BOARD DIVERSITY AND CORPORATE PAYOUT POLICY: DO FREE CASH FLOW AND OWNERSHIP CONCENTRATION MATTER?

Redhwan Ahmed AL-Dhamari*, Ku Nor Izah Ku Ismail*, Bakr Ali Al-Gamrh**

*College of Business, Tunku Puteri Intan Safinaz School of Accountancy, University Utara Malaysia (UUM), Sintok, Kedah, Malaysia
** Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia, Selangor, Malaysia

Abstract

This study investigates the effect of board diversity in terms of gender and ethnicity on dividend payout policy when a firm has free cash flow agency problem. It also tests whether the probability of diverse boards would minimize free cash flow agency problem through making large dividend payments is more pronounced in firms with high ownership concentration. We find that our results differ based on how corporate dividend policy is measured, and vary by the level of free cash flows and ownership concentration. More specifically, we find that women's (Malays') presence on boards has positive impact on dividend yield (dividend payout), and this effect conditional on the level of free cash flows generated by firms. Our results also show that the role of female and Malay directors in forcing controlling shareholders of firms with substantial free cash flows to cash out the firms' resources through making higher dividend payments is more prominent when the firms' ownership structure is concentrated in the hand of largest shareholders. The findings of our study, to some extent, support the government calls for increasing the number of women participation on corporate boardrooms and the participation of Malays in corporate sector.

Keywords: Board Diversity, Free Cash Flow, Ownership Concentration, Payout Policy

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1. INTRODUCTION

In free cash flow agency theory, the existence of extra cash at managers' disposal will exacerbate them to squander the cash in projects that only provide managers with private benefits at the expense of corporate shareholders (Jensen, 1986). As matter of fact, cash dividends are seen as important means to lessen the amount of extra cash available to managers (e.g. Jensen, 1986; Lang and Litzenberge, 1989) and placing the firms under the microscope and scrutiny of external capital markets through making them to seek external financing (Easterbrook, 1984; Rozeff, 1982). Based on resources dependency theory, firms' boards should be comprised of female directors who can link the firms to external resources controlled by females and share their skills, knowledge, and experience with board members (Pfeffer and Slancik, 1987). Moreover, gender-diverse boards serve as watchdog on management activities in behave of shareholders and provides resolution for conflicts between managers and shareholders, eventually increasing the performance and economic value of a firm (Fama and Jensen, 1983; Jensen and Meckling, 1976). However, the empirical evidence of extant studies on the benefits of women participation on boards is mixed and inconclusive. Some research found that women's presence on boards has a positive influence on firm performance (e.g. Ararat, Aksu, and Cetin, 2010; Campbell and Mingulz-Vera, 2008; Cater, D'Souza, Simking, and Simpson, 2010; Luckerath-Rovers, 2013), whereas others show negative (e.g. Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Dormandi, 2011) or no discernable effect (e.g. Gregory-Smith, Main, and O'Reilly III, 2012; Rose, 2007). We attempt to overcome the haziness and ambiguity found in the prior works by considering free cash flows as more severe type of agency problems that should be taken into account when evaluating the benefits of women's presence on corporate boardrooms. Chae, Kim, and Lee (2009) argue that issues corporate governance and dividends payout are valuable only when free cash flow agency problems exist. Byoun, Chang, and Kim (2013) provide empirical evidence that firms with diverse boards make higher dividend payments if free cash flow is high. Board of directors is responsible to determine the amount of dividends has to be cash out to shareholders. If dividend payments reduce the amount of free cash under managers' disposal and the variation among board members enhances the effectiveness of boards, we expect that women's presence on boards will discipline controlling managers of firms with high

free cash flows from squandering the firm resources through its influence on dividend payout policy.

It has been argued that cultural factors have strong impact on lifestyle, norms, belief, and behavioral pattern of people (Fazia and Nazri, 2012). In the Malaysian context, where there are different ethnic groups, the effect of ethnicity on corporate dividends payout policy can be viewed from two perspectives: Islamic and Political perspective. A review of literature shows that Chinese are more individualistic if they compared to their Malays peers (Abdullah, 1992; Haniffa and Cook, 2002; Salleh, Stewart, and Manson, 2006). This is due to Islam, which is the main religion of Malays, has close link to collectivism than individualism (Baydoun and Willet, 1995). In the literature, individualists are seen as those who pursue their own interest and interest of their family members (Faiza and Nazri, 2012). Furthermore, form Islamic point of view, wealth has to be distributed equally among society (Gambling and Karim, 1991). Based on Islamic principles, it is plausible to expect that firms with Malays (also called Bumiputra) directors will pay more dividends to shareholders than Chinese managed firms, particularly if there is substantial free cash flow. In the political perspective, Bumiputra firms are persuaded by the government to place Malay directors on the firms' boards so as to increase the participation of Bumiputra in corporate sector (Faiza and Nazri, 2012). In return, the Bumiputra firms will be granted favours from the government in the form of loans from the banking sector at preferential prices to help them stabilize their capital base and penetrate capital markets. In such case, the firms are less likely to encounter with financial problems when future investment opportunities arise because they will be bailout by the government. Therefore, we expect that Malay directors' decisions will be in favour of paying the extra cash flows as dividends to shareholders, as opposed to that of Chinese directors.

