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Dividend Policy and Firm Performance: The Moderating Role of Executive Compensation in Malaysian Public Companies

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Abstract

This study investigates the impact of dividend policy on firm performance (ROA) and the moderating role of corporate governance quality, specifically executive compensation, among Malaysian public companies. Grounded in agency and signaling theory, it explores how dividend decisions mitigate agency conflicts and signal financial health. Using a panel dataset of 132 firm-year observations from 22 listed firms (2019–2024), the study examines how dividend payout ratio and dividend yield affect firm performance. It also tests how executive compensation moderates these relationships. Both dividend payout ratio and dividend yield positively influence firm performance. Higher executive compensation weakens the effect of dividend payout ratio on firm performance but strengthens the effect of dividend yield on firm performance, highlighting its role as a governance mechanism. The study contributes to corporate finance literature by showing that executive compensation shapes the dividend-performance link. It also offers practical insights for managers, investors, and policymakers seeking to improve governance and dividend strategies to enhance firm value in emerging markets like Malaysia.

Keywords: *Return on Asset, Dividend Payout Ratio, Dividend Yield, Executive Compensation, Malaysian Public Company.*

1. INTRODUCTION

Firm performance is one of the important indicators for a firm as it explains more about how well they perform overall with reference to their financial state and competitiveness, typically based on metrics like return on assets (ROA) (Shafai et al., 2025). Strong ROA is interpreted as good resource management, revenue generation and value creation for the stakeholders (Shabbir et al., 2025).

The corporations perform consistently well, which not only substantially enhances their market position, but also secures investors' confidence as well as sustainability in growth (Jatoi et al., 2023). Hence, companies need to know the factors that influence ROA, like dividend policy, in order to sustain competitiveness (Njoku & Lee, 2024).

Dividend policy remains a central topic in corporate finance due to its influence on shareholder wealth and firm value. It might be able to bound managerial freedom and be used as a governance mechanism to distribute excess cash to stockholders (Akpadaka et al., 2024).

Well-designed dividend policies help in the signalling of a firm's financial strength and future because they help to reduce agency problems and improve market confidence (Jatoi et al., 2023, Njoku & Lee, 2024).

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Agency theory provides a vital theoretical basis for explaining the relationship between dividend policy and company performance (Nadar & Deb, 2025). It justifies how dividend reduces agency problem of manager shareholder conflict by reducing the free cash flow to finance wasteful investment (Nadar & Deb, 2025).

According to signaling theory additionally, dividends are signals which convey information about the management's assessment of future earnings (Akpadaka et al., 2024). Larger dividend payments can, therefore, also be seen as evidence of strong future ROA, reinforcing investor confidence and firm value (Yousef et al., 2025).

However, there are also evidences suggesting that paying out high dividends might lead to a decrease in internal financing, which in turn limited the investment for the future business project and hence poor long-term performance (Nadar & Deb, 2025).

This emphasizes itself on an importance of measuring the dividend policy in context of the full spectrum of corporate governance. Corporate governance, which refers to the structures and procedures by which corporations are managed and controlled (Ramachandran et al., 2024), is one of the most important factors that determine financial strategies, such as dividend policy.

Executive remuneration is arguably the most crucial governance mechanism. If aligned with shareholder interests, it can also increase the transparency of decision-making process and contribute to the development of a dividend policy, which in turn might be positively related to ROA (Narang et al., 2025). IMF (2024) reported that Malaysia's GDP will have an average annual growth of 5.93% and its GDP per capita will grow at 4.98% annually between 2024 and 2029.

The GDP growth rate was 3.68% in 2023; it is expected to be 4% annually. These positive trends highlight Malaysia's position as a vibrant and growing economy in South East Asia. In tandem with its economic growth, in recent years Malaysia has embraced corporate governance reforms under the umbrella of the Malaysian Code on Corporate Governance (MCCG).

Improvements in transparency, board independence, executive remuneration and audit quality are envisioned to influence firm's financial policy and performance (Securities Commission Malaysia, 2021).

Effective governance mechanisms help in the implementation of the dividend policy smoothly in turn lowering the agency cost and signaling the financial health, which leads to the enhancement of the firm's performance (Saeed et al., 2025).

Given the expanding role of governance reforms, Malaysia presents an ideal context to explore how corporate governance particularly executive compensation moderates the relationship between dividend policy and firm performance. While the discourse regarding corporate governance development has broadened, in Malaysia, the research on dividend policy and firm performance remains relatively nascent (Koay & Sapiei, 2025).

While studies indicate that dividend payments are linked to stronger ROA, excessive payouts may lead to high opportunity costs and reduced long-term growth potential due to constrained reinvestment (Fariska & Oktafiani, 2024). Moreover, the moderating role of governance mechanisms in this relationship, especially in public firms, still requires further empirical exploration (Yahaya & Yahaya, 2025).

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This research examined firms across four dominant sectors financial sector (heavily regulated, potentially high governance can impact payout policies and financial performance), energy sector (capital heavy and policy-influenced, dividends decisions need to tread the line between returns to investors and reinvestment), technology sector (high pace and innovation led, needs a matching governance to support long-term strategy), and consumer goods sector (Economic cycle dependent, capital intensive, so dividend consistency is very important to maintain investor confidence) which collectively account for a significant share of Malaysia's GDP.

In 2022, services contributed approximately 50.93% and industry around 39.1% (World Bank, 2024). In 2022, services accounted for about 50.93%, and industry about 39.1% of economy of Malaysia (World Bank, 2024). These sectors vary in terms of capital intensity, regulation, and market conditions and are therefore appropriate sectors in which to study the impact of governance on the links between dividend policy and performance.

