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DETERMINANTS OF DIVIDEND POLICY AMONG PUBLIC LISTED FIRMS BASED IN MALAYSIA

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Abstract*: Dividend policy represents a crucial financial decision that reflects a firm's approach in distributing earnings to shareholders while maintaining sufficient internal resources for future growth. This study aims to identify and examine the key determinants that influence dividend policy among publicly listed companies in Malaysia. Specifically, this study explores the relationship between firm-specific factors, including profitability, firm size, liquidity and leverage. By integrating various theoretical perspectives, including the Bird-in-the-Hand Theory, Signaling Theory, Clientele Effect and Pecking Order Theory, this paper develops a conceptual framework to provide a comprehensive understanding of dividend policy decisions within the Malaysian corporate environment.*

Keywords*: Dividend policy, profitability, firm size, liquidity, leverage*

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Introduction

Dividend policy remains one of the most critical and debated topics in corporate finance. It refers to the approach management takes to determine the amount of cash to distribute to shareholders and the timing of those payments. Serving as an internal benchmark for profit distribution, a firm's dividend policy significantly impacts vital corporate decisions, including capital budgeting, asset pricing, and capital structure (Hassan Fuzi et al., 2025). For investors, dividends are a crucial indicator of reward for their financial investment and a signal of a company's financial health and future earnings.

The theoretical foundation of dividend policy is extensive. Although foundational theories initially claimed that dividend decisions are irrelevant in ideal market conditions, actual market imperfections like taxes, transaction fees, and information asymmetry render these choices critically important for a company's valuation (Suel & Chin, 2025). In addition, dividend policy can also be explained through agency theory (Jensen & Meckling, 1976), which emphasizes the conflict of interest between shareholders, who may prefer cash dividends, and managers, who may prefer to retain earnings for future investment. Driven by these classical paradigms, empirical research has continuously examined firm-specific financial characteristics, including profitability, leverage, liquidity, and firm size, as primary predictors of corporate dividend behavior.

The landscape of dividend policy in Malaysia presents a unique and compelling context for academic study. The Malaysian corporate environment is distinctly characterized by concentrated ownership structures, where a majority of public listed companies are either family-owned businesses or government-linked corporations (GLCs) (Hassan Fuzi et al., 2025; Suel & Chin, 2025). These specific ownership dynamics, combined with local regulatory frameworks, complicate the dividend decision-making process and frequently challenge traditional dividend theories like the agency and signaling theories. While regulatory bodies such as Bursa Malaysia have provided guidance to listed companies regarding pay-out considerations, reports have highlighted that some Malaysian firms still struggle to articulate clear dividend policies or align them with the goal of maximizing shareholder wealth (Wakhi Anuar et al., 2023). Furthermore, as the financial market navigates post-pandemic economic realities, firms face the complex challenge of balancing internal liquidity management with the demands of investors who seek reliable dividend returns. Because previous studies examining the financial determinants of dividend pay-outs in Malaysia have yielded mixed and inconsistent results (Suel & Chin, 2025), it remains crucial to investigate how these localized factors uniquely influence corporate dividend behaviour.

Based on these differences and gaps identified in previous studies,, this study seeks to examine the factors that influence dividend policy among firms in Malaysia. More specifically, it investigates the relationship between firm-specific financial factors, namely firm profitability, firm size, firm liquidity, and firm leverage, and the dividend payout decisions of Malaysia public listed companies. This study is anticipated to offer a better understanding of how local firms manage shareholder expectations while maintaining financial stability and supporting future growth by examining the factors influencing the Malaysian market. The findings of this research are expected to guide corporate executives in emerging economies toward effective pay-out strategies, assist investors in preparing optimal investment portfolios, and contribute to future policymaking by corporate governance regulators.

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Literature Review

Dividend Payout Ratio

Dividend payout ratio is the percentage of earnings a firm chooses to distribute back to its shareholders and serves as a fundamental benchmark for corporate financial health. Prior studies have defined dividend payout ratio as a critical piece of corporate strategy that heavily interacts with capital budgeting, capital structures, asset pricing, and corporate restructuring activities. Similarly, historical research has evaluated dividend payout ratio patterns based on industry-wide classifications (Michel, 1979) and corporate scales (Alekneviciene et al., 2006).

In addition, determining the optimal dividend payout ratio remains one of the classics, unresolved puzzles in global corporate finance. Empirical research indicates that the selection of an institutional dividend framework is highly dependent on localized economic environments, causing a distinct lack of a universally accepted rule. According to these empirical conceptualizations, dividend payout ratio is considered the dependent variable in the current study to investigate how various corporate financial traits impact a firm's payout strategy.

