Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi:10.13106/jafeb.2021.vol8.no4.0317

The Effect of Ownership Structure of Initial Public Offerings (IPOs) on Dividend Initiation: A Case Study in Malaysia

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Received: November 30, 2020 Revised: February 22, 2021 Accepted: March 02, 2021

Abstract

This study aims to determine the factors that affect dividends initiation by initial public offering firms in Malaysia. The ownership structure is examined from a corporate governance theoretical perspective in order to evaluate the impacts of managerial, institutional, and family ownership on the dividend's initiation decision of IPO firms. This study employs a quantitative pooled cross-section of 372 Malaysian IPO companies active during the period of 2002–2013. The number of firms that went public each year varies, thus the pooled cross-section data takes place in this case rather than the panel data. The logistic model was employed to test the proposed hypotheses. The results revealed that the presence of institutional investors in the ownership structure make it more likely for IPO firms to initiate dividends. On the contrary, the presence of a family ownership structure in IPO companies as the controlling shareholder makes these companies less probable to initiate dividends. Managerial ownership was found to have no effect on the decision of initiating dividends by IPO firms. The findings of this study suggest that the existence of institutional and family ownerships are agency cost mitigators, as these ownership types could prompt IPOs firms to initiate dividends to overcome the agency conflicts.

Keywords: IPOs Firms, Dividends Initiation, Family Ownership, Institutional Ownership, Managerial Ownership

JEL Classification Code: G3, G34, G35

1. Introduction

The main objective of a firm's management is to maximize the wealth of stockholders (Van Horne & Wachowicz, 2001; Ma, 2012). Management can maximize the wealth of shareholders, either by distributing dividends, or retaining dividends for future investment (Kanakriyah, 2020). However, in reality, the decision of paying cash dividends is not simplistic, and seems to be a "puzzle"; such a decision is related to vast antecedents. Decision to initiate dividends is related to various factors, such as profitability, size of firm, growth, leverage, free cash flow, corporate governance and dividend premiums (Fama & French ,2001; Bulan, Subramanian, & Tanlu, 2007; Ma ,2012; Ferris, Jayaraman, & Sabherwal, 2009; and Jain, Shekhar, & Torbey, 2009).

The management of initial public offering (IPO) firms is usually in a dilemma with regard to dividend initiation. In many circumstances, though IPO firms generate high profits in their initial date of listing, these firms experience a decline in profitability after a year of their listing (Fama & French 2004; Ferris et al, 2009). Thus, in an endeavor to attain market share, these companies need the generated profits in order to re-invest in capacities such as R&D, expenditures of capital, and advertisement, (Jain et al., 2009). Internal funds, as a cheaper and more reliable source of finance, may preferred to be retained, compared to a paid out as dividend (Myers & Majluf, 1984). However, IPO firms suffer from asymmetric information, as communication channels with the market are not well established yet and this will reflect on the cost of future external capital (Kale, Kini, & Payne, 2012). Furthermore, they are susceptible to agency problems because their governance is not sufficiently

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built compared to established firms (Salehi, Arianpoor, & Dalwai, 2020). Faccio, Lang, and Young (2001) asserted that such characteristics of --listed firms make investors demand for higher dividends from companies that are more probable to expropriation of wealth, especially in the East Asia. Initiating dividends impose constraints on managerial discretion through reduction of available funds for managers to follow their own interests.

This study concentrates fundamentally on the payout policy (dividend initiation) of IPO firms in Malaysia, aiming to shed light on the newly-listed company's decision on commencement of dividend payment. It is based on the following gaps that exist in the extant literature of dividend policy. First, there is a lack in studies that concentrate on the dividends initiation decision of IPO companies. The existing research on the dividends initiation decisions of IPO firms predominantly concentrates on the theories of dividends such as maturity, catering, and signaling. Minimal attention is given to the Agency Theory. Also, the research provided contradictory results pertaining to the explanation of dividend initiation decisions of IPOs. For example, these studies provided evidence in line with the predictions of Catering Theory (Ferris et al., 2009; Baker & Wurgler, 2004; Ma, 2012; Jain et al., 2009), while other studies did not find any support or found negative signs for dividend premium (Renneboog & Trojanowski, 2011; Eije & Megginson, 2008). Kale et al. (2012) failed to find any evidence supporting the signaling of underpricing, while Ma (2012) found that underpricing has a negative effect on the likelihood of dividend initiation decisions. Second, in the Malaysian context, most of the studies conducted in the field of IPO firms have concentrated on the performance of IPO firms, and paid less attention to dividend initiation decisions of newly-listed firms (Dawson, 1987, Sapian, Rahim, & Yong, 2013; Ahmad-Zaluki & Abiding, 2011; Bakar & Uzaki, 2012). For instance, the studies of Bakar and Uzaki (2012) and Dowson (1987) focused on measuring IPO underpricing in Malaysia based on initial returns.