According to rent extracting hypothesis, controlling shareholders have the propensity to extract private benefits of control and not to share such benefits with minority shareholders (Shleifer and Vishny, 1997). The rent extraction, eventually, will subject minority shareholders to be a victim of controlling shareholders' interest as controlling shareholders prefer to keep the firm resources under their control and make lower dividend payments. This is, in essence, echoed in extant papers, who empirically found that dividend payments are low as ownership of shares is concentrated in the hand of controlling shareholders (e.g. Amoako-Adu, Baulkaran, and Smith, 2014; Harda and Nguyen, 2011; Khan, 2006). In a high ownership concentration country like Malaysia, controlling shareholders have great incentives to exert dominant control on corporation board and management. Further, the controlling shareholders' preference is in favour of retaining corporate earnings to expend their empire and extract private benefits as dividend payments will limit the amount of cash under controlling shareholders' discretion. Thus, we expect that women and Malays directors to have a crucial and positive role in pushing controlling shareholders of firms with high free cash flow and ownership concentration to distribute the firms' extra cash as dividends to minority shareholders and other outside investors.

This study examines the effect of gender and ethnic diversity on dividend decisions have to be made by firms with substantial free cash flows. It also seeks to explore whether the ability of female and Bumiputra directors in forcing controlling managers of firms with high free cash flows to disgorge the extra cash through dividend payments depends on the level of ownership concentration. Malaysia provides an interesting context for this study for several reasons. First, Malaysia is attempting to promote gender equality and women participation on boards. Second, Malaysia is multiracial country, where each race maintains its own cultural values and religious beliefs (Iskandar and Purjalali, 2000). Statistics show that Malaysia has about 27.17 million people, of which 66% are Bumiputra (out of 66%, 54.5% are Malays and 11.8% are indigenous), 25% Chinese, 8% Indians, and 1% others. Given that board members come from different ethnic backgrounds and have different culture values, they are assumed to manage their firms according to their culture values. Finally, share ownership in Malaysian firms tend to be concentrated in the hand of individuals and family members, if compared to countries with diffused ownership such as U.S and U.K (e.g. Claessense, Djankov, and Lang, 2000, Thillainanthan, 1991).

This study contributes to a growing literature examining the relationship between culture values and dividend payout policies by suggesting free cash flows as proxy for potential agency problem that can aid in understanding the role of ethnic diversity in corporate dividend payout policy (e.g. Bae, Chang, and Kang, 2012; Khambata and Liu, 2005; Shao, Kwork, and Guedhami, 2010). In the Malaysian context, Subramaniam and Shaiban (2011) provide empirical evidence that ethnicity has no significant influence on dividend payments made by Malaysian firms. Our study suggests that the insignificant results can be attributable to not considering free cash flow agency problem in the relationship. Moreover, since higher dividend payments indicate good performance, our study seek to reconcile the inconclusive results regarding the effect of women's presence on boardrooms on corporate performance by introducing some factors that can explain through which channels gender diversity improves the monitoring and discipline role of board of directors and then increases the firms' performance as well as dividend payments. Finally, a recent study empirically concludes that women directors increase the dividend payments of firms with high free cash flows (Byoun et al., 2013). We extend the study by opening the door to a hitherto unanswered question, that is, whether the ability of women and Bumiputra directors in pushing controlling shareholders of firms with high free cash flow to disgorge the extra cash as dividends to minority shareholders varies with the level of ownership concentration.

The reminder of our paper is structured as follows. The following section reviews the literature and develops the hypotheses. Next, we outline the methods employed in our paper, and then discuses and present the empirical results. Finally, we summarize and conclude our paper.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Gender diversity has attracted considerable interests of public in general and academic scholars particularly to the role of women in corporations' boards. Since financial crisis and corporate scandals such as Enron in 2001, the growing concern about the inequality in the composition of board of directors has greatly inspired government authorities around the world to adopt policies directed to increase women participation on corporations' board of directors. Norway was the first country that took the flag and requires listed firms to have at least 40% of their board members as women. Many European Union counties took Norway as an example and introduce the 40% quota in their cods. In East Asian countries, Chinese companies have over half of their executives as female. Malaysia, in fact, has not been without its share of these initiatives taken place in different counties. For example, Malaysian government in 2004 issued strong recommendation to listed firms to have 30% female at decision-making level. Later on, particularly in 2011, the government assigns the year of 2016 as the deadline for listed firms to achieve the quota as corporate sector shows a slow progress to meet this end. The revised code of corporate governance, that takes effect in 2012, was carrying the same policy and deadline given to listed firms. In the code, the firms are required to disclose information in relation to women's presence on boards in corporations' annual reports. However, all firms are set free by the current policy to decide about the optimal level of women participation on their boards (Abdullah, Ku Ismail, and Nachum, 2016).

It is believed that variations among board members help enhancing the performance of and creating economic value for a firm. However, the findings of empirical research are mixed and inconclusive. From the theoretical point of view, gender-diverse boards serve as watchdog on management activities in behave of shareholders and provides greater monitoring and discipline benefits to corporate' boards (Anderson, Reeb, Upadhyay, and Zhao, 2011; Fama and Jensen, 1983; Jensen and Meckling, 1976). Hillman, Cannella, and Harris (2002) contend that female directors are less likely to conspire with insiders to expropriate outside investors because most female directors come from non-business carriers and thus have no connection with managers. According to resources dependency theory, firms' boards should be comprised of female directors who can link the firms to external resources controlled by females and share their skills, knowledge, and experience with board members (Pfeffer and Salancik, 1987). Byoun et al. (2013) argue that boards with variety of skills, perspectives, backgrounds, and resources are expected to promote objective monitoring and manager-shareholder conflict resolution. Drawing from agency and resources dependency theory, the findings of extant studies suggest women's presence on boards to increase the value and performance of firms (e.g. Ararat et al., 2010; Campbell and Mingulz-Vera; 2008; Cater, Simkins, and Simpson, 2003; Cater et al., 2010; Erhardt, Werbel, and Shrader, 2003; Luckerath-Rovers, 2013).

