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The Impact of Family Ownership on Dividend Policy and Board Independence: Empirical Evidence from Malaysia

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Abstract:

The impact of family ownership on the dividend policy and board independence in Malaysia was examined through this study. The type of agency relationship in the firm controlled by the family shareholders would determine the direction of the relationship in this study. The final data of the study consists of 712 firms listed on the main market of Bursa Malaysia over the period 2010-2014. The controlling family shareholders were found to pay high dividends as they need to safeguard reputation as the high dividend payer and they were not involved in expropriation activities. High dividends can also satisfy the income needs of the family shareholders. However, the family shareholder may pay high dividends to themselves; hence indirectly they were into the expropriation activities. Further, they also assembled weaker board structure (lower board independence) to facilitate their expropriation activities. The role of independent directors as an internal governance provider will be restricted by them. Therefore, the prevalence of the concentrated and controlling ownership of family shareholders in Malaysia could still create Type 2 agency conflict even in the case where high dividends were paid.

Keywords: Family ownership dividend policy, board independence, agency problem

1. Introduction

This paper aims to examine the relationship of family ownership on the dividend policy and board independence of Malaysian public firms. The motives of the controlling family shareholders either to exacerbate or mitigate agency problems in the firm can be revealed through the findings of the study. The controlling family shareholders who prefer to exacerbate agency problems would most likely to pay lower dividends, hence they could misuse the available free cash flow and involve in the investments that benefit them privately (Mulyani et al., 2016; Gonzalez et al., 2014), rather than focusing on the enhancement of the overall shareholders' wealth. Further, they would also prefer to assemble weaker board (low board independence), hence they can facilitate expropriation activities in the firm (Setia-Atmaja et al. 2009; Leung et al., 2014). For the controlling shareholders who prefer to mitigate agency problems, they would prefer to pay high dividends and assemble strong board (high board independence) (Benjamin et al., 2016; Isakov & Weisskopf, 2015). The interest of all the shareholders will be well-taken care by them. Therefore, the role played by the controlling family shareholders should be in compliance with the Corporate Governance standard developed in Malaysia, otherwise it will not provide positive implications to the capital market in Malaysia.

The agency relationship in the firms controlled by the family shareholders can be discussed in two different perspectives. Firstly, family shareholders can be an alternate governance provider as they can provide cost-effective monitoring function on the managers, hence they can reduce Type 1 agency conflict (Martin et al., 2017; Villalonga & Amit, 2006). On another perspective, family shareholders may have an incentive to extract resources privately at the expenses of the minority shareholders, thus create Type 2 agency conflict (Fama & Jensen, 1983; Shleifer & Vishny, 1997). Although empirical evidence on the motives of the controlling family shareholders across emerging countries is mixed, however, as suggested by Mulyani et al., 2016; Lv et al., 2012), the ultimate objective of them was to prioritise their self-interest over the interest of all the shareholders. In the context of this study, the role of the family shareholders in paying dividends and assembling board structure would reveal the agency relationship based on the Malaysian perspective.

The study has located the examination in Malaysia using publicly listed firms. The advantage of using Malaysian corporate firms is Malaysia is a common law country that relatively practices strong shareholders' protection (Faccio et al., 2001; La Porta et al., 1999). Further, the concentrated pattern of ownership among the firms in Malaysia (Carney & Child, 2013; Claessens et al., 2001) could provide an interesting environment to examine the behaviour of the controlling shareholders. The concentrated pattern of ownership in contrast to the dispersed ownership (found in developed countries like the US and the UK), usually exhibits divergence of interest that can promote rent extraction against the interest of the minority shareholders (Aguilera & Crespi-Cladera, 2012). It can also grant power and control for the controlling shareholders to be opaque to the stakeholders in the firm including the independent directors. Further, Malaysian public firms were also characterised as one of the largest dividend payer in Asia (Yap, 2012) and stable dividends are usually paid over the years (Pandey, 2013).

The literature of agency relationship attributes to the importance of the development of corporate governance standards and regulations for public firms (Shleifer & Vishny, 1997). The behaviour and the action undertaken by the

management of public firms need to be scrutinised in order to promote a credible and transparent capital market in Malaysia. While many research conducted their examination of the influence between the ownership structure and the activities in the firm (such as dividend pay-outs, debt usage and the directors' appointment), little evidence has investigated the simultaneous relationship between the controlling ownership structure and the dividend policy and also the role of the controlling shareholders in assembling board of directors' team. This simultaneous relationship may demonstrate the behaviour of the controlling shareholders, either they are complying the corporate governance mechanism in Malaysia or otherwise. By studying the only individual relationship between ownership structure and dividend, the ultimate motive of the controlling shareholders may be misinterpreted. For instance, the behaviour of paying high dividends by the controlling shareholders may be misinterpreted that the interest of the minority shareholders was prioritised. However, in actual fact, high dividends may not provide substantial benefits to the minority shareholders, in actual fact, it may be paid to mask expropriation. Therefore, by examining the simultaneous effect of dividend and board structure, the actual agency relationship between the shareholders in the firm can be analysed.

Consequently, this paper attempts to answer two research questions related to the above concepts. Firstly, what is the relationship between family ownership and dividend? Secondly, what is the relationship between family ownership and board independence? In order to answer these research questions, this paper has used unbalanced panel data of 712 firms listed on the main market of Bursa Malaysia over the period of 2010-2014. The findings of the study show that the controlling family shareholders pay high dividends, supporting the arguments to safeguard reputation, mitigate agency conflict and source of family income (Schmid et al., 2010; Pindado et al., 2012; Isakov & Weisskopf, 2015). However, in this context of the study, high dividends can be used to mask expropriation or activities that favour the controlling shareholders' self-interest. It further confirms with the weak board structure assembled by the controlling shareholders to facilitate extraction of private benefits of control. Family shareholders prefer to appoint the independent directors (internal governance provider) who support the business decisions undertaken by them (Lane et al., 2006).

The rest of the study is structured as follows: Section 2 is on the review of literature related to the concepts studied such as agency conflict, dividend and board independence. Section 3 provides the models, measurement of variables, data description and research methodology used in the study. The results are presented in Section 4 and discussed in Section 5 while Section 6 provides the summary and concludes the study.