The business environment in Malaysia is a unique case, whereby ownership is concentrated in the hands of controlling stockholders (e.g., family, institutions), as opposed to ownership in the U.S and the UK. Haniffa and Hudaib (2006) indicated that the five largest shareholders own about 61% each year during the period of study, which could add complexity to corporate governance. This is consistent with the studies by La Porta et al. (2000), who stated that large stockholders in concentrated ownership could expropriate wealth from small stockholders. Sharma (2011) pointed out that the independence of the board positively affects dividend initiation in the U.S. based firms. Ma (2012) argued that initiating dividends raise future external capital at favorable terms, as it may build a reputation for not expropriating wealth of minority stockholders. Furthermore, initiating dividends can act as an internal disciplinary instrument that replaces other disciplinary instruments, which reduces worries of shareholders, particularly when a firm's governance is weak. Also, initiating dividends alleviates the amount of cash available for managers to follow their interests and invest in worthless projects (Jensen, 1986; Harford, Mansi, & Maxwell, 2008). Given such debate, the objective of this study is to investigate the influence of ownership structures and board of directors on dividends initiation of newly -listed firms in the Malaysian context. The argument is built around the principles of the agency's theory, in the context of governance, which is important to the explanation of dividends initiation. Governance, in this study refers to ownership structure and board of directors.

2. Literature Review

2.1. Theoretical Underpinning

Miller and Modigliani (1961) contend that payout policy is irrelevant for value of investors' shares because any mixture of payout and retained profit can be freely homemade in an ideal capital market. The irrelevance proposition of dividend payment was based on some assumptions, such as; the absence of taxation, costs of transaction, conflicts of agency, and asymmetry of information. However, the relaxation of such assumptions affirmed the relevance of dividends policy to the firm's value. Some researchers regard the dividend policy as a puzzle, which hints that the statement of Black in 1976 is still alive: "*The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just do not fit together*". There are no uniform answer for questions that arise on the dividend policies such as; what are the determinants of a firm's dividend policy, why companies are distributing dividends and how much, etc?.

Since the paper of Lintner in 1956, the abovementioned questions have received considerable attention, but most of these studies have generally focused on the dividend policy of established firms, and relatively minimal attention has been given to dividend policy (specifically, dividend initiation) of newly-listed firms in both the advanced and emerging economies (Kale et al., 2012; Ferris et al., 2009; Jain et al., 2009; Ma, 2012). Exceptionally, Fama and France (2001) examined the dividend policy of newly-listed firms for U.S over 90 decades. They documented the dividends declining phenomena considerably from 1976 to 1999. They termed these phenomena as a "disappearing dividend". Subsequently, Baker and Wurgler (2004) introduced the Catering Theory to explain the dividend initiation decision. They argued that the decision to pay dividend is driven by investors' demand on dividends, and managers seek to satisfy

this demand through catering the dividends to shareholders. Studies from U.S and UK provided proofs supporting the Catering Theory for newly-listed firms initiating dividends as in (Jain, et, al. 2009; Ma 2012; Bulan et, al. 2007). Denis and Osobov (2008) based on the comprehensive research on international sample concludes that theories of signaling, clientele, and catering are not strong explanations for the purpose of initiating dividends by newly-listed firms. Recent studies pay attention to agency theory as an explanation of dividend initiation decision of newly-listed firms. For this, Sharma (2011) introduced evidence from U.S, by examining the effects of agency cost theory through the board of directors 'characteristics on the dividend initiation decision of newly-listed firms. Their results supported the agency explanation of dividend initiation decision of IPO companies. Despite this, dividend policy of newly-listed firms received little attention to the effects of ownership structure and board of directors on dividend policy. Kale et al. (2012) and Ma (2012) argued that newly-listed firms of different characteristics than established ones. These newly-listed firms are young firms, development trended firms that follow creative product and technologies, and are anticipated to invest in fields such as research and development, capital expenditure and advertisement over the after-IPO stage in an endeavor to attain market share. They are also described to be liable to high agency costs (Jain et al., 2009). This could be due to several reasons; their governance is not yet well established and or low external monitoring.