In contrast, in line with behavioral theory, academic researchers empirically document that women are more risk-averse than men (Arano, Parker, and Terry, 2010; Jianakoplos and Bernasek, 1998) and firms with female directors are more likely to encounter with underinvestment problems (Levi, Li, and Zhang, 2013). Moreover, shareholders are less inclined to invest in firm with female-dominated boards as they perceive women to have less power, control, and confidence (Abdullah et al., 2016). Extant works provide evidence that firms with women-dominated boards exhibit less performance and value (e.g. Adams and Ferreira, 2009; Ahern and Dittmar, 2012; Dobbin and Jung, 2011; Dormandi, 2011). In labor market discrimination theories, women are not judged by the market based on their performance and qualifications but societal stereotypes and perception (Abdullah et al., 2016; Darity and Mason, 1998), deriving gender differences to have no influence on financial and accounting outcomes. This is, echoed in empirical research of Rose (2007) and Gregory-Smith et al. (2012); who found gender-board diversity is not significantly related to firm performance. Nevertheless, research on gender suggests that the unexpected impact of diversity on group normally will decline over time (Watson, Kumar, and Michaelson, 1993). From the literature, it is worthy to note that gender-board diversity effect on firm performance is not always significant, but when differences are realized and identified, females' performance appears to be much higher than males'.

Jensen (1986) argues that the existence of extra cash at managers' disposal will induce them to expend their empire through investing the cash in projects that only provide managers with personal benefits, even if the projects may not firm-value maximization. In essence, dividend payments are seen as important means to reduce the amount of extra cash available to managers (e.g. Jensen, 1986; Lang and Litzenberge, 1989) and force firms to seek external financing; thus put the firms under the microscope and scrutiny of external capital markets (Easterbrook, 1984; Rozeff, 1982). One of major responsibilities of boards is to design dividend payout policy for a firm. If gender variation among board members increases the effectiveness of the board of directors, then it is likely to discipline managers from squandering corporate' resources through its influence on dividend payout policy. A recent paper of Byoun et al. (2013) finds that firms with diverse boards pay dividends and further, tend to pay more dividends when free cash flow is high. Moreover, a large portion of sample firms tend to pay higher dividends after they assign women directors to their boardroom. Therefore, we conjecture that:

H1: the proportion of women directors on the board is positively associated with the level of dividends when free cash flow is high.

Cultural factors have been argued to have a strong impact on lifestyle, norms, belief, and behavioral pattern of people (Fazia et al., 2012). In a multiracial country like Malaysia, considerable diversification division based on ethnicity, language, creeds and religion is expected to exist. It has been argued that these different groups maintain their own cultural values and religious beliefs (Iskandar and Pourjalali, 2000). As such, the effect of race has

to be significant in Malaysia as each race prefers to maintain their own identity. Since directors of Malaysian firms come from different ethnic background and have different cultural values, they are assumed to manage their firms according to their cultural values. Chuah (1995) argues that the mind of Malaysian managers is effected by, among other things, cultural factors. This is supported by Alhabshi (1994) who infers that the way managers do their functions is assumed to differ because it may be influenced by 'one's own customs, history, religion, creeds, beliefs, and culture'.

The common definition of culture is "collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede, 1984). He identified four dimensions (individualism, power distance, uncertainty avoidance, and masculinity) that help underling the difference in cultural values among notions. Later on, Gray (1988) proposed a framework linking Hofstede's cultural values with accounting values and practices. Using Hofstede's (1984) cultural value dimensions, studies in Malaysian context provide evidence that, as compared to their Malays counterparts, Chinese are more individualistic (e.g. Abdullah, 1992; Hamzah, Saufi, and Wafa, 2002; Haniffa and Cook, 2002; Salleh et al., 2006). This is due to Islam, which is the main religion of Malays, has close link to collectivism than individualism (Baydoun and Willet, 1995). Individualism has been seen as individuals only pursue their own interest and the interest of their family members (Faiza and Nazri, 2012). Haniffa and Cook (2002) empirically document that Chinese managed firms are less transparent as they prefer to hire directors from their own group. In the context of Asia-Pacific countries, Guan, Pourjalali, Sengupta, and Teruya (2005) explore that higher aggressive earnings management activates are a result of higher individualism. A review of the literature indicates that legal regime and institutional structure are not enough to explain a firm's dividends policy; and culture plays important role in this regard (e.g. Bae et al., 2012; Khambata and Liu, 2006; Shao et al., 2010). Given that Islamic principle is based on equal distribution of wealth among society (Gambling and Karim, 1991), it is plausible to expect that firms with Bumiputra directors will pay more dividends to shareholders than Chinese managed firms.

The influence of ethnicity on dividends payout policy can also be observed from the political perspective. The Malaysian government introduced two important policies, National Economic Policy (NEP) in 1970 and later the National Development Policy (NDP) in 1991, which were seen to favour the Bumiputeras' ownership of firms to balance that of Chinese who were controlling the economy. Furthermore, Malay businessmen were persuaded by the government to place Malay directors on the board of directors to increase the participation of Bumiputra in listed firms (Faiza and Nazri, 2012). It is also argued that Bumiputra firms are granted favours from the government in the form of loans from the banking sector at preferential prices to help them stabilize their capital base and penetrate capital markets. In bird-in-hand theory, shareholders always prefer to be paid dividends by today than more cash in the future. Bumiputra firms are less likely to encounter with financial problems when future investment opportunities arise because they will be bailout by the government. Since dividends payout policy is one of the most important decisions made by the board of directors, it is expected that firms with Bumiputra directors will pay more dividends to shareholders than their counterparts.

