firm-level. This study specifically suggesting that this inconsistency may influence by three moderating factors, namely financial market development, governance quality, and family business based on the direct relationship between these variables found in the past studies.

Stock liquidity → Dividend

- No substantial studies that provide general overview in emerging markets with regards to stock liquidity and dividend (Majority study analyse single country)
- Past study in China by Jiang et al. (2017) record positive association between the variables (The inconsistent results with past study creates a gaps)

Figure 1 : Stock liquidity and dividend issues in the emerging market

The financial markets in emerging market countries have witnessed substantial development in the 1990s. The market capitalization of emerging market countries has increased significantly over the past era, which grows from $2 trillion in 1995 to $5 trillion in 2005. As a percentage from the entire world market capitalization, emerging markets have more than 12 percentage, and the percentages are steady growth (Standard & Poor, 2005). Financial market development has been a key to the domestic financial market openness programs of most emerging market countries (Yartey, 2008).

Besides promoting financial market openness, financial market development plays a role in foreign capital flow for emerging markets (Yartey, 2008). Net equity flow to emerging markets grown roughly $200 billion per year. The financial market openness attribute that encouraging foreign capital flow will also indirectly improve local stock market liquidity. In short, seeing how important financial market development in emerging market economies, and how it may have huge potential to correlate with stock liquidity, a study of examining the importance of financial market development in stock liquidity and dividend relationship is worth to be investigated.

Governance quality in emerging markets according to Hugill and Siegel (2014) offer a unique characteristic because the difference in term of practice within and across countries is huge but progress significantly in recent decades. Firms in emerging market countries signal an improvement in governance quality by bonding to more stringent regulations (Esqueda & O'Connor, 2020). However, on average, the governance quality in emerging markets is relatively poor to developed markets (Claessens & Yurtlogu, 2013).

One of the main reasons for these substantial differences is because the firms in developed market countries face a bigger challenge in creating or establishing a reputation to protect the right of their shareholders as domestic bylaws make it costly for the enforcement of shareholder rights (Doidge Karolyi, & Stulz, 2007). For instance, *de jure* creditors' rights might seem to be similar both in emerging and developed market countries. However, the level of law enforcement is at least twice as effective compared to emerging market countries (Claessens & Yurtlogu, 2013).

The significant differences between emerging and developed market countries with regards to governance quality make it worth studying, especially with regards to how it may influence the stock liquidity and dividend relationship. According to (Al-Jaifi, Al-rassas, & AL-Qadasi, 2017), governance serves as a mechanism to protect shareholder rights. Furthermore, Kanagaretnam et al. (2007) posit that good governance will provide a better quality of information, which very important in mitigating information asymmetry. Since the stock liquidity and dividend relationship mostly involve tunneling incentives and information asymmetry, as discussed earlier, it may strongly influence the stock liquidity and dividend relationship. Besides, the lack of studies with regards to stock liquidity and dividend, especially in emerging markets context, will make an insight into how governance quality may potentially influence this relationship, which worth investigating.

Family business or family firm is the predominant form of ownership structure worldwide (Claessens et al., 2002), and it plays a crucial role in emerging markets (Elbannan, 2017). The family business is one of the most common types of organizations in emerging markets. For example, according to the economist, "approximately 85% of $1billion-plus business in South East Asia is run by the family business (Woolridge, 2015). Meanwhile, 75% in Latin America, 67% in India, and approximately 65% in the Middle East (Wooldridge, 2015). According to McKinsey, a consultancy, by 2025, an additional 4000 family-owned business would reach a sales of $1billion. If this proves correct, family business in emerging markets will contribute up to 40% of the world's largest companies, and 10% of them are in 2010 (Wooldridge, 2015).

The statistics and figure of family business provide a big picture of how important family business, especially to the development of emerging market countries. Despite the contribution of family business towards the development of economic, family business often associated with a lack of firm transparency, which causes a high level of information asymmetry. The association of family business and information asymmetry has been discovered by several numbers of past studies which found that family-owned firm tends to reveal less information (Loukil & Yousfi, 2011; Gul & Han, 2002; Claessens, Djankov & Lang, 2000; La Porta, Lopez, Shleifer & Vishny, 1998). The association of stock liquidity and dividend relationship, which highly depend on information asymmetry might be affected by the presence of family business that lack of transparency. Therefore, family business, which an important contributor towards economics, might worth investigated, especially with regards to stock liquidity and dividend relationship, which have a high potential correlation with a family-owned business.

The moderating variables suggested in this study are both countries- and firm-level. Therefore, this study required more than one country for examination. Thus, this study examined 22 countries from emerging market countries by referring to the list issued by International Monetary Fund List (IMF), namely Argentina, Bulgaria, Brazil, Bangladesh, Colombia, Chile, Hungary, Indonesia, India, Malaysia, Mexico, the Philippines, Poland, Peru, Pakistan, Russia, Romania, South Africa, Thailand, Turkey, Ukraine, and Venezuela. It is crucial to determine whether the differences in terms of financial market development and governance quality across emerging market countries could potentially moderate the relationship between stock liquidity and dividend, which results in mixed findings in the past studies.