Profitability

Empirical studies have consistently indicated that a firm's internal profitability has a strong positive relationship with its dividend payment decisions. In Malaysia, there is evidence that shows a positive correlation between profitability, specifically measured via Return on Assets (ROA), and dividend distribution levels among listed financial institutions (Hutagalung et al., 2013). The same results are observed in classic financial literature, which reveals that mature, highly profitable entities are fundamentally more capable of maintaining robust payouts to reward their investor base (Lintner, 1956; Fama & French, 2001).

However, other studies have provided mixed findings indicating that the correlation between corporate earnings and dividend outcomes can deviate based on specific stock market mechanics. A study of public firms on the Bursa Saham Kuala Lumpur revealed that corporate earnings did not yield a statistically significant correlation with payout ratios (Al-Twaijry, 2007). According to the literature, profitability influences the dividend payout ratio by providing the foundational cash reserves needed to signal financial strength. Thus, the independent variable is corporate profitability, and the dependent variable is dividend payout ratio.

Firm Size

Existing experimental and quantitative research indicates that the size of an enterprise is positively and significantly correlated with its dividend payments. Larger corporate bodies tend to maintain regular, higher dividend payouts compared to smaller, expanding businesses. Empirical findings from the Malaysian market confirm this positive relationship, demonstrating that large public listed firms tend to yield vastly superior dividend distributions (Anuar et al., 2023).

The structural justification for this behavior relies on a firm's operational maturity. Larger entities face lower operational risks and possess greater freedom when accessing open capital markets, which allows them to return cash to shareholders rather than hoarding it internally

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(Al-khadhiri & Alzomaia, 2013). Conversely, conflicting empirical studies have revealed significantly negative or entirely insignificant relationships, suggesting that size dynamics can behave unpredictably depending on specific industry cross-sections or localized corporate governance rules (Kapor et al., 2010; Ahmad et al., 2018). Overall, empirical research concludes that firm size remains a major predictor of corporate distributions. Thus, the independent variable is firm size, and the dependent variable is dividend payout ratio.

Liquidity

Prior empirical and financial studies suggest that a firm's liquidity position is a vital factor in determining its cash distribution capability. Companies with strong short term asset positions are highly capable of maintaining regular cash payments because dividends are paid out of cash reserves rather than reported accounting profits. Empirical findings from the Malaysian market confirm that corporate liquidity, typically measured by the current ratio, has a significant positive relationship with the dividend payout ratio, as readily available cash allows management to comfortably distribute earnings without risking operational insolvency (Angela and Daryanti, 2023).

However, conflicting empirical studies have provided mixed findings where certain highly liquid firms choose to retain their liquid resources to fund internal growth opportunities or to build a cash buffer against unexpected economic volatility, resulting in an insignificant or negative relationship with corporate payouts (Boumlik et al., 2023). Overall, empirical research indicates that short term asset availability directly determines a firm's capacity to reward its investors. Thus, the independent variable is firm liquidity, and the dependent variable is dividend payout ratio.

Leverage

Financial leverage is widely accepted as a significant predictor of corporate distribution policies because it affects cash preservation and capital structure management. High debt obligations act as an institutional constraint that reduces the flexible funds available for equity investors. The existing literature places leverage as a critical risk factor that forces management teams to reduce external cash distributions to protect liquidity across time.

Empirical studies consistently show a negative association between leverage and dividend payments among market participants. In an investigation of companies within the Malaysian market, researchers measuring leverage through the debt-to-equity ratio identified a highly significant negative impact on dividend outcomes, driven by strict debt servicing rules and restrictive covenants (Md Aris et al., 2023; Jensen & Meckling, 1976). However, certain contemporary studies have provided mixed findings, demonstrating positive or completely insignificant relationships where heavily levered organizations maintain stable dividends to safeguard their market reputation (Shafai et al., 2025; Ul Ain & Manping, 2022). According to the literature, leverage dictates the dividend payout ratio through capital tier prioritization. Thus, the independent variable is financial leverage, and the dependent variable is dividend payout ratio.