Academic researchers have explored the role of cultural differences from different points of view: the ethnicity impact on firms' financial performance (Bhaskaran and Sukumaran, 2007); voluntary discourse (Haniffa and Cook, 2002); accounting conservatism (Yunos, Ismail, and Smith, 2012); earnings management (Rahman and Ali, 2006); auditor choice (Faiza and Nazri, 2012); and audit quality (Che Ahmed and Houghton, 2001; Eichenseher, 1995; Salleh et al., 2006; Yatim, Kent, and Clarkson, 2006). However, up to now, few researches have investigated how differences in cultural values impact on firm dividend policy (e.g. Bae et al., 2012; Khambata and Liu, 2005; Shao et al., 2010; Subramaniam and Shaiban, 2011). Using uncertainty avoidance from Hofsted's cultural dimensions, Khambata and Liu (2005) find that, among sample firms, firms in countries with high risk aversion experience lower dividend ratios and have lower incentives to distribute the firms' resources as dividends among investors. Cross-country data shows that firms in high uncertainty avoidance and/or masculine culture are expected to pay higher dividends only if investors protection is stronger. In the Malaysian context, Subramaniam and Shaiban (2011) provide evidence that cultural differences in terms on ethnicity have no influence on dividend payouts in firms with high growth opportunities. In the literature, dividends policy plays vital role in lessening agency problems (Easterbrook, 1984; Jensen, 1986; Lang and Litzenberger, 1989; Rozeff, 1982). Rozeff (1982) contends that the firm's optimal payout policy should be decided according the severity of agency problems. According to free cash flow agency theory, agency problems will be severe when firms generate substantial free cash flows (Jensen, 1986). This is due to the existence of extra cash at managers' disposal may induce them to expropriate the cash for their interest instead of disgorging the cash as dividends to shareholders. Therefore, in the light of above discussion, we expect that firms with Bumiputra directors will pay more dividends when they have high free cash flows. This expectation is translated into the following hypothesis:

H2: the proportion of Bumiputra directors on the board is positively associated with the level of dividends when there is substantial free cash flow.

From the theoretical point of view, there are two hypotheses that help explain the association between ownership concentration and dividend payouts: monitoring and rent extraction hypothesis. The proponents of monitoring hypothesis assert that management decisions will be in line with outsiders' interest when ownership of shares is concentrated in the hand of controlling shareholders (Claessens and Djankov, 1999). Controlling shareholders are expected to add value to the firm as they have the incentives to monitor management and reduce free-ride problem (Shleifer and Vishny, 1986). This is, in essence, echoed in the research paper of Wiwattanakantang (2001), who found that

performance of Thailand and Asia corporations to increase with ownership concentration.

However, opponents of monitoring hypothesis underline the agency conflict between controlling and small minority shareholders (Shleifer and Vishny, 1997). As matter of fact, like managers, controlling shareholders have the propensity to extract private benefits of control and not to share such benefits with minority shareholders. The rent extraction, eventually, will subject minority shareholders to be a victim of controlling shareholders' interest as they prefer to keep the firm profits under their control and pay lower dividends. Mury and Pajuste (2002) provide evidence that Finnish firms exhibit lower dividend payout ratio as the voting power of largest and second largest shareholders increases. Similarly, Gugler and Yurtoglu (2003) explore that the presence of largest shareholders in German firms will lead to lower payout ratios. Moreover, the market reacts positively to the increases in dividend announcements when the probability of expropriation by largest shareholder is high. An analysis of U.K data shows that dividend payouts decrease with high equity ownership of the largest five shareholders. Dividend payout also decrease when individual investors are the largest shareholders (Khan, 2006). Harada and Nguyen (2011) in their empirical study find that ownership concentration has a negative impact on dividend payout policy of Japanese firms. In East Asia context, data shows that Thai firms experience lower dividend payouts when controlling families gain a moderate level of cash flow rights, although the relationship was positive at a low/high level of controlling families' cash flow rights. Using U.S data, Amoako-Adu et al. (2014) find that firms tend to pay lower dividends when the discrepancy between voting rights and cash flow rights widens, which is in line with the rent extraction hypothesis' allegations.

Malaysian environment is characterized by weak legal system, weak institutional environment, and a high ownership concentration. Relative to countries with dispersed shareholding such as U.K and U.S, share ownership in Malaysian firms tend to be concentrated in the hand of individuals and family members (e.g. Claessense et al., 2000, Thillainanthan, 1991; Zhuang, Edwards, and Capulong, 2001a). Statistics data shows that, of 238 Malaysian firms, approximately 40.4 percent are closely held by a single large shareholder (Claessens et al., 2000). In such environment, controlling shareholders have tendencies to exert dominant control on corporation board and management. Hence, monitoring hypothesis does not seem to be appropriate in the Malaysian context where a great conflict between minority and majority shareholders exists. Controlling shareholders' preference is in favour of retaining corporate earnings to expend their empire and extract private benefits as dividend payments will limit the amount of cash under controlling shareholders' discretion. Therefore, we will expect gender- and ethnic-divers boards to have a crucial and positive role in dividend payout policy of firms with high free cash flow and ownership concentration, which leads to our final hypothesis:

H3: with high ownership concentration, firms with women and Bumiputra directors will pay out more cash when there is high free cash flow.

