

BOARD OVERSIGHT AND DIVIDEND POLICIES IN MALAYSIAN SHARIAH-COMPLIANT COMPANIES

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ABSTRACT

A stable dividend policy is often in the best interests of both the company and its shareholders. Considering the importance of dividend policy, we examine the determinants of dividend payment in Malaysian Sharia-compliant listed firms and the moderating role of board directors. To this end, we apply a static-panel model using data of Malaysian Shariah-compliant listed firms from 2014 to 2020. We find that ROA (Return on Asset) and Price-Earnings ratio (PER) have asignificant positive impact on the dividend payout ratio (DPR). On the other hand, NAV (Net Asset Value) shows a negative and significant relationship with the DPR. Our findings also reveal that the board of directors significantly and positively influence the decision to pay dividends. The findings of the study hold significant importance for corporations in determining a suitable dividend policy that can ensure the sustainability of a consistent dividend payout and ensure their organization's financial stability, particularly in Malaysian-listed Shariah-compliant firms.

Keywords: Board of directors, Corporate governance, Dividend policy, NAV, PER, ROA, Shariah-compliant.

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I. INTRODUCTION

Dividend distribution policy is an issue of interest since dividends are not only an essential source of return on investment to shareholders but also an indicator of financial performance. A dividend incentivizes investors to channel capital to corporations (Almeida et al., 2015; Anwer et al., 2021). Baker et al. (2020) and Rutterford (2004) emphasize that dividend is to communicate information to shareholders or satisfy their demand for payouts. Dividend payment and stability are two of the most critical financial aspects that management must ensure. Dividend payment decision affects the firm's value and the shareholder's wealth. Determining the dividend policy is challenging because retained earnings fall when management distributes earnings as dividends. The relevant theory of dividend implies that dividend payment decision influences a firm's value (Gordon, 1962). However, capital gains are equivalent to dividends, and investors do not consider them when valuing a company (Miller & Modigliani, 1961).

Moreover, dividend payout is critical in reducing conflicts between shareholders and managers in the light of the agency theory (Ross, 1973; Jensen, 1986). A constant dividend policy is often in the firm's and its shareholders' best interests, regardless of whether the company's profits rise or decline. According to the policy of constant dividends, stockholders will get a more significant payout if the firm's revenue increases; yet, if revenue falls, they may not get a dividend (Miller & Modigliani, 1961; Rutterford, 2004).

Further, dividend payments are one of the critical financing decisions that offset agency costs caused by information asymmetries between owners and managers (Hussain et al., 2023). Corporate governance is a widely used tool for addressing agency issues by aligning the goals of shareholders and management through effective boards (Baysinger & Hoskisson, 1990; Jensen, 1986). La Porta et al. (2000) contend that dividend policy is essential for corporations to minimize agency conflicts. Jensen (1986) also contends that high dividends reduce agency costs by reducing free cash flows that may be used to support unproductive initiatives. The board is responsible for determining the firm's overall policy and ensuring that proper regulation is in place to safeguard shareholders' wealth (Alias et al., 2016). A well-managed board lowers shareholder involvement costs by raising dividend payouts (Jiraporn & Chintrakarn, 2009; Benjamin & Biswas, 2019; Tahir et al., 2020; Jamadar et al., 2022).

The evolution of dividend theories has significantly enriched dividend research, particularly in identifying factors determining dividend policy. Earlier research primarily concentrates on the dividend payout ratio, giving less consideration to the impact of corporate governance attributes, such as the board of directors, on dividend policy. Additionally, studies on Shariah compliance in dividend policy have emerged in recent years. For example, Anuar et al. (2023) reveal that leverage and liquidity have an insignificant impact on dividend policy. Similarly, Ramachandran et al. (2024) & Hussain et al. (2023) posit that Shariah firms might raise debt to gain a tax advantage. Companies, in general, pay dividends to avoid reputational damage. Hence, corporate tax and capital structure significantly influence dividend policy. However, Bakri et al. (2021) find that debt has no significant influence on dividend policy in Malaysian firms. On the other hand, Shehu (2015) finds that independent directorship negatively influences Malaysian

non-shariah firms' dividend payout policy. Nurfarah'ain Awang Ahmad et al. (2022) find that Sharia-compliant companies are more likely to pay out dividends than their non-shariah counterparts due to better usage of assets or lower agency conflicts in Malaysia. Furthermore, the board of directors serves as a mechanism to mitigate conflicts between majority and minority shareholders. In addition to impacting dividend policy and board size, the composition of majority and minority shareholdings can influence company performance and stock returns.

