Audit Committee and Dividend Policy of Financial Firms in Malaysia

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EXECUTIVE SUMMARY

The corporate governance structure encompasses a set of guidelines meticulously crafted to ensure that a firm operates in a manner that diligently safeguards the interests of all stakeholders. In this study, the authors examine the role of audit committee in the dividend policy of Malaysian financial firms. They collect data from a sample comprising 40 financial institutions, spanning a 13-year period from 2010 to 2022. The empirical findings gleaned from this study unequivocally affirm a statistically significant relationship between the existence of audit committee and the formulation of dividend policies within these financial institutions. Notably, audit committees have been revealed to exert a robust and statistically significant influence on dividend policy within these financial institutions. The implications of these findings extend beyond the confines of academia; they hold substantial relevance for regulatory bodies, financial institutions themselves, and their shareholders in the Malaysian context.

1. INTRODUCTION

The structure of corporate governance represents a set of established guidelines utilised by firms to assess the sustainability of their performance and the profitability of their business operations (Securities Commission Malaysia, 2011; Tan, 2015). It ensures that firms conduct their operations in a legal and advantageous manner whilst safeguarding the interests of all stakeholders (Tan, 2015). Within the financial landscape, the governance structure assumes a pivotal role in mitigating the deleterious effects of financial crises (Securities Commission Malaysia, 2011). A robust governance structure establishes a firm foundation that reduces risk exposure and facilitates sustainable growth (Securities Commission Malaysia, 2011).

Moreover, sound governance practices enhance operational transparency, affording shareholders insight into the quality of management and the rationale behind each board decision (Ponnu, 2008; Alzeaideen & Al-Rawash, 2014; Tan, 2015). The Securities Commission Malaysia staunchly advocates for a culture of robust corporate governance, as these structures are rigorously enforced across the global financial landscape (Securities Commission Malaysia, 2017).

In the Malaysian corporate sector, the emphasis on corporate governance practices leans more towards internal governance mechanisms, as opposed to external ones (Zulkafli et al., 2003; Tan, 2015). External governance mechanisms, such as market forces, corporate controls, and legal and regulatory systems, fall beyond the purview of the firm's control (Zulkafli et al., 2003). Internal governance mechanisms encompass the board of directors and equity ownership (Zulkafli et al., 2003). The signaling theory underscores the existence of information asymmetry between firms and shareholders due to the limited disclosure of information to shareholders (Iqbal, 2013; Hassan et al., 2003). This theory accentuates the critical role of cultivating and nurturing a trust-based relationship between shareholders and firms (Iqbal, 2013; Ponnu, 2008; Securities Commission Malaysia, 2011). High-performing firms are expected to accompany their success with an increased distribution of dividends to shareholders (Iqbal, 2013), as dividend payments are intrinsically tied to stock prices, reflective of a firm's performance (Mehdi et al., 2017; Iqbal, 2013). A misalignment between dividends and stock prices could erode trust between directors and shareholders (Iqbal, 2013; Mehdi et al., 2017), fostering skepticism among shareholders regarding company performance (Iqbal, 2013).

Furthermore, a robust governance structure can engender an improved dividend policy framework (Iqbal, 2013; Mehdi et al., 2017) by aligning the interests of directors and shareholders, thereby safeguarding shareholder wealth (Iqbal, 2013). The primary aim of this study is to assess the effectiveness of the governance structure and its impact on dividend policy within licensed local financial institutions in Malaysia. We aim to complement the prior findings of Buertey et al. (2023) that a positive