By examining these specific industries, this study hopes to contribute practical guidelines on how executive compensation affects the impact of dividend policies on ROA in an emerging economy such as Malaysia.

1.1 Problem Statements and Research Gaps

Dividend policy and ROA are relevant issues in corporate finance as they have direct effects on enhancing the wealth of the shareholders (Akpadaka et al, 2024; Njoku & Lee, 2024; Yahaya & Yahaya, 2025). While there is a sufficient amount of evidence between these two, there are few studies with respect to the moderating effect of corporate governance quality (Narang et al., 2025; Nadar & Deb, 2025). Specifically, mechanisms of governance like executive performance based compensation, helps in aligning dividend policy with the long term goals of the corporate (Shabbir et al., 2025; Umoh, 2025).

Notwithstanding the reformation in emerging markets such as Malaysia, studies on the governance and its impact on the dividend performance relationship are still insufficient (Koay & Sapiei, 2025, Fariska & Oktafiani, 2024. For the most part previous research treats the relationship as a direct one, failing to account for potential moderation (Handayani & Ibrani, 2023).

However, governance can significantly shape how dividend policies influence firm outcomes (Ramachandran et al., 2024; Saeed et al., 2025). Empirical results remain mixed: some studies support high dividend payouts for better performance (Jatoi et al., 2023; Njoku & Lee, 2024), while others favor lower payouts, especially for growth firms (Nadar & Deb, 2025). These inconsistencies highlight the need to consider governance as a contextual factor (Narang et al., 2025; Yahaya & Yahaya, 2025).

Recent studies underscore the role of executive compensation structures in mediating financial outcomes and dividend decisions (Shabbir et al., 2025; Das & Hossain, 2025). Nevertheless, in Malaysia, empirical investigations into how governance and executive pay jointly moderate the dividend–performance linkage remain underdeveloped (Koay & Sapiei, 2025; Badri Shah et al., 2025).

This research intends to add to the literature for the lack of the same by investigating the influence of executive compensation on the interaction between dividend policy and ROA in the case of Malaysian public listed companies. The insights are anticipated to assist in

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informing better decision taking both at academic and non-academic level. The research objectives of the research have been derived as follows:

1) To evaluate the impact of the dividend payout ratio on ROA in Malaysian public companies.
2) To examine the influence of dividend yield on ROA in Malaysian public companies.
3) To assess the moderating role of executive compensation in the relationship between the dividend payout ratio and ROA.
4) To assess the moderating role of executive compensation in the relationship between dividend yield and ROA.

2. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 Agency and Signaling Theories

Agency and signaling theories provide key theoretical foundations for understanding the role of dividend policy in firm performance. Agency theory (Jensen & Meckling, 1976) views dividends as a governance tool that reduces managerial discretion over free cash flows, thereby mitigating agency conflicts and promoting more efficient resource allocation (Rozeff, 1982; Easterbrook, 1984). In contrast, signaling theory (Lintner, 1956; Bhattacharya, 1979) sees dividends as credible signals of a firm's financial health, as only firms with strong, sustainable earnings can commit to stable or rising payouts. Together, these theories explain how dividend policy functions both as an internal control mechanism and an external communication strategy, forming a critical link between corporate governance and firm performance, particularly in emerging markets like Malaysia.

2.1.2 Profitability

Profitability or return on assets (ROA), defined as the ratio of net profit to total assets, is usually used as a measure of a firm's efficiency in generating profits from its asset base (Papakyriakou, 2023). It serves as a comprehensive measure of both operational and financial performance.

Theoretical roots informing ROA's importance are Penrose's (1959) focus on internal resources and resource deployment, and Chandler's (1962) perspective that strategy fit and organizational form drive the productivity of assets. Moreover, agency theory (Jensen & Meckling, 1976) also supports the usefulness of ROA because it connects ROA link to managerial discretionary behavior and governance mechanisms, as ownership patterns and incentive devices disciplined resource commitment (Demsetz & Lehn, 1985). ROA is also affected by capital structure. Although under perfect conditions, Modigliani and Miller (1958) predicted the irrelevance of capital structure, later research (i.e., Harris & Raviv, 1991) suggests that debt increases the ability of firms to use their assets more efficiently by disciplining managers.

Strategic position (Porter, 1980) and manager characteristics (Malmendier & Tate, 2005) also determine ROA, through their impact on investment decisions and cost structures. More recently integrating ESG has come into play as a contributor to improved ROA. Terdpaopong and Wegmann (2024) reveal that companies that are implementing robuster sustainability measures generate higher ROA because of better operational efficiency and stakeholder trust.

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Therefore, this study uses ROA as a proxy for each performance measure to access dividend policy-interface attributes and corporate governance shaping financial performance of Malaysian listed firms.

2.1.3 Dividend Policy

Dividend policy is the decision regarding how much of its earnings a company should pay to its shareholders in the form of dividends and how much should be retained to reinvest in the business. In the present study, two of those indicators, the dividend payout ratio, the fraction of net income that is distributed as dividends, and the dividend yield, which measures dividends per share relative to the market price of the stock (Rozeff, 1982; Baker and Powell, 2000), are used as the focusing indicators. These are commonly used, in empirical research, measures to evaluate the effects of dividends on firm performance.

Dividend policy has a twofold role: as a financial distribution vehicle and, as we have seen, as a strategic message to financial markets and investors. Earlier studies by Lintner (1956) and Bhattacharya (1979) highlighted the importance of dividends as a signal of a firm's future prospects. In addition to being informative, dividend policy has an impact on internal capital allocation, managerial incentives and external-market reactions, these factors that are crucial in shaping the performance and the value-building potential of the firm.