IPO firms generally decline in their after-issuance performance. Fama and French (2004) indicate that the U.S. IPO firms generated high profits in their initial date of listing, and later experienced a decline in profitability after a year of their listing. Similarly, newly-listed firms in the Asia-Pacific region achieve high profits in their first year of issuance, and subsequently, the trend of their profits decrease. In the Malaysian context, newly-listed firms also generate high profits during initial years of listing, and subsequently earnings decrease (Ferris et al., 2009). Hashim (1998) states that there is an apparent decline in the performance of Malaysian IPO firms, in terms of operating income, instantly after they go public. This implies that such firms produce high profits at the initial year of their listing, which increases cash flows in the hands of managers, and, as argued by the agency theory, these managers may follow their interests rather than maximize the wealth of shareholders. This may be more likely in the absence of strong governance.

A later decline in profits mean that these firms need external capital to finance their investment opportunities, and it is preferable to be at a lower cost (Ma, 2012). Thus, the main challenge for directors of IPO firms is to keep the confidence of investors on the performance of IPO firms, which, in turn, will help these firms to access future external funds at favorable terms. Therefore, in order to reduce their cost of capital, IPO firms need to establish the reputation of not expropriating wealth for shareholders through initiating dividends, particularly under a concentrated ownership, where the possibility is high, such as in Malaysia. Faccio et al. (2001) documents that the expectation of expropriation makes investors demand higher dividends from companies that are more probable to expropriating their wealth, such as in East Asia. Since initiating dividends impose constraints on managerial discretion. Malaysian IPO companies need to reduce concerns of external investors with regard to expropriation of their funds. This will enable them to access and obtain capital at favorable terms from the equity market. Rahman and Muhamad (2013) argued that weak governance, less transparency in the disclosure of information and the ineffectiveness of the regulatory bodies in the application of legislation to protect minority stockholders are partially blamed as the reasons leading to the breakdown of many Malaysian firms. This is mainly because of poor corporate governance.

2.2. Ownership Structure

Ownership structure in Malaysia is considered highly concentrated. The same is true for other East Asian countries. In their large sample of East Asian countries, including Malaysia, Truong and Heaney (2007) showed that ownership of Malaysian corporations is concentrated, where the proportion of Malaysian corporations is about 2.21 percent of the sample. They reported that the percentage of insider holding is 22.78 percent, financial institution holding is 25.56 percent, state-owned holding is 13.1 percent, and large owners-holding is 33.18 percent. The results of Haniffa and Hudaib (2006) revealed that ownership in Malaysian firms is highly concentrated. The five largest shareholders owned about 61 percent each year, during the period of the study. The theory of agency offers an explication for the relation between ownership and payout policy. Basically, payout policy is an appearance of the extent to which the conflicts between existing stockholders, management, creditors and new shareholders exist within the company (Easterbrook, 1984). It was suggested that payout policy could be used to alleviate agency conflicts; the closer alignment interests of stockholders and management propose that managers distribute more dividends. By contrast, when the interests do not align, managers may retain profits rather than distribute them, unless forced by law. This is consistent with La Porta et al. (2000), who documented that in states with good protection for stockholders' rights, such as the U.S, corporations distribute high dividends. This result is supported by Dittmar, Mahrt-Smith, and Servaes (2003), who reported that the level of cash holdings is lower in

well-governed companies. In the same line, Gugler et al. (2003) found that the existence of largest stockholders leads to a low dividend payment ratio.

