

THE IMPACT OF HIGH AND LOW LEVEL OF MANAGERIAL ENTRENCHMENT ON DIVIDEND PAYOUT

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Abstract

The level of entrenchment either high and low is insignificant to influence the company payout namely share repurchase and total payout. Based on 327 companies listed on Bursa Malaysia for the year 2005 to 2010, the result shows only high ENT2 shows negative relationship towards dividend payout. The company dividend distribution is reduced when company control by high entrenched ENT2 where the power gains from board governance. Company tends to increase dividend payment when they have more profit with low debt. Meanwhile profitable large-sized companies prefer to choose share repurchase. Levered and mature companies reduce the total payout to shareholders.

Keywords: Managerial entrenchment, dividend payout, share repurchase and total payout.

1. Introduction

In Malaysia, since 2001 (revised 2007), the Code of Corporate Governance gradually enforced on companies listed on Bursa Malaysia to improve the monitoring mechanism. The MCCG (Malaysia Code of Corporate Governance) outlined certain conditions on the structures and functions of boards of directors, audit committees, and external auditors to safeguard shareholders' interest. The MCCG 2012 focuses on strengthening the board structures and composition, including recognizing the role of directors as active and responsible fiduciaries. The Minority Shareholders Watchdog Group was established in 2001 to protect minority shareholders' interest and promote shareholder activism. Though this shows that Malaysia has strong legal protections, the MCCG appears to be effective only outwardly. In fact, the enforcement remains weak. Managerial entrenchment still exists and expropriation of minority interest continuously takes place in Malaysia (Mohamed Yunus, Smith, Ismail, & Ahmad, 2011). To avoid this conflict, dividend payments could be used as one of the company's monitoring devices (Rozeff, 1982). Companies could limit the cash available for managers if high dividend payments are paid to shareholders based on the free cash flow hypothesis (Jensen, 1986).

The traditional agency conflict between manager and shareholders is not relevant in the Malaysian context as the companies are highly controlled by larger shareholders (Claessens, Djankov, & Lang, 2000; Tam & Tan, 2007). Dividend payment, as cash distribution, might be useful to reduce agency problem between the majority and minority shareholders. Malaysia is typically characterized as concentrated shareholdings in the hands of individual investors and large block shareholders. They hold at least 5% of equity ownership (Mohd Ghazali & Weetman, 2006). Large block shareholders are normally families or financial institutions. The agency costs in family companies are more complex due to managerial entrenchment and information altruism (Gomez-Mejia, Nunez-Nickel, & Gutierrez, 2001). Hence, this study focuses on the dividend payout policy, because empirical studies show that it has a significant role in reducing agency conflict under weak governance mechanism and entrenched manager control of management.

Managerial entrenchment is closely related to the action and power of company's managers. According to Weisbach (1988), managerial entrenchment occurs when managers gain so much power that, they are able to use the company to pursue their own interest rather than that of the shareholders. Berger, Ofek, & Yermack (1997) defined entrenchment as the extent to which managers fail to be disciplined, even

with the full range of corporate governance and control mechanisms in place, including monitoring by the board, the threat of dismissal or takeover, and stock- or compensation-based performance incentives. In a company with weak board of directors, and strong antitakeover provisions, managerial entrenchment is most likely to take place. With a low probability of being fired for poor performance, the manager could generally influence the company to guarantee his/her employment with an attractive salary (Morck, Shleifer, & Vishny, 1988), enjoy perquisites at the expense of shareholders (Bertrand & Mullainathan, 2003), and even stop payment of dividends without triggering shareholders' response (Wang, 2011).

Managerial entrenchment by itself represents a sign of agency problem (Zwiebel, 1996 and Hu & Kumar, 2004). Entrenched managers ensure that their positions are secure if the company fails to attain its objectives. Most of the previous literature negatively views managerial entrenchment when the managers try to preserve their position. Even in Malaysia, numerous authors (e.g., Haniffa & Hudaib, 2006; Sulong & Mat Nor, 2010; Sulong and Ahmed, 2011) examined the relationship between ownership structure or board structure on dividend payout policy and indirectly linked it with the influence of entrenched managers. Unfortunately, only few researchers (e.g., Gompers, Ishii & Metrick, 2003; Bebchuk, Cohen & Ferrell, 2009; Florackis & Ozkan, 2009) examined the process of how managers are able to entrench themselves in the company. By understanding the way and the level of managerial entrenchment, it could directly see their impact on company decisions.