In developing markets such as Malaysia, which are said to be with less stringent external governance and dominant ownership control structures (Claessens et al., 2000), dividend policy becomes even more significant. It serves as a corporate control device by reducing agency problems, in particular the exploitation of minorities by dominant shareholders (Tosetto, 2024). It is therefore that this study chooses dividend policy as one of the key independent variables to test if the decision of paying dividends or not is related to variation of firm performance given corporate governance.

2.1.4 Executive Compensation

Executive compensation is not only an incentive adjustment device for alignment, but also has the function of controlling the managers' risk preference and financial policy making (Murphy, 1999). On the other hand, Core et al. (2003) highlights the importance of a well-structured performance-based compensation system for the long-term strategic orientation by inciting managers to balance dividend distributions and reinvestment opportunities. Yilmaz et al. (2022) also find that executive compensation tied to firm performance enhances financial discipline, thereby money dividends are considered as the reflection of the real financial performance instead of managerial opportunism.

In an environment in which new economies are developed but institutions are weak and investor protection low, corporate governance seems to matter. Agency costs are high-in such an environment of weak legal enforcement, concentrated ownership and political risk-governance mechanisms are crucial for performance. Researches conducted by Handayani & Ibrani (2023) concluded that the company holds strong corporate governance will yield high performance which indicated by a better ROA.

Using companies in Asia, it has been empirically shown that when executive remuneration is pegged to company-specific target instead of market exposure, the discipline in the involved managerial activities will be stricter and sustainable performance will be strengthened (Shabbir et al., 2025). Similar findings have also been established by prior studies in Saudi Arabia (Saeed et al., 2025) which demonstrated that strong governance mechanisms,

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such as performance-based executive pay, help in reducing agency problems and also increase dividends payments to help in the wealth of shareholders.

From ASEAN-5, Abu Afifa et al. (2025) revealed that independent boards and transparent remuneration increases firm value and profitability. These studies highlight the role of corporate governance in to strengthening the link between dividend policy and firm performance, as well as providing sustainability to growth in markets with weak protection.

Therefore, the relationship between dividend policy and firm performance cannot be well-understood without considering the quality of governance, in particular the extent to which owner (executive) incentives are consistent with the creation of shareholder value. The efficient governance tools do not remain peripheral but are essential in transforming dividend signals into continuous firm performance (Nadar & Deb, 2025; Farooq et al., 2024).

2.2 Hypothesis Development

2.2.1 Dividend Payout Ratio and Firm Performance

The dividend payout rate, as the proportion of earnings paid to shareholders, is an important index to measure corporate financial strategy and governance quality. A high payout ratio is a good representation of strong profitability, operational stability and successful financial management, since companies which are able to consistently pay dividends are also those which have stable cash flows and attractive performances (Abas, 2025; Sugiono & Priatsaleh, 2025).

Additionally, the distribution of a high proportion of profits as dividends constrains the funds retained in the company, and forces management to be more selective in the use of resources and the choice of higher-performance investments, thus enhancing the efficient use of assets and thereby improving overall efficiency (Wijaya & Susanti, 2025; Tran, 2025). This view is consistent with the findings of Astrilia and Kusmayadi (2025), and Maulidha and Sari (2025) who demonstrate that firms with stable and high dividend payout ratios usually report higher ROA, in part, because of a more disciplined capital allocation and tight operational control. In developing countries with less effective external monitoring, dividend payout policy is an internal monitoring mechanism that can strengthen manager's accountability and can enhance the long-run performance of a corporation. As a result, specific hypotheses is developed as follows:

H1a: The dividend payout ratio has a significant positive effect on ROA of Malaysian public companies.

2.2.2 Dividend Yield and Firm Performance

Dividend yield, dividends to market price per share, is a well proven signal of firm value and financial health. Higher returns are desirable to investors and are signals for robust earning abilities, thus, has a positive impact on return on assets (ROA) by promoting disciplined capital deployment and efficient asset utilization (Njoku & Lee, 2024). Kanakriyah (2020) reported a significant positive relationship between dividend yield and firm performance for the listed firms in Jordan and argued that high dividend yield firms perform better, in terms of ROA, because of stronger operational discipline.

Likewise, Kim (2021) notes, “firms that have persisted the high dividend yields over time make their ‘dividend reputation’, and this gives a positive impact on investor’s confidence and market valuation if firms also have profitability and size effects.” These results support the

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idea that in such emerging markets, stable and appealing dividend yields do not only work as indicators of financial soundness, but they also actively contribute to improving firm efficiency and long-term value generation. As a result, specific hypotheses is developed as follows:

H1b: Dividend yield has a significant positive effect on ROA of Malaysian public companies.

2.2.3 Moderating Effect of Corporate Governance Quality on the Relationship between Dividend Policy and Firm Performance

Executive compensation is a direct, measurable, and strategic aspect of corporate governance that influences managerial decision-making more explicitly than broad mechanisms like board independence or ownership structure. In the context of dividend policy, executive pay, especially when performance-based, can align or misalign managerial goals with shareholder interests, and thereby moderate the influence of dividends on firm performance. This point is also emphasized by Abu-Ali et al. (2024), who stress that in the 21st century, executive compensation brings together both financial performance and sustainability-linked factors. This development reinforces its function as a behaviour balancer governing the distribution of capital, in particular dividends. Studies demonstrate that when executives are incentivized through high performance-based compensation, they often prefer retained earnings over dividend payouts. This strategy reflects a long-term investment outlook that may reduce the short-term benefits associated with high dividend distribution. Anyigbah et al. (2021), examining Ghanaian banks post-financial crisis, found that higher executive pay levels, particularly during instability, led to lower dividend payouts, as managers opted to retain capital to stabilize firm performance. Similarly, Shabbir et al. (2025) observed that when compensation is linked to internal firm targets, dividends become a less relevant performance mechanism, reducing the positive association between payout ratios and return on assets (ROA). These findings suggest that high-powered incentives weaken the traditional positive effect of dividend payouts on firm profitability, as management preferences shift toward internal capital preservation and long-term planning.

