Global Journal of Arts Humanity and Social Sciences ISSN: 2583-2034

GSAR PUBLISHERS
GLOBAL SCIENTIFIC AND ACADEMIC RESEARCH

Glob. J.Arts.Humanit.Soc.Sci
ISSN: 2583-2034
Vol-2 Iss-9, page 621-626

Moderating role of ownership concentration on top management attributes and dividend policy

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Article History
Received: 28/08/2022
Accepted: 08/09/2022
Published: 10/09/2022

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Abstract

Top management attributes play a very important role in shaping corporate financial policies. Numerous corporate finance literature works have endorsed the impact of top management in making firms' financial decisions. Considering their importance in the corporate world, the current study intends to comprehensively determine whether top management characteristics affect financial policy. Finally, the study examines the moderating effect of ownership concentration on financial policy. Also, agency issues may occur as a result of a dispute among majority and minority shareholders when there is a significant level of concentrated ownership. Resolving these issues can boost a company's efficiency and assist in maximising its worth. Thus, ownership concentration also has a significant impact on financial policy decisions. The study focuses on corporate financial policies, specifically dividend policies .This study will therefore aim to accomplish the proposed research gap.

Keywords: Ownership Concentration, top management attribute, and dividend policy

Introduction

Dividend Policy

Among the most essential topics in accounting is the dividend policy. For centuries, financial researchers have concentrated intensively on the subject of dividend policy. Numerous topics concerning ideas and dividend trends regarding corporate conduct have been studied. Panigrahi & Zainuddin (2015) described dividend policy as the process of making dividend distribution choices by the firm's management. Dividend policies of corporations have been a contentious subject in the field of corporate financial theory. Dividends are distributed to minority shareholders due to their demands to distribute income in the form of dividends. The intensive research on the dividend problem has discovered that while the company's investment strategy is stable, dividend policy has no influence on shareholder returns. Nevertheless, why firms pay dividends when they face progressive taxation has long been a source of contention among researchers and academics.

Murtaza et al. (2018) believed that a company's dividend policy is important to several entities, including management, shareholders, creditors, and other partners. Dividends allow shareholders to assess a firm by providing them with money when it is declared, whether immediately or later. Managers must also consider dividend policy. Based on the scenario, they must determine whether to utilise a controlled or deferred dividend strategy. For creditors, the less a company declares dividends, the more funds are available for their obligations. Various ideas and factual interpretations have been proposed regarding dividend policy. Several macroeconomic scholars contend that dividend policy has no effect on share prices, and promotes the notion that dividends are meaningless. Another set of experts contends that increasing dividend distribution boosts a firm's worth because dividends tell shareholders about the business's opportunity for advancement.

The dividend policy of the firm is one of the most important decisions taken by the organisation's policy-makers (Booth & Zhou, 2017). Substantial dividend policy studies have been driven by previous research describing why firms pay dividends. Dividend policy, as per Rochmah & Ardianto (2020), is a choice to determine the amount of profit to be given to investors and the percentage to be held as the firm's cash flows. The quantity of dividends issued by firms is determined by their dividend policy. As a result of the firm's interest disparities, the dividend policy necessitates managerial attention.

Top management attributes

Globally various laws and regulation to in advocate for increase of women on board. According to women in the boardroom a global perspective report by Deloitte (2022) average women on board is slightly below 20% while female chairing the board stands at an average rate of 6.7% globally. Some countries like Qatar, Saudi Arabia, Pakistan Morocco, and Egypt do not have a single woman as chair of the board. Previous studies on board diversity were from perspective of firm performance (Gul et al., 2016), and from the perspective of creditors or lenders, such as risk-taking (Faccio et al., 2016).

There is a wealth of empirical studies on the factors that influence business finance and investment selections. Aside from company-specific, industry-specific, and time-specific aspects, studies also consider executives' and managers' roles in financial decision-making. According to Heizer and Rettig (2020), the estimated coefficients of individual top executives are essential in economic, strategic, and organisational design. Apart from this, numerous empirical research examines the CEO's impact on financial policies in more depth. Cronqvist, Makhija & Yonker (2012) discovered a favourable relationship between CEO individual influence and corporate influence. Furthermore, Yim (2013), Graham et al. (2013), Cust'odio & Metzger (2013), and Jenter & Lewellen (2015) found that CEO appetite for risk, maturity, job characteristics, and expertise all impact the occurrence and results of mergers and acquisitions. The reality of a major CEO's influence on corporate conduct, on the other hand, is debatable. Fee, Hadlock, and Pierce (2013) find little evidence of alterations in business policy following external CEO exits. Frank and Goyal (2007) likewise struggled to uncover a major effect of CEO qualities on business leverage and propose that CEOs function as a substitute for the overall administration team at best.