Managerial entrenchment is reflected from the combination of dividend and share repurchases in the company (Hu and Kumar, 2004). Managers who are concerned about shareholder wealth in the long term tend to buy back shares (Ikenberry & Vermaelen, 1996). On the other hand, entrenched managers usually choose dividend payout or a mix of payout (dividend and share repurchase). Since there is an increasing trend in Malaysian companies towards using share repurchase, it is important to examine the manager payout preference. However, in Malaysia, not many studies have been done on evaluating the level of involvement of entrenched manager's on payout preference, either dividends only, mix of dividends and share repurchase or standalone share repurchase.

2. Literature Reviews

Higher entrenchment index score indicates that more power is being held by the manager and highly limited shareholders' ability in protecting their rights (Gomper et al., 2003). When the manager is highly entrenched, he/she becomes more indispensable to the company and shareholders are forced to become more tolerant of all the decisions made by the manager. Therefore, managers exploit this situation by tunnelling more cash for self-benefit (Banerjee & Masulis, 2012). Therefore, agency cost is higher in a company with highly entrenched manager because of less asset turnover, relative to company with low entrenched manager (Florackis & Ozkan, 2009).

Based on the optimal dividend policy, when the company increases dividend distribution during high managerial entrenchment, it represents an equilibrium outcome. The value of companies is maximized by selecting the optimal combination of governance provisions and payout policy (Jo and Pan, 2009). The application of Anti-Takeover Provisions (ATPs) would enhance the value of the company. It is more efficient for the company to surrender some of the shareholders powers to encourage managers to continue to pay dividends rather than accumulate cash to fend off unwanted takeovers.

According to Dah, Beyrouiti, & Showeiry (2012), a highly entrenched manager is more focused on long-term investment decisions, while a low entrenched manager prefers short-term cash projects. When low entrenched managers know their position is under threat, they are more likely to align their objectives to the shareholders' interests. Meanwhile, a highly entrenched manager is less likely to spend on capital expenditure and R&D to enhance company value. If a country's regulatory system is unable to impose the duties of the board of director, nonexecutive directors become passive in monitoring and this lead to higher managerial entrenchment (Franks, Mayer, & Renneboog, 2001). High (low) managerial entrenchment causes company having low (high) leverage together with less (more) capital structure to rebalance (Morellec, Nikolov, & Schurhoff, 2008). The authors stated that managers are more entrenched in

companies with antitakeover provision, hence, these companies issue less debt for fear of their control being challenged.

As mentioned by Florackis and Ozkan (2009), based on British companies over the period 1999-2005, there was a positive relationship between managerial entrenchment and agency costs (measured by the asset turnover ratio). The higher the level of managerial entrenchment in a company, the greater would be the agency cost incurred to minimize the conflict of interest. The authors suggest that short-term debt and dividend payments are effective corporate governance mechanisms to reduce the costs of manager-shareholder agency conflict. In company with weak legal shareholder protection, managerial entrenchment would inevitably take place (Jo and Pan, 2009). An entrenched manager engages in high dividend payout ratio. In order to maximize the company value, the company tends to combine corporate governance provisions and dividend policy when there is an entrenched manager. High dividends are affected from managerial entrenchment or lower quality of managers (Bhattacharyya, Mawani, & Morrill, 2008).

With respect to distributing cash to shareholders, Grullon and Michaely (2002) surmise that dividend and share repurchase are substitutes. However, Dittmar (2000) saw it differently, saying that dividend and share repurchase were not substitutable. According to De Jong et al. (2003), behavioural and tax preferences play important roles in deciding between dividend and share repurchase. In addition, if a company has executive stock option plans, it is less likely to pay dividends. Higher foreign ownership in Finland served as a determinant of share repurchases (Liljeblom & Pasternack, 2006). This is due to the difference in tax treatments between local and foreign investors.