2. Review of Literature

2.1. Agency Conflict, Dividend and Board Independence

Agency conflict is the conflict of interest that occurs between the participants of the economical transactions in the firm. The conflict of interest arises as the participants aiming of different goals and objectives (Eisenhardt, 1989; Jensen & Meckling, 1976) that require different level of risk tolerance. The literature of risk tolerance has been expanded to the concept of agency conflict, originated by the economists of agency theory (among others Berle & Means, 1932; Mitnick, 1973). Agency conflict implies the agency relationship between principals (shareholders) and agents (managers) who act together to maximize the shareholders' wealth in the firm. The shareholders usually delegate duties to the managers to manage the firm based on their objectives. However, the managers may have conflict of interest in managing the firm, thus the shareholders' objectives would not be fulfilled rather the goals of the managers are prioritized (Jensen & Meckling, 1976). The shareholders would prefer the managers to manage the firm in the way to raise the value of their shares while the managers would prefer to raise their compensation and remuneration in the firm. The managers would also prefer to extract perquisites and private benefits of control from the resources of the firm. Therefore, this scenario would definitely create conflict of interest between the shareholders and the managers. The separation of share ownership and control rights merely is the reason for this conflict of interest and the deteriorating agency relationship in the firm (Fama & Jensen, 1983).

Generally, two types of agency conflicts arise in the firm; agency conflict between shareholders and managers (Type 1) and agency conflict between controlling shareholders and minority shareholders (Type 2). As discussed earlier, the intention of the managers to raise their compensation and extract private benefits from the firm's resources can create agency problem in the firm. In fact, according to Jensen and Meckling (1976), extraction of private benefits from the firm is the main reason for the vulnerability of agency relationship in public firms. The situation will be even worst with the difficulties arise in the monitoring function of the shareholders on the behaviour of the managers who are opaque. The self-focussed managers would not generate business activities that can be profitable to all the shareholders (Jensen & Meckling, 1976). Therefore, firms that are controlled by the managers may have Type 1 agency conflict. For the firms controlled by the controlling shareholders especially family shareholders, Type 2 agency conflict can be prevailed compared to the Type 1 agency conflict. Family shareholders may misuse their substantial controlling power to manage the firm in accordance to their needs. The management of the firm is also dominated by them through the placement of managers from their own family members (Gonzalez et al., 2014). Thus, the Type 1 agency conflict by the professional managers can be reduced. However, the controlling shareholders may act in several ways to obtain substantial benefits for their family members that can be detrimental to the minority shareholders. The overall wealth of the shareholders may not be taken care by them. This problem happens due to the non-alignment of interests between the controlling shareholders and the minority shareholders in the firm.

The prevalence of Type 2 agency conflict in family firms (firms controlled by family shareholders) would definitely affects the financial decisions in the firm such as the dividend decision. Scholars have been modelled multiple hypotheses that relates both agency conflict and dividend together. One of earliest evidence found by Easterbrook (1984)

stated that dividends can be the solution or the result of the agency conflict in the firm. According to this scholar, dividend could bridge the interest gap between managers and shareholders and that of the controlling shareholders and the minority shareholders. This discussion of dividend and agency conflict indirectly has rejected the hypothesis formulated by Miller and Modigliani (1958), who discussed the irrelevance of dividend policy. Firms that transfer out free cash flow to the shareholders through dividends have high potential to obtain external capital to finance their future business expansion. The use of external capital could discipline the managers in terms of their expenditure (Easterbrooks, 1984). The external capital provider would monitor the behaviour of the manager and this could limit the manager from extracting private benefits from the firm. Therefore, the shareholders can execute the monitoring function at the lower cost and this could reduce the agency conflict in the firm. Further, dividends can also limit the availability of cash flow in manager's discretion (Jensen, 1986; Mancinelli & Ozkan, 2006). Thus, managers could not misuse the cash resources to invest in the projects that produce sub-optimal returns and benefits them personally. Therefore, it is clear that dividends can be the solution to the agency conflict in the firm.

The other empirical works on the agency theory of dividends was conducted by Rozeff (1982), who has argued on the optimal dividend policy that can reduce both transaction and agency costs in the firm. It has been supported by Holder et al. (1998) and Saxena (1999) using sample of the US firms. The findings argued that the dividends could mitigate agency cost related to over-investment by the firm. Likewise, La Porta et al. (2000) studied the key implications of agency theory and dividends across thirty-three (33) countries around the world. The severity of agency conflict and regulations of governance standards in regards to the shareholders' protection was examined across these countries. The findings showed that high dividends were usually paid in the countries with strong shareholders' protection, based on the 'outcome model'. Shareholders' protection grants support to the minority shareholders to exert pressure on the firm's management to pay high dividends. Therefore, dividends is the outcome of governance mechanism in the firm and it could mitigate the expropriation initiative by the management of the firm. As opposed to the 'outcome model', dividends can be the 'substitutes' of the shareholders' protection in the countries with weak legal protection, discussed through 'substitution model'. Based on this model, dividends were paid to safeguard reputation among the shareholders for raising capital in the future. Both of the 'outcome' and 'substitution' models could exhibit the relationship between agency conflict and dividend in the firm (La Porta et al., 2000).

Nevertheless, dividends can also be the results of agency conflicts in the firm (Easterbrooks, 1984), especially in the family firms. High dividends may be paid by the controlling shareholders, however, they may engage into rent-extraction and enjoy private benefits of control (Gugler & Yurtoglu, 2003; Pindado et al., 2012). They can actually transferring cash flow to themselves (pay dividends to themselves) as they are the majority shareholders in the firm. The controlling shareholders have no choice but to mask their expropriation activities through high dividends, thus the actual motive and intention may not be recognised by the regulators and the other shareholders (non-family shareholders). This scenario is far better than the environment where dividends are rarely being paid.