According to Abu-Ali et al. (2024), firms that embed environmental, social, and governance (ESG) and market-based benchmarks into pay structures exhibit stronger alignment between yield and ROA. This supports the idea that well-structured compensation can amplify market confidence in dividend signals. Saeed et al. (2025) reinforce this by showing that firms with performance-indexed pay exhibit higher resource allocation efficiency, which, in turn, strengthens the dividend yield–performance association. Similarly, Abu Afifa et al. (2025) found that performance-contingent executive rewards enhanced the stability and strength of the relationship between dividend yield and financial outcomes. Thus, the hypotheses can be formulated as follows:

H2a: Executive compensation negatively moderates the relationship between dividend payout ratio and ROA.

H2b: Executive compensation positively moderates the relationship between dividend yield and ROA.

2.3 Conceptual Framework

The research's conceptual framework combines dividend policy (dividend payout ratio and dividend yield), corporate governance quality (executive compensation), and firm performance (ROA), proposing that corporate governance quality influences the connection

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between dividend policy and firm performance. This framework, rooted in agency theory and signaling theory, will be examined empirically in the setting of Malaysian public companies.

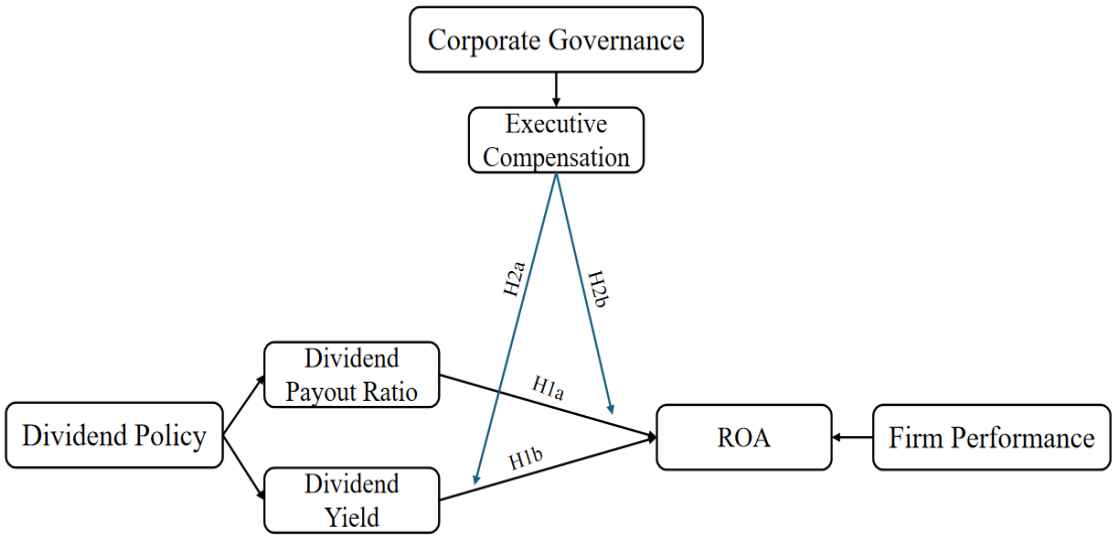

Figure 2.1: Conceptual Framework for Research

3. METHODOLOGY

3.1 Data, Population, and Sample

This research utilizes secondary data to examine the relationship between dividend policy, corporate governance, and firm performance among Malaysian public companies from 2019 to 2024. The data were sourced systematically from integrated annual reports, corporate governance reports, and Yahoo Finance, ensuring consistency, accuracy, and reliability (Yahaya & Yahaya, 2025).

The target population for this research includes all the companies found in public domain listed on Bursa Malaysia. The purposive sampling technique was employed for this study involving 22 companies from four dominant sectors namely financial services, energy, technology, and consumer goods. These industries were selected to achieve broad representation of economic structure in Malaysia (Ehigiamusoe et al., 2024).

The sample consists of firms in which available data are stable and straightforward for acquisition: the ones with the integrated annual and governance reports for six years (2019–2024) providing 132 firm year observations. The chosen companies are mostly large cap companies, which are more for having good governance structures and having stable dividend policies (Lokman et al., 2024).

This methodology complies with Hanif and Zakaria (2024) approach and is used to perform a longitudinal overview to study patterns and relationships over time. Sample is representative and heterogeneous in sectors and definite in data to provide valid and generalizable research findings.