There is a positive relationship between strong shareholder rights and share repurchase (Jiraporn, 2006). The strong shareholder rights, force managers to use up the cash in the form of share repurchase with reduced self-interest intentions. Share repurchases are inefficient in companies with weak governance. The higher the level of managerial entrenchment, the lower the information on share repurchases (Wu, 2012). Share repurchase by insiders with weak control rights is used to secure their position during periods of poor performance, as an entrenchment device and to reduce incentive issues. Investors bid for a lower price on companies with weak governance compared to those with strong governance mechanism. Companies are likely to experience lower stock returns with repurchase (Joh & Ko, 2007). Hence, companies with high level of managerial entrenchment tend to choose either dividends or mixed payout (dividend and share repurchase) instead of solely share repurchase (John & Kynazeva, 2006).

3. Methodology

This research utilizes the data from Datastream and the Annual Report of companies listed on the Main Board of Kuala Lumpur Stock Exchange (Bursa Malaysia) for the period 2005 to 2010. Initial observation of this study consisted of 849 companies listed on the main market as at 31 December 2010. First, this study excluded 52 financial, trusts, and closed-end funds leaving with 797 nonfinancial companies. Out of that further 470 companies with missing or incomplete data were eliminated. Finally, a total of 327 companies were used in this study. This research also used the methodology of Florackis and Ozkan (2009), which employed principal component analysis (PCA) to measure managerial entrenchment. The reason for using this methodology is because PCA is able to summarize information and combine several governance variables contained in the individual entrenchment proxy by detecting linear relationships among variables. This would reduce the dimensions of the explanatory variables and multicollinearity problems.

The principal component analysis (PCA) was employed to construct 2 composite indices to proxy managerial entrenchment. The independent variables were growth option, board size, foreign board members, ownership voting, board independence, total remuneration, managerial stock option, ownership concentration, government ownership, foreign ownership, and managerial ownership (shown in Table 1). Using PCA it could automatically generate weights, unlike previous studies by Gompers et al. (2003) and Bebchuk et al. (2009), who assumed equal weight for all the variables of corporate governance in developing their entrenchment proxy. Based on PCA, the managerial entrenchment proxy could clarify the variance in the attributes of the group of independent variables.

Table 1 *Description of Variables*

Variables	Descriptions
DEPENDENT VARIABLES	
Dividend Yield	Dividend per share divided by average market price per share
Share Repurchase	The logarithm of total amount paid to repurchase shares.
Total Payout	Total Dividend + Total Share Repurchase
INDEPENDENT VARIABLES	
Growth option	Market-to-book equity ratio.
Board Size	Total number of directors on the board as shown in annual report.
Foreign Board Member	Dummy equal 1 if nationality is foreign, otherwise 0
Ownership Voting	Dummy equal 1 if voting right more than 20%, otherwise 0
Board Independence	The percentage of independent directors in a company.
Total Remuneration	The logarithm of total remuneration per year.
Managerial Stock Options	Dummy equal 1 if firm pay stock option, otherwise 0
Concentration Ownership	Herfindahl index: The squared of sum of shares of largest top five shareholders (HI5). Concentration Ratio (CR5): The percentage of shares owned by largest shareholder (Top1) divided by sum of shares of top five shareholders (Top5) $CR5 = Top1/Top5$
Government Ownership	Sum of top 30 shareholders in list, i.e. shares hold by federal/states institutions, agencies, & government-linked companies (GLCs)
Foreign Ownership	Sum of all shares hold by foreign shareholders.
Managerial Ownership	Percentage of shares held by executive directors to total number of shares issued.
CONTROL VARIABLES	
Risk	Debt rating from RAM's website. Dummy equal 1 if BBB & above, 0 otherwise.
Liquidity	Liquidity ratio = Net Cash Flow / Cash
Profitability	Return on Equity (ROE) = Net Income / Shareholder Equity Return on Asset (ROA) = Net Income / Total Asset
Firm Size	The logarithm of total assets
Leverage	Debt to Equity Ratio
Firm Age	The logarithm of listing age

Two different definitions for managerial entrenchment index were created. The reason why this study used ENT1 and ENT2 separately is because it wanted to observe the significance level of dividend decisions when the managers gain entrenchment power, as to whether it is due to the influence of ownership structure

ENTRENCHMENT 1 combines all the variables in quality of investment opportunities, effectiveness of internal governance, monitoring, CEO incentive, and ownership structure.