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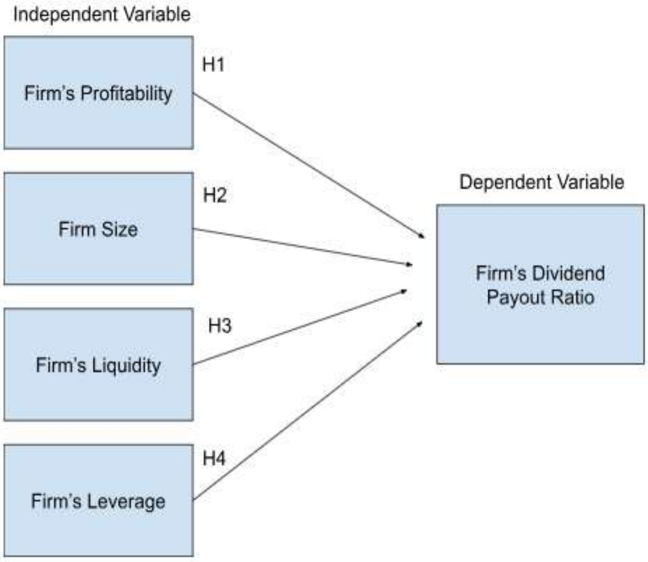

Figure 1: Theoretical Framework

The hypothesized model of corporate dividend policy is presented in Figure 1, illustrating the relationships between firm's profitability, firm size, firm's liquidity, and firm's leverage as independent variables, and firm's dividend payout ratio as the dependent variable.

H1: There is a positive and significant relationship between firm profitability and the dividend payout ratio among public listed firms in Malaysia.
H2: There is a positive and significant relationship between firm size and the dividend payout ratio among publicly listed firms in Malaysia.
H3: There is a positive and significant relationship between firm liquidity and the dividend payout ratio among publicly listed companies in Malaysia.
H4: There is a negative relationship between firm leverage and the dividend payout ratio among publicly listed companies in Malaysia

Discussion
This study aims at identifying and analysing the key firm-specific financial factors that affect the dividend policy decisions among the publicly listed companies in Malaysia. This research fills existing gaps in the literature and offers a comprehensive understanding of corporate dividend behaviour in an emerging market with concentrated ownership structures by considering how firm profitability, size, liquidity, and leverage are related. The dividend policy of a company is known to be an important measure of distribution of profits and has an important influence upon some important corporate decisions like capital budgeting, capital structure and asset pricing.

The proposed framework shows that profitability is a driver for dividend payments. Companies with steady and significant profits and build a decent amount of earnings can easily offer increased dividends to the shareholders. This is in line with Signalling Theory and Bird-In-Hand Theory. Normal cash flows boost the transparency of the market regarding the financial health and the future trajectory of the business by giving the market a clear signal regarding the profitability of the company. Theoretically, the results of the researcher's findings such as

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Hutagalung et al. (2013) and Tahir et al. (2020) support the existence of positive statistical relationships between firm profitability and dividend payments.

In addition, size and liquidity are strong indicators of dividend distribution policies. Large-sized firms tend to be older, to be less constrained in accessing external capital markets, and to be less constrained in their own capital markets. The Life Cycle Theory suggests that this flexibility enables large corporations to distribute dividend payouts to their shareholders without depending solely on the internal earnings for future investments. This positive relationship with firm size is supported by other studies like that of Anuar et al. (2023). In the same way, high liquidity means firms have enough liquid cash to easily settle their obligations in the near term. This financial cushion allows liquid companies to pay out dividends on excess cash without compromising the stability of their operations and is consistent with the Free Cash Flow Theory. This positive relationship between liquidity and payout decisions has been supported by various empirical studies, such as those by Hanafi et al. (2023) and Jamadar et al. (2024).

On the other hand, the framework emphasizes that the level of corporate leverage is a major constraint on dividend payouts. Highly indebted firms have legal obligations under the terms of the contract to pay the interest and principal back before paying shareholders, resulting in crowding out on their cash reserves. This negative relationship is well substantiated by the Pecking Order Theory, which argues that firms with high leverage have a strong incentive to keep their earnings to service their debt load and to avoid the expense of acquiring outside capital. Research papers such as Md Aris et al. (2023) further support the significance of target debt ratios on the flexibility of a company, which are a constraint for companies to pay dividends. In conclusion, the study indicated that it was important for the corporate boards to consider the balance of internal liquidity and debt management to have a sustainable dividend policy that will satisfy the expectations of the shareholders.

Conclusion

Finally, this study confirms that the relationship between profitability, firm size, liquidity and leverage is inter-related in determining the dividend payout ratio of the publicly listed firms in Malaysia. High profitability, large firm size and liquidity are factors that are likely to encourage steady and higher dividend payments, while high debt levels are likely to be a serious constraint on dividend payments.

These dynamics offer much practical learning for several stakeholders. These factors serve as a benchmark for investors and portfolio managers when deciding which companies they want to invest in, as they provide a sign of steady financial performance and consistent long-term returns. The results highlight the financial considerations that are critical for corporate management and for boards of directors to consider in determining an appropriate dividend policy to appease shareholders.

Future research should include a wider set of variables, including corporate governance mechanisms, and include comparative analysis of individual sectors, such as growth industries versus mature industries, to offer a more complete understanding of the corporate dividend behaviour.

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