A growing volume of research in finance literature concentrates on executives' personality qualities and their influence on financial choices. The framework shows that executives with development and/or risk assessment impairments prefer greater debt levels and extend new loans more frequently than otherwise equivalent impartial executives.

Ownership concentration

Corporate governance is an important part of the financial industry. The most substantial proportion of majority shareholders is described as ownership concentration (Murtaza & Azam, 2019). It was seen as an important indication of corporate governance procedures for reducing agency concerns. It is engaged with agency relationship, which addresses potential conflicts amongst management and investors and can govern and supervise the workforce (Balsmeier & Czarnitzki, 2017; Nguyen et al., 2015), and also increase organizational effectiveness and profitability. Research by (Filatotchev et al., 2013) institutionalised the usage of corporate governance methods across several geographies. The relationship between ownership concentration and firm financial performance is shown to be inconsistent. (Ciftci et al., 2019) examine the relationship between corporate governance and business performance in Turkey. This indicated that households hold ownership concentration and maintain superior performance. Similarly, Saini and Singhania (2018) found a favourable link between ownership concentration and business performance in their research of Indian enterprises. These objectives can help with team surveillance. (Young et al., 2008) found a negative relationship between ownership concentration and effectiveness, whereas (Tuschke & Gerard Sanders, 2003) found a curvilinear relationship.

The ownership structure, which is an essential driver in the dividend judgment call procedure, is characterised not only by the allocation of equity in terms of votes and funds but also by the identification of the equity shareholders (Sindhu et al., 2016). The importance of the ownership model in corporate governance is well acknowledged. The link between ownership structure and economic efficiency has sparked considerable attention in the literature on strategy implementation. Because it has been widely claimed that business income is positively connected to the ownership model. Extending the argument, additional researchers have explored and usually supported the agency theory assumptions that separation of ownership and management offers management incentives to diversify due to the individual gains that managers would obtain from risk reduction. Indeed, a huge number of stockholders cannot wield sufficient authority to monitor executive performance. As a result, managers have greater leeway in how they employ business resources than they would if there were a single shareholder or if ownership was more concentrated (Setiawan et al., 2016).

Ownership concentration is ubiquitous, and a great amount of literature in the corporate governance and structural field have demonstrated that it is particularly vulnerable to adverse choice difficulties due to information asymmetries or the exploitation of personal advantages of ownership. Substantial blockholders are likewise more inclined to avoid funding moves that endanger their company's ownership. The inclusion of a second significant stakeholder, in addition to the first, has been proven to be a viable way of improving price value relevance, minimising wealth displacement, and thus enhancing the efficiency of external funding (KAsbi, 2009).

Dividend Payment Theories

Bird in Hand Theory

The ‘Bird in Hand’ suggested that there exists a relationship between the dividend policy and stock price fluctuations. This theory was proposed by Lintner and Gordon (1962) and stated that the yield on capital must be enhanced as a result of a reduction in dividend distributions caused by shareholders' poor verification of capital appreciation. It also has an impact on the profits returns and strong share prices achieved from these cash distributions. The theory also claims that dividend payments are more beneficial to shareholders than capital profits. Investors are risk-sensitive, and capital gain carries additional risk. It is known that shareholders measure risk by using a discount factor on anticipated operating cash flow (Qammar, 2019). Because there is a favourable connection between risk and the discount rate, the discount rate on share value with prospective capital appreciation will be higher than anticipated. As a result, corporations that pay smaller cash dividends while holding a large portion of profits for prospective investment and capital rewards have falling share values than businesses that pay substantial cash payouts. As a result, high hold profits for potential capital gains lower share value (Qammar, 2019).

