

Determinants and Stability of Dividend Payment: The Case of Malaysian
Public-Listed Shariah-Compliant Firms
(Penentu dan Kestabilan Pembayaran Dividen: Kes Firma Malaysia Patuh Syariah yang
Disenaraikan Awam)

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ABSTRACT

The purpose of this paper was to examine the determinants and stability of dividend payments in Malaysia from 2007 to 2016. The purposes of this research were (1) to analyse the stability of dividend per share, (2) to examine the determinants of dividend yield, and (3) to examine the effect of dividend per share on the sustainable growth rate of Shariah-compliant firms in Malaysia. Static model and dynamic model estimated using Generalised Method of Moment were used in this research. The results indicated that the stable earnings per share can afford the firms to pay a larger dividend. Furthermore, the higher dividend from the previous year with the lower speed adjustment indicated high smoothing and stability of dividend payment. The results on determinants of the dividend yield revealed the five factors that are lagged dividend yield, firm size, sales growth, leverage, and market value to book value have a significant impact on dividend yield, with lagged dividend yield and firm size showing a significant positive effect, while sales growth, leverage, and market value to book value have a significant negative impact. In addition, the results indicated that dividend per share had a significantly positive impact on the sustainable growth rate. The results of this study are important for the management team of companies to decide an appropriate dividend policy for the company to maintain a stable dividend payment and have the financial health of a company. These results also provided the understanding of dividend policy behaviour in Malaysia, particularly on Malaysian public-listed Shariah-compliant firms.

Keywords: Dividend policy, Panel data analysis, Malaysian Public-listed Shariah-compliant firms.

ABSTRAK

Kajian ini mengkaji penentu dan kestabilan pembayaran dividen di Malaysia dalam tempoh 2007 hingga 2016. Tujuan penyelidikan ini adalah, (1) untuk mengkaji kestabilan dividen sesaham, (2) untuk memeriksa penentu hasil dividen; dan (3) untuk mengkaji pengaruh dividen per saham pada kadar pertumbuhan yang berterusan bagi syarikat patuh Syariah di Malaysia. Penyelidikan ini menggunakan model statik dan model dinamik yang menggunakan Generalized Method of Moment. Hasilnya menunjukkan bahawa pendapatan sesaham yang stabil mampu membuat firma membayar dividen yang lebih besar. Di samping itu, dividen yang lebih tinggi dari tahun sebelumnya dengan pelarasan kelajuan yang lebih rendah menunjukkan bahawa terdapat kelancaran dan kestabilan pembayaran dividen yang tinggi. Hasil penentu hasil dividen menunjukkan lima faktor iaitu hasil dividen yang tertinggal, ukuran firma, pertumbuhan penjualan, leverage, dan nilai pasar terhadap nilai buku memiliki pengaruh yang signifikan terhadap hasil dividen, dengan hasil dividen yang tertinggal dan ukuran firma yang dinyatakan memiliki kesan signifikan positif, sementara pertumbuhan penjualan, leverage, dan nilai pasaran hingga nilai buku mempunyai kesan signifikan negatif. Di samping itu, hasil menunjukkan bahawa dividen sesaham mempunyai kesan positif yang signifikan terhadap kadar pertumbuhan yang berterusan. Penemuan dari kajian ini penting bagi pasukan pengurusan syarikat dalam menentukan dasar dividen yang sesuai agar syarikat dapat mengekalkan pembayaran dividen yang stabil dan mempunyai kewangan syarikat sihat. Hasil ini juga memberikan pemahaman mengenai tingkah laku dasar dividen di Malaysia, terutama pada syarikat patuh Syariah yang disenaraikan di Malaysia.

Kata kunci: Dasar dividen, Analisis data panel, firma patuh Syariah yang disenaraikan di Malaysia.

INTRODUCTION

One of the important issues to be debated in corporate finance is dividend policy. Since the irrelevance proposition of Miller and Modigliani (1961), the issues of dividend policy in finance literature still maintain prominent stories among scholars. Several major theoretical perspectives are utilised by previous studies to clarify the dividend

policy of firms. Dividends are the distributions of earnings or profits to shareholders. Dividends will be stated as Dividend Per Share (DPS), Dividend Payout Ratio (DPR), and Dividend Yield (DY). Dividends are often a part of a company's strategy and typically paid as cash or shares. However, not all companies pay dividends and there is no obligation to repay shareholders using dividends. The companies will have a stated policy of plough for most of their profits into the business to help the company's growth. Three dividend policy styles are named as follows: (1) a stable dividend policy, (2) a constant dividend policy, and (3) a residual dividend policy.

A stable dividend policy is often within the best interests of the company and its shareholders where either earnings increase or decrease, investors still receive a dividend. Under the constant dividend policy, investors will receive a larger dividend when the company's earnings rise, but if earnings decrease, investors might not receive a dividend. Moreover, the residual dividend policy is that the company pays the remaining dividends after the company has paid for working capital and capital expenditures (Chen, 2020). Hence, this is an important requirement for a company to meet a stable dividend policy because most of the investors or shareholders are prefer a stable dividends. This situations meet the goal of dividend policy and align with long-term growth and become a trend for financial health of the company.