However, Faccio et al. (2001) claimed that dividend policy can be used by dominant stockholders to recoup the small stockholder's worry in an environment where expropriating by dominant stockholders prevails. Gugler et al. (2003) further elaborated that the identity of large stockholders, whether the dominant stockholders are outsiders (family, financial institution, state) or insiders, may be important to the decision of dividend payment, as some of them may be fit to affect the company's policy and performance more than others. For instance, the dominant insiders could have a predilection to maintain profit over distributing it in order for rent extraction (Grossman & Hart, 1988; Thomsen, Pedersen, & Kvist, 2006). Distributing dividends leads the external market to raise funds, and thus causing a great level of oversight on managers (Easterbrook, 1984). However, institutions could find payment cash charming for the reason of taxation, in order to survive or in order to meet "prudent man rule" (Grinstein & Michaely, 2005). The next discussion will turn the focus on the influence of managerial, institutions and family ownership on the decision of dividends payment.

2.3. Managerial Ownership

Jensen and Meckling (1976) stated that providing ownership for insiders may assist in addressing the agency conflicts that arise by separation of ownership and control. Rozeff (1982), Easterbrook (1984) and Jensen (1986) proposed that distributing dividends perform a significant role in beating agency conflicts in a company. In a sense, managers as large shareholders may initiate dividend in order to reduce the concerns of investors about expropriating their wealth. In other words, managers may initiate dividends in order to build a reputation for not expropriating wealth of shareholders.

However, when managers have considerable shares and residual stockholders do not have enough voting power to affect them; managerial entrenchment takes place in different forms. Demsetz (1983) indicated that high managerial ownership could possibly result in managers being concerned about their private interests rather than the interests of external stockholders, which leads to non-value maximization (e.g., empire buildings), thus reducing value of the firm (entrenchment effect prevails). The findings of Moh'd, Perry, and Rimbey (1995) showed that, when insiders owned a higher percentage, this results to low dividend payment. Agrawal and Jayaraman (1994) also found that companies in which managers had more ownership distribute lower dividend payments. Mehrani (2011) showed that insider's ownership negatively effects dividend policies in Iran. Several studies (Agrawal & Jayaraman 1994; Mehrani, 2011; Eckbo & Verma, 1994) showed that the effect of managers' ownership on the divided policy is negative. In the context of Malaysia, Ahmad, Abdullah, and Roslan (2012) provided evidence that the relationship between managerial ownership and dividend payout is negative but insignificant. They examined the impact of managerial ownership (including other factors; this study focused on founded firms, and not IPO firms) on the payout policy in the context of Malaysia, using a sample from the main board. Moreover, they indicated that their findings are in line with (Sulong & Nor, 2008). They argued that Malaysian firms do not utilize dividend payment as a tool to minimize agency conflict between management and stockholders.

In relating the dividend initiation decision of newly-listed firms, Kale et al. (2012) through utilizing univariate analysis found that a payers-dividend has higher managerial ownerships than non-dividend-payer firms. Similar, Ma (2012) found that insider ownership is positively related with the probability of dividend initiation for UK firms. In view of the above argument, the following is hypothesized:

H1: *There is a significant relationship between managerial ownership and the dividend initiation decision of IPO firms.*

2.4. Institutional Shareholders Ownership

The conventional dividend models predict that ownership of large stockholders have positive relationship with firm's dividend policy (Ma, 2012). This is based on the assumption that these investors (such as pension funds) commonly favor dividend payments to capital gains, and the "prudent-man rules", (Brav & Heaton, 1998). Allen, Bernardo, and Welch (2000) assumed that companies distributed dividends in order to entice large and better-informed investors (such as institutions), who are liable to be taxed at a low-rate. They hypothesized that these investors have considerable capability to discipline the activities of managers. In such sense, higher proportion of institutional ownership in firms implies a better oversight of management, and consequently minimizes agency costs.