Signaling Theory

The Signaling Theory proposes that unequal information exists among executives and investors. The Modigliani Miller Assumption claimed that in a business, data is provided to both internal and external stakeholders; nevertheless, management may know information relevant to the company's worth that outside shareholders may never have. This glaring discrepancy sheds light on how management utilises dividend declarations as a signal to shareholders, conveying critical data about the company's future success. According to the signalling theory, investors may interpret a boost in dividend payout as an indication of future earnings; thus, a strong response will cause the share price to increase, and conversely (Priya & Mohanasundari, 2016). Thus, the payment policy can be used by managers as a vehicle to communicate the firm's real value. Consequently, outside investors interpret this sort of information as good news and are more likely to respond positively. On the other hand, the cut in dividends is interpreted as bad news as the firm is perceived to have poor future profitability, which leads them to respond unfavourably. For this reason, managers avoid cuts in dividends to evade possible negative reactions (Priya & Mohanasundari, 2016).

Agent-Principal Theory

Agent-principal theory is a term utilized in the interaction between business agents and principals to clarify and answer their issues. This partnership is generally between the company executives known as agents and the shareholders who are known as the principals (Panda & Leepsa, 2017). An agency theory, commonly speaking, is any link in day-to-day dealings between any two parties of which one is the representative of the other that the agent represents the principal. The principals employ an agent on their behalf to conduct a function. The principals delegate agents their decision-making powers. Variations in opinion and also variations of preferences and desires can occur, as there are a number of decisions that have a financial impact upon the principal. Often this is also known as the principal-agent conflict. An agent uses a principal's services by nature. The principal has commissioned money but does not have much or no daily input. The agent is the decision-maker who assumes little to no responsibility as the principal is responsible for all risks (Panda & Leepsa, 2017).

Tax Preference Hypothesis

According to Modigliani and Miller (1961), in an idealistic situation, the overall market price of all instruments issued by a corporation is defined by the risk-return of the company's physical assets, not through the mixing of issued securities. Modigliani and Miller demonstrated that in a speculative environment, both capital structure and dividend policy are not influenced the company's value. In other words, they demonstrated that the selection of one capital structure or dividend policy over another is meaningless to the company's stakeholders. Essentially, the company's administration should concentrate on more pressing issues including where and how the company's capital should be allocated. There are no tariffs, transaction expenses, or asymmetric information in a perfect M&M scenario (Mburu, 2013).

Furthermore, according to the tax-preference theory, low dividend payout percentages reduce the cost of capital and raise the share price. Reduced dividend payment percentages, as a result, help to maximise the company's worth. This comment implies that dividends are taxed more heavily than capital appreciation. Furthermore, dividends are taxed instantly, but capital appreciation is not taxable until the shares are issued. These tax benefits of capital appreciation over dividends appear to predisposition shareholders who have advantageous capital gains tax status to favour firms that keep the majority of their profits instead of paying them out as dividends and are prepared to compensate premium prices for low-payout corporations (Mburu, 2013).

Life Cycle Theory

Fama and French (2001) researched the life cycle theory and described how firms act varied depending on the life cycle stage. According to the life cycle concept, dividend policy comprises an overview of the present profits and has the potential to foresee future income. Moreover, three criteria influence dividend payment decisions: magnitude, investment prospects, and profit growth. Large established companies are more likely to distribute dividends than smaller businesses. Ageing businesses are more likely to distribute dividends than rising companies since they have fewer investment options than expanding enterprises, therefore they keep their profits or disperse them as dividends (Kouser et al., 2015).

Determinants of Dividend Policy

Dewasiri et al. (2019) conducted a study with the goal to explore the factors that influence dividend policy in a growing and dynamic economy. Past payout decisions, profits, capital possibilities, efficiency, free cash flow (FCF), financial reporting, government ownership, company size, and market impact were identified as major factors of dividend payment by the researchers. Furthermore, prior dividends, investing possibilities, competitiveness, and dividend premiums were also highlighted as dividend payout factors. Furthermore, as short-term connections, there is an interaction between dividend yield and profit in one lag as well as between dividend yield and dividend premiums in two lags. As a result, prior dividend choice or payment, profitability, and investing possibilities constitute a shared set of drivers having consequences for both dividend proclivity and payment.