In relation to the Shariah screening methodology, the inclusion and exclusion of stocks from the Kuala Lumpur Shariah Index (KLSI) provide some good or bad information. All the information could therefore influence the expectations of investors and company's share price performance. Based on Fama (1970), security prices move quickly and fully to reflect the different types of the available information in the market whether the weak form (all past price information), semi-strong form (public and non-publicly available market data), or strong form (public and non-public, and all information). Thus, the share prices should reflect all the information associated with the Shariah-compliant certification when the stock market reacts effectively and investors behave rationally. This study investigated dividend per share stability for before and after revised screening methodology benchmarks and its effect on earnings per share in the robustness test section.

Firms may use dividend payout to signal the growth opportunity and increase firm's investment (Lee, Liang, Lin & Yang 2016). Liow (2010) found that the higher the earnings retention rate, the lower the dividend payout ratio and the higher the sustainable growth rate. In general, this needs firms to sustain their growth by implementing strategic planning through handling the constraints of policy and inherent limitations on dividend payout and leverage (Johnson and Soenen, 2003). Previous research has shown that higher debt to equity and profit margin ratio and lower dividend payout and assets to sales can increase SGR (Arellano and Higgins, 2007). Thus, research on the dividend per share and sustainable growth rate of Shariah-compliant companies should be studied in order to provide information on improving dividend payment strategies for sustainable growth in the future.

This research aims to analyse the determinants and stability of dividend payment on Malaysian Shariah-compliant. This research extends the framework proposed by Lintner (1956) and panel data on dynamic was used to study the dividend behaviour for Shariah-compliant firms in Malaysia over the period of 2007 to 2016. Therefore, the following three objectives of this research are: (1) to analyse the dividend per share stability, (2) to examine the determinants of dividend yield, and (3) to examine the effect of dividend per share on the sustainable growth rate of Shariah-compliant firms in Malaysia.

The next section of this research covers the literature review on dividend payment based on previous research followed by data and methodology. Then, discussions on research findings analysis are included in the later section. The final section presents the overall conclusion and recommendation of the research.

LITERATURE REVIEW

Several major theoretical perspectives have been used by previous studies to explain the dividend policy of firms. The major theories of dividends in the literature are the signalling theory, the clientele theory, the bird-in-hand theory, and the agency theory. According to the signalling theory, the dividend is used as an unparalleled mechanism of sending quality information to shareholders in a condition of asymmetric information (C. Arko, Abor, K.D. Adjasi, & Amidu, 2014). Ashraf and Zheng (2015), who reviewed the signalling theory based on previous researchers, mentioned that firms pay dividends to mitigate information asymmetry between shareholders and management by conveying private information about a firm's future earnings prospects. Dividends serve as a prospective signalling device because managers own asymmetric information about firms' future profitability (Al-Shattarat, Al-Shattarat, & Hamed, 2018). Thus, the relationship between dividend changes and future profitability turn into important issues in corporate finance.

The clientele theory of dividends contends that differentials in tax rates between dividends and capital gains lead to different clientele. Baker and Jabbouri (2016) stated that dividends and capital gains generally face different tax rates and that investors tend to select a firm based on their tax treatment and the firm's payout policy. Some scholars argue that the differentials in tax rates between dividend and capital gains lead to a preference for certain payout policies among certain classes of investor and create clientele for these payouts (Ozo, Arun, Kostov,

& Uzonwanne, 2015; Lintner, 1962). According to Al-Kayed (2017), the agency theory, which was introduced by Jensen (1986), indicates that the manager and shareholder conflicts lead to agency costs and a reduction in shareholder value. This theory focuses on agency conflicts between managers and shareholders, and, thus, dividend payments help reduce the agency costs associated with the separation of management and ownership (Ozo et al., 2015). Hence, the agency conflict between managers and shareholders may be responsible for the adoption of non-maximizing shareholders' wealth dividend policies (Zagonel, Terra, & Pasuch, 2018).

Factors presumed to be influencing dividend policy have been explored in several studies. Benavides et al. (2016) found, in an analysis of the target dividend policy, that the target dividend payout ratio is positively associated with country-level governance indicators. For high governance countries, the speed of adjustment on the dividend to changes in earning is low. Hence, a firm's dividend is smooth in countries that have a higher governance score. Based on the pecking order and trade-off theories, the dividend payout is positively associated with profitability, while past indebtedness is negatively associated with investment opportunities. Yusof and Ismail (2016) found that earnings, debt, size, investment and the largest shareholder have a significant impact on dividend policy, with a significant positive impact on earnings, firm size and investment, while debt and large shareholders have a significant negative impact of public listed companies in Malaysia.

Ahmed and Javid (2009) concluded that setting dividend payments depends on current earning per share and past dividend per share. They found that listed non-financial firms show instability in smoothing their dividend payments due to having low target payout ratio and high speed of adjustment. It has been shown that ownership concentration and market liquidity are positively associated with dividend pay-out policy, while the investment opportunities and leverage are negatively associated with dividend payout policy. Moreover, the size of the firm and market capitalisation have a negative impact on the policy of dividend payouts. Al-Najjar (2009) reported growth rate, institutional ownership, and firm size for developing countries. Al-Najjar concluded that Jordanian firms have their dividend policy influenced by many factors that are similar to the developed countries. The factors influencing dividend policy include profitability, leverage, asset structure, a target payout ratio, and being rapidly adjusted to the target payout compared with other developed countries. The results also have shown that the Lintner model is suitable for Jordanian firm's data analysis. Other researchers also obtained the same results that Jordanian firms have a target dividend payout ratio and rate of adjustment (Zurigat, 2011). Demirgüneş (2015) found that growth, profitability and corporate taxation had a negative impact on the target dividend payout ratio, while market expectations and risks had a significant positive impact on the long run target dividend payout ratio. For the short run analysis, only profitability has a significant positive effect on the target dividend payout ratio. Furthermore, the rate of adjustment is not only asymmetric for below and above the target dividend adjustment but dividend adjustment is also asymmetric for positive and negative earnings.