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Table 3.1: List of Samples

Sector	Company	Website
FINANCIAL	MAYBANK GROUP HOLDINGS BERHAD	https://www.maybank.com/en/investor-relations.page
	CIMB GROUP HOLDINGS BERHAD	https://www.cimb.com/en/investor-relations/overview.html
	PUBLIC BANK BERHAD	https://www.publicbankgroup.com/investor-relations/annual-reports/
	RHB BANK BERHAD	https://www.rhbgroup.com/investor-relations/overview/key-financial-information/index.html
	AMMB HOLDINGS BERHAD	https://www.ambankgroup.com/investor-relations/overview
	HENG LEONG BANK BERHAD	https://www.hlb.com.my/en/personal-banking/about-us/investor-relations/annual-and-quarterly-financial-reports.html
ENERGY	PETRONAS GAS BERHAD	https://www.petronas.com/pgb/investor-relations
	PETRONAS DAGANGAN BERHAD	https://www.mymesra.com.my/investor-relations
	TENAGA NASIONAL BERHAD	https://www.tnb.com.my/suppliers-investors-media-relations/annual-reports
	YTL POWER INTERNATIONAL BERHAD	https://www.ytlpowerinternational.com/investor-relations/
	MALAKOFF CORPORATION BERHAD	https://ir2.chartnexus.com/malakoff/v2/index.php
	DIALOG GROUP BERHAD	https://www.dialogasia.com/investors/annual-reports
TECHNOLOGY	TOP GLOVE CORPORATION BHD	https://www.topglove.com/ir-overview-en
	HARTALEGA HOLDINGS BERHAD	https://hartalega.com.my/investor-relations/
	INARI AMERTRON BERHAD	https://www.inari-amertron.com/annual-reports/
	UCHI TECHNOLOGIES BERHAD	https://www.uchi.net/bursa-malaysia-announcements/
	VITROX CORPORATION BERHAD	https://www.vitrox.com/investor/investor-relations-overview.php
CONSUMER GOODS	NESTLE (MALAYSIA) BERHAD	https://www.nestle.com.my/investors
	DRB-HICOM BERHAD	https://www.drb-hicom.com/investors/
	DUTCH LADY INDUSTRIES BERHAD	https://www.dutchlady.com.my/investors/
	BRITISH AMERICAN TOBACCO (MALAYSIA) BERHAD	https://www.batmalaysia.com/investors-and-reporting
	QL RESOURCES BERHAD	https://ql.com.my/investor-relations/

3.2 Variables and Measurement

Dependent, independent, moderating, and control variables are presented which variables are utilized in the research. The operationalization of the variables is as follows:

3.2.1 Dependent Variable: Firm Performance (ROA)

Return on Assets (ROA): It indicates how efficiently a company uses its assets to generate earnings (Papakyriakou, 2023). Higher ROA indicates more effective utilization of assets (Jatoi et al., 2023).

It is calculated as:

$$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$$

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3.2.2 Independent Variables: Dividend Policy

Two primary metrics are used:

Dividend Payout Ratio: The proportion of profit distributed to shareholders in the form of dividends (Jatoi et al., 2023). It represents the trade-off between paying dividends to shareholder and re-investing firm's profit (Renaldo et al., 2023). It is calculated as:

$$Dividend\ Payout\ Ratio = \frac{Dividends\ per\ Share}{Earnings\ per\ Share} \times 100\%$$

Dividend Yield: Annual dividend per share divided by the market price per share (Wau, 2024). It represents the return on investment reflected by dividends (Njoku & Lee, 2024). It is calculated as:

$$Dividend\ Yield = \frac{Dividends\ per\ Share}{Market\ Price\ per\ Share} \times 100\%$$

3.2.3 Moderating Variables: Executive Compensation Ratio

Corporate governance quality moderates the relationship between dividend policy and firm performance (Nadar & Deb, 2025). Executive compensation is used to assess governance quality in this research:

Executive Compensation Ratio: As an indicator of corporate governance quality, it shows the share of total board compensation given to executive directors (Essel, 2023). It reflects compensation concentration and its influence on managerial behavior (Essel, 2023). A higher executive compensation ratio suggests that compensation is more performance-based distributed, which may stimulate executive directors enhancing ROA (Shabbir et al., 2025). It is calculated as:

$$Executive\ Compensation\ Ratio = \frac{Executive\ Compensation}{Total\ Compensation} \times 100\%$$

3.2.4 Control Variables: Firm Size

Firm size is measured as the natural log of total assets, as it indicates the scale of corporation and resource availability (Yahaya & Yahaya, 2025); The financial performance of larger firms may be influenced independently of both dividend policy and governance quality since they are more likely to have access to capital and other forms of resources (Fariska & Oktafiani, 2024).

Summary Table of Variables and Formulas

Variable Type	Variable	Measurement	Formula	Sources
Dependent	Firm Performance	ROA	$\frac{Net\ Income}{Total\ Assets} \times 100\%$	(Papakyriakou, 2023), (Jatoi et al., 2023)
Independent	Dividend Policy	Dividend Payout Ratio	$\frac{Dividends\ per\ Share}{Earnings\ per\ Share} \times 100\%$	(Jatoi et al., 2023), (Renaldo et al., 2023)

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		Dividend Yield	$\frac{Dividends\ per\ Share}{Market\ Price\ per\ Share} \times 100\%$	(Wau, 2024), (Njoku & Lee, 2024)
Moderating	Corporate Governance	Executive Compensation Ratio	$\frac{Executive\ Compensation}{Total\ Compensation} \times 100\%$	(Nadar & Deb, 2025), (Essel, 2023), (Shabbir et al., 2025)
Control	Firm Size	Natural Log of Total Assets		(Yousef et al., 2025), (Yahaya & Yahaya, 2025), (Fariska & Oktafiani, 2024)

3.3 Data Analysis Techniques

3.3.1 Pooled Ordinary Least Squares (OLS)

The pooled ordinary least squares (OLS) provide a base level relationship between dividend policy and firm performance without considering any individual effects either across entities or over time, and combines all data into a single regression equation (Ramachandran et al., 2024).

3.3.2 Correlation

Correlation analysis was performed to examine the strength and direction of the linear relationships between the independent, moderating, and control variables. This technique was also used to identify any multicollinearity problems which could weaken the robustness of the regression models. As suggested by Baltagi (2021) a correlation coefficient greater than 0.80 would be indicative of multicollinearity issues.