1.3 Research Objectives

Past literature reported mixed findings regarding the link between stock liquidity and dividend. Most of these previous studies either concentrated on developed market countries or a single emerging market country. There is a minimum of empirical research in the past literature that examined across countries, especially across emerging market countries, which used as guidance concerning the true nature of the link between these two variables. Furthermore, there is a lack of country-level moderating factors in the past studies that may potentially weaken or strengthen this relationship, which can be used as guidance to justify the mixed findings in the previous literature.

This study attempts to contribute to stock liquidity and dividend relationship literature by achieving the following research objectives. The first objective of this study is to ascertain the nature of the relationship between stock liquidity and dividend policy across emerging market countries. The study will be using Panel Tobit and Logistic regression, both with random effect. Based on the result, the study will dictate the nature of the relationship across the emerging market.

The second objective of the study is to ascertain the country level moderating effect, namely financial market development and governance quality on the link between stock liquidity and dividend policy. Firstly, the study examined the moderating effect of financial market development on the relationship between stock liquidity and dividend. The study used the financial market development data developed by the World Bank and to be more specific, in terms of countries' stock market performance. The study used two proxies, namely stock market capitalization and stock market turnover ratio, to proxy for financial market development. Second, the study examined the moderating effect of governance quality on the relationship between stock liquidity and dividend. The study used the World Governance Indicator (WGI) data from the World Bank. The WGI has six proxies, namely government effectiveness, political stability, and the absence of violence, the rule of law, control of corruption, regulatory quality, and voice and accountability. Each variable has a score ranging from 2.5 to −2.5, indicating very strong and very weak, respectively. In testing the moderating effect of governance quality, the total score of all variables required. The scores of all six proxies added to create an average aggregate score of each country as a proxy for governance quality.

The third and final objective is to ascertain the moderating effect of a family business on the link between stock liquidity and dividend. As explained in the previous section, family ownership is highly associated with a low level of liquidity, a high level of information asymmetry, and high tunneling incentives compared to the non-family-type businesses. Thus, to achieve this objective, the study had to differentiate the family and non-family firms. Following Lin, Ma, Malatesta, and Xuan (2013), if a family or individual is the largest owner of the firm, the firm was grouped under the family-type ownership and non-family type ownership if otherwise. The study used a dummy variable by denoting the family-type firm with "1" and non-family type firm with "0".

1.4 Research Questions

The following research questions developed to achieve the research objectives:

1) What is the nature of the relationship between stock liquidity and dividend across emerging market countries?
2) Does country-level moderator, namely financial market development and governance quality, moderate the relationship between stock liquidity and dividend?
3) Does firm-level moderator, namely family business, moderate the relationship between stock liquidity and dividend?

1.5 Motivation and Justification of the Study

Determining dividend policies is one of the most crucial corporate finance decisions that a controlling shareholder and manager must encounter. The importance of dividend policies was highlighted by Brealey and Myers (2005) as the top ten vague issues in the area of corporate finance. The seminal publication by Miller and Modigliani (1961) has enhanced the understanding on the irrelevance theory of dividend policy towards developing the idea of a substitution effect between stock liquidity and dividend (Banerjee et al., 2007). However, the substitution effect of the past studies has neglected the information effect brought about by stock liquidity (Jiang et al., 2017), which aligns with the market microstructure literature that posits greater liquidity enhances greater information and thereby reduces information asymmetry. Therefore, the remaining unanswered question is under what condition the informational effect of stock liquidity is likely to be more apparent relative to the substitution effect, as claimed in earlier literature.

The emergence of new findings on the link between stock liquidity and dividend suggests that the true nature of the link is dependent upon many factors, such as the environment that could either weaken or strengthen the relationship. One of the most significant environmental differences recorded regarding stock liquidity and dividend in the past literature is between emerging and developed market countries. Previous studies posited that dividend behavior in emerging markets is different from developed markets (Glen et al., 1995; Ramcharran, 2001). Furthermore, markets in emerging countries viewed as more volatile compared to those in developed countries (Griffin, 2010).

According to Cumming, Johan, and Li (2011), emerging markets have more market manipulation, price manipulation, and false disclosure. These characteristics make emerging market countries relatively riskier for investors. This empirical evidence aligns with Estrada (2007), who found that emerging market countries have a higher market risk compared to developed market countries by using the downside beta as a proxy for risk. The greater volatility, less information efficiency, price manipulation, and higher level of risk recorded in emerging market countries indicate a greater level of information asymmetry. Since a higher magnitude of information asymmetry characterizes the environment of emerging market countries, investors have to rely on other indicators to produce information. Under such an environment, the role of stock liquidity becomes more significant in reducing information asymmetry. This is because according to market microstructure literature, stock liquidity reduces information asymmetry by creating more information. This mechanism to reduce information asymmetry has more impact in emerging markets as opposed to developed markets that already have a low level of information asymmetry.