In addition, the distribution of cash through dividends could have a positive effect on the value of companies, as it can reduce over-investment (Mat Nor et al., 2018). An increase in the retention ratio increases the growth of capital and implicitly the SGR (Hartono and Utami, 2016; Radasanu, 2015). SGR is the maximum growth rate a firm can achieve without increasing the company's financial leverage (Higgins, 1977). Besides, Chen, Gupta, Lee and Lee (2013) specified that the covariance between profitability and growth rate and mean-reverting process of the growth rate is very important in determining dividend payouts. Eldomiaty et al. (2017) found that growth of sales is significantly affected by previous dividend payout ratio. Firms have a target dividend payout ratio, which is influenced by growth of sales. Firms may use dividend payout to signal the growth opportunity and increase firm's investment (Lee et al., 2016). Liow (2010) found that the higher the earnings retention rate, the lower the dividend payout ratio and the higher the SGR. By reducing payment to zero, more growth can be supported, though less than when new debt can be raised (Platt, Platt, and Chen, 1995). Moreover, (Blau and Fuller, 2008; Fama & French, 2001; Rozeff, 1982) argued that higher firm's growth has higher investment opportunities and is likely to pay out a smaller amount in dividends. They expected high growth firms to pay higher dividends when the risk factor is not clearly considered.

Shariah screening methodology has been introduced by Securities Commission Malaysia (SC) to be listed as Shariah securities in 1997. The list of Shariah-compliant firms is updated twice a year in May and November. In 2013, the screening methodology was revised and improved by the Securities Commission Malaysia (SC). The revised screening methodology is used for operating, financing and investing activities of listed firms' business operations. After the revised screening methodology, the number of Shariah-compliant firms is only 653 out of 914 (which is 71.4 percent) from the total listed securities on Bursa Malaysia. This reduction of Shariah-compliant firms is because of two aspects; firstly, companies with mixed activities which were previously assessed under the 5, 10, 20, and the 25 percent benchmarks, but currently firm activities are assessed under the 5 and 20 percent benchmarks. Secondly, companies with a high level of conventional debt that had not previously been screened on the basis of the company's total conventional debt (Muhammad, 2015). For the financial ratio screening benchmarks, the screening is based on two ratios such as cash over total assets and debt over total assets. This financial ratio must be not more than 33 percent to be listed under Shariah-compliant firm. Conventional debt or financial ratio and dividend policy are dependent and interconnected with each other. Farooq and Tbeur (2013) specified that Shariah-compliant firms have larger payout ratios and pay a larger amount of dividends than non

Shariah-compliant firms due to the firm's financial characteristics. Hence, the determinants and dividend stability of Shariah-compliant firms can make a company manage the operating and financial policy, and sustain the firm's growth.

METHODOLOGY

A partial adjustment model based on Lintner (1956) was used to examine the existence of the target dividend payout ratio or stability of dividend payment for Shariah-compliant firms. Based on Lintner, each firm (*i*) has a target dividend payout ratio (r_i) and the following model was used as the flows model:

$$D_{i,t}^* = r_i E_{i,t} (E_{i,t}) \quad (1)$$

Where $D_{i,t}^*$ is the target payout ratio is calculated the target dividend at time t and $E_{i,t}$ is a percentage of the net earnings of the firms i at time t . In fact, the dividend payment of firms pays lastly at time t ($D_{i,t}$) is dissimilar from the target dividend payout ($D_{i,t}^*$). Hence, this is the reason of changing the model between the real dividends at time $t-1$ rather than using real dividend at time t only. Using the change in real dividend into explanation that can be more correct and reliable with the long-run target payout ratio, the study assumes that the real dividend at time t ($D_{i,t} - D_{i,t-1}$) is same and equals to the constant portion ($\alpha_{i,t}$) including the speed of adjustment to the target dividend at time t ($D_{i,t}^* - D_{i,t-1}$). As the target dividend at time t , is a proportion of the net earnings at time t , therefore, the last model given as below:

$$D_{i,t} - D_{i,t-1} = \alpha_{i,t} + c_i r_i E_{i,t} - c_i D_{i,t-1} \quad (2)$$

Where $D_{i,t}$ is the actual dividend paid by the firms during period t ; $E_{i,t}$ is the net earnings of the firms during the period t ; c_i is the adjustment factor which shows the speed of adjustment of dividend at the time $t-1$ to the optimum target payout ratio of dividends at time t and r_i is the target dividend payout. Therefore, the theoretical model was assessed using an econometric model as below:

$$\Delta D_{i,t} = \alpha_{i,t} + \beta_1 E_{i,t} + \beta_2 D_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

Where $\Delta D_{i,t}$ is the change in dividend from time $t-1$ for the firm i ; β_1 is the c_i (refer $c_i r_i E_{i,t}$ in equation 2) and β_2 represents the c_i (refer $c_i D_{i,t-1}$ in equation 2) in the theoretical model and $\varepsilon_{i,t}$ is the error term.