3.3.3 Unit Root Test

The unit root test was employed to check the stationarity of the variables. Stationarity is an important assumption in time series or panel data regression analysis since non-stationary data can produce spurious regression results and incorrect statistical inferences (Baltagi, 2021). Since temporal stability of the variables was verified so that the data on firms and financials of the periods could be merged.

3.3.4 Variance Inflation Factor (VIF) Test

While correlation analysis provided an initial check, VIF offers a more precise quantitative measure of how much the variance of an estimated regression coefficient is inflated due to linear dependence with other predictors. Multicollinearity can inflate standard errors, weaken statistical significance, and obscure the true effect of independent variables (Baltagi, 2021). By confirming that all VIF values were substantially below the conventional cutoff of 10, the analysis ensured that multicollinearity would not compromise the reliability of coefficient estimates or hypothesis testing.

3.3.5 Heteroscedasticity Test

The Breusch-Pagan / Cook-Weisberg test was used to detect the presence of heteroscedasticity in the regression models. Heteroscedasticity where the variance of the residuals varies across observations, violates one of the key assumptions of OLS regression, potentially leading to inefficient estimates and invalid statistical inferences (Baltagi, 2021). Since the dependent variable in this (firm performance measured by LNROA) is financial in

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nature and could vary across different firm sizes or dividend policies, testing for heteroscedasticity was necessary.

3.3.6 Panel Regression Analysis

This study used the panel regression analysis to estimate the model as well as the multidimensional nature of the relationship between dividend policy and firm performance nexus and corporate governance quality. The complementarity of the approaches yields a robust and integral understanding of the incentives behind corporate performance (Yahaya & Yahaya, 2025). The general equations for panel regression are:

$$LNROA_{it} = \alpha + \beta_1 LNDY_{it} + \beta_2 LNDPR_{it} + \beta_3 FS_{it} + \epsilon_{it} \quad (1)$$

$$LNROA_{it} = \alpha + \beta_1 LNDY_{it} + \beta_2 LNDPR_{it} + \beta_3 FS_{it} + \beta_4 LNDYEC_{it} + \beta_5 LNDPREC_{it} + \epsilon_{it} \quad (2)$$

Where

$LNROA_{it}$: Natural log of ROA for entity i at time t.

$LNDY_{it}$: Natural log of dividend yield for entity i at time t.

$LNDPR_{it}$: Natural log of dividend payout ratio for entity i at time t.

FS_{it}: Firm size for entity i at time t.

$LNDYEC_{it}$: Natural log of dividend yield multiplied by executive compensation ratio for entity i at time t.

$LNDPREC_{it}$: Natural log of dividend payout ratio multiplied by executive compensation ratio for entity i at time t.

α: Intercept term.

$\beta_{1-}\beta_5$: coefficient indicators

ϵ_{it}: Error term.

The panel regression framework allows for more precise estimation by accounting for unobserved heterogeneity across entities and over time (Yahaya & Yahaya, 2025).

4. DATA ANALYSIS AND FINDINGS

4.1 Descriptive Statistics

Table 4-1: Description Statistics

Variable	LNROA	LNDY	LNDPR	LNEC	FS
Mean	1.3903	1.1471	3.9806	4.2321	4.2843
Median	1.2812	1.3334	4.1001	4.3469	4.1619
Max	4.2075	2.7986	4.8431	4.583	6.0315
Min	-2.8596	-2.0614	1.9428	1.8102	2.3542
Std. Dev.	1.3122	0.826	0.618	0.3648	1.0394
Skewness	-0.0444	-0.8139	-0.9839	-2.6645	0.0239
Kurtosis	2.4876	3.8508	3.5437	16.3763	1.8531

Table 4-1 displays the descriptive statistics for all variables in this study.The analysis is based on 132 observations of firm-year data from publicly listed companies in Malaysia spanning from 2019 to 2024. The mean value of Return on Assets (LNROA) is 1.3093 with a standard deviation of 1.3122, suggesting moderate variability in firm performance. The range

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of –2.856 to 4.2024 indicates significant differences in asset returns. The Dividend Payout Ratio (LNDPR) has a mean of 3.9806 and a standard deviation of 0.618, suggesting that most firms follow moderately conservative dividend distribution policies. The mean of Dividend Yield (LNDY) is 1.1471 with a standard deviation of 0.826, indicating relatively close clustering around market expectations consistent with Signaling Theory (Munir et al., 2024). The moderating variable, Executive Compensation (LNEC), has a mean of 4.2321 and a standard deviation of 0.3648, showing some variability in the relationship between executive remuneration and performance outcomes. Firm Size (FS), logarithm of total assets, has a mean of 4.2843 and a standard deviation of 1.0394, suggesting a stable range of company sizes.

4.2 Correlation Analysis

Table 4-2 showed that none of the variables exhibit correlation coefficients above this threshold, suggesting the absence of multicollinearity in the dataset.

Table 4-2: Correlation and Probability

	LNROA	LNDY	LNDPR	LNEC	FS
LNROA	1				
(p-value)	—				
LNDY	–0.0718	1			
(p-value)	-0.4133	—			
LNDPR	0.3672	0.4593	1		
(p-value)	0	0	—		
LNEC	0.3034	–0.3162	–0.2270	1	
(p-value)	0.0004	0.0002	-0.0088	—	
FS	–0.8062	0.3324	–0.1703	–0.3668	1
(p-value)	0	0.0001	0.0509	0	—

The dividend payout ratio (LNDPR) exhibits a moderately positive correlation with return on assets (LNROA) ($r = 0.3672$, $p < 0.01$). Executive compensation (LNEC), as moderating variable of the research, also correlates positively with LNROA ($r = 0.3034$, $p < 0.01$). In contrast, firm size (FS) is strongly negatively correlated with LNROA ($r = -0.8062$, $p < 0.01$), indicating that larger firms in our sample tend to realize lower asset returns.