3. SAMPLE SELECTION, RESEARCH MODEL, AND DATA

The initial sample of this study consists of all 831 firms listed in Bursa Malaysia in 2010. Financial firms were excluded because, compared to firms in other industries, they are highly regulated and have different characteristics of their accounting information. We also eliminate firms with missing financial and ownership structure data for the sample period. To reduce the influential impact of outliers on the estimate of the coefficients, observations with three and half standardized residuals are excluded. This procedure left us with 650 firms. Table 1 summarizes sample selection process.

Table 1. Sample selection criteria

Companies listed on Bursa Malaysia at December 31, 2010	831
Financial firms	37
Firms with insufficient financial data	131
Firms with insufficient ownership structure data	8
outliers	5
Final sample used for analysis	650

The following model is used to test the hypotheses:

$$DIV_i=\alpha_0+\alpha_1 FEMALE_i+\alpha_2 ETHNIC_i+\alpha_3 FEMALE*FCF_i+\alpha_4 EHNIC*FCF_i+\alpha_{5-18} X_i+\varepsilon_i \quad (1)$$

where, DIV_i stands for dividend payout policy of company i. $FEMALE_i$ and $ETHNIC_i$ denote women's and Bumiputra's participation on boards, respectively. FCF_i is the interaction variables. X_i indicates control variables that suggested by prior studies to affect dividend payout policy. The control variables are firm size, leverage, growth, profitability, risk as well as board independence, size, and meetings. ε_i denotes the standard errors.

Drawn from the literature, two alternative measures are employed to operationalize firm dividends policy. The first measure is dividend yield (DYLD) defined as dividends per share to stock price at the end of the year. However, it is argued that dividend yield measure can be substantially influenced by fluctuations in share price instead of by changes in dividends (Byoun et al., 2013). As such, our study incorporates dividend payout (DPP) along with DYLD in the main analysis. DPP is represented by dividend per share to earnings per share. The two measures data are extracted from Data Stream database.

In the main analysis, we employ the proportion of women directors on the board to represent FEMALE. This measurement not only focuses on the presence of female directors, but also provides additional information on the number of female directors (Adams and Ferreira, 2009). Malays are dominant group in Malaysian population (Ninth Malaysia Plan, 2006-2010). Therefore, the proportion of Bumiputera directors is used to measure ETHNIC. We check the robustness of our main findings using the number of female and Bumiputera directors on the board. As a proxy for agency conflict, FCF is calculated by subtracting operating cash flow form capital expenditures. The outcome then is scaled by

total assets. Companies with above sample median FCF represent those with potential free cash flow agency problem (Byoun et al., 2013). An interaction terms FEMALE*FCF and ETHNIC*FCF are computed to examine the presumption that the presence of women and Bumiputera directors on the board will push firms with substantial free cash to disgorge the cash through large dividend payouts. Data on gender diversity and ethnicity are extracted from annual reports of the sample firms, while FCF data are obtained from the Data Stream database.

We control for firm-specific characteristics and corporate governance variables that have been suggested by prior studies (see e.g. Abor and Bokpin, 2010; Adjaoud and Ben-Amar, 2010; Chae et al., 2009; Hwang, Kim, Park, and Park, 2013; Huang, Chen, and Kao, 2012; Thanatawee, 2011). Firm-specific characteristics include firm size, leverage, growth, profitability, and risk; while corporate governance variables are bored independence, size, and meetings. Academic researchers suggest that large firms tend to pay more dividends than small firms as large firms have better access to external capital markets to finance themselves (Adjaoud and Ben-Ameer, 2010; Thanatawee, 2011). To reflect a firm's size (SIZE), we use the logarithm of total assets. Empirical results show that levered firms exhibit low dividend payments (Agrawal and Jayaraman, 1994; Huang et al., 2012). Moreover, firms with high growth prospects use their internal funds to finance profitable projects and thus they are less likely to pay dividends (Abor and Bokpin, 2010). Total debt to total assets represents firm's capital structure (LEV), and market-to-book ratio a firm's growth (GROWTH). Profitable firms are able to generate more free cash flows and therefore to pay higher dividends (Thanatwee, 2012). Firm's profitability (ROA) is net income before extraordinary items divided by average total assets. Indeed, riskier firms are less likely to make higher dividend payments (Adjaoud and Ben-Amar, 2010). We calculate the standard deviation of monthly stock market price to operationlize firm's risk (STDPRICE). The board of directors is seen as the highest governing body that control corporate decisions' (Byoun et al., 2013; Subramaniam and Devi, 2010). Therefore, we control for board variables and expect firms with independent directors, large boards, and frequent board meetings to make higher payments. The proportion of independent directors is used to represent board independence (INEDPCT), while board size (BODSIZE) is measured by the logarithm of total number of directors sitting on the board. We operationlize board meetings (BMEET) as the number of meetings held by the board of directors. Our study includes industry (INDUST) dummy variables into the regression models to control for their possible effects.

To test H3, we partition our sample into halves based on ownership concentration (OWNCON) to explore whether the ability of women and Bumiputra directors to push controlling managers of high FCF firms to disgorge the cash through making large dividend payments varies with OWNCON. Empirical evidence shows that, in 1998, the top five shareholders own approximately 59% of outstanding shares of all Malaysian listed companies (Zhuang et al., 2001b). As such, we measure OWNCON by summing up the percentage of shares possessed by the largest shareholders that own at least 5% of firm equity. Subsequently, we calculate the sample median OWNCON and classify firms with OWNCON higher than the median as high ownership concentrated firms. Data on SIZE, LEV, GROWTH, ROA, and STDPRICE are extracted from Data Stream database. On the other hand, board and ownership concentration data are obtained from annual report of each respective firm.