Previous research highlights the significant role that the board composition, board independence, board characteristics and ownership structures in determining dividend decisions mostly for the case of non-shariah compliant firms. However, there needs to be more evidence on the role of the board of directors in shaping dividend policy in Malaysian Sharia-compliant companies. To fill the gap and to better understand the determinants of dividends in Shariah-compliant firms, the present research examines factors that influence the dividend payout decision of companies that adhere to Shariah principles. More specifically, we ask the following questions: What factors affect dividend payment of Shariah-compliant firms? And how does the board of directors moderate the relationship between dividend payout policy and its determinant? Since the board of directors decides whether to pay a dividend, we investigate whether the dividend payout for Shariah-compliant firms in Malaysia could be attributed to specific corporate governance characteristics of the Shariah-compliant firms, such as the board of directors.

Malaysia is widely recognized as the global leader in the Islamic capital market (ICM), where its size has more than doubled over the last decade. Over the past few years, shariah-complaint financial products in Malaysia has increased by approximately 30% (Nor et al., 2020; Alias et al., 2016; Ben-Nasr & Ghouma, 2022). Due to the fast expansion of the Islamic capital market in the country, it is critical to address the issue of dividend payout and at the same time be cognizant of Shariah compliance concerns while conducting dividend policy research.

Using data from Malaysian-listed Shariah-compliant firms, we argue that the financial characteristics of Shariah-compliant firms (i.e., ROA, NAV and PER) significantly influence the dividend payment policy. We also aim to investigate the board of directors' role in moderating the relationship between dividend policy and its determinants. After controlling a few financial variables, we find that the higher dividend for firms with the Shariah-compliant label is more apparent in firms with influential board members. Using the fixed effect model, we also document that the broad of the director, as an attribute of corporate governance, plays a significant and positive role in the dividend payment decision.

We complement the literature on the dividend policy of Shariah-compliant companies in Malaysia with the moderating role of the board of directors. The outcomes of this study are imperative for companies' management when deciding suitable dividend policies to preserve a steady dividend payout and maintain a sound financial situation. In addition, these outcomes also provide insight into the behaviour of dividend policies within Malaysia, particularly regarding public-listed Sharia-compliant firms.

The paper is organized as follows: Section 2 of this study comprehensively reviews the relevant literature and formulates hypotheses. Section 3 presents the

data and methodology. Section 4 discusses the empirical analysis and results. Finally, Section 5 presents the conclusion.

II. RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

2.1. Theoretical Framework

Dividend policy has been examined from various perspectives and theories in the literature. Gordon (1959) contend that dividends enhance a firm's value. Dividends appeal to investors because they are a promise from the company to share profits, and they also view them as information about the company's anticipated future performance (Kaźmierska-Jóźwiak, 2015; Kuzucu, 2015; Yusof & Ismail, 2016; Salman, 2019).

Signaling theory suggests that companies use dividend policy to signal important information to investors. Dividend policy can be affected by the company's profitability, growth, and firm value (Morris, 1987). Based on the signaling hypothesis, Lintner (1956) states that dividend decisions are influenced by a company's capacity to maintain its earnings over the long term. According to the signaling theory, a company's dividend policy can convey information about its profitability, growth, and management's confidence in its overall performance (Miller & Rock, 1985; Morris, 1987). Using dividends as a signaling tool, companies can attract new and retain existing investors (Allen & Michaely, 1995; Baker & Weigand, 2015; Morris, 1987). Miller & Rock (1985) also suggest that a company with higher earnings will distribute greater dividends than a company with lower earnings.

Agency theory is a theoretical framework that examines the relationship between principals (such as shareholders) and agents (such as managers or executives) in an organization (Morris, 1987). The theory suggests that there may be conflicts of interest between principals and agents, as agents may act in their self-interest rather than in the best interest of the principals. A dividend policy is a decision made by a company's management team regarding how much of the company's profits should be distributed to shareholders in the form of dividends. In the context of agency theory, dividend policy can be seen as a mechanism to align the interests of managers with those of shareholders.

2.2. Dividend Payout Determinants

A company's dividend policy is critical to its financial strategy, reflecting its approach to balancing shareholder returns with reinvestment in growth opportunities. A consistent dividend policy, in which investors continue to receive dividends regardless of earnings, is frequently in the company's and its shareholders' best interests (Baker & Weigand, 2015; Morris, 1987; Suwanna, 2012; Awad, 2015; Labhane & Mahakud, 2016). Most investors and shareholders prefer consistent dividend payments, which a company must accomplish. These circumstances meet the dividend policy's objectives, correspond with long-term growth, and set a precedent for the company's financial stability (Almeida et al., 2015; Farooq & Tbeur, 2013; Gusni, 2017; Labhane & Mahakud, 2016). A dividend decision, an essential part of a company's financial policy, is not made