By referring to (Ahmed & Javid, 2008; Naceur, Goaid & Belanes, 2006), Lintner used dividend per share and earnings per share to test the model and the study estimated the model by using the dependent variable as $DPS_{i,t}$ the dividend per share of firm i at time t and $EPS_{i,t}$ is earnings per share for firm i at time t as explanatory variables. Thus, the model becomes as follow:

$$DPS_{i,t}^* = \delta \alpha + (1 - \delta) DPS_{i,t-1} + \delta \beta_1 EPS_{i,t} + \lambda_i + \eta_t + \varepsilon_{i,t} \quad (4)$$

The study also assesses the Lintner's extended type of dividend model by testing the determinants that affect the dividend policy based on Ahmed and Javid (2009) to assess the determinants of dividend policy by using the following model:

$$DY_{i,t} = \beta_0 + \beta_1 DY_{i,t-1} + \beta_2 EPS_{i,t} + \beta_3 MV_{i,t} + \beta_4 LIQ_{i,t} + \beta_5 INV_{i,t} + \beta_6 SIZE_{i,t} + \beta_7 SG_{i,t} + \beta_8 LEV_{i,t} + \beta_9 GO_{i,t} + \varepsilon_{i,t} \quad (5)$$

Where $DY_{i,t}$ is the dividend yield of firm i at time t by calculating dividend per share dividend by price per share; $EPS_{i,t}$ represents earning per share of firm i at time t ; $MV_{i,t}$ is the market capitalization of firm i at time t ; $LIQ_{i,t}$ is the liquidity calculated as current assets to current liabilities; $INV_{i,t}$ is investment opportunities calculated as accumulated retained earnings divided by total assets of the firm; $SIZE_{i,t}$ represents natural logarithm of total assets; $SG_{i,t}$ is the sales growth of firm i at time t ; $LEV_{i,t}$ is the leverage calculated as total debt to total assets and $GO_{i,t}$ represents as market to book value of equity.

This study could not use the payout ratio as a measurement of the dependent variable due to the sample of analysis that comprised firms with negative earnings. The dividend yield was used rather than the payout ratio to avoid the problem of negative dividend payout resulting from negative earnings.

In the empirical literature, the dividend policy can affect the Higgins sustainable growth rate of the firm where changes in the payout ratio will have effects on sustainable growth rate. Thus, the association between dividend per share and sustainable growth of firms either positive or negative was tested with the following model:

$$SGR_{i,t} = \alpha_{i,t} + \beta_1 DPS_{i,t} * + \varepsilon_{i,t} \quad (6)$$

The sustainable growth rate (SGR) was used as a dependent variable to calculate the return on equity multiply retention rate (where 1 minus with the dividend payout ratio), with dividend per share as an explanatory variable.

The data set used in this research was collected from Thomson Reuters Database. The sample consisted of 191 Shariah-compliant firms from all sectors, except for the Bursa Malaysia of financial sector (Refer Table 2). From the total of 1087 Shariah-compliant firms from 2007 to 2016, only 191 (included financial sector) Shariah-compliant firms were maintained from 2007 to 2016. Therefore, after the arrangement, only 191 firms were included as the study required full data and managed to obtain complete data (See Table 1).

TABLE 1. Structure of the panel data

No.	Industry	No. of Shariah-compliant firms*	No. of observation
1.	Industrial Products	58	580
2.	Trading Services	35	350
3.	Consumer Products	34	340
4.	Construction	19	190
5.	Plantation	18	180
6.	Properties	17	170
7.	Technology	7	70
8.	Infrastructure	3	30
	Total	191	1910

Note: *Maintain records as Shariah-compliant firms for the 10 years from 2007 until 2016.

Table 2 summarises descriptive statistics such as mean and standard deviation. From the results, average for dividend per share of overall data is 6.95 percent. The average dividend per share for before the revised screening methodology is 6.60 percent and 7.79 percent after revision. This means that the dividend payment after revision is greater than before revision. This is similar with dividend yield found at 3.02 percent for overall where after revision, which is higher than before revision (3.60 percent for after and 2.76% for before revision).

In addition, as these figures are also influenced by the firm's leverage, profitability, liquidity, the firm's sales growth, investment opportunity, and the firm's size. We discovered that earnings per share, market capitalization, liquidity, investment opportunity, market value to book value and firm's size for after revision are lower than before revision. The overall sales growth is 14.06 percent, while before revision is 12.78 percent, and after revision is 17.04 percent. These indicate that the firm's sales growth after the revision of screening methodology is higher than before revision. Other than that, the leverage for after revision is higher than before revision, where the debt is the combination of Islamic debt and conventional debt.

RESULTS

This section reports the results of estimations in two categories, firstly, the research shows the stability of dividend per share of Malaysian Shariah-compliant firms. Secondly, the research shows the analysis of the determinants of dividend yield of Shariah-compliant firms in Malaysia and lastly, the analysis discusses on the association between dividend per share and sustainable growth.