4.3 Unit Root Test Results

A unit root test was conducted on all variables to confirm their stationarity. The results of the unit root tests for the core variable are reported in Table 4-3.

Table 4-3: Unit Root Test

Series	Statistic	Prob.
LNROA	-5.3635	0
LNDY	-4.7559	0
LNDPR	-5.6326	0
LNEC	-6.9109	0
FS	-1.5188	0.0644

The test statistics and their p-values show that the majority of the variables are stationary at level. In particular, the specified LNROA, LNDPR, LNDY and LNEC all have significantly large test statistics with p-value of 0.0000, implying rejection of the null hypothesis of a unit root at the 5% level significant level. This means these variables are stationary at levels and are valid to be used in regression without any difference. However, the control variable FS reports a test statistic of –1.5188 with a p-value of 0.0644, which is slightly above the

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conventional 5% significance threshold. This result suggests that FS may be non-stationary at level, though it approaches borderline significance. To address this, using robust estimation techniques could be considered to confirm its stationary status.

4.4 VIF Test Results

The Variance Inflation Factor (VIF) test was conducted to examine the multicollinearity between variables. Table 4-4 displays the VIF values and their reciprocals (1/VIF) for the primary variables utilized in this study.

Table 4-4: VIF Test

Variable	VIF	1/VIF
LNDY	1.63	0.6133
LNDPR	1.58	0.6338
LNEC	1.29	0.7765
FS	1.52	0.6596
Mean VIF	1.50	

Typically, a VIF value above 10 suggests significant multicollinearity. However, in this examination, all VIF values remain well below this critical threshold. Furthermore, the corresponding 1/VIF values, spanning from 0.6133 to 0.7765, reinforce this finding, with higher reciprocal values indicating lower collinearity levels. The mean VIF across all variables is 1.50, which is substantially below the commonly accepted cutoff level, confirming that multicollinearity does not pose a concern in this dataset. Therefore, the regression estimates in subsequent sections are unlikely to be biased or unreliable due to collinearity issues.

4.5 Heteroscedasticity test

The Breusch-Pagan / Cook-Weisberg test was used to test the heteroscedasticity, which occurs when the variance of residuals is not constant for all observations (Baltagi, 2021).

Table 4-5: Breusch-Pagan / Cook-Weisberg Test for Heteroskedasticity

	Chi-square (χ^2)	**Prob.** $> \chi^2$
H_0: Constant variance Variables: fitted values of LNROA		
Breusch-Pagan / Cook-Weisberg Test	0.22	0.6387

As shown in Table 4-5, the value of chi square is 0.22 for which the p- value is 0.6387. As the p-value is more than the 0.05 critical value, we accept null hypothesis of constant variance. This indicates that there is no presence of heteroscedasticity in the model and the residuals are evenly distributed and so, it can be relied upon for accurate regression results.

4.6 Regression Analysis

The results of the Ordinary Least Squares (OLS) regression analysis, as presented in Table 4-6, align closely with both agency and signaling theories.

Table 4-6: OLS Regression Analysis

LNROA	Coefficient	Std. Error	t-Statistic	Prob.
C	1.9902	1.2023	1.6554	0.1003
LNDY	0.2043	0.0956	2.1278	0.0353
LNDPR	0.4255	0.1249	3.4069	0.0009
LNEC	0.3756	0.1911	1.9661	0.0515
FS	-0.9798	0.07276	-13.4661	0

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LNDPR coefficient of 0.4255 ($p < 0.01$) provides strong support for H1a and corroborates agency theory's prediction that higher payouts discipline managers by reducing free cash flow (Wijaya & Susanti, 2025; Tran, 2025). LNDY is also positively associated with ROA (coefficient = 0.2043, $p < 0.05$), which supports for H1b and is consistent with signaling theory's assertion that market-based dividend signals enhance investor confidence and resource allocation (Njoku & Lee, 2024), and with findings from emerging markets (Kanakriyah, 2020; Kim, 2021). In contrast, firm size (FS) has a strong negative effect on LNROA, with a coefficient of -0.9798 ($p < 0.01$), indicating that larger firms may face diminishing returns or increased operational inefficiencies (Karim et al., 2025).

4.7 Regression with Moderation Analysis

The OLS regression results presented in Table 4-7 evaluate how executive compensation, as a component of corporate governance quality (measured by LNEC), moderates the relationship between dividend policy and firm performance (LNROA).

Table 4-7: OLS Regression with Moderation Analysis

LNROA	Coefficient	Std. Error	t-Statistic	Prob.
C	-16.9585	6.7418	-2.5154	0.0132
LNDY	-2.9635	1.5984	-1.854	0.0661
LNDPR	5.8279	1.6231	3.5911	0.0005
LNEC	4.7466	1.5587	3.0453	0.0028
LNDPREC	-1.2533	0.3772	-3.3224	0.0012
LNDYEC	0.7261	0.363	2.0003	0.0476
FS	-0.9407	0.0714	-13.1747	0

The interaction term between the dividend payout ratio (LNDPR) and executive compensation (LNEC), labeled LNDPREC, is negative and statistically significant (coefficient = -1.2533, $p < 0.01$), supporting Hypothesis H2a. This result indicates that higher executive compensation weakens the positive relationship between dividend payouts and firm performance.