unilaterally. Instead, it is a decision made after considering all relevant attributes and factors. The percentage of profit distributed in cash dividends and dividend policy is reflected in its dividend payout ratio (DPR) (Abdullah et al., 2018; Anwer et al., 2021). Dividend distribution is influenced by various financial factors such as profitability, net asset growth, price-earnings ratio, debt policy etc. Earlier studies find that profitability significantly influences the dividend policy (Mauris & Rizal, 2021; Pattiruhu & Paais, 2020). Lintner (1956) finds that profitability drives dividend policy. Agency theory posits that the payment of dividends reduces the managers' free cash flow and agency conflicts (Easterbrook, 1984; Jensen, 1986). To reduce agency costs, shareholders expect highly profitable firms to pay higher dividends. Higher dividend payments to the shareholders or the allocation for retained earnings will result from the availability of more profits to shareholders if the company has a high level of profitability (Kuzucu, 2015; Labhane & Mahakud, 2016). Yusof & Ismail (2016) also clarify that profitability is one of the elements influencing dividend policy, and profit after taxes and interest should be distributed to shareholders. According to Dewasiri et al. (2019) and Singla & Samanta (2019), market expectations and risk significantly and positively influence the long-term target dividend payout ratio. In contrast, growth, profitability, and corporate taxation negatively affect the dividend payout ratio. Only profitability has a substantial positive influence on the desired dividend payout ratio in the short-term analysis. Similarly, Franc-Dbrowska & Mądra-Sawicka (2020) also find a negative correlation between dividend payout decisions and profitability, growth, risk, liquidity, and leverage. Studies by Chukwuebuka & Okonkwo (2020) and Kaźmierska-Jóźwiak (2015) also find that the prior dividend pattern, current profitability, alternate sources of capital, liquidity constraints, and investment opportunities significantly influence the dividend decisions of Nigerian businesses. Further research by Yusof & Ismail (2016) demonstrates that a company's dividend policy is significantly influenced by its earnings, debt, size, investment, and largest shareholder.

Numerous studies have also been performed in the Malaysian context (Zainudin & Khaw (2021); Zakaria et al. (2012); Tahir et al. (2020); Mui & Mustapha, 2016). Earnings, firm size, and investment have a significant positive impact, while debt and large shareholders have a negative impact the dividend policy of publicly traded companies in Malaysia. Moreover, non-financial Malaysian firms have low target payout ratios and swift adjustment times; they need to be more stable in smoothing their dividend payments (Mui & Mustapha, 2016). Shafai et al. (2019) and Tahir et al. (2020) document that the determination of dividend payments depends on past and current earnings per share. Mauris & Rizal (2021) conclude that some positive criteria impacting dividend policy are profitability, asset structure, goal payout ratio, and a rapid change to the target payout relative to other industrialized nations. Budagaga (2020) and Kuzucu (2015) demonstrate that firms have a target dividend payout ratio determined by revenue growth. Wirama et al. (2024) assert that dividend policy consistently affects a firm's growth. Additionally, Badru and Qasem (2024), Chaudhury and Dawar (2024), and Fadhil et al. (2023) indicate that profitability, tax, and firm size are significantly and positively associated with dividend policy. On the other hand, firms may utilize dividend distribution to advertise growth potential and stimulate investment

(Imamah et al., 2019). Higher net asset value is considered as growth for the company. When a dividend is paid, the fund's net asset value (NAV) decreases (Harlina & Khoiruddin, 2018; Kadim et al., 2020; Mauris & Rizal, 2021). This is a typical situation, and investors should not be discouraged from investing in particular funds. According to Bostanci et al. (2018), Driver et al. (2020), Shafai et al. (2019), and Jamadar et al. (2022), an increase in net assets would result in reduced dividend payout to shareholders since corporate managers utilize profits for internal financing of investment possibilities. Hence higher net assets will result in lower dividend payout. Therefore, we formulate the following hypothesis:

H1: Firms' profitability, value and growth affect dividend policy.

2.3. Board of Directors, Dividend Determinants and Dividend Policy

Effective corporate governance is crucial for a resilient and competitive corporate landscape. Dividend policy, a critical business decision, arises from this framework (La Porta et al., 2000). Companies often pay higher dividends to enhance investor visibility. In this context, corporate governance plays a vital role in shaping dividend payment decisions (Morris, 1987; Allen & Michaely, 1995; Baker & Weigand, 2015; Miller & Rock, 1985). Farooq et al. (2024) suggest an indirect hypothetical link between dividend policy and agency conflict. That is, higher dividend payouts enhance shareholder satisfaction and reduce agency conflict. Several studies have examined the effect of corporate governance on dividend policy—most of the earlier studies have evidence that the dividend payout ratio positively correlates with corporate governance attributes (Nurdin & Kasim, 2017; Imamah et al., 2019; Kanojia & Bhatia, 2022). The company board typically fulfils this role by endorsing and supervising executive decisions. Acting as the shareholders' representative, the board of directors ensures that their actions align with the shareholders' interests. Representing the firm's stockholders, the board upholds business value maximization and dividend policy (Jiraporn & Chintrakarn, 2009; Aydin & Cavdar, 2015; Benjamin & Biswas, 2019). Shareholders can direct and control top management decisions through the board of directors, frequently called the "soul" of corporate governance (Fama & Jensen, 1983; Schellenger et al., 1989). According to the agency theory, businesses can reduce agency costs by implementing appropriate monitoring systems and utilizing board governance to supervise management (Fama & Jensen, 1983). It has previously been extensively researched how boards are governed and how ownership control affects dividend plans. The board of directors is vital to a company's corporate governance mechanism (Shleifer & Vishny, 1997). One of the most important decisions a board of directors must make is the company's dividend payment policy (Jiraporn & Chintrakarn, 2009; Shehu, 2015; Alias et al., 2016; Benjamin & Biswas, 2019). Similarly, when a corporation is involved in promising efforts, board members may determine that distributing dividends is in the company's best interests (Mehdi et al., 2017; Baker & Weigand, 2015; Kanojia & Bhatia, 2022). Most of the earlier research find that the number of board members and their composition positively impact dividend payments (Hussain et al., 2017; Nurfarah'ain Awang Ahmad et al., 2022; Gyapong et al., 2021; Tahir, et al. (2020). A larger board may allow directors to specialize, and more knowledge may lead to more effective supervision (Shehu, 2015).