4. EMPIRICAL EVIDENCE

4.1 Descriptive statistics

Table 2 presents the descriptive statistics for the sample firms of this study. The minimum (Maximum) values of DYLD are 0 (11.1%) with an average value of 2.3%. The mean value of DPP is 23%, with a minimum (maximum) of 0 (100%). FEMALE has an average of 8%, while the mean of ETHNIC is 34%. The percentage of FEMALE indicates that only 8% of board seats of Malaysian firms are occupied by women, which is not in line with the 30% gender-quota recommended by the government in Malaysia.

Table 2. Descriptive statistics

Variables	N	Min	Max	Mean	Std dev
DYLD *(percent)*	650	0.000	11.090	2.278	2.504
DPP *(percent)*	650	0.000	100	0.230	24.741
FEMALE	650	0.000	0.50	0.085	0.113
ETHNIC	650	0.000	1	0.342	0.270
SIZE*(RM'000)*	650	11.7	74,000	1,526	5,524
LEV *(percent)*	650	0.000	77.13	19.754	17.030
GROWTH *(percent)*	650	-2.12	26.2	1.121	1.604
ROA *(percent)*	650	-28.110	50.520	5.272	7.941
STDPRICE	650	0.000	4.037	0.162	0.299
INEDPCT	650	0.143	0.833	0.459	0.124
BODSIZE	650	3	17	7.333	1.818
BMEET	650	0	22	5.275	2.044
		N(mean)			
		0	1		
FCF	650	324(49.85)	326(50.15)		
OWNCON	650	320(49.23)	330(50.77)		

Moreover, the ETHNIC percentage is relatively small if compared to the population of Malay people in Malaysia (i.e. approximately 55%). The size of sample firms, as measured by total assets, ranges

between 11.7 million and 74,000 million. LEV has an average of 19.8% with a minimum (maximum) of 0 (77.1%). As for growth, the mean value is 1.1%, while ROA has an average of 5.3%. The STDPRICE ranges from 0 to 4% with an average of 16%. With regard to board variables, 45% of the board members are independent. While the average number of board meetings is five, the mean BODSIZE of sample firms is seven directors. Approximately, 50% of the sample firms have substantial free cash flows and shares owned by the largest shareholders.

Variable definitions: DYLD is dividends per share over stock price at the end of the year; DPP is dividends per share over earnings per share; FEMALE is the proportion of women directors on the board; ETHNIC: is the proportion of Bumiputra directors on the board; SIZE is total assets; LEV is total debts over total assets; GROWTH is market-to-book ratio; ROA is return on assets measured by net income before extraordinary items over average total assets; STDPRICE is the standard deviation of monthly stock market price. INEDPCT is the proportion of independent directors on the board; BODSIZE is total number of directors on the board; BMEET is number of board meetings; FCF is the indicator variable that equals 1 if the firm's free cash flows exceed sample median and 0 otherwise; OWNCON is the indicator variable with value of 1 if the firm's OWNCON exceeds the sample median and 0 otherwise.

4.2. Regression Results

Table 3 shows the results with respect of the assumption that the influence of gender diversity and ethnicity on corporate dividend payout policy varies with free cash flow agency problem. We employ OLS regressions with robust standard errors to control heteroskedasticity problem. Panel A and B shows the results for dividend Yield (DYLD) and dividend payment (DPP) respectively. In panel A, we find the positive and significant coefficient for FEMALE*FCF albeit the stand-alone coefficient on FEMALE is not statistically significant. The positive and significant coefficient implies that women directors have significant incentives to induce firms to make higher dividend payments when free cash flow agency problems exist. This result is consistent with that found by Byoun et al. (2013). However, neither FEMALE nor FEMAL*FCF has significant impact on the amount of dividends paid as measured by dividend payout (see please Panel B). Several reasons seem to explain the insignificant results found for dividend payout measurement. First, gender-diverse boards may have communication and integration problems because of different backgrounds, ideas, and skills of their board members (Byoun et al., 2013). Second, most firms assign female directors to the board merely to appear legitimate in the views of media, public, and government authorities. In such firms, gender-diverse boards are expected to represent the 'form' but not the 'substance' of the effective board structure (Adams and Ferreira, 2009). Finally, in behavior theory, firms with female-dominated boards are perceived to have bad performance and thus pay lower dividends because women are more risk-averse than men. This negative perception may negate the expected positive impact of gender diversity on dividend payout policy of firms with substantial free cash flows, resulting in insignificant relationship to women' presence on the board found in this paper.

Table 3. Regressions of dividend payout policy on FEMALE, ETHNICITY, FEMALE*FCF, ETHNICITY*FCF, and control variables, (N=650)