TABLE 2. Descriptive statistics by overall, before revised and after revised of screening criteria of Malaysian Shariah-complaint firms

Types	Overall		Before Revised		After Revised	
	Mean	Standard	Mean	Standard	Mean	Standard
DPS	0.0695	0.1759	0.0660	0.1592	0.0779	0.2095
DY	0.0302	0.0298	0.0276	0.0268	0.0360	0.0350
EPS	0.1515	0.3216	0.1516	0.3280	0.1510	0.3066
MV	2.3476	1.0582	2.6302	0.7492	1.6883	1.3434
LIQ	2.6537	3.4735	2.6971	3.8046	2.5526	2.5383
INV	0.2132	0.2836	0.2252	0.2802	0.1854	0.2894
SIZE	8.7864	0.8041	8.8201	0.8261	8.7078	0.7450
SG	0.14061	0.5961	0.1278	0.5255	0.1704	0.7346
LEV	0.3979	0.1917	0.3930	0.1897	0.4095	0.1959
MBV	1.3929	5.0920	1.5287	6.0063	1.0757	1.4588

Notes: DPS is the dividend per share. DY is dividend yield by calculating dividend per share to price per share. EPS is earning per share. MV is natural log market capitalization. LIQ is firm's liquidity by calculating current assets to current liabilities. INV is investment opportunity. SIZE is natural log of total assets. SG is firm's sales growth by calculating current sales minus previous sales divided by previous sales. LEV is total debt to total assets. MBV is market value to book value.

THE STABILITY OF DIVIDEND PER SHARE

This research reveals the results of stability of dividend per share of Malaysian Shariah-compliant firms (see Table 3). The Breusch and Pagan Lagrangian test indicates that the pooled OLS model is more suitable than the random effect model (REM). However, the Hausman test also should be tested to identify if fixed effect model (FEM) or REM is more suitable to use. Then, the modified Wald test is employed to detect the heteroscedasticity in the residuals of a fixed effect in the regression model. The Sargan test confirms that GMM estimations for the sample of Malaysian Shariah-compliant firms are valid and effective.

The results further show that the coefficient on lagged dividends (α) in the GMM estimation of 0.849 is almost close to pooled OLS levels (0.878). Then, the speed of adjustment ($1-\alpha$) is around 33.3 percent to 12.2 percent. This suggests that there are some techniques of estimation result that may be not accurate due to the concern of biases on unobserved of firm-specific effect on dividend behaviour. The coefficients on dividends reveal that pooled OLS estimation decreased from 0.878 to 0.667 within the fixed effects estimation, suggesting that the extensive firm-specific effect in dividend behaviour for Malaysian Shariah-compliant firms. In addition, the Hausman test also confirms that the fixed effect model is accurate in focusing on a specific set of firms as the p-value is less than 5 percent. Moreover, the dividend payment also depends on previous earnings.

For earnings per share, the results shows that there is a positively significant influence between earnings per share and lagged dividend payment for the overall sample. This result is according to (Lintner, 1956; Yusof & Ismail, 2016; Neves, 2018) suggesting the rise in company profits results in the payment of larger dividend to shareholders, consistent with the signalling theory (Yusof and Ismail, 2016). Moreover, C. Arko et al. (2014) indicated that companies with higher earnings volatility are less capable of sustaining a high dividend level due to the avoidance of committing companies to such dividend levels. Therefore, earnings per share is an important factor affecting the payment of dividends because an increase in the earnings of the company encourages a dividend increase.

A further robust alternative estimation is the target payout ratio ($\beta/1-\alpha$) indicating the percentage of a firm's earnings, which the firms want to pay a dividend to shareholders as dividends over the long-term. The results of the target payout ratio of GMM estimations are 21.99 percent and pooled OLS estimation is 25.66 percent, where the difference is only 3.67 percent. The observed payout ratio that is 2.58 percent lower than target payout ratio expresses that Malaysian Shariah-compliant firms are estimated to be on a long-term target dividend payout to stable their dividend policy. This means that the results accepted the hypothesis based on the estimation of the Lintner model used to test the stability or smoothness in paying a dividend for Malaysian Shariah-compliant firms since the dividend decisions refer to long-term target payout ratios. Besides, high payout ratio and low adjustment indicate that Malaysian Shariah-compliant firms do not often change their dividend, even though the change in earnings and dividend is stable and smooth.

TABLE 3. Dividend per share stability models (overall sample)

Variables	Pooled	REM	FEM	GMM
DPS _{it-1}	0.878*** (0.0069)	0.878*** (0.0069)	0.667*** (0.0188)	0.849*** (0.0258)
EPS _{it}	0.0313***	0.0313***	0.0353***	0.0332***

Constant	(0.0039) 0.00166 (0.0011)	(0.0039) 0.00166 (0.0011)	(0.0045) 0.0159*** (0.0017)	(0.0058) 0.00345 (0.0021)
Adjusted R ²	0.946			
BP test (<i>p-value</i>)	1.000			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0000
The speed of adjustment (1- α)	12.2%	12.2%	33.3%	15.1%
The target payout ratio ($\beta/(1-\alpha)$)	25.66%	25.66%	10.60%	21.99%
Number of company	191	191	191	191
Observations	1,719	1,719	1,719	1,528

Notes: The results of dividend stability model based on Litner (1956) estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are p-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

THE DETERMINANTS OF DIVIDEND YIELD

The analysis discusses on the determinants of dividend yield for Malaysian Shariah-compliant firms (see Table 4). The Hausman test confirms the existence of firm-specific effect on the estimation of the statistics. Pooled OLS and REM results found that the coefficients associated with the lagged dividend yield, market capitalization, investment opportunity, and sales growth are significant. Furthermore, fixed effect results showed that dividend yield is associated with lagged dividend yield, earnings per share, liquidity, company size and market value to book value. However, GMM estimations reveal that lagged dividend yield, firm's size, sales growth, firm's leverage and market value to book value have a significant effect on dividend yield. The results between pooled OLS, REM, FEM and GMM are different due to the existence of biases on firm-specific effect, and therefore lead to inconsistency estimation in using the pooled OLS, REM and FEM. Thus, in this research the results of the determinants of a dividend yield were analysed by focusing on GMM estimations, in which GMM estimations pass their Sargan's test (which the p-value is less than 5 percent).