This alternative explanation of dividend that can be the result of agency conflict can be further examined through the relationship between family ownership and board independence. Firms that are assembled strong board independence usually are said to be transparent to its shareholders as the independent directors can serve as the internal governance provider in the firm (Lefort & Urzua, 2008). They could execute monitoring function in dealing with the agency problems in the firm. The opportunistic behaviour of the management team can be monitored to favour free market activities in the firm (Fama & Jensen, 1983). Thus independent directors can play an important role in protecting the interest of all the shareholders. Although the management in the firm should be the one who responsible primarily on the day-to-day business decisions, the role of the independent directors is still necessary as they can provide control function to ratify and monitor the objective of each decision undertaken by the management (Leung et al., 2014). This ratification and monitoring function can provide 'check and balance' to the managerial decision, thus it can enhance the overall wealth of the shareholders. In the Malaysian context, recently issued Malaysian Code of Corporate Governance 2012 (MCCG 2012) (Securities Commission, 2017), has underlined clearly the requirements of board independence for Malaysian corporate firms. It has highlighted the reinforcement of board independence as one of the key principal that the firm need to adhere. Corporate firms need to frequently review the independence of the board and any decision on the independent directors needs to be approved by the shareholders.

2.2. The Relationship between Family Ownership and Dividend

Dividend decision is the most vital decision in every business organisation. The dividend decision can be influenced by the ownership pattern of firm (Mehboob et al. 2015). This is because the ownership pattern determines the control and domination of the shareholders in the firm. The prevalence of concentrated ownership pattern with strong shareholders' protection in Malaysia (Carney & Child, 2013; Faccio et al., 2001) would anticipate a favourable positive relationship between family ownership and dividend. In this regards, family shareholders pays high dividends as they need to safeguard their family reputation in the firm, consistent with the argument of Weisskopf (2010) and Schmid et al. (2010). Reputation as the high dividend payer is important for the controlling shareholders to raise capital in the future. Further, high dividends is also related to the mitigation of agency conflict (both Type 1 and Type 2) generated by the managers or the controlling shareholders in the firm. Dividends can provide cost-effective substitute for the monitoring function of the external shareholders (Pindado et al., 2012; Villalona & Amit, 2006). Dividends can also limit cash holdings of the managers and controlling shareholders who may use cash for their investments that produce sub-optimal returns. This has been discussed in free cash flow hypothesis by Jensen (1986). Not limited to that, high dividends are also paid as a source of income for the family shareholders and their family members. This argument is consistent with Isakov and

Weisskopf (2015). Family shareholders usually rely on the family business to satisfy their income needs in the firm. Further, the controlling family shareholders also need to pay high dividends frequently to the family members as they need them to remain in the firm, thus they could maintain their controlling power. The 'outcome model' discussed by La Porta et al. (2000) is also relevant to the corporate firms in Malaysia. Dividend is the outcome of effective governance mechanism in Malaysia (Faccio et al., 2001). The controlling family shareholders have no choice rather to satisfy the needs of the minority shareholders to pay high dividends.

Although the controlling family shareholders may pay high dividends, their expropriation incentive in the firm may not be ignored completely. High dividends may serve as an alternative for expropriation as the controlling shareholders pay dividends to themselves (the majority shareholders in the firm). They need to conduct this masking behaviour of expropriation with high dividends as it could not signal the minority shareholders and the governance regulators (Pindado et al., 2012). Direct expropriation activities may hurt the share price and firm value, thus it could only be conducted indirectly by them. Further, as Malaysia is the country with strong legal protection for the shareholders (Faccio et al., 2001), the controlling family shareholders have no choice, rather to extract resources privately through dividends to themselves.

Therefore, it is expected that family ownership may significantly positive in influencing dividend policy in Malaysia. The following is the proposed hypothesis:

- Hypothesis 1 (H1): Family ownership is significantly positive in influencing dividend in Malaysia.

2.3. The Relationship between Family Ownership and Board Independence

As discussed earlier, the role of independent directors as an internal governance provider is important in public firms (Leung et al., 2014). They can monitor the management team and provide strategic advice independently to safeguard the resources of the firm. Further, independent directors can take appropriate governance activities to ensure the interest of all the shareholders are well protected. Thus, they could play significant roles in reducing agency conflict in the firm. Minority shareholders usually rely on the independent directors to monitor and control from the opportunism incentive of the controlling shareholders (Andersen et al., 2004; Leung et al., 2014).

However, in the environment of firms controlled by the family shareholders, for instance in Malaysia, the effectiveness of the independent directors to monitor and suggest corrective actions may not be strong (Suchard et al., 2001). Family shareholders tend to assemble weaker board (lack of independent directors), hence the business affairs would not be completely monitored by the independent directors. In this context, the expropriation motive of the family shareholders could not be revealed. Further, as highlighted by Lane et al. (2006), the controlling family shareholders are most likely to appoint fewer independent directors that are only agreed to support the business decisions undertaken by the families. The independent directors who provide independent advice and opposing the views of the families would not be appointed. The controlling shareholders usually appoint them solely for the purpose of regulations and not to gather independent views. Consequently, these independent directors will be loyal to the controlling families who brought them to the board.

The necessity to appoint the independent directors in the family firms is less as the controlling shareholders usually have significant experience of their business (Leung et al., 2014). Hence, they may not need independent directors to advise them. The independent directors may have professional knowledge, however the lack of experience of the family business may lead them to not to be valued by the controlling shareholders. Further, the controlling shareholders are also unwilling to share their knowledge of the business and power to make decision to the independent directors, thereby this can reduce interaction between the controlling shareholders and the independent directors (Westphal, 1999). Therefore, firms that are controlled by the family shareholders are usually appoint fewer independent directors as compared to the firms controlled by non-family shareholders (Leung et al., 2014).

Therefore, it is expected that family ownership may significantly negative in influencing board independence in Malaysia. The following is the proposed hypothesis:

- Hypothesis 2 (H2): Family ownership is significantly negative in influencing board independence in Malaysia.

3. Models, Data Description and Research Methodology

3.1. Models and Variables Used in the Study

Equations 1 and 2 were formulated to answer research questions raised in the introduction section and to achieve the objectives of the study.

$$DY_{it} = \alpha_0 + \beta_1 FO_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 BS_{it} + \beta_8 DUM_IND_{it} + \beta_9 DUM_YR_{it} + \epsilon_{it}$$

Equation (1)

$$IDR_{it} = \alpha_0 + \beta_1 FO_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 BS_{it} + \beta_8 DUM_IND_{it} + \beta_9 DUM_YR_{it} + \epsilon_{it}$$

Equation (2)

The dependent variable for Model 1 (Equation 1) is Dividend (DY) while for Model 2 (Equation 2) is Board Independence (IDR). DY is measured by dividend yield ratio, defined as the value of the cash dividends paid (excludes share re-purchase) divided by market capitalisation. The use of DY as the dependent variable is consistent with Benjamin et al. (2016) and Miko and Kamardin (2015). While IDR is measured as the ratio of independent directors over the total number of directors (number of independent directors / board size). The use of IDR as the dependent variable is consistent with Setia-Atmaja et al. (2009).