Another standpoint is that powerful large stockholders like insurance firms may force managers to make progressive payout policy (dividend initiation) aiming to enhance oversight (Tahir & Mushtaq, 2016; Zeckhauser & Pound, 1990). Thus, initiating dividends are considered as an indirect approach of oversight, less costly, and more efficient. Eckbo and Verma (1994) found that 100 percent of the 77 companies under the control of institutional stockholders paid dividend. They argued that this behavior is due to tax reasons, as dividend income received by institutional shareholders are not taxed compared to the tax on individuals in Canada. Binay (2001) showed that dividend initiation creates significant increase

in institutional ownership. Dhaliwal, Li, & Trezevant (2003) pointed out that initiators' dividends experienced 5.7 percent increase on average ownership of institutional investors, compared to 1.5 percent increase for companies that do not initiate dividend. Kale et al. (2012) found that institutional ownership has a significantly positive effect on the dividend initiation of newly-listed firms in the U.S. Similarly, Short, Zhang, and Keasey (2002) showed that the relationship between dividend payments and institutional ownership is significantly positive in the UK. Other researchers view block-holders as an alternate governance mechanism due to their voting power, or their representation on the board of directors, which gives them the advantage to monitor the activities of managers compared to small stockholders. Thus, the existence of large external stockholders forms an alternative to dividend initiation as a device to alleviate the agency problems. This hints that dividends, as a means of reducing agency costs becomes less needing. Thus, there may be expectation of a negative relationship between such ownership and dividend initiation (Ma, 2012).

Grinstein and Michaely (2005) found that institutional investors tend to prevent possessing shares in companies that do not pay dividends. At the same time, they do not get enticed by companies that increase dividend payment. Similarly, Hoberg and Prabhala (2008) found that institutional ownership does not significantly alter following the dividend increases. Jain (2007) indicated that institutional shareholders have a higher probability to hold non-dividend paying shares or less dividend payments, whereas the non-institutional investors favor to own dividend paying shares or high dividend payment shares. Thus, based on the above, the following is hypothesized:

H2: *There is a significant relationship between institutional ownership and dividend initiation decision of IPO firms.*

2.5. Family Ownership

Ali, Chen, and Radhakrishnan (2007) state that family firms face two agency problems; first, is a result of a separation between ownership and control. Second, is the conflict between controlling and small shareholders. Generally, family firms are less prone to the first kind of agency problem due to their traits such as engaging in management of a firm, and the ability to access the information, which will eventually lead to aligning their interest with the interest of the managers of firms. Gugler (2003) pointed that family companies may postpone their dividend decision when there are good growth opportunities, because there is no need to pay a fraction of its profits to control managerial agency costs (alignment effect) or to signal its market value to external investors. Also, Wei et al (2011) argued that family firms are more constrained in gaining external equity and debt and this is more important in the case of internal funds not enough to cover their financial needs. Therefore, family firms may tend to pay lesser dividend, as they have more constrains in gaining external equity and debt.

However, in such family firms, the conflict arises as a result of using their stake to expropriate the wealth of small stockholders. As a consequence, the conflicts between them as majority shareholders and/or minority stockholders become more significant (Villalonga & Amit, 2006). Faccio, et al. (2001) indicated that without the presence of proper monitoring and controlling, stockholders (especially founding family members) are prone to expropriate the wealth of minority stockholders. Therefore, in family firms, initiating dividend could be seen as proposed by Jensen (1986), where distributing dividends (initiating dividend) will mitigate the free cash flow under the control of insiders; hence minimizing the conflict between managers and owners, and majority and minority stockholders. Another viewpoint argues that family as a large stockholder may resort to initiating dividends in order to establish their reputation for not expropriating wealth of other shareholders. This will help in gaining future external capital at favorable terms. Wei et al. (2011) examined the relationship between family control and dividend policy and found that the ratio of dividend payments and tendency to pay dividend is low amongst family firms compared to non-family firms. Hu, Wang, and Zhang (2007) examined listed firms in America and Italy, respectively. They pointed out that the ratio of dividends of family companies is significantly lesser than that of non-family companies. In the context of Germany, Gugler et al. (2003) found that family firms are less reluctant to cut dividend than state-owned firms. Based on the extant literature, the following is hypothesized:

H3: *There is a significant relationship between family ownership and dividend initiation decision of IPO firms.*

2.6. Control Variables

This study uses several control variables that have been found statistically significant in the literature, namely, leverage, growth opportunities, profitability, and the firm's size (Sharma, 2011; Fenn & Liang, 2001; Bulan et al., 2006; DeAngelo, DeAngelo, & Stulz, 2004; Jain et al., 2009).