Furthermore, Benjamin et al. (2016) show that board size and composition positively affect dividend payments, and boards may aim to pay more enormous dividends to develop a reputation. Chen et al. (2017) report a positive relationship between board size and dividend distribution. Similarly, Elmagrhi et al. (2017) also report a positive relationship between dividends and board size. Dwaikat et al. (2020) and Subramaniam et al. (2011) analyze the leading Bursa-listed Malaysian firms and find that the board size has a positive and statistically significant effect on the decision to dividend payout. Nevertheless, some scholars report that there is no association between the board size and the distribution of dividends (Al-Najjar & Hussainey, 2009; Juhmani, 2020). While some researchers find that board size has an adverse impact on dividend payout policy in Malaysian context (Shehu, 2015; Shahwan & Almubaydeen, 2020; Tahir et al., 2020). Conversely, Hussain et al. (2023) argue that corporate governance mitigates agency conflicts between managers and shareholders, reduces managers' opportunistic behavior, and increases dividend payments. Consequently, the board of directors significantly influences dividend distribution as they respond to the demands of various investor groups.

H2: The board of directors moderates the relationship between dividend determinants and dividend payout.

III. DATA DESCRIPTION AND METHODOLOGY

We analyze the payout determinants using a panel sample of Malaysian-listed Sharia-compliant firms covering the period 2014-2020. Malaysia is an emerging market well-known worldwide as a HALAL HUB for Shariah-compliant products. It has been a pioneer in the issuing of many Shariah-compliant products and frameworks (Nor et al., 2020). The data for the analysis (firm-level determinants) are obtained from the Data Stream and the company's annual reports. We exclude financial and real estate firms due to their regulation and the possibility that additional regulations may apply to their dividend decision. Moreover, we exclude firms if the annual reports do not contain information about dividend payments. As a result of those data filters and requirements, our final sample consists of 40 firms with 780 firm-year observations. Table 1 shows the list of the shariah-compliant stocks included in the sample.

Table 1.
The Top 40 Shariah-compliant Companies

NO	Stock Code	Stock Name	Sector	Security Type
1	5347	Tenaga Nasional Bhd	Utilities	Shariah
2	5183	Petronas Chemicals Group Bhd	Industrial Products & Services	
3	7113	Top Glove Corporation Bhd	Health Care	Shariah
4	5225	IHH Healthcare Berhad	Health Care	Shariah
5	5168	Hartalega Holdings Bhd	Health Care	Shariah
6	6012	Maxis Berhad	Telecommunications & Media	Shariah
8	6888	Axiata Group Berhad	Telecommunications & Media	Shariah
9	6033	Petronas Gas Bhd	Utilities	Shariah
10	8869	Press Metal Aluminum Holdings Berhad	Industrial Products & Services	Shariah
11	4707	Nestle (M) Bhd	Consumer Products & Services	Shariah
12	6947	Digi.Com Bhd	Telecommunications & Media	Shariah
13	3816	Misc Bhd	Transportation & Logistics	Shariah
14	1961	IOI Corporation Bhd	Plantation	Shariah
15	4065	PBP Group Bhd	Consumer Products & Services	Shariah
16	2445	Kuala Lumpur Kepong Bhd	Plantation	Shariah
18	5681	Petronas Dagangan Bhd	Consumer Products & Services	Shariah
19	4863	Telekom Malaysia Bhd	Telecommunications & Media	Shariah
21	7277	Dialog Group Bhd	Energy	Shariah
25	4197	Sime Darby Bhd	Consumer Products & Services	Shariah
26	5246	Westports Holdings Berhad	Transportation & Logistics	Shariah
27	7084	QL Resources Bhd	Consumer Products & Services	Shariah
28	3689	Fraser & Neave Holdings Bhd	Consumer Products & Services	Shariah
29	7153	Kossan Rubber Industries Bhd	Health Care	Shariah
31	5398	Gamuda Bhd	Construction	Shariah
32	0166	Inari Amertron Berhad	Technology	Shariah
33	2291	Genting Plantations Berhad	Plantation	Shariah
34	5249	IOI Properties Group Berhad	Property	Shariah
36	5031	Time Dotcom Bhd	Telecommunications & Media	Shariah
38	1899	Batu Kawan Bhd	Plantation	Shariah
40	0138	My E.G. Services Bhd	Technology	Shariah