This analysis also found that the lagged dividend yield affects dividend payment. The results provide evidence that the payment of dividend from the previous year affected the current payment. The positive relation indicates that high paying dividend last year will pay a larger amount of dividend in the current year. Furthermore, the results reveal that the size of the company has a positive effect on dividend yield. This indicates that larger companies tend to pay a higher dividend and the results are consistent with the theory of pecking order. The dividend payment will depend on the size of firm, where large firms pay higher payout while small firms will pay lower amount of dividend payout. This result is consistent with Ahmed and Javid (2009) indicating that the size of the company has a negative impact on the payout of dividend.

We also found that the sales growth has a negative effect on the dividend yield. This result confirms that Malaysian Shariah-compliant firms are concerned on previous sales growth, where the growing firms have a tendency to give out low payout and vice versa. This result is confirmed by Amidu (2006) stating that growing firms need to have larger funds to finance the firm's growth and at the same time maintain a larger proportion of earnings by paying a lower dividend. Other than that, leverage is negatively affected on dividend yield. Typically, larger leverage is likely to result in lower dividend payment. Firm's leverage might affect the firm's capability to pay a dividend due to firms whose financial activities are based on borrowing and commitment to pay the principal amount of borrowed money and interest. Failing to pay the debt can cause the firm to face bankruptcy and risk of liquidation (Al-Ajmi & Abo Hussain, 2011). Finally, the results indicate that the market value to book value is negatively correlated with dividend yield. In fact, Amidu (2006) revealed that firms with larger amount of market value to book value tend to have a good investment opportunity. Therefore, firm will keep more funds and facilitate to have lower dividend payment.

TABLE 4. The determinants of dividend yield (overall sample)

Variables	Pooled	REM	FEM	GMM
DY _{it-1}	0.620*** (0.0202)	0.620*** (0.0202)	0.210*** (0.0273)	0.157*** (0.0473)
EPS	0.00192 (0.0019)	0.00192 (0.0019)	0.00745*** (0.0024)	0.00408 (0.0028)

MV	0.00145** (0.0006)	0.00145** (0.0006)	-0.000699 (0.0006)	0.000778 (0.0006)
LIQ	0.000216 (0.0002)	0.000216 (0.0002)	0.000462* (0.0002)	-0.000166 (0.0004)
INV	0.0104*** (0.0024)	0.0104*** (0.0024)	0.00360 (0.0039)	0.00504 (0.0057)
SIZE	0.00101 (0.0008)	0.00101 (0.0008)	0.00303*** (0.0010)	0.00394*** (0.0012)
SG	-0.00313*** (0.0010)	-0.00313*** (0.0010)	-0.00365*** (0.0009)	-0.00458*** (0.0010)
LEV	-0.00607 (0.0037)	-0.00607 (0.0037)	-0.00665 (0.0062)	-0.0180* (0.0098)
MBV	-2.76e-05 (0.0001)	-2.76e-05 (0.0001)	-0.000268* (0.0001)	-0.000358* (0.0002)
Constant	-2.32e-05 (0.0064)	-2.32e-05 (0.0064)	8.79e-05 (0.0081)	-0.00310 (0.0097)
Adjusted R ²	0.4187			
BP test (<i>p-value</i>)	1.0000			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0043
Number of company	191	191	191	191
Observations	1,719	1,719	1,719	1,528

Notes: The results of determinants of dividend yield estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are *p*-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

ROBUSTNESS CHECKS

Our models in this study were re-estimated before and after revising the screening methodology. This research reveals the results of regression estimation on the determinants and stability of dividend payment for the before revising the screening methodology (years 2007-2013) (see Tables 5 and 6). The results confirm that dividend per share depends on the previous earnings. However, the target payout ratio becomes lower while the speed of adjustment becomes higher before revising the screening methodology. This leads to a concern to the determinants of dividend yield, lagged dividend yield, firm's size and sales growth being similar with the all samples presented in Table 4. In addition, earnings per share has a positive influence on dividend per share and indicates that higher earnings tend to pay a higher dividend and vice versa. The results also found that there is a negative impact between market capitalisation and dividend yield.

Another robustness test consists of after revising the screening methodology (years 2014 – 2016) for dynamic and determinants of dividend yield for Malaysian Shariah-compliant firms (see Tables 7 and 8). The results indicate that earnings per share has a significantly positive effect on the dividend per share. The target payout ratio after revising the screening methodology is higher than before revision and also all samples. However, the speed of adjustment for after revising the screening methodology is lower than before revision. This reveals that the firms after revising screening have slightly stabilized their dividends. With regards to its determinants, the results are slightly similar with the overall sample, where market capitalisation, investment opportunities, firm's size and market value to book value are significant effect to the dividend yield. However, lagged dividend payment is not associated with the dividend yield. Thus, the results indicate that the speed of adjustment for after revising the screening methodology is lower than before revision, and there is slight stability in their dividends after revision.