3. Research Methods

3.1. Research Design

This study will use a quantitative a pooled cross-section. According to Wooldridge (2010), "a pooled cross-section is a collection of cross-section datasets observed at different

points in time". The researcher using such a data structure observes the given units in the first cross-section, and then tracks different set of units in the second cross-section, followed by the third cross-section, and so on. In the current study, the researcher tracked IPO firms in different years, from 2002 to 2013. The number of firms that went public each year varies, thus the pooled cross-section data takes place in this case rather than the panel data since the gathering of data for the study period are not in the same units (here, units are IPO firms targeted during the period of study 2002–2013).

3.2. Data Collection

Information about ownership structure was obtained from annual report of firm (in Malaysia mostly firms provide section about analysis about shareholders that content data about thirty or twenty large stockholders, substantial shareholders (who own more than 5% in firm), and shareholding of directors. While, data about financial variables, and dividend initiation were obtained from database; Bloomberg finance L.P. and in the case of data unavailable for firm study back to annual reports to collected such data (for example, some companies that data unavailable for financial data (e.g., Tobin's Q) study get historical data from other resource such as Yahoo finance, otherwise, data will be considered missing.

3.3. Sampling Procedures

All initial public offering firms listed on the Bursa Malaysia are the target population for this study, which targets IPO firms for the period of 2002 to 2013. This study focuses on IPO firms in Bursa Malaysia from 2002 to 2013. All firms that went public between 2002 and 2013 will be included in this study. Also, only non-financial firms will be included in the sample. Financial firms such as banks will not be included because they possess different regulations due to the divergence in the requirements of regulations (Haniffa & Hudaib, 2006). In addition to the data about IPO firms, data related to the ownership structure, as well as other financial variables will be included in the analysis. Firms that have missing data regarding their ownership structure, and other financial variables will be excluded from this study. Finally, all those companies that are de-listed, acquired by other companies or suspended firms are excluded from the target sample. Table 1 reflects the target sample for each year during the period of study.

3.4. Data Analysis

This study will use logistic regression in order to test the research hypothesizes. The logistic regression uses a dependent variable that has a categorical dichotomy, and for independent variables that are categorical or continuous. The dependent variable of this research is the probability of a firm to initiate dividends or not, which means that IPO firms may pay dividends, or not. Thus, there are two options values, one for payer firms and zero for non-payer firms.

4. Results

In this section, the proposed hypotheses are tested with the logistic regression model using Stata Software Version 12. Three proposed hypotheses with dividend initiation are

Table 1: Target Sample, and Filtering of Sample

Year	Total	Delisted	Acquired	Suspended	Missed-data	Finance	Total	Remains-yearly
2013	17				5	2	7	10
2012	17				2	1	3	14
2011	28				2		2	26
2010	29		1		1		2	27
2009	14				1		1	13
2008	23						0	23
2007	26	2			1	1	4	22
2006	40	4			2		6	34
2005	79	4	1	1	2	3	11	68
2004	72	7	2		4	2	15	57
2003	58	4	5		7	1	17	41
2002	51	6	2		6		14	37
Total	454	27	11	1	33	10	82	372

Table 2: Measurement of Variables

Variables	Measurement	Former study
Depend variable	Dummy variable with a value of one for firms that initiated dividends; otherwise zero	(Ma, 2012: Jain et al. 2009: Kale et al. 2012)
Institutional ownership	The gross proportion of shareholding of institution, which is more than 5% from ordinary stock outstanding in the firm (e.g., insurance companies pension funds, banks,etc.)	(Ma 2012)
managerial ownership	The percentage of stock owned by executive directors of the firm as a group to gross stocks outstanding(more than 5%	Haniffa and Hudaib (2006)
Family ownership	Dummy variable: takes a value of one when family is a major shareholder and is represented on the board of directors also; otherwise takes zero	Ibrahim et al. (2008)
Size of firm	A log of total assets	Ma (2012)
Leverage	The proportion of total debt to the gross assets of the firm	Haniffa and Hudaib (2006)
Profitability	Profit after tax divided by the gross assets of the firm	Haniffa and Hudaib (2006) DeAngelo et al. (2004), Fama and French (2001)
Growth opportunities = Q ratio	Ratio of market value of ordinary shares + total debt divided by the book value of gross assets of firm	Haniffa and Hudaib (2006)
Industry	Dummies for sectors	Haniffa and Hudaib (2006)