3.1. Measure of Variables

To determine the determinants of dividend policy and the effect of the board of directors as a moderator on the relationship between dividend determinants and dividend payout, we use the dividend payout ratio (DPR) as the dependent variable. Return on Asset (ROA), Net Asset Value (NAV) and Price Earnings Ratio (PER) are our key independent variables. Board size represents the number of directors on the board of directors, which is the moderator in the study. Table 2 shows the list and definition of all the variables used.

Table 2.
List and Definition of All the Variables

Abbreviation	Full Name	Measurement	Predicted Sign
DPR	Dividend Payout Ratio	Dividends per Share (DPS)/Earnings per Share	
ROA	Return on Asset	Net Income/ Total Asset	(+)
NAV	Net Asset Value	Total Assets–Total Liabilities/ Number of outstanding shares	(±)
PER	Price Earnings Ratio	Market Price per Share/ Earnings per Share	(+)
BOD	Number of the board of directors	Number of the board of directors	(+)
MV	Market Value of Equity (Size)	Market Value of Equity	(±)
Lev	Leverage ratio	Total liabilities/Shareholders' equity	(±)
SG	Sales Growth	(Current sales - Previous sales)/Previous sales	(±)

There are many ways to measure a company's performance, value and growth. According to Doumpou et al. (2017), return on assets (ROA) is a widely accepted, reliable measure of firm performance. This study determines firm performance, value and growth by ROA, NAV, and PER. Return on Asset (ROA) is the operating income divided by total assets. Net Asset Value (NAV) equals the total value of assets minus the total liabilities (Kadim et al., 2020). The overall assets of a firm indicate its growth: the higher the assets possessed by the organization, the better the operational results and earnings will be (Gangil & Nathani, 2018). When a fund pays dividends to its shareholders, its net asset value (NAV) falls (Mauris & Rizal, 2021). Higher net asset value is considered as increased value for the company. Shareholders should consider this when seeking new investments (Dang *et al.*, 2021). The price-to-earnings (PE) ratio is widely accepted to illustrate a company's growth prospects. A higher PE ratio implies a greater ability of the corporation to pay dividends to its shareholders. This is one of the factors that an investor considers when deciding whether or not to invest in a firm (Almeida et al., 2015; Franc-Dbrowska & Mađra-Sawicka, 2020). DPR is a dependent variable representing the Dividend Payout Ratio (DPR), a key indicator for evaluating a company's dividend policy and financial strategy. It measures the proportion of a company's earnings that is distributed to shareholders as dividends (Shehu, 2015; Benjamin *et al.*, 2016).

3.2. Empirical Approach

The following empirical model is used to investigate the factors that affect dividend payout and the moderating role of board directors:

Model 1: Factors affecting dividend payout

$$\text{DPRit} = \beta_0 + \beta_1 \text{ROAi, } t + \beta_2 \text{NAVi, } t + \beta_3 \text{PERi, } t + \beta_4 \text{DEi, } t + \beta_5 \text{Log_MVi, } t + \beta_6 \text{SGi, } t + \mu_{i,t} \quad (1)$$

Model 2: The moderating effect of the board of directors on the relationship between dividend payout and dividend determinants.

$$\text{DPRit} = \beta_0 + \beta_1 \text{ROAi, } t + \beta_2 \text{NAVi, } t + \beta_3 \text{PERi, } t + \beta_4 \text{BODi, } t + \beta_5 (\text{ROAi, } t * \text{BODi, } t) + \beta_6 \text{Log_MVi, } t + \beta_7 \text{SGi, } t + \mu_{i,t} \quad (2)$$

$$\text{DPRit} = \beta_0 + \beta_1 \text{ROAi, } t + \beta_2 \text{NAVi, } t + \beta_3 \text{PERi, } t + \beta_4 \text{BODi, } t + \beta_5 (\text{NAVi, } t * \text{BODi, } t) + \beta_6 \text{Log_MVi, } t + \beta_7 \text{SGi, } t + \mu_{i,t} \quad (3)$$

$$\text{DPRit} = \beta_0 + \beta_1 \text{ROAi, } t + \beta_2 \text{NAVi, } t + \beta_3 \text{PERi, } t + \beta_4 \text{BODi, } t + \beta_5 (\text{PERi, } t * \text{BODi, } t) + \beta_6 \text{Log_MVi, } t + \beta_7 \text{SGi, } t + \mu_{i,t} \quad (4)$$

IV. RESULTS AND DISCUSSIONS

4.1. Descriptive Analysis and Correlations

Table 3 presents the summary statistics of the dividend payout ratio and other financial variables. It shows that the overall data's average dividend payout ratio is .434 per cent. The average profitability (ROA) of the Shariah-listed firms is .087, with a standard deviation of 0.0701, which suggests that the data is minimally distributed away from the mean value. In addition, the mean net asset value (NAV) and price-earnings ratio (PER) are 3.663 and 37.005, respectively. The average number of board members in Malaysian Shariah-listed firms is 9. Then, there are three control variables: MV, Lev and SG. The mean value for MV (Market value of equity is 15.409). Further, sales growth is 0.224 per cent with . Meanwhile, the mean leverage is 0.224 per cent, where the debt includes both Islamic and conventional debts.