	Expected sign	Panel A: dependent variable dividend yield (DYLD)					Panel B: dependent variable dividend payout (DPP)				
		1	2	3	4	5	6	7	8	9	10
const	?	-0.431 (-0.39)	-0.381 (-0.34)	-0.320 (-0.28)	-0.196 (-0.17)	-0.322 (-0.28)	-26.922 (-2.05)**	-26.706 (-2.04)**	-25.754 (-1.91)*	-22.075 (-1.67)*	-22.493 (-1.72)*
FEMALE	+	0.436 (0.54)	-1.311 (-1.51)			-1.273 (-1.43)	6.133 (0.75)	-1.412 (-0.13)			5.792 (0.54)
FEMALE*FCF	+		3.493 (2.69)***			3.434 (2.48)***		15.09 (1.08)			-2.659 (-0.19)
ETHNIC	+			0.153 (0.41)	-0.073 (-0.17)	0.105 (0.23)			1.204 (0.34)	-5.518 (-1.41)	-5.486 (-1.40)
ETHNIC*FCF	+				0.501 (1.17)	0.036 (0.08)				14.882 (3.29)***	15.069 (3.26)***
SIZE	+	0.129 (1.73)*	0.112 (1.49)	0.125 (1.66)*	0.109 (1.42)	0.108 (1.40)	3.150 (3.60)***	3.080 (3.51)***	3.117 (3.56)***	2.664 (3.05)***	2.670 (3.05)***
LEV	-	-0.025 (-4.61)***	-0.023 (-4.20)***	-0.026 (-4.67)***	-0.025 (-4.49)***	-0.023 (-4.19)***	-0.282 (-5.10)***	-0.273 (-4.86)***	-0.285 (-5.14)***	-0.256 (-4.60)***	-0.254 (-4.55)***
GROWTH	-	-0.159 (-2.29)**	-0.155 (-2.25)**	-0.162 (-2.30)***	-0.160 (-2.26)**	-0.156 (-2.24)**	1.160 (1.32)	1.179 (1.34)	1.136 (0.192)	1.192 (0.162)	1.201 (1.40)
ROA	+	0.132 (8.60)***	0.126 (8.13)***	0.1332 (8.58)***	0.130 (8.32)***	0.126 (8.00)***	0.707 (5.66)***	0.679 (5.32)***	0.718 (5.77)***	0.631 (5.07)***	0.631 (4.99)***
STDPRICE	-	0.445 (1.43)	0.453 (1.46)	0.433 (1.40)	0.418 (1.33)	0.447 (1.43)	11.408 (2.48)***	11.444 (2.50)***	11.276 (2.45)***	10.842 (2.37)**	10.884 (2.37)**
INEDPCT	+	-1.342 (-1.84)*	-1.223 (-1.68)*	-1.442 (-1.89)*	-1.375 (-1.79)*	-1.281 (-1.68)*	-10.775 (-1.49)	-10.262 (-1.42)	-11.708 (-1.55)	-9.724 (-1.29)	-9.606 (-1.28)
BODSIZE	+	0.573 (1.37)	0.618 (1.49)	0.567 (1.36)	0.581 (1.39)	0.615 (1.48)	4.330 (0.93)	4.526 (0.98)	4.272 (0.359)	4.686 (1.01)	4.673 (1.01)
BMEET	+	-0.016 (-0.39)	-0.023 (-0.54)	-0.020 (-0.46)	-0.021 (-0.47)	-0.023 (-0.59)	0.052 (0.09)	0.025 (0.05)	0.024 (0.04)	0.002 (0.000)	0.002 (0.000)
INDUST	?	controlled	controlled	controlled	controlled	controlled	controlled	controlled	controlled	controlled	controlled
Adjusted R^2		0.263	0.272	0.263	0.265	0.272	0.255	0.257	0.255	0.269	0.270
***F*-statistic**		17.46***	16.88***	17.11***	16.54***	14.99***	14.40***	13.69***	14.33***	21.42***	13.22***

*Notes: ***,**,and * indicate level of significance at the 1%, 5%, and 10% level, respectively. Standard Betas are outside parentheses, while T-values are in parentheses. The T-values are based on the robust standard errors for heteroskedasticity. SIZE is the logarithm of total assets. BODSIZE is the logarithm of total number of directors on the board. Please see Table 2 for other variable definitions.*

In respect of ethnicity, relative to the stand-alone variable ETHNIC, the interaction variable ETHNIC*FCF is positively and significantly associated with dividend payout. The positive and significant coefficient suggests that firms with Bumiputra directors tend to make higher dividend payments when they have substantial free cash flows. This result, however, is not longer significant when we use dividend yield as a proxy for corporate dividend policy. The possible explanation for such finding is the market perceives Malays to be more individualistic, just like their Chinese peers. Rahman and Ali (2006) argue that the plan to increase Malays portion of national wealth may result in Bumiputras to be more individualistic. Since both Chinese and Malays are seen to have the same characteristics, the market will not value the differences in these ethnic groups as important factor that may influence firms' decisions regarding dividends payments.

As for control variables, dividend payout policy is significantly associated with LEV and ROA at the expected direction in all regressions. These findings indicate that while leveraged firms exhibit low dividend payments, profitable firms pay more dividends. The results for other control variables are mixed and inconclusive. For example, SIZE is positively and significantly related to DPP, and has a positive but marginal impact when dividend yield was used to operatieonlise dividends payout policy. The result, to some extent, provides support to the premise that large firms tend to make higher dividend payments. On one hand, growth has negative and significant impact but only for dividend yield. On the other hand, STDPRICE is significantly but positively related to dividend payout. These results are in line with the notion that growth firms are more likely to pay lower dividends as they retain earnings to finance projects with positive returns in future. However, the findings are inconsistent with the expectation that riskier firms exhibit lower dividend payments. The coefficients of other control variables are not economically and statistically significant.