Table 3: Logistic Model Ownership Structure on Dividend Initiation

Variables	Model-1	
	Coefficients	**Z-value**
Family	–0.689	– 2.76**
Institutional	0.02578	3.05**
Managerial	– 0.0097	– 1.09
Constant	– 0.3692	– 0.87
Number-observations	359	
LR chi^2	35.39***	
Pseudo R^2	0.0714	

Note: *** and ** indicates significant at 1%, 5% and 10% level of significance based on *t*-statistics.

investigated in terms of their significance. Hence, one could make an inference either to accept (support) or reject these proposed hypotheses. At the beginning of the study, an assessment of goodness of fit of the model is performed through the Likelihood ratio χ^2, i.e. testing the null hypothesis (all factors incorporated in the model have coefficients of zero). Besides, Pseudo R^2 is also assessed to determine how the independent variables explained variation in the dependent variables. According to Tables 3 and 4, the values for LR are 35.39 and 103.58 and the associated *p*-values are less than 5% (0.0000). Therefore, the null hypothesis is rejected, that all of the variables' coefficients in the model are equal to zero. It is concluded that this model has a goodness of fit.

Managerial ownership is found to have a negative relation, but is insignificant with dividend initiation in both models (with and without control variables). Thus, H1 is not supported. Furthermore, institutional ownership is found to possess a positive significant relation with dividend initiation in both models. Thus, H2 received support. Moreover, H3 received support; there is a significant relationship between family ownership and the dividend initiation decision of IPO firms.

5. Discussion

The current research reveals that managerial ownership has a negative relationship with dividend initiation decision of IPO firms in Malaysia, but is insignificant. One possible explanation for the insignificant relationship between managerial ownership and dividend initiation is that the ownership structure in Malaysia is characterized as concentrated in the hands of large stockholders, thus, the second agency problem (between majority and minority shareholders) in such an environment is dominated rather than between manager and shareholders. Also, the providing managers with stake in the companies may operate to align the interests between managers and stockholders. As argued by Al-Malkawi (2007), the manager's ownership in the firm will minimize the need of utilizing dividend payment as a tool to mitigate the agency problem. Consistent with the

Table 4: Logistic model Ownership Structure with Control Variable on Dividend Initiation

Variables	Model-2	
	Coefficients	***Z*-value**
Family	–0.6315	–2.14**
Institutional	0.02769	2.63**
Managerial	–0.0097516	–0.94
Tobin-Q	–0.4702	–2.72**
ROA	0.07999	3.69***
LNasset	0.22204	1.91*
Leverage	0.02339	2.48**
Industrial	–0.1461	–0.26
Trading	–0.5322	–0.93
Consumer	–0.7829	–1.3
Properties	–0.5657	–0.68
Plantation	–0.2281	–0.24
Construction	0.0126	0.02
REITS	1.31332	1.09
Technology	–0.4755	–0.78
SPAC	0	
Constant	–4.1658	–1.79*
Number of observations	315	
LR chi^2	87.89***	

Note: ***,** and * indicates significant at 1%, 5% and 10% level of significance based on *t*-statistics.

finding of this study Ahmad et al. (2012) provided evidence that the relationship between managerial ownership and dividend payout is negative but insignificant. They examined the impact of managerial ownership (including other factors; this study focused on founded firms, and not IPO firms) on the payout policy in the context of Malaysia, using a sample from the main board. Similarly, the findings of Sulong and Nor (2008) reported same results. They argued that Malaysian firms do not utilize dividend payment as a tool to minimize agency conflict between management and stockholders. Contradictory to the current result is the finding supplied by Ma (2012) found a significantly positive relationship between managerial ownership and dividend initiation in the context of England. Similarly, Sharma (2011) found that independent directors' equities have a significantly negative effect on the dividend initiation in the USA.