The independent variable used in both Model 1 and Model 2 is family ownership. Family ownership is defined as the percentage of share ownership of the founders and their family members over total shares in the firm. Both direct and indirect ownership (ownership through the other firms) are used to derive with the total percentage of family ownership, consistent with the approach used by La Porta et al. (1999) and Ramli (2010). Generally, the family relationship of the founders and their family members is disclosed in the sections of directors' profile, list of 30 largest shareholders, list of substantial shareholders and directors' shareholdings in the annual report. The disclosure of this family relationship is consistent with the provisions of Companies Act, 2016 and Bursa Malaysia Listing requirements. The shareholders are considered from the same family of the controlling shareholders if their surname is the same. For instance, Malay and Indian names usually ends with their father's name. If the father's name of the certain shareholder is similar with that of the controlling shareholders, thus they are from the same family. However, for a Chinese name, the same surname at the beginning of their name may indicate that they are from the same family. The same approach can be used for the shareholders that are from the other races. The total percentage of family ownership is summed up in order to determine the family ownership in the firm. Further, a firm is classified as family firm if the share ownership of the family shareholders is at least 10% of the total shareholdings in the firm. This approach has been used in the previous studies such as Chen et al. (2005) and Gomez-Mejia et al. (2010).

The control variables used in both models are profitability (measured by return on assets ratio; ROA), debt (measured by debt ratio), sales growth (measured by the growth of sales in the current year compared to its previous year), investment opportunities (measured by market-to-book-ratio) and firm size (measured by natural log of total assets). The control variable that is related to the board governance characteristics is board size (measured by the number of directors on the board). The measurement of these variables with their expected signs and the prior studies that have used the similar measurement are listed down in Table 1.

Variables	Notation	Explanation	Previous works	Expected Sign
Dependent Variable				
Dividend	DY	Cash dividends divided by market capitalization (total market value of common shares at the end of the year).	Gonzalez et al. (2014); Ramli (2010)	n/a
Board Independence	IDR	Proportion of independent directors over the total number of directors on the board.	Setia-Atmaja et al. (2009)	n/a
Independent Variable				
Family Ownership	FO	Percentage of family shareholdings over total shareholdings in the firm.	Chen et al. (2005), La Porta et al. (1999); Claessens et al. (2001)	+/-
Control Variables				
Profitability	ROA	Total earnings before interest and taxes divided by total assets.	Ahmad et al. (2003); Benjamin et al. (2016)	+
Debt	DR	Total debt over total assets.	Bokpin (2011)	-
Sales Growth	SG	Annual growth rate of the total sales of a firm for a certain year as compared to the previous year.	Hoechle (2012); Bokpin (2011)	-
Investment Opportunities	MBV	Market to book value ratio of the ordinary shares capital.	Fenn & Liang (2001)	-
Firm Size	FS	Natural logarithm of total assets.	Ahmad et al. (2003); Kang & Lee (2014)	+
Board Size	BS	Number of directors on the board (BODs).	Ramli (2010); Boone et al. (2007)	+
Dummy Variables				
Sector Dummy	DUM_IND	Industry dummy, value equals to 1 if the firms are in examined sectors (industries) or 0 for otherwise.	Gaur & Kumar (2009); Hoechle (2012); Park & Jang (2013)	n/a
Year Dummy	DUM_YR	Year dummy, value equals to 1 for the examined years or 0 for otherwise.		n/a

Table 1: Measurement of Variables

3.2. Data Description and Research Methodology

The study has used data from all firms listed on the main market of Bursa Malaysia. Firms listed on this market are categorised into eleven (11) different sectors. From these eleven sectors, firms from Finance and Mining sectors are excluded from the data of the study. Firms from Finance sector are usually governed by different set of regulations, especially on their shareholdings structure. Thus, these firms are incomparable with the firms from the other sectors. The

exclusion of firms from finance sector is consistent with Ramli (2010) and Lins and Sarvaes (2002). Further, firms from Mining sector is also excluded as there is only one firm in this sector, consistent with Benjamin et al. (2016).

The data of the study were collected both from the secondary database (Bloomberg terminal) and manually from the annual reports of the firms. The data of financial ratios and trend analyses are gathered from Bloomberg terminal while data of family ownership are manually collected from the firms' annual report. The derivation of final data size is explained in the following diagram.

3.3. Data Size for the Period from 2010 To 2014

Sample Description	Firms
Initial sample size	734
Less: Firms with missing values on any of the variables	-22
Final sample size	712
Firm-year observations (N)	2,900 Obs

Table 2

The above firms' data were analysed using descriptive analysis; to provide general overview on the firms used in the study, non-parametric Kruskal-Wallis test; to provide mean differences across types of firm, correlation analysis; to predict the connection among the variables and finally using regression analysis (OLS method); to investigate the relationship between independent variable(s) and dependent variable. The results of the study are presented in the next section.