Entrenchment 1 (ENT1)

$$= \alpha + \beta_1 * \text{growth} + \beta_2 * \text{bsize} + \beta_3 * \text{fbmember} + \beta_4 * \text{ownvote} + \beta_5 * \text{governance} \\ + \beta_6 * \text{tremuneration} + \beta_7 * \text{msoption} + \beta_8 * \text{concentowner} + \beta_9 * \text{governowner} \\ + \beta_{10} * \text{foreowner} + \beta_{11} * \text{manowner} + \varepsilon \quad (1)$$

ENTRENCHMENT 2 includes the base factors that affect managerial entrenchment, excluding ownership structures.

Entrenchment 2 (ENT2)

$$= \alpha + \beta_1 * \text{growth} + \beta_2 * \text{bsize} + \beta_3 * \text{fbmember} + \beta_4 * \text{ownvote} + \beta_5 * \text{governance} \\ + \beta_6 * \text{tremuneration} + \beta_7 * \text{msoption} + \varepsilon \quad (2)$$

To classify data for high and low managerial entrenchment, this paper based it on the median value of the managerial entrenchment index, computed using PCA method. Finally, high entrenched consists of 990 observations and 972 of low entrenched manager. Dummy variable is used to represent the differences between high and low entrenched managers (DENT1 and DENT2). Higher entrenchment index score indicates that more power is being held by the manager and highly limited shareholders' ability in protecting their rights (Gompers et al., 2003). When the manager is highly entrenched, he/she becomes more indispensable to the company and shareholders are forced to become more tolerant of all the decisions made by the manager. Therefore, managers exploit this situation by tunnelling more cash for self-benefit (Banerjee et al., 2012). High (low) managerial entrenchment causes company having low (high) leverage together with less (more) capital structure to rebalance (Morellec et al., 2008).

This research employed panel data analysis to test the different level of entrenched manager influence on dividend payout, share repurchase and total payout. In this study, three models were developed to test the different level of entrenchment manager involvement on company payout method. There are:

$$\text{Model 1: } DY = f(\text{DENT1, DENT2, RK, LIQ, ROE, ROA, FZ, LEV, AGE}) \quad (3)$$

$$\text{Model 2: } SR = f(\text{DENT1, DENT2, RK, LIQ, ROE, ROA, FZ, LEV, AGE}) \quad (4)$$

$$\text{Model 3: } TP = f(\text{DENT1, DENT2, RK, LIQ, ROE, ROA, FZ, LEV, AGE}) \quad (5)$$

4. Findings

A. Summary of Managerial Entrenchment Index

Table 2 (panel A) reports the correlation matrix of the 12 variables used as proxy for managerial entrenchment. Correlation matrix is useful to detect the multicollinearity between variables. Gujarati (2003) suggests that when the correlation between two variables exceeds 0.8, multicollinearity problem exists. Serious collinearity gives ambiguous results and leads to difficulty in measuring the effects of independent variables (Chatterjee & Price, 1991). In Panel A, a few variables are correlated with each other at values above 0.5 but less than 0.8. Ownership voting by largest shareholders was negatively correlated to concentrated ownership, *HIS* and *CR5* at -0.67. This implies that when a Malaysian company is highly concentrated, voting rights of the largest shareholders are reduced. Concentrated ownership is positively related to company investment, board size and foreign board members. On other hand, foreign board members, *FBM*, were positively related to foreign ownership, *FO*, at 0.55.

Company investment opportunity, *MTBV*, is negatively related to largest ownership voting, *OV*, and managerial ownership, *MO*, at -0.06 and -0.02, respectively. This shows the higher the level of voting rights of the largest shareholders and high shareholdings by the manager, the investment opportunities of the company tend to decline. When the size of the board of directors in a company is large, *BZ*, it tends to increase the appointment of foreign board members, *FBM* as well as raise the CEO incentive through total remuneration, *TR* and the managerial stock option, *MSO*. On the other hand, an increase in the board's

local independent directors, *BI*, would result in a decrease in concentrated and foreign shareholding and CEO total remuneration at -0.06, -0.03 and -0.05, correspondingly.