Hassonn et al. (2016) aimed to determine whether there is a discrepancy between the dividend policies adopted by listed firms in the Palestine marketplace and those generally recorded in academia. Samples for this research were gathered from the Palestinian Stock Exchange (2008-2012), as well as conversations with Chief Financial Officers (CFOs) of listed firms. Profit growth and company size were shown to be favourably related to dividend distribution, whereas total debt and capital adequacy were found to be negatively significant. The majority of CFOs agreed with this result. Nevertheless, the researchers did not discover the literature-reported influence of solvency, operating cash flow, growth potential, and shareholding on dividend payment. In regards to dividend policy and its drivers, it was revealed that there is little distinction between both the Palestinian market and other advanced economies.

Along similar lines, Abdulkadir et al. (2016) aimed to comprehend the dividend payment behaviour as well as the determinants of dividends in the context of Nigerian firms. The study results indicated that the companies design their dividend payments to appeal to overseas companies, who favour dividends over capital appreciation due to dividend levies implemented on these owners. Considering that foreign investors control over half of the total trading volume on the Nigerian Stock Exchange, this emphasises the significance of international investors in business decisions. Earnings, investing possibilities, borrowing, working capital, catastrophe, stock market index, historical dividend, and interest payment are other characteristics that impact the inclination to pay, with indicators that are compatible with the predictions of classic dividend models.

Kasozi & Ngwenya (2015) stated that dividends are strategically essential to businesses since they connect the capital structures of companies and have a significant impact on firm values. As a result, this research attempted to analyse variables influencing South African institutions' dividend policy compositions and practises by examining the applicability of ex-post dividend concept research on these organisations. The researchers used a blended analytical strategy with a cognitive focus on obtaining comments from financial specialists via a questionnaire. Results of the study revealed that financial success, investor demands and desires, and compliance issues all play a role in banking dividend policies.

Top management attributes and financial policy

Technical skills can be gained by managers anytime but to become successful, a manager also requires experience handling things. Research suggests recent experience or experience of certain specific periods by the manager plays an important role in the decisions taken by them. Managers who have experienced financial distress both in the industry, as well as the economy, tend to save more, spend less cash, and invest in risk-averse projects compared to their counterparts. Research also suggests the decisions taken by managers can see various changes throughout their career as they gain more exposure, and understanding of the events, and see more crisis and boom periods in the economy (Dittmar, et al 2016).

The top management of the company including the CEO has to self-evaluate the decisions taken by them as well as exhibit a certain quality of dynamic mindset to motivate as well as positively influence the performance of the firm. The behaviour of a CEO can be considered as the integrating factor between the efforts of the worker and the external factors to provide sustainable performance. Research suggests a CEO who focuses more on self-evaluation usually impacts the firm negatively, while a CEO who is dynamic in their approach is better suited to meet challenges and ensure positive growth. Analysis suggests the behaviour of top management of the firm directly impacts the performance of the firm irrespective of the time period (Aljuhmani, et al 2021).

Corporate governance is an important part of the organization. The performance of the firm is impacted by the level and motivations of the manager, especially the top management in the company. Financial distress is not the desired outcome of any business, however certain management attributes can help to identify the upcoming financial distress of the company. Research suggests information about the board structure, the compensation enjoyed by the manager and the pattern of such compensation, and the ownership structure of the company can provide clues regarding the survival as well as the performance of the company (Crook, et al 2021).

The attitude and the skills represented by the manager while dealing with financial issues of the company is of significant importance as such decisions impact the growth as well as the survival of the firm. Research suggests the provision of stock options to the managers as a result of the decisions has an impact on the attitudes managers exhibit towards risk associated. Research suggests female managers are likely to be more risk averse than their counterparts while dealing with risks which are specific to firms in nature. Such female managers also tend to be more conservative while dealing with industry-specific risks and think of long-term results more in comparison with male managers. Research suggests connecting stock options with the performance of managers is a better way to ensure better decisions are being taken and implemented (Gomez-Mejia, et al 2019).

The capability of the management, the experience they had, and the level of job satisfaction they have are not only on their personal professional growth but also on the performance of the company. The return on assets generated by the firm in comparison with the industry average as well as that of peers is an important tool to assess the role of management in the performance of the company. Attempts made to improve the capability of management through training as well as development programs have a significant positive impact on the performance of the company while entrenchment by management or usage of power for personal gain ultimately impacts the firm negatively (Salehi, et al 2019).