4. Results

4.1. Descriptive Analysis

Variables	All firms		Family Firms (a)		Non-Family Firms (b)		Difference in Mean (a) - (b)
	Mean	Std Dev.	Mean	Std Dev.	Mean	Std Dev.	
Dividend (DY)	2.4712	5.2693	2.5000	5.5870	2.2981	2.6482	0.2019
Board independence (IDR)	0.4544	0.1293	0.4526	0.1298	0.4648	0.1264	-0.0122**
Family ownership (FO)	36.155	21.076	42.106	16.405	0.3643	1.6614	41.742***
Profitability (ROA)	0.0612	0.1212	0.0605	0.1171	0.0656	0.1437	-0.0051
Debt (DR)	0.3837	0.2719	0.3816	0.2814	0.3962	0.2054	-0.0146
Sales growth (SG)	15.021	110.39	16.143	118.18	8.2715	37.8445	7.8715
Investment opportunities (MBV)	3.0258	7.3014	2.4969	4.6647	6.2067	15.224	-3.7098***
Firm size (FS)	2.6776	0.6460	2.6414	0.6159	2.8950	0.7695	-0.2536***
Board size (BS)	7.5566	2.0889	7.5048	2.0118	7.8672	2.4827	-0.3624**
N	2900		2486		414		

Table 3: Descriptive Statistics (Based on Original Values)

DY is measured by dividend yield (cash dividends over market capitalisation), IDR is proportion of independent directors over the total number of directors' in the board, FO is measured by percentage of family shareholdings over total shareholdings in the firm, ROA is measured by total earnings before interest and taxes divided by total assets, DR is measured by total debt over total assets, SG is annual growth rate of the total sales of a firm for a certain year as compared to the previous year, MBV is market to book value ratio of shares capital, FS is natural logarithm of total assets and BS is number of directors in the Board (BODs). ***, ** & * stand for the significance at 1%, 5% & 10% level, respectively.

The above Table 3 presents the results of descriptive statistics for the variables used in the study and it is based on the original values. The data are divided into the family (FFs) and non-family firms (NFFs) in order to observe any significant differences in the variables based on the types of firm. Mean and standard deviation for each variable are presented and the mean difference of that variable between the types of the firm were analyzed using non-parametric Kruskal-Wallis (Chi-squared) test.

For the overall firms in Malaysia, RM 2.47 of dividends were paid for every RM 1 of the share price of the firm. FFs were recorded to pay higher dividends as compared to their NFFs counterparts (2.50 vs 2.30), consistent with the evidence found in Isakov and Weisskopf (2015) and Benjamin et al. (2016). On a preliminary notes, this seems to indicate that FFs were tended to rewards their shareholders higher than their NFFs. Since FFs are usually controlled by the founders and their related family members, high allocation of dividends should be paid to the family shareholders. Further, the difference in mean dividend between FFs and NFFs was found to be statistically insignificant. In the case of board independence, Malaysian public firms had 45% of independent directors' ratio over total number directors. This ratio is in compliance with the Malaysian Code of Corporate Governance 2012 (MCCG 2012) of which requires at least one-

third of the board members should be the independent directors (Securities Commission, 2017). FFs were assembled weaker board (low board independence) (0.45) as compared to the NFFs (0.46). This again indicates that FFs may involve into activities that favour their self-interest rather than the interest of all the shareholders (Setia-Atmaja et al., 2009). The weaker board can be beneficial for the controlling family shareholders as their activities in the firm will not be monitored adequately by the independent directors. The difference of mean board independence between FFs and NFFs is statistically significant at 5% level.

For family ownership, Malaysian public firms were having 36% of family ownership over total shareholdings in the firm. The mean family ownership in FFs was 45%, consistent with the evidence of the previous studies such as Carney and Child (2013) and Claessens et al. (2001). The value of standard deviation for family ownership in FFs and NFFs were much lower compared to that of all firms. This indicates that the data of family ownership is close to mean if it is characterised by respective types of firm.

In the case of control variables, mean profitability (ROA) for the Malaysian publicly listed firms is 0.06 for every ringgit of total assets invested in the firm. FFs had mean profitability of 0.06 slightly lower than that of NFFs of 0.07 although the difference in mean between FFs and NFFs is statistically insignificant. The lower mean profitability ratio among FFs is consistent with the evidence found by the previous studies such as Mulyani et al. (2016) and Huei (2012). Lower profitability may indicate that the FFs were not managed efficiently by their controlling shareholders rather they may focus on extracting resources against minority shareholders (Ehsan et al., 2012). Additionally, although FFs generated lower profits, high dividends were still being paid to its shareholders. The value of standard deviation for profitability in both FFs and NFFs are close to 0, thus it shows that the observations are close to the mean data and not spread out over a wider range. For debt ratio, Malaysian public firms were having 0.38 mean debt ratio, 38 cents of total debts were being used as the capital for every ringgit of their total assets. FFs were seen to have lower debt ratio (0.38) compared to NFFs (0.40) although the difference in mean between FFs and NFFs is statistically insignificant. The use of lower debt component as their financing method by the FFs is consistent with the previous evidence documented by Mulyani et al. (2016). FFs are usually depend on their own financial sources and not from the borrowed debt to finance their future business expansion activities (Anderson et al., 2003). Further, as highlighted by Gonzalez et al. (2014), debt usage may accompanied by the external supervision of the capital provider, hence this would limit resources extraction activities by the family shareholders. Therefore, they have no choice rather use their own capital in their firm.

For sales growth, the Malaysian public firms were having mean sales growth of 15.02%. FFs were having extremely higher sales growth (16.14) as compared with the NFFs (8.27). The different in mean sales growth between FFs and NFFs is statistically insignificant. Higher sales growth among FFs was also documented by Benjamin et al. (2016). Firms that are controlled by the family shareholders are usually working hard to expand revenue of their business as it is the only source of their income. Hence, the sales growth of FFs is usually higher than their NFFs counterparts. In the case of investment opportunities, Malaysian public firms were having mean investment opportunities of 3.03, which shows that the firms' market value is 3 times higher than its book value. The higher market value represents that the firm is having higher investment prospects (La Porta et al., 1997; Frank & Goyal, 2003), thus the shareholders would prefer to invest in these firms. NFFs were found to be highly valued by the shareholders as its investment opportunities is higher than their FFs counterparts (2.50 vs 6.21), consistent with the evidence found in Shyu (2011). NFFs are usually controlled by either foreign, institutional or government related shareholders and these ownership structures may create confidence among the shareholders. Further, the mean investment opportunities between FFs and NFFs are significantly different at 1% level (p -value < 0.01). For firm size, the mean firm size for the Malaysian publicly listed firms were 2.68 (close to 3). FFs were having smaller firm size (2.64) as compared to NFFs (2.90) and their mean difference is highly significant at 1% level. As discussed earlier, the controlling shareholders of NFFs generally would set up larger firm compared to the firm set up by the family shareholders as they have the fund to do so. In the case of board size, mean board size for the Malaysian publicly listed firms is 7.5 (close to 8 members). FFs were having slightly lower board size (7.50) compared to their NFFs (7.87) counterparts. Large board size could contribute efficiently to the management of the firm as the members may come from multiple professional backgrounds (Raheja, 2005) who can share their experience and knowledge to the firm. The mean board size for FFs and NFFs is significantly difference at 5% level.