Thus, relative to developed market countries, there is vast space for the informational effect of influencing the dividend policies in emerging market countries (Jiang et al., 2017). Therefore, the study hopes to contribute to the literature by determining the nature of the stock liquidity and dividend across emerging markets. The study also hopes to contribute to the literature by further introducing the moderating effect of financial market development, governance quality, and family business to affect the link between stock liquidity and dividend.

As discussed earlier, financial market development encourages market openness by smoothening the operation of domestic financial institutions, thereby facilitating the reduction on the cost of capital and attracting greater investments, which eventually increases investors' participation and improves capital market liquidity (Lee & Chou, 2016). In other words, financial market development acts as an attribute to boost the liquidity of the local market.

Therefore, the study predicts a significant and positive effect of financial market development as a moderator on the relationship between stock liquidity and dividend. The impact of governance quality on mitigates information asymmetry discussed in numerous studies such as Elbadry et al. (2015), Cormier, Ledoux, Magnan, & Aerts (2010), and Flaherty, Li, & Small (2007). Furthermore, a past study has found that governance attributes protecting shareholder right by mitigating the perverse insider behavior (Al-Jaifi et al., 2017). Therefore, under such conditions of high transparency and high shareholder protection, the firm unable to engage in any wrongdoing such as tunneling activities of expropriating dividend payout. Thus, the study predicted that governance quality to moderate the relationship between stock liquidity and dividend positively.

Regarding family business, past literature posits that family businesses tend to have less liquidity and a high level of information asymmetry. Therefore, the study predicts that the family-type business weakens the positive relationship between stock liquidity and dividend. Thus, the existing positive link between stock liquidity and the dividend is more likely to be moderated with the intervention from the family business as a moderating variable.

1.6 Contribution of the Study

This study contributes to the literature in several ways. Firstly, it contributes to the body of knowledge by enhancing the literature of corporate finance, especially in the area of stock liquidity and dividend payouts relationship by introducing new moderating factors. This study also contributes to the literature by explaining the relationship between variables from the perspectives of Agency cost and Signalling Theory. Secondly, it contributes to the practitioners, such as investors and firms, in a way that this study provides new understanding with regards to the stock liquidity and dividend payout behavior, which may neglect or overlook when deciding the investment and financing decision, especially by investors and firms. Third, the study contributes to policymakers, such as the government, which may overlook the importance of countries level factors such as governance quality and financial market development. The country-level factors such as moderators suggest in this study may influence the investors' preferences when making foreign or local investment decisions, which could significantly affect the economic growth of a country’s.

1.7 Organisation of the Study

The thesis separated into seven chapters. The first chapter delivers an outline of the background of the study, problem statement, research objectives, research questions, motivation, and justification of the study. The remaining chapters of the study organized as follows. Chapter Two presents the relevant theoretical literature and empirical evidence on each vital keyword in the study, namely, the background of dividend policies, theories of dividend policies, financial market development, governance quality, family ownership, stock, dividend in emerging markets, and stock, dividend in developed markets. Chapter two begins by explaining the background of dividend policies. Then, followed by a discussion on relevant theories link to the interest of the study such as signaling theory, agency cost theory, free cash flow hypothesis, irrelevance theory of dividend, and life cycle theory of dividend. After that, the chapter will discuss the literature reviewed on how each moderating variable, namely financial market development, governance quality, and family ownership, moderates the link between stock liquidity and dividend. In chapter three, the study will discuss the nature of emerging market countries, followed by developed market countries, to give a better understanding of how these two markets are different. Chapter Three will also elaborate and explain the methodology of the study consisting of data collection, definitions of variables, detailed analysis of research development, method of analysis, and the motive for selecting the method of analysis in response to the research questions.

Chapters four, five, and six will be discussing the finding of the results for each research objective, namely the nature of stock liquidity and dividend relationship and three moderating factors suggest in this study. Several diagnostic tests include descriptive statistics, correlation, and VIF test. The study will also discuss the main results analysis in Panel Tobit and Logistic, robustness test, and test for endogeneity concern. Finally, chapter seven will be discussing the implication of the study in two main sections, namely business and industries and policymaker (government). Finally, the study will be discussing on the limitation and future research of this study.

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BIODATA OF STUDENT

Mohd Ashari Bin Bakri was born on the 25th of March 1989 in Labuan, Malaysia. He is the fifth out of six children born to Mr. and Mrs. Bakri. He attended SK Bukit Kalam Primary School, SMK Mutiara, and SMK Labuan High School in Labuan. He obtained his bachelor's degree in Business with Honours in Financial Management and Banking and held a Master of Business Administration both from Universiti Malaysia Sabah. Mohd Ashari Bin Bakri has completed his Doctorate Degree (Ph.D.) at the Putra Business School, Universiti Putra Malaysia. Mohd Ashari Bin Bakri has six months of working experience as a corporate secretary with TMF Group at Labuan. He also has three years of working experience as a finance officer at Labuan Halal Hub Sdn Bhd. He has published two articles in Scopus cited Journals. He has also presented one paper at international conferences.

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