TABLE 5. Dividend Stability Models (before revised: years 2007 to 2013)

Variables	Pooled	REM	FEM	GMM
DPS _{it-1}	0.851*** (0.0089)	0.851*** (0.0089)	0.528*** (0.0276)	0.730*** (0.0376)
EPS _{it}	0.0302*** (0.0044)	0.0302*** (0.0044)	0.0322*** (0.0052)	0.0274*** (0.0062)
Constant	0.00326**	0.00326**	0.0246***	0.0118***

	(0.0014)	(0.0014)	(0.0023)	(0.0029)
Adjusted R ²	0.927			
VIF	1.45			
BP test (<i>p-value</i>)	1.0000			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0000
The speed of adjustment (1- α)	14.9%	14.9%	47.2%	27%
The target payout ratio ($\beta/(1-\alpha)$)	20.3%	20.3%	6.82%	10.15%
Number of company	191	191	191	191
Observations	1,146	1,146	1,146	955

Notes: The results of dividend stability model based on Litner (1956) estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are p-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

TABLE 6. The determinants of dividend yield (before revised: years 2007 to 2013)

Variables	Pooled	REM	FEM	GMM
DY _{it-1}	0.700*** (0.0247)	0.700*** (0.0247)	0.164*** (0.0359)	0.266*** (0.0827)
EPS	0.00299 (0.0025)	0.00299 (0.0025)	0.0243*** (0.0052)	0.0213*** (0.0066)
MV	-0.00117 (0.0011)	-0.00117 (0.0011)	-0.0208*** (0.0045)	-0.0205*** (0.0059)
LIQ	7.95e-05 (0.0002)	7.95e-05 (0.0002)	0.000131 (0.0003)	-0.000368 (0.00041)
INV	0.00958*** (0.0026)	0.00958*** (0.0026)	0.00792 (0.0051)	0.00972 (0.0070)
SIZE	0.00114 (0.0009)	0.00114 (0.0009)	0.00211** (0.0010)	0.00330*** (0.0012)
SG	-0.00248** (0.0011)	-0.00248** (0.0011)	-0.00593*** (0.0011)	-0.00635*** (0.0013)
LEV	-0.00363 (0.0039)	-0.00363 (0.0039)	-0.00722 (0.0071)	-0.0163 (0.0104)
MBV	5.42e-05 (0.0001)	5.42e-05 (0.0001)	-0.000404*** (0.0002)	-0.000258 (0.0002)
Constant	0.00111 (0.0066)	0.00111 (0.0066)	0.0583*** (0.0142)	0.0489*** (0.0182)
Adjusted R ²	0.475			
BP test (<i>p-value</i>)	1.0000			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0000
Number of company	1,146	1,146	1,146	955
Observations	191	191	191	191

Notes: The results of determinants of dividend yield estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are p-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

TABLE 7. Dividend Stability Models (after revised: years 2014 to 2016)

Variables	Pooled	REM	FEM	GMM
DPS _{it-1}	0.878*** (0.0146)	0.854*** (0.0169)	0.142** (0.0667)	0.871*** (0.0389)
EPS _{it}	0.0480*** (0.0108)	0.0636*** (0.0121)	0.105*** (0.0189)	0.0528** (0.0214)

Constant	0.000604 (0.0021)	0.000173 (0.0026)	0.0497*** (0.0057)	0.000450 (0.0021)
Adjusted R ²	0.969			
BP test (<i>p-value</i>)	0.0109			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0000
The speed of adjustment (1- α)	12.2%	14.6%	85.8%	12.9%
The target payout ratio ($\beta/(1-\alpha)$)	39.34%	43.56%	12.24%	40.93%
Number of company	191	191	191	191
Observations	382	382	382	382

Notes: The results of dividend stability model based on Litner (1956) estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are p-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

TABLE 8. The determinants of dividend yield (after revised: years 2014 to 2016)

Variables	Pooled	REM	FEM	GMM
DY _{it-1}	0.413*** (0.0480)	0.401*** (0.0483)	-0.703*** (0.0644)	0.340*** (0.369)
EPS	0.00565 (0.0084)	0.00597 (0.0085)	0.0272* (0.0162)	0.00758 (0.0108)
MV	0.00430*** (0.0014)	0.00427*** (0.0014)	0.000452 (0.0012)	0.00410*** (0.0012)
LIQ	0.000875 (0.0008)	0.000897 (0.0008)	0.00180 (0.0013)	0.00100 (0.0008)
INV	0.0162** (0.0068)	0.0165** (0.0069)	0.0388* (0.0229)	0.0183* (0.0103)
SIZE	0.00386* (0.0023)	0.00386* (0.0023)	0.00553* (0.0030)	0.00387*** (0.0003)
SG	-0.00255 (0.0033)	-0.00250 (0.0033)	-0.00165 (0.0033)	-0.00226 (0.0027)
LEV	-0.0116 (0.0112)	-0.0115 (0.0113)	0.00524 (0.0345)	-0.0114 (0.0117)
MBV	-0.00102 (0.0013)	-0.00104 (0.0013)	1.76e-06 (0.0021)	-0.00114** (0.0006)
Constant	-0.0174 (0.0181)	-0.0170 (0.0182)	-0.00235 (0.0223)	-0.0154 (0.0146)
Adjusted R ²	0.2756			
BP test (<i>p-value</i>)	1.52			
Hausman Test (<i>p-value</i>)	0.0006			
Modified Wald Test (<i>p-value</i>)		0.0000		
Sargan's test (<i>p-value</i>)			0.0000	0.0000
Number of company				
Observations	382	382	382	382
DY _{it-1}	191	191	191	191

Notes: The results of determinants of dividend yield estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are p-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