Table 3.
Descriptive Statistics

Variable	Mean	Std. Dev.	p25	Median	p75
DPR	0.434	2.455	0.373	0.5424	0.750
ROA	0.087	0.0701	0.038	0.069	0.115
NAV	3.663	4.015	0.602	2.377	5.435
PER	37.005	68.455	17.990	25.680	48.590
BODSize	9.7859	2.0145	9.000	10.100	12.390
MV	15.409	1.307	14.475	15.460	16.504
Lev	2.232	1.213	1.3951	1.982	2.820
SG	0.224	2.146	-0.016	0.049	0.147

Before estimating the models, paying attention to the correlations between the model's independent variables is important to gauge potential multicollinearity among them. The pairwise correlations, as shown in Table 4, do not exceed 0.8. The VIF as given in Table 5 is below 5 for all variables. Thus, the models do not experience serious multicollinearity issues.

Table 4.
Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) ROA	1.000						
(2) NAV	-0.370	1.000					
(3) PER	0.058	-0.245	1.000				
(4) BODSize	0.0177	-0.0569	0.0704	1.000			
(5) MV	-0.689	0.535	-0.265	-0.0585	1.000		
(6) Lev	0.142	0.117	0.032	-0.024	-0.0089	1.000	
(7) SG	-0.027	0.119	-0.009	-0.032	0.009	-0.0206	1.000

Table 5.
Variance Inflation Factor (VIF) Test

Variables	VIF	R- Tolerance
(1) ROA	2.02	0.4960
(2) NAV	1.50	0.664
(3) PER	1.13	0.882
(4) BodSize	1.17	0.731
(5) MV	2.43	0.411
(6) Lev	1.07	0.936
(7) SG	1.03	0.969

Mean VIF 1.47

4.2. Empirical Results

We used panel data analysis. To determine which panel data regression model to use, the Breusch-Pagan Lagrangian Multiplier and Hausman tests are conducted. The analysis initially applies a pooled OLS model. However, it is later determined that allowance must be made for heterogeneity based on the Breusch-Pagan Lagrangian Multiplier Test results. Then, the Hausman test is conducted to determine whether a fixed effects model (FEM) or a random effects model is more appropriate for the analysis. In this case, the Hausman test confirms that the REM is the more suitable model for the analysis. In the regressions, we use robust standard errors to correct for the presence of heteroskedasticity.

4.3. The Determinants of Dividend Payout

Table 6.
The Determinants of Dividend Payout—Main Results

	(Pooled)	(REM)	(FEM)
Dependent variable: DP			
Constant	5.0924** (2.2237)	4.6621** (1.8190)	5.4864*** (1.7519)
ROA	0.8542*** (0.2442)	0.8276*** (0.2456)	0.8774*** (0.2466)
NAV	-0.0586** (0.0266)	-0.0588* (0.0311)	-0.0307*** (0.0016)
PER	0.0308*** (0.0108)	0.0307*** (0.0016)	0.2816** (0.1108)
MV	0.2585** (0.1206)	0.2224' (0.1187)	0.2816** (0.1108)
SG	0.0450*** (0.0142)	0.0042 (0.0482)	0.0108 (0.0492)
Lev	-0.0688 (0.0602)	-0.0105 (0.0899)	-0.0040 (0.0900)
N	780	780	780
R ²	0.6758	0.6757	0.6657
BPLM test			.5063
Hausman test		1.0000	

Standard errors in parentheses * p < 0.10, ** p < 0.05, *** p < 0.01

Table 6 shows the findings of the Pooled OLS, Random Effect and Fixed Effect Models. For ROA, the results show a statistically significant positive relationship between return on assets (ROA) and dividend payout. The coefficient of ROA (0.8542) indicates that a one-unit change in return on the asset would impact dividend payout positively by .8542%, given that all other variables are held constant. This coefficient is significant at a 1% level, confirming that the ROA of shariah compliance significantly affects dividend policy. This outcome is in line with Tahir et al. (2020), Mui & Mustapha (2016) and Bostanci et al. (2018) and supports the signaling theory (Lintner, 1956; Miller & Rock, 1985; Morris, 1987), which postulates that an increase in company profits leads to a larger dividend payment to shareholders. Companies with higher profitability will be able to distribute dividends to shareholders because companies' distribution is preferred by investors who would like to receive additional income from their investments.