4.2. Regression Analysis

Before regression analyses were carried out, correlation analysis was first performed to ensure no issue of multicollinearity problem arises in the models of the study.

	DY	IDR	FO	ROA	DR	SG	MBV	FS	BS
DY	1								
IDR	-0.1027***	1							
FO	0.1029***	-0.0491***	1						
ROA	0.3100***	-0.0891***	0.0185	1					
DR	-0.1574***	-0.0013	-0.0880***	-0.0985***	1				
SG	-0.0107	-0.0153	0.0208	0.0868***	0.0563***	1			
MBV	0.0987***	-0.0249	-0.0945***	0.4928***	0.0665***	0.0122	1		
FS	0.0613***	-0.0097	-0.0108	0.1237***	0.2586***	0.0343*	0.2965***	1	
BS	0.0791***	-0.3628***	-0.0314*	0.1079***	0.0862***	0.021	0.1406***	0.3402***	1

Table 4: Correlation Analysis (Pair wise Correlation) All Firms

DY is measured by dividend yield (cash dividends over market capitalisation), IDR is proportion of independent directors over the total number of directors' in the board, FO is measured by percentage of family shareholdings over total shareholdings in the firm, ROA is measured by total earnings before interest and taxes divided by total assets, DR is measured by total debt over total assets, SG is annual growth rate of the total sales of a firm for a certain year as compared to the previous year, MBV is market to book value ratio of shares capital, FS is natural logarithm of total assets and BS is number of directors in the Board (BODs). ***, ** & * stand for the significance at 1%, 5% & 10% level, respectively.

The above correlation analysis shows that none of the variables are highly correlated with the dependent variables for both Model 1 and Model 2. The maximum correlation is 0.49 between profitability (ROA) and investment opportunities (MBV). The issue of multicollinearity only arises if the correlation coefficient between two variables is either below -0.7 or above 0.7 (Gujarathi & Porter, 2009). Therefore, it can be ruled out that the models used in the study are not having multicollinearity problem. Next, the regression results for both of the models of the study are presented in Table 4 below:

	Model 1			Model 2		
	All Firms	Family Firms	Non-Family Firms	All Firms	Family Firms	Non-Family Firms
Dependent Variable	DY(1)	DY(2)	DY(3)	IDR(1)	IDR(2)	IDR(3)
Intercept	0.8142**	0.9136**	0.6227	0.5923***	0.6164***	0.4987***
	0.3847	0.3633	0.7751	0.0236	0.0248	0.0551
FO	0.0128**	0.0124***	-0.0175	-0.0004*	-0.0004*	0.0037
	0.0056	0.0045	0.0909	0.00019	0.00025	0.0074
ROA	11.0996***	11.1583***	6.7317***	-0.1012**	-0.0894*	-0.0843
	1.4706	1.2186	1.3512	0.0449	0.0505	0.0924
DR	-2.1792***	-2.0942***	-2.1755***	-0.0095	-0.0114	0.0149
	0.3529	0.3668	0.8281	0.0199	0.0222	0.0494
SG	-0.0016***	-0.0013***	-0.0012	-0.0005	-0.0008	-0.0001
	0.0005	0.0004	0.0044	0.00004	0.00004	0.0002
MBV	-0.0347*	0.2485	-0.0209	0.0005	0.0003	0.0005
	0.0196	0.1226	0.0149	0.0008	0.0011	0.0012
FS	0.3135**	0.2485**	0.7466***	0.0265***	0.0278***	0.0108
	0.1426	0.1226	0.2768	0.0078	0.0085	0.0166
BS	0.0754**	0.0518*	0.0016	-0.0249***	-0.0284***	-0.0088
	0.3847	0.0311	0.0861	0.0023	0.0023	0.0058
N	2900	2486	414	2900	2486	414
Ind. dummy	Yes	Yes	Yes	Yes	Yes	Yes
Yr. dummy	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.1294	0.2011	0.2056	0.1542	0.1882	0.0323

Table 5: OLS Regression Analysis

DY is measured by dividend yield (cash dividends over market capitalisation), IDR is proportion of independent directors over the total number of directors' in the board, FO is measured by percentage of family shareholdings over total shareholdings in the firm, ROA is measured by total earnings before interest and taxes divided by total assets, DR is measured by total debt over total assets, SG is annual growth rate of the total sales of a firm for a certain year as compared to the previous year, MBV is market to book value ratio of shares capital, FS is natural logarithm of total assets and BS is number of directors in the Board (BODs). ***, ** & * stand for the significance levels at 1%, 5% and 10% respectively. Standard errors are reported under the coefficient estimates and robust to cluster by firm-effect.

For Model 1, the regression result shows that family ownership (FO) significantly positive in influencing dividend (DY) in the Malaysian public firms, especially in FFs. However, in NFFs, FO insignificantly influences DY. In terms of control variables, all the control variables are significantly influencing DY in the data of all firms and FFs (except MBV in FFs). For NFFs, only ROA, DR and FS are significantly influencing DY at 1% level (p -value < 0.01). In the case of Model 2, FO significantly negative in influencing board independence (IDR) in the Malaysian public firms at the significant level of 10% (p -value < 0.10). The negative relationship is also found for FFs, while insignificant positive relationship found in NFFs. For the control variables, only ROA, FS and BS significantly influencing IDR in both all firms and FFs. In NFFs, none of the control variables are found to be significantly influencing IDR.

The above regression analyses were adjusted by firm-effect cluster estimation. This firm-effect cluster estimation usually used in the estimation with the problems of normality, auto-correlation, heteroscedasticity and observations with large residuals, as highlighted by Petersen (2009). The analysis using financial data of firm across multiple years usually confronted by the firm-effect and the time-effect, of which would create biases of estimation using original OLS regression. Therefore, adjustment on the regression estimation by the firm-effect cluster is necessary in order to produce best linear unbiased estimation (BLUE). For the time-effect, the original regression estimation is not necessarily to be adjusted with this effect as the study only covers data of five (5) years period. This short period of data may not be affected by time-effect cluster (Petersen, 2009).