DIVIDEND PER SHARE AND SUSTAINABLE GROWTH RATE

This research reveals the results of the relationship between dividend per share and sustainable growth rate performance of Malaysian Shariah-compliant firms (see Table 9). The results based on GMM estimations are analysed. The results indicate that dividend per share has significantly positive effect to sustainable growth rate. Moreover, past sustainable growth gives a negative effect to the current sustainable growth rate. Other than that,

the results also confirm that the higher payment of dividend tends to have higher sustainable growth. Other previous studies by (Blau & Fuller, 2008; Fama & French, 2001; Rozeff, 1982) claimed that higher growth rate of firms leads to paying less dividends and having higher investment opportunities. In contrast, they previously predicted a higher growth rate of firms willing to pay higher dividends but the result was obtained when the risk factor was not clearly considered.

TABLE 9. Relation between dividend per share and sustainable growth

Variables	Pooled	REM	FEM	GMM
SGR _{it-1}	-0.0675*** (0.0241)	-0.0675*** (0.0241)	-0.160*** (0.0256)	-0.352*** (0.0260)
DPS	0.00682 (0.0427)	0.00682 (0.0427)	0.0113 (0.142)	0.662*** (0.237)
Constant	0.0489*** (0.0079)	0.0489*** (0.0079)	0.0524*** (0.0123)	0.0158 (0.0177)
Adjusted R ²	0.0034			
BP test (<i>p-value</i>)	1.0000			
Hausman Test (<i>p-value</i>)		0.0000		
Modified Wald Test (<i>p-value</i>)			0.0000	
Sargan's test (<i>p-value</i>)				0.0000
Observations	1,719	1,719	1,719	1,528
Number of company		191	191	191

Notes: The results of the relationship between dividend yield and sustainable growth rate estimating by using GMM, pooled effect model (POOL), fixed effect model (FEM) and random effect model (REM). Standard errors in parentheses except for Breusch and Pagan Lagrangian (BP) and Hausman tests, which are *p*-values. Then, ***, **, and * signify to the significant at 1%, 5% and 10% levels, respectively.

MANAGERIAL IMPLICATION

The findings of this research are essential to the company's management team in deciding a suitable dividend policy for the company. The management team of companies can decide an appropriate dividend policy for the company to maintain a stable dividend payment and sustain a company's growth rate. The results also beneficial to investors in choosing the right investment in making decisions. Hence, the clientele effect and the information content in dividend announcement on stable dividend might give correct signal to investors because stable dividend policy means that a company regularly pay cash dividend and have a steady grow.

In addition, the revised screening methodology in 2013 added new screening on the financial ratio benchmark, which led the management to find a way in maintaining their reputation under Shariah-compliant and sustaining the firm's growth. Moreover, the contributions of this topic from previous papers are quite limited to the literature review on the determinants and stability of the payment of dividends especially for Malaysian Shariah-compliant firms. Thus, these can provide useful information to academic researchers in understanding the dividend policy behaviour in Malaysia, particularly on Malaysian public-listed Shariah-compliant firms. Hence, a clear explanation of the determinants and stability of dividend payment is expected to encourage the future analysis or further analysis of this field.

CONCLUSION AND DISCUSSION

The objective of this research is to analyse the determinants and stability of dividend payment of Malaysian Shariah-compliant. We mainly focused on almost exclusively on all sectors listed under Bursa Malaysia, except the financial sector due to the exclusion of the financial statement. Moreover, all the firms were maintained as a Shariah-compliant firm for 10 years from 2006 to 2017. This research extends the framework proposed by Lintner (1956) using panel data on dynamic to study the dividend behaviour for Shariah-compliant firms in Malaysia over the period of 2007 to 2016. Therefore, there are three objectives of this research: (1) to analyse the dividend per share stability, (2) to examine the determinants of dividend yield, and (3) to examine the effect of dividend per share on sustainable growth rate of Shariah-compliant firms in Malaysia.

Static model and dynamic model estimated using Generalised Method of Moment (GMM) were used in this study. Pooled OLS, REM, FEM and GMM found different results due to the existence of biases on firm-specific effect resulting in inconsistency estimation in using the proposed models. Thus in this research, the results of the determinants of a dividend yield were analysed by concentrating on GMM estimations. The results indicate that the stable earnings per share can afford the firms to pay larger dividend. In addition, the higher dividend from the

previous year with the lower speed adjustment indicates that there is high smoothness and stability of dividend payment.

The results on determinants of dividend yield found that lagged dividend yield, firm size, market value to book value, sales growth, and leverage are associated significantly with dividend yield. The results indicate that the speed of adjustment for after revising the screening methodology is lower than before revision. This reveals that the firms of after revision have slightly stabilised their dividends in terms of its determinants, the results are slightly similar with the overall sample where market capitalisation, investment opportunities, market value to book value and firm size are significantly associated with dividend yield. Furthermore, the results found that dividend per share has a significantly positive effect to the sustainable growth rate. Past sustainable growth gives a negative effect to the current sustainable growth rate.

These findings provide evidence of the determinants and stability of dividend payment in the context of Shariah-compliant companies in Malaysia. The findings of this research beneficial to investors in choosing the right investment in making decisions. The shariah-compliant companies can maintaining their dividend payments for financial health to sustaining company's growth rate. This result also provides the understanding of dividend policy behaviour in Malaysia, particularly on Malaysian public-listed Shariah-compliant firms.

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