We may note from the Table 6 that the coefficient of Net Asset Value (NAV) is negative statistically significant at a 1% significance level. This suggests that following the increase in the NAV, the dividend payment declines. Perhaps, the companies prefer to spend the income derived from profits to expand and consequently reduce the proportion of dividends distributed to shareholders. Moreover, the net asset value (NAV) of a fund declines when a dividend is paid as it lowers the value of the fund. This is the reason for the fall in NAV after a dividend outflow. Our findings support the overall findings of Mauris & Rizal, (2021) but contrast with the findings of Usman et al. (2023).

Our findings further reveal that the Price-Earnings Ratio (PER) and dividend payout have a significant positive relationship with a coefficient value of 0.2816 at a 5% significance level. The fact that investors use PER to gauge market activity

related to an issuer's potential for future profitability. As an organization's growth rate accelerates, so will its PER (Dang et al., 2021). Higher PER values indicate the company's ability to pay dividends to shareholders. An investor will take this into account before investing in a business. The control variables, such as the Market Value of Equity (MV) and SG (Sales Growth), are positively related to dividend payout. MV has a statistically significant positive effect on dividend payout, indicating that larger companies tend to pay higher dividends. However, leverage has a weak negative impact on dividend payout, which suggests that companies with high debt levels will be less likely to pay out dividends to shareholders because they will be using their earnings to pay off their debts. Companies that rely on borrowing and are required to pay back the principal amount of borrowed cash combined with interest may find that their capacity to pay dividends is affected by their level of leverage. Haron & Siraj (2021) state that the company may face bankruptcy and the possibility of liquidation if the debt is not paid.

Investors worry about dividend payments and prefer to put their money in funds that pay dividends. Based on the empirical findings, it is anticipated that investors will engage in active monitoring of asset management firms, which will increase dividend payments (Morris, 1987). Our research supports the signalling theory. It demonstrates that increased profitability, firm value and growth substantially impact the dividend distribution policy adopted by Shariah-compliant companies in Malaysia.

4.4. Board of Directors, Firm Profitability, Growth and Dividend Payment Policy

Table 7.

Board of Directors Moderates the Relationship Among Firm Profitability, Growth and Dividend Payout

	(Pooled)	(REM)	(FEM)	(Pooled)	(REM)	(FEM)	(Pooled)	(REM)	(FEM)
Dependent variable: DP									
Constant	4.6599** (2.6408)	5.1717** (2.0074)	5.2370* (2.0219)	4.8668** (2.3100)	4.9520** (2.3094)	5.0034*** (2.3100)	2.3995** (2.5103)	2.6786** (2.5261)	2.5687** (2.5147)
ROA	0.7309** (0.2068)	0.7461** (0.2452)	0.3514** (0.0215)	0.0148** (0.0044)	0.0148** (0.0044)	0.5556** (.0026)	0.0138** (0.0043)	0.0138** (0.0043)	0.0147** (0.0196)
NAV	-0.0021 (0.0191)	-0.0059 (0.0394)	-0.0260 (0.0405)	-0.0113 (0.0431)	-0.0138 (0.0437)	-0.0187 (0.0438)	-0.3452** (0.1040)	-0.3525** (0.1056)	-0.0137 (0.0432)
PER	0.0308** (0.0105)	0.0308** (0.0015)	0.0302** (0.0016)	0.0325** (0.0015)	0.0317** (0.0013)	0.0317** (0.0017)	0.0610** (0.0147)	0.0615** (0.0148)	0.0629** (0.0148)
BODSize	0.1681* (0.0990)	0.1689 (0.0975)	0.3192* (0.1229)	0.1630* (0.0932)	0.1705* (0.0947)	0.1585 (0.0985)	0.0424 (0.1312)	0.0454 (0.1333)	0.0648 (0.1323)
ROA*BODSize	0.0006** (0.0002)	0.0007** (0.0003)	0.0060** (0.0027)						
NAV*BODSize				-0.0405** (0.0169)	-0.0416** (0.0167)	-0.0426** (0.0168)			
PER*BODSize							0.0032* (0.0021)		
MV	0.3265** (0.1259)	0.3589** (0.1129)	0.3190** (0.1317)	0.3190** (0.1317)	0.3286** (0.1320)	0.3741** (0.1329)	0.3592** (0.1305)	0.3741** (0.1329)	0.3542** (0.1304)
SG	0.0328** (0.0123)	0.0052 (0.0473)		0.0167 (0.0333)	0.0000 (0.0001)		0.0130 (0.0329)	0.0113 (0.0452)	0.0138 (0.0329)
Lev	-0.0297 (0.0590)	0.0093 (0.0883)		-0.1914** (0.0895)	-0.1776** (0.0840)		-0.1961** (0.0883)	-0.1843** (0.0831)	-0.1840** (0.0884)
N	780	780	780	780	780	780	780	780	780
R ²	0.6893	0.6889		0.7068	0.7087		0.7132	0.7157	0.7156
BPLM test		0.5763			0.5385			.5034	
Hausman test			1.0000			1.0000			1.0000

Standard errors in parentheses * p < 0.10, ** p < 0.05, *** p < 0.01

Table 7 provides evidence on the moderating role of the board of directors on the relationship between dividend determinants and dividend payment policy. We estimate and report the FE Model result alongside POLS and REM for comparison. Our findings support previous findings that the size of the board significantly affects dividend distribution. ROA and dividend payout have a positive and statistically significant relationship. Under Pooled OLS and the Random Effects Model, the association between dividend determinants and dividend payout has been found statistically significant when the board of directors is used as a moderator.