In addition, the result of this study shows that institutional ownership affects the dividend initiation decision of IPO firms positively, and is statistically significant. The findings can be explained in the context of the Agency Theory; those institutional investors are active in monitoring the management of IPO firms. Thus, they use their voting power to force managers of IPO companies through initiating dividend to reduce the free cash flow that otherwise may be wasted, consequently damaging the value of the company. Also, those institutional investors (such as pension funds) may push toward initiating dividend in order to meet their financial obligations toward their investors, particularly retired people or individual investors who may depend on the dividend as a source of income. The conventional dividend models predict that institutional ownership has a positive relationship with a firm's payout, mainly because these investors as fiduciaries are anticipated to invest in line with prudent-person rules, and companies that distribute higher dividends are generally considered more prudent (Brav & Heaton, 1998). This has received a support in Malaysian context. In line with the current finding, Kale et al. (2012) found that institutional ownership positively and significantly affects the dividend initiation decision of IPO firms in the U.S. Similarly, Grinstein and Michaely (2005) found that institutional investors tend to avert shares in companies that do not pay dividends. Juhandi Sudarma & Aisjah (2013) found that the ownership of institutional ownership has a positive effect on the dividend policy in the context of the Indonesian market.

On the other hand, the current study found that family-run businesses negatively affect the dividend initiation decision of IPO companies. The negative effect of family on the dividend initiation decision may be explained in the context of traits that distinguish these firms. The family members of a family-run firm are concerned about passing the firm to the next generation, which in turn increases their tendency to make long-term investments in the future. This leads them to prefer retaining profits to initiate dividend in order to expand their firms. Besides that, agency conflict in such firms is relatively low, particularly in the first type agencies, due to their engagement in management, as well as their higher level of access to information compared to other shareholders (Dwaikat, Queiri, & Nusrate, 2014). Moreover, family has more aversion to risk related to external finance (debt), mainly due to the probability of default. Also, they do not prefer to issue new equities because of the fear of losing control of the company, as the ownership structure becomes dispersed due to the entry of new shareholders (Dwaikat et al., 2014).

IPO firms' profits are decreased after their initial year's listing in Malaysia, besides increasing cost of external capital for family firms compared to their counterpart nonfamily firms, this could possibly affect their propensity towards initiating dividend. Thus, these IPO firms may tend to retain profits instead of distributing them in order to avoid restoring external resources. Former studies conducted in Central and Eastern European states provided similar findings as in (Lace, Bistrova, & Kozlovskis, 2013; Wei et al., 2011; Hu et al., 2007).

6. Conclusion

The implication of the management to increase understanding about the types of owners of ownership structure that affect the dividend initiation, besides the management of IPO companies, the findings of this study could possibly be of benefit and guidance to investors. Shaping of ownership structure of IPO firms is crucial in determining dividend initiation decision. The existence of institutional ownership has the role to monitor the manager's actions, which results in reducing agency problems, and in turn lead IPO firms to initiate dividends. The presence of families in the ownership structure of a firm makes IPO firms less probable to initiate dividend. However, managerial ownership has no effect on the decision to initiate dividend. Thus, management should give attention to the presence of the institutional investors on their ownership structure, since these investors have a good ability to monitor managers, and their presence can convey a good quality firm to the market, i.e., that the firm is free from agency conflicts, or at least its existence is at a low level.

The findings related to ownership structure could be of interest to investors who appreciate dividends and capital gain. For example, those who appreciate dividends may buy shares of IPO firms in which institutional investors exist, because in light of the presence of institutional investors in the firm, it is more likely to initiate dividend. On the other hand, buying shares in IPO firms that are under the control of a family may not be preferred by these investors. On the contrary, such firms may be preferred by those who appreciate capital gain, as those firms tend to retain profit instead of distributing it. Besides, they tend to invest for the long run, where they may become more successful, which reflects the future prices of shares.

Firstly, this research utilized the agency theory to explain the dividend initiation of IPO firms, since it is difficult to employ all theories and their representing variables in one theoretical framework. In addition to that, this excluded the financial sector from the sample of study, since it differs in regulation. Accordingly, the sample does not represent all the IPO firms that went public since 2002 till 2013, and the findings of this study could not be generalized to all IPO firms. Hence, the results of the current research are meant for all IPO firms except those in the financial sector. Secondly, this study did not use all measurements of ownership structure. For example, it did not consider a non-linear relationship between managerial ownership and dividend initiation decision, as the effect of managerial ownership may differ according to shares. Moreover, this research did not examine the effect of concentrated ownership (firstly, large shareholders, and secondly, large shareholders).

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