The financial performance of the company needs to be disclosed among various internal as well as external stakeholders. Financial reporting is an important aspect of the firm and managers must pay proper attention to it along with following government regulations related to such reporting. Research indicates an effective tool for judgment of managerial ability is the timing and authenticity of financial disclosure. Managers who are able to report the earnings of the firm, the audit reports, files report with necessary government organisations on time, and provide necessary information about significant events to external stakeholders without a significant time gap from reporting dates can be connected with a positive growth of the company in most cases. Such an ability is an indicator of the ability of the manager to manage staff as well as information about the company (Abernathy, et al 2018).

Communication is one of the important attributes which decides the success rate of a manager. A manager needs to communicate with internal as well as external stakeholders who exhibit different interests in the company. A manager while communicating with investors must not only exhibit confidence but also show honesty in representing the company affairs. Research suggests communication skills of managers are helpful when describing the risk environment faced by the investors. If a manager seems confident that the whole company faces risk, it is generally seen as a more positive measure than a manager who doubts his or her decisions while the company is facing such an environment (Pan, et al 2018).

Ownership Concentration and dividend policy

Despite centuries of economic liberalization and privatisation, ownership concentration in developing economies has continued and seems to be of interest to policymakers and researchers. Research into the link between concentrated ownership and business performance in developing markets has produced contradictory findings both across and between nations, raising contrasting claims about whether ownership concentration enhances or hinders organizational value. Assessing the scope, importance, and origin of this potential ownership-performance link is hampered by this variability (Wang & Shailer, 2015). The contrasting claims about concentrated ownership mainly contrast seizure concerns with better control and surveillance. Conventional principal-agent issues among owners and executives, which are worsened if owners are too little to spend money to oversee and regulate administration, may be alleviated by large owners' motivations and capacity to oversee or control supervisors. These advantages of ownership concentration could be more pronounced in nations with weaker legal systems, as most developing economies have.

Scientific evidence has established a substantial correlation between concentrated ownership and company performance (Javid and Iqbal, 2010; Hu et al., 2010; Wu et al., 2011; Tsao and Chen, 2012), and these studies have had a significant impact on corporate policy. Committed owners may increase a company's investment portfolio and discipline staff by using their knowledge, abilities, and capabilities. A significant difficulty in such firms is the use of votes by important stakeholders to influence board composition or to enlist independent directors as a watchdog to prevent self-serving conduct (Liu et al., 2015). On the contrary side, principal-principal and principal-agent disagreements are frequent in companies with concentrated ownership. In disagreements between principals, larger owners assume command of and divert business resources for their own gain.

These block holders choose the management group, which comprises independent directors, using their voting authority. Including corporate governance in the regulating agency does not, as per an assessment of the literature, make principal-principal disagreements less common (Fana et al., 2011). Ma and Tian (2014) investigated how ownership concentration, board involvement, and board composition affected the financial success of numerous Chinese enterprises. The study found that chief executives, as opposed to other panel features, had a stronger influence on business success. Rather than board meetings, company meetings have a favourable impact on the value of a company. The ownership concentration of tradable shares has a direct and positive association with company value, but the ownership concentration of state and total shares has a U(V) structure. Additionally, businesses with the highest concentrations of marketable share ownership have higher company values than those with just one concentration.

In their research, Wardani and Setiawan (2020) found that ownership concentration has an adverse effect on an operating value, with investor protection serving as a moderating factor. Manufacturing companies listed on the Indonesian Stock Exchange between 2013 and 2017 were selected as the sample population for the present research. For the research, a total of 302 data were gathered, and several analytic methodologies were used. The report's conclusions showed that ownership concentration has a negative effect on a company's success. The study also found that the relationship between firm performance and ownership concentration was modulated by investor protection. The results showed that the relationship between ownership concentration and firm performance is weakened by the level of investor protection.

Conclusion

Even though scholars are researching on the studies of top management attributes and dividend policy this study is limited especially in developing countries. The moderating role of ownership concentration on top management attributes and dividend policy can only be validated through empirical research. More research also need to be done on gender board diversity to increase the global awareness of female on leadership position. According to Deloitte report(2022) factors like family responsibilities hinders women representation in the board, hence they suggested a flexible working hours for women.

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