4.3. Tests of Endogeneity

Endogeneity test was performed to test on the robustness of association. The purpose of the endogeneity test is to detect any reverse causality between dependent and independent variables in the examined models. The issue of endogeneity can be examined through the application of Granger Causality (GC) test (Granger, 1969). Both univariate and bivariate GC tests were performed in this study. For the univariate test, the relation between variable to variable was examined between the suspected lagged one year value of the dependent variable and current year value of the independent variable. The results of this test were presented in Table 5 below. The results show that the lagged one year value of DY does not granger causes FO in Model 1. Further, the lagged one year value of IDR also does not granger causes FO in Model 2. These were observed by the p -value of GC univariate test that is higher than 10% significance level (insignificant relationship) for both models. Thus, based on these univariate results, the endogeneity problem in the models of the study can be ruled out and the estimations would be unbiased.

Based on detailed GC test (bivariate test) presented in Table 6, simultaneous equation estimations were carried out to test whether the lagged one year value of the dependent variable does not granger causes the current year value of the independent variable. The use of this test is consistent with Hu and Izumida (2008).

Models	F-Statistic	P-value	Hypothesis Result (Significant)	Endogeneity
Model 1				
FO _{t-1} does not granger causes DY	0.002	0.9675	Insignificant	NO
DY _{t-1} does not granger causes FO	1.857	0.1731	Insignificant	
Model 2				
FO _{t-1} does not granger causes IDR	0.229	0.6320	Insignificant	NO
IDR _{t-1} does not granger causes FO	2.644	0.1040	Insignificant	

Table 6: Granger Causality Test (Univariate Test)

DY is measured by dividend yield (cash dividends over market capitalisation) and FO is measured by the percentage of share ownership of the founders and their family members over the total shareholdings in the firm and IDR is proportion of independent directors over the total number of directors' in the board.

Variables	Model 1				Model 2			
	Dependent Variable: DY		Dependent Variable: FO		Dependent Variable: IDR		Dependent Variable: FO	
	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error
Intercept	0.1294	0.2515	1.2607*	0.6893	0.0989***	0.0099	1.6448*	0.9343
DY(t-1)	0.6186***	0.0144	0.0019	0.0393				
IDR (t-1)				0.0062	0.8529***	0.0116	-0.6601	1.0969
FO(t-1)	0.0034	0.0023	0.9658***	1.6645	-0.0001*	0.00007	0.9657***	0.0062
ROA	5.6665***	0.6074	-0.0376	0.6889	-0.00402	0.0173	-0.09505	1.6305
DR	-0.7893***	0.2514	0.0614	0.00202	-0.0002	0.0073	0.0474	0.6834
SG	0.00016	0.0007	0.0006	0.02302	-0.00001	0.00002	0.0006	0.00201
MBV	-0.0277***	0.0084	-0.0184	0.2246	0.0002	0.0002	-0.0181	0.023
FS	0.20101***	0.0819	0.0319	0.0659	0.0032	0.0024	0.0515	0.2268
BS	0.0179	0.0241	0.0052	0.6893	-0.0042***	0.0008	-0.0107	0.0711
N	2031		2031		2031		2031	
Ind. Dummy	Yes		Yes		Yes		Yes	
Yr. Dummy	Yes		Yes		Yes		Yes	
R-Squared	0.5499		0.9255		0.7697		0.9255	

Table 7: Granger Causality Test (Bivariate Test)

DY is measured by dividend yield (cash dividends over market capitalisation), IDR is proportion of independent directors over the total number of directors' in the board, FO is measured by percentage of family shareholdings over total shareholdings in the firm, ROA is measured by total earnings before interest and taxes divided by total assets, DR is measured by total debt over total assets, SG is annual growth rate of the total sales of a firm for a certain year as compared to the previous year, MBV is market to book value ratio of shares capital, FS is natural logarithm of total assets and BS is number of directors in the Board (BODs). ***, ** & * stand for the significance levels at 1%, 5% and 10% respectively.

As presented in Table 6 above, the lagged one year value of DY does not granger causes FO in Model 1 as observed through the insignificant relationship. Further in Model 2, the lagged one year value of IDR does not granger causes the current year value of FO. Therefore, no endogeneity problem existed in both Model 1 and Model 2 of the study.

5. Discussion of Results

Family ownership found to be significantly positive in influencing dividend policy in Malaysia, especially in family firms. The results support the hypothesis formulated for the model of the study and also it is consistent with the agency theory. The controlling family shareholders usually can create an alternate governance mechanism in mitigating Type 1 agency conflict between the professional managers and the external shareholders, consistent with the evidence found by Pindado et al., (2012) and Benjamin et al. (2016). Firms that are controlled by the family shareholders usually pay high dividends as they need to safeguard their reputation as the high dividend payer (Benjamin et al., 2016; Schmid et al., 2010; Weisskopf, 2010). The reputation is important for the family shareholders to raise capital in the future, as the investors would certainly invest in the firms that are paying high dividends (Carney & Gedajlovic, 2002). High dividends can also represent that the interests of the internal and external shareholders are aligned, thus the external shareholders have successfully maintained cost-effective monitoring function on the firm. The internal management or shareholders were not into expropriation activities against minority shareholders. Also, as highlighted through the free-cash-flow hypothesis by Jensen (1986), dividends would reduce the free cash flow in the firm that can be misused for the over-investment or sub-optimal investment by the managers or the controlling shareholders. Besides that, the payment of high dividends may also be the consequences of strong legal protection in Malaysia (Faccio et al., 2001), where the minority shareholders can exert pressure on the management to pay high dividends. In this context, high dividends reaffirm the 'outcome model' proposed by La Porta et al. (2000). Based on this model, dividends are the outcome of strong legal protection in the country. Another argument that supports the incentive to pay high dividends, especially in family firms is dividends can contribute as the source of income for the family shareholders (Carney & Gedajlovic, 2002; Isakov & Weisskopf, 2015). Since family business is the only source of income for the family shareholders, frequent high dividends need to be disbursed by them to satisfy their income needs. Not limited to that, by continuously paying high dividends to the family members, the family shareholders can remain in control and absorb income of the firm for a long term. The descriptive results (refer Table 2) support this argument where family firms were found to pay higher dividends as compared to their non-family counterparts.