Table 4. Regressions for dividends payout policy in different OWNCON groups

Explanatory variables	Dependent variable dividend yield (DYLD)		Dependent variable dividend payout (DPP)	
	High OWNCON	Low OWNCON	High OWNCON	Low OWNCON
cons	1.593(0.96)	-2.066(-1.27)	-11.016(-0.54)	-23.378(-1.28)
FEMALE	-0.0677(-0.52)	-2.390(-2.25)**	16.450(0.92)	-9.670(-1.10)
ETHNIC	-0.139(-0.21)	-0.198(-0.36)	-8.883(-1.57)	-5.376(-1.02)
FEMALE*FCF	3.390(1.89)*	1.654(0.78)	-20.507(-0.99)	17.284(0.86)
ETHNIC*FCF	0.125(0.20)	0.210(0.30)	16.684(2.59)***	12.273(1.74)*
SIZE	0.008(0.07)	0.247(2.23)	2.417(1.96)**	2.66(1.96)**
LEV	-0.007(-0.83)	-0.036(-4.60)***	-0.214(-2.73)***	-0.252(-3.11)***
GROWTH	-0.158(-1.86)*	-0.232(-2.52)	0.884(0.85)	1.771(1.11)
ROA	0.138(6.00)***	0.115(5.66)***	0.709(3.89)***	0.564(3.18)***
STDPRICE	0.652(1.55)	0.209(0.43)	11.896(2.03)**	11.996(1.74)*
INEDPCT	-1.587(-1.47)	-0.805(-0.76)	-11.033(-1.01)	-7.237(-0.68)
BODSIZE	0.075(0.13)	0.856(1.37)	-2.160(-0.32)	9.206(1.33)
BMEET	0.050(0.88)	-0.105(-1.54)	0.867(1.11)	-1.010(-1.36)
INDUST	controlled	controlled	controlled	controlled
Adjusted R^2	0.272	0.312	0.278	0.272
***F*-statistic**	6.60***	8.65***	7.29***	8.67***
N	330	320	330	320

*Note: ***, ** and * indicate level of significance at the 1%, 5%, and 10% level, respectively. Standard Betas are outside parentheses, while T-values are in parentheses. SIZE is the logarithm of total assets. BODSIZE is the logarithm of total number of directors on the board. Please see Table 2 for other variable definitions.*

Table 4 reports the findings of testing Hypothesis 3 that sought to ascertain whether the effect of gender and ethnic differences on corporate dividend payouts policy depends on the level of free cash flows and ownership concentration. It is argued that using the three-way interactions renders the results more difficult to be interpreted (Byoun et al., 2013). Therefore, we run regressions 5 and 10 of Table 3 on the two ownership concentration groups (high and low OWNCONC). As reported in the table, FEMALE *FCF is positive and significant at the 0.10 level of confidence in high OWNCON firms although it has no significant impact on dividend yield in low OWNCON firms. Moreover, the results in Table 4shows that even though the estimated coefficient on ETHNIC*FCF has marginal impact on dividend payout in low OWNCON firms; it is strongly significant at the expected direction in high OWNCON firms. These findings suggest that in firms with ownership concentration, female directors will force controlling managers to pay higher dividends when there is substantial free cash flow at controlling managers' disposal. The results also provide support for our expectation the role of Bumiputra directors in pushing firms with high free cash flows to make higher dividend payments will be more pronounced in concentrated ownership firms than diffused ownership firms. Overall, our results suggest that the presence of female and Bumiputra directors on the board seem to increase the amount of dividends paid by firms suffering from free cash flow agency problem and high concentrated ownership structure.

5. CONCLUSION

Our study sought to provide some insights to the mixed and inconclusive findings on the relationship between women's participation in boards and corporate performance. It also helps to understand when differences in culture values influence firms' dividend payout policy as documented in prior research. We find that the presence of women (Bumiputra) on boards of Malaysian firms has positive contribution to dividend yield (dividend payout), particularly when firms generate large free

cash flows. We also find the role of female and Malay directors in attenuating the probability that controlling managers will squander firm recourses in negative return projects and pay lower dividends is more pronounced is firms with concentrated ownership structure. Based upon these results, our study provides practical implications to government policies seeking to increase the number of women and Malays in firm boardrooms. This study provides evidence that women's presence on boards generate monitoring benefits for minority shareholders who are subject to expropriation by controlling managers in firms with high free cash flows and ownership concentration. Generally, such evidence supports the government recommendations regarding gender-quota on corporate boards. Moreover, our study seems to advocate Islamic values that induce equal distribution of wealth among society and less individualism as it empirically documents that Malay directors' preference is in favour of higher dividend payments. In general, the results on ethnicity found in this study are attributed mainly to government policy that increases the participation of Bumiputra in corporate sector.

There are several limitations that provide lope hole for future research. First, this study used only one year data to examine the hypothesized relationships. A longitudinal study can be undertaken to explore the trend in dividend payout policy by firms and the association with variable investigated. Second, the Malaysian government issued the revised code of corporate governance in 2012 that emphasize more the women participation in firms' boardrooms. The descriptive statistics show that in the year 2010, at the time the study was conducted, women occupied only 8.5% of board seats of Malaysian firms. This percentage is more than three times lower as that recommended by the Malaysian government, where it was 30%, and may be the reason for insignificant results found in dividend payout models. Third, our study used only the effect of the proportion and number of women directors to examine their effect on dividend payout policy. However, there may be other gender diversity variables that could have been used, namely academic qualifications of females, female chairmen, CEOs, and CFOs. Faccio et al. (2011) contend that firms with female CEOs experience underinvestment problem because female CEOs are risk-averse and more likely to miss investment opportunities. Therefore, further studies could disentangle the effect of female executives and directors on dividend payments. Finally, empirical evidence shows that socially responsible firms appoint more female to their boards to reflect good image to investors and public (Webb, 2004). As such, it is possible to future studies to examine the relationship between gender diversity and dividend payout policy in two different groups (socially responsible firms and non-socially responsible firms).

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