According to the regression results of the study, the size of the board plays a moderating role in the relationship between dividend payout and its determinants. More specifically, the board of directors plays a significant role in enhancing the positive effect of ROA and PER on dividend payout, as suggested by the significant and positive coefficients of the interaction terms between BODSize and ROA and between BODSize and PER. By contrast, we may note that the estimated coefficient of NAV*BODSize is negative and significant. NAV reflects the underlying securities' total value, and the dividends' distribution to the shareholders affects NAV. Hence, after every dividend announcement, there is a fall in the NAV to reflect the payouts. When a fund distributes dividend payments to its shareholders, the NAV declines, as well as the price of the stock also decreases. Net Asset Value has a negative impact on dividend distribution because retained earnings are used to finance company growth, resulting in lower dividends distributed.

The literature on corporate governance recognizes the board of directors as a crucial organizational factor affecting a firm's overall decision-making process (Dwaikat et al., 2020; Tahir et al., 2020). An optimal dividend policy in a firm is a policy that creates a balance between the company and shareholders. Further, the board of directors ensures that board decisions align with the interests of the shareholders while serving as the representative of the firm's stockholders; the company maintains its value maximization and dividend policy. The results of this study suggest that firms' profitability and growth significantly affect the dividend policy in the presence of the board of directors in Malaysian Sharia-compliant firms. The findings for other control variables remain consistent with the earlier studies.

V. CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

The dividend policy plays a significant role in attracting new investors and keeping existing ones. To meet the shareholders' desire for wealth maximization through higher dividends, the management must also work toward higher earnings, more significant investment opportunities, a larger firm size, and lower debt levels. In this study, we examine the dividend payout of Malaysian companies. Specifically, we identify the determinants of dividend payment in Malaysian Shariah-compliant listed firms. We also investigate whether board directors moderate the relationship between dividend policy and its determinants.

The likelihood of paying dividends is associated with firm profitability and growth. The results indicate that ROA and PER have a positive relationship with dividend payment, while NAV is negatively related with dividend payout.

The results indicate that Shariah-listed Malaysian firms increase the payment of dividends when their earnings increase, measured by ROA. Shariah-compliant firms are more likely to raise their dividends if they are profitable. In addition, we find that the likelihood of paying dividends is strongly associated with the price-earnings ratio. Firms pay higher dividends when their price-earnings ratios increase. The increase in the P/E value may suggest growth of future earnings expectations. However, NAV shows a negative relationship with dividend payout. NAV reflects the value of the company. The negative relationship between NAV and DPR suggests that the company prefers to retain earnings for investments and increase the net value of the company.

A corporation's earnings are distributed as dividends to its stockholders or shareholders. The corporation's board of directors must declare dividends before they can be paid. Therefore, we also investigate the role of the board of size as a moderator in the association between dividend payout and its determinants. The results indicate that the board of directors plays a crucial role in paying dividends. The results also indicate significant moderating of the board of directors on the relationship between ROA and DPR, PER and DPR, and NAV and DPR. The board of directors has a significantly positive moderating effect on the relationship between ROA, DPR, and PER and DPR. However, NAV and DPR show a negative relationship in the presence of a board of directors. Since dividend reduces net asset value, which reflects the company's market value, distribution of dividends decreases the NAV. Hence, the board of directors is better positioned to protect stockholders' interests. If the firm is unable to access financial markets when good investment possibilities exist, its capacity to grow over time and continue to pay dividends to investors may suffer.

The findings of this research can assist investors in making informed investment choices. Furthermore, this research aids the board of directors to formulate and revise dividend policies by considering various factors influencing dividend payments. When contemplating an increase in dividend payments to shareholders, the board must consider profitability, growth, and asset value. Shariah-compliant companies can maintain their financial stability and growth rate by paying dividends. Additionally, this outcome sheds light on Malaysia's dividend policy practices, particularly those of publicly traded Sharia-compliant firms.

This study concentrates on a single-country context. Therefore, similar studies in various financial and institutional settings are needed to generalize the results. Future research should investigate the factors influencing dividend policy in other developing countries and compare these findings internationally. A comparative study between Shariah-listed and non-Shariah conventional companies could provide deeper insights into Malaysia's overall dividend policy. While this research utilizes secondary data, employing questionnaires or qualitative methods such as interviews might yield more comprehensive data on the variables influencing a company's dividend policy.

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