Although high dividends negate the expropriation argument in most of the previous studies, it still can justify expropriation motive of the controlling shareholders, especially in the context of family firms. Dividends can be the alternative of expropriation as it was substantially paid to the controlling family shareholders (the majority shareholders in the firm) and their related family members. Direct expropriation activities can hurt the share price of the firm, hence it is best to extract resources indirectly through high dividend pay-outs. The external shareholders would also value the firms that are paying high dividends. Further, this alternative explanation of dividends is also reaffirmed the arguments discussed above on dividends can safeguard the reputation and serve as the source of income for the family shareholders.

The interest of the family shareholders is always given priority rather than focusing on the overall wealth of shareholders. As presented in the descriptive statistics (refer Table 2), family firms were still paid high dividends although generated lower profits as compared to their non-family counterparts. Thus, this may show that there is an incentive to extract firm's resources, especially in family firms. The insignificant negative relationship between family ownership and dividend policy in non-family firms reaffirms the above arguments in family firms' perspective.

In order to further confirm the incentive to expropriate resources by the family shareholders, the Model 2 has been examined. The controlling family shareholders tend to assemble weaker board (lower independent directors) in family firms compared to their non-family counterparts, supporting the hypothesis 2 (H2). Firms that are assembled weaker board are tend to be opaque to its shareholders, as discussed by Setia-Atmaja et al. (2009) and Lefort & Urzua (2008). The independent directors (internal governance provider) could not monitor the controlling shareholders adequately, hence they could not safeguard the resources in the firm. Appropriate governance activities could not be presented to protect the interest of the minority shareholders, as highlighted by Leung et al. (2014) and Suchard et al. (2001). In this context, the expropriation motive of the controlling shareholders is also unlikely to be revealed. Not limited to that, family shareholders may appoint fewer independent directors that are only agreed to support the business decision by the families (Lane et al., 2006). Those independent directors who are opposing the views of the families will not be reappointed to the board. Thus, these independent directors have no choice but need to be loyal to the controlling families. Further, the family shareholders usually have significant experience of their business (Leung et al., 2014). The independent directors may have professional knowledge of the similar business activities, however, the lack of experience in family business may make their advice not valued by the families. Hence, this could reduce the interaction between the controlling shareholders and the independent directors (Westphal, 1999), which could be the reason for the fewer appointment of independent directors in the board of family firms. As shown in descriptive statistics (refer Table 2), the controlling family shareholders not only assemble the weaker board, they also prefer to use lower debt components as their capital. This indicates that the controlling family shareholders prefer to also limit the external supervision of the capital provider, thus their activities in the firm are difficult to be monitored. Also, smaller board size was used by the family firms as compared to their non-family counterparts. As discussed earlier, the family shareholders prefer to appoint directors who are only agreed to support the decision made by the families (Lane et al., 2006), hence they can still have the incentive to be opportunistic in their firm. The positive insignificant relationship between family ownership and board independence in non-family firms reaffirms the above arguments of the behaviour of the controlling family shareholders that assemble weaker board in family firms.

6. Conclusions

The study examined the impact of family ownership on the dividend policy and board independence in Malaysia. Data from 712 firms across five (5) years period were used to conduct the study. The study also locates its examination in emerging market (Malaysia) as the corporate ownership structure in this country is different compared to that in developed countries like in the US and the UK. The ownership structure in Malaysia is mostly concentrated in the hand of few individual shareholders like family shareholders (Carney & Child, 2013; Claessens et al., 2001). These concentrated and controlling ownership of the family shareholders would create a different type of agency problem (Type 2 agency problem) that could influence the corporate decision in the firm. The decision on dividend and board independence can be the consequences of the prevalence of the agency problem between the controlling shareholders and the minority shareholders.

The results of the study indicated that the controlling family shareholders pay high dividends to its shareholders in Malaysia, especially in family firms. The payment of high dividends is necessary as the family shareholders need to safeguard their reputation as the high dividend payer and they are not into resources expropriation against the minority shareholders. This reputation is important for them to issue share capital in the future. High dividends can also serve as the source of income to the family shareholders who only rely in the family business to satisfy their income needs. The controlling family shareholders need to continuously pay dividends to the family members in order to maintain their control in the firm. However, in this context of the study, the behaviour of paying high dividends by the controlling family shareholders can be an alternative to extract resources from the minority shareholders in the firm. Family shareholders may misuse the excessive control and power to pay high dividends to themselves and prioritise their self-interest. The governance standard that is strongly protect the shareholders in Malaysia may not allow the family shareholders to directly extract resources, hence they prefer to mask their expropriation activities with high dividends to themselves. Further, the controlling family shareholders were seen to assemble the weaker board, thus they can facilitate expropriation activities in the firm. The board with few independent directors could not provide an adequate monitoring function on the management of the firm. Not limited to that, the controlling family shareholders were also employed smaller board size and use lower debt components, hence they could also limit the monitoring function of various stakeholders (such as board members and capital providers) in the firm. Therefore, high dividends in Malaysian public firms (especially in family firms) not necessarily related to the enhancement of the overall shareholders' wealth.

The study has its limitation. This study is merely focused on single country evidence and the results found could not be applied in another countries perspective although the corporate culture in the emerging countries is almost similar (Carney & Child, 2013). The evidence from the study in multiple countries can provide knowledge and recommendations on the regulation pertaining to the mitigation of agency conflict especially those agency conflict created by the controlling shareholders. Further, the period of analysis can also be the much longer period from the period before the Asian Financial Crisis and the period after that. By which, the pattern of relationship across these period can describe the actual behaviour

of the controlling family shareholders in managing the firm. The magnitude of dividends over these period of study is also needed to be examined in order to understand the agency relationship in the firm. In the context of board independence, the study should cover the periods before and after the introduction of Malaysian Code of Corporate Governance 2012 (MCCG 2012). The pattern of board independence in this period of analysis can be examined, thus the effective of the governance standard can be revealed.

7. References

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