Panel B (Table 2) presents the weighted results of each variable that contributes to managerial entrenchment proxies. Ownership voting, *OV*, board independence, *BI*, managerial ownership, *MO*, and stock option, *MSO*, were negatively correlated to managerial entrenchment 1 (*ENT1*). To explain in further detail, concentrated ownership, which is represented by *HI5* and *CR5*, contributed the highest weightage to *ENT1* that is 0.5 and 0.48, respectively. In addition, market-to-book equity ratio, *MTBV*, board size, *BZ*, foreign board members, *FBM*, government ownership, *GO*, foreign ownership, *FO*, and total remuneration, *TR*, were positively related to the creation of *ENT1*. Ownership structure was excluded in managerial entrenchment 2 (*ENT2*), thus, *BZ*, and *TR* were the highest contributors to the index proxy. Consistent with *ENT1*, *OV* and *BI* were negatively related to the formation of

Table 2: Results from Principal Component Analysis

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Panel A: Correlation Matrix												
	MTBV	BZ	FBM	OV	BI	HI5	CR5	GO	FO	MO	TR	MSO
MTBV	1.00											
BZ	0.00	1.00										
FBM	0.06	0.14	1.00									
OV	-0.06	-	-0.12	1.00								
BI	0.04	-	-0.05	0.04	1.00							
HI5	0.09	0.10	0.15	-	-	1.00						
CR5	0.02	0.03	0.06	-	0.01	0.52	1.00					
GO	0.08	0.14	-0.06	-	0.07	0.16	0.10	1.00				
FO	0.11	0.13	0.55	-	-	0.11	0.10	-	1.00			
MO	-0.02	-	-0.09	-	-	-	-	-	-	1.00		
TR	0.01	0.30	0.06	-	-	-	-	-	-	-	1.00	
MSO	0.08	0.05	-0.05	-	-	-	-	-	-	-	-	1.00
Panel B: Index Weight												
ENT1	0.09	0.17	0.22	-	-	0.50	0.48	0.14	0.22	-	0.03	-0.04
ENT2	0.03	0.65	0.34	-	-	-	-	-	-	-	0.46	-
Panel C: Descriptive Statistics for Managerial Entrenchment Proxies												
		Mean	Median	Maximum	Minimum	Std. Deviation						
ENT1		0.00	0.19	2.32	-2.33	1.00						
ENT2		0.00	-0.07	4.67	-3.21	1.00						
Note. <i>MTBV</i> = Market-to-Book Equity Ratio; <i>BZ</i> = Board size; <i>BI</i> = Board Independence; <i>FBM</i> = Foreign Board Members; <i>OV</i> = Ownership Voting; <i>HI5</i> = Concentrated based on Herfindahl Index; <i>CR5</i> = Concentrated based on Concentration ratio; <i>GO</i> = Government Ownership; <i>FO</i> = Foreign Ownership and <i>MO</i> = Managerial Ownership; <i>TR</i> = Total												

Remuneration; *MSO* = Managerial Stock Option; *ENT1* = Managerial Entrenchment 1; and *ENT2* = Managerial Entrenchment 2.

Descriptive statistics of managerial entrenchment index are presented in Panel C (Table 2). The average and median for *ENT1* and *ENT2* were zero with a median of 0.19 and -0.07, respectively. The result contradicts the entrenchment index value constructed by Sheu and Lee (2012). The authors used 4,428 observations of Taiwanese companies for the period 2000 to 2006 and found the average (median) managerial entrenchment index was -0.123 (0.076). In their study, they used affiliated board seats, independent directors, separation of ownership and control, cash compensation ratio, and CEO duality to proxy for entrenchment. Nevertheless, the range of Malaysian companies' managerial entrenchment index was between -2.33 and 2.32 for *ENT1* and between -3.21 and 4.67 for *ENT2*. The minimum value with -2.33 (*ENT1*) and -3.21 (*ENT2*) shows lower entrenched of managers in the Malaysian companies. This range of index values is lower compared with that of UK companies, which is between -4.14 and 5.08 as reported by Florackis and Ozkan, (2009). The difference in the results here might be due to differences in the combination factors used in measuring managerial entrenchment. The authors used ownership concentration, nonexecutive director ratio, board size, CEO duality, executive ownership and executive compensation, role and identity of controlling