This finding is consistent with the notion that when executives are incentivized through performance-based rewards, they often favor retaining earnings to pursue long-term strategic investments rather than distributing dividends. Such behavior, as demonstrated by Anyigbah et al. (2021) and Shabbir et al. (2025), reflects a shift in managerial focus from short-term shareholder returns to long-term capital preservation, thereby reducing the immediate performance benefits typically associated with higher payout ratios.

In contrast, the interaction term between dividend yield (LNDY) and executive compensation (LNEC), denoted as LNDYEC, is positive and statistically significant (coefficient = 0.7261, $p < 0.05$), lending support to Hypothesis H2b. This suggests that executive compensation enhances the positive effect of dividend yield on firm performance.

Dividend yield, being a forward-looking signal to the market, becomes more credible and impactful when managers are incentivized to meet market-based or ESG-linked performance targets. Evidence from Abu-Ali et al. (2024), Saeed et al. (2025), and Abu Afifa et al. (2025) confirms that performance-contingent compensation structures improve managerial responsiveness to external expectations and increase the efficiency of resource allocation.

As a result, firms with high dividend yields and well-aligned executive incentives tend to experience stronger gains in ROA, driven by enhanced investor confidence and strategic capital deployment.

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5. CONCLUSION

This research investigated the influence of dividend policy on ROA and the moderating effect of executive compensation among public listed companies in Malaysia. It is found that the dividend payout ratio and dividend yield positively impact the ROA and the executive pay quality moderates these relationships in a heterogeneous manner.

Our findings emphasize for the importance of considering governance intervention in financial decisions. Addressing the agency conflicts and signaling problems can enhance operational performance and shareholder value of firms.

Finally, the study contributes to the extant literature on dividend policy and governance in emerging markets, and offers practical implications for managers, investors, and policy makers who seek to improve the financial and governance systems for sustainable corporate progress.

6. IMPLICATION

6.1 Theoretical Implications

This research contributes to the corporate finance theory development as it integrates executive compensation as moderator in the dividend policy and firm performance relationship. Agency theory during its traditional period contends that dividends which are paid to shareholders can be used to alleviate these agency problems by shrinking freed cash flows which is available to managers, monitoring potential managerial use of corporate resources. Signaling theory, on the other hand, posits that dividends are used to communicate information about a firm's future prospects.

This paper, by showing that the link between dividend and performance is influenced by the structure of executive compensation, stresses the fact that governance mechanisms are not only passive features, but are active determinants of the extent to which the dividend achieves its objectives.

Especially, the results imply that if the executive incentives are appropriately linked with shareholders, dividends are more likely to be an outcome of better firm performance. This subtle insight meets a gap in the literature and is particularly pertinent within the context of developing markets such as Malaysia where corporate governance mechanisms are still developing.

Finally, the findings urge subsequent researchers to regard the quality of governance as a context factor when assessing the effectiveness of financial policies, which in turn, provide a more comprehensive perspective for firm behavior.

6.2 Practical Implications

The findings also present a significant practical implications. For decision makers in the corporate sector, the findings in this paper highlight the importance of creating a compensation structure that not only induces managerial effort but also is in consistence with the dividend policies in ensuring the maximization of firm value.

Strategic dividends and incentive pay can make it possible to balance short-term shareholder value creation with longer-term firm viability. To investors, the research provides an enhanced framework with which to understand dividend declarations.

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Instead of looking at dividends in isolation, investors should consider the wider corporate governance landscape, including the structure of executive pay, as part of their assessment of the future prospects and riskiness of a company. This holistic assessment can result in more optimal portfolio management and risk mitigation approaches.

Policymakers and regulators may use the information from this study to enhance corporate governance codes by promoting greater transparency in executive remuneration disclosures, and inspiring managerial rewards to be aligned with payout policies and sustainable operating performance of the firm. The general objective of improving market efficiency and investor confidence in emerging economies could be better achieved by promoting such corporate governance changes.

7. LIMITATIONS

There are several limitations to this study. First, the sample size used in this study is relatively small, limited to 132 firm year observations from 22 Malaysian listed firms between 2019 and 2024, which may constrain the generalization of the research' findings to other time periods, industries, and countries. Second, only executive pay, as a proxy for corporate governance, was considered in the study. Other aspects of governance, such as the composition of the board, the ownership concentration and the characteristics of the audit committee, may also affect the association between dividend policy and firm performance. Third, the manipulation is using ordinary least squares (OLS), which, while appropriate, may not fully control for potential endogeneity or serial correlation issues. Finally, the analysis focuses on accounting performance measures (ROA) depending on non-market measures. Inclusion of market factors like Tobin's Q or stock returns may improve the understanding of firm performance consequences.

8. FUTURE RESEARCH DIRECTIONS

Based on the shortfalls found above, a number of future research directions are suggested. To begin, by extending the time horizon beyond 2019–2024, along and including unlisted firms, we might be able to capture long-term trends and get a more comprehensive picture of the dynamics of dividend policy across various types of firms.

Second, by including several aspects of corporate governance (board independence, ownership concentration, and audit committee attributes), it would offer a more detailed examination of how governance structures impact both dividend policy and firm performance.

Third, from a methodological standpoint, the extent to which more sophisticated econometric techniques, like structural equation modelling (SEM) or instrumental variable (IV) approaches can be usefully employed in future research to minimise the potential for endogeneity and illuminate more clearly the causal relationships between variables may be considered.

Fourth, extending the measurement of firm performance to additionally consider market-based rather than accounting indicators, such as Tobin's Q or stock returns, would provide a more comprehensive view of how investors perceive firm value.

Lastly, comparative analysis based on Southeast Asian markets would help to validate whether the results remain robust under different regulatory, economic and cultural contexts, thus providing further understanding of how regional differences conflate with the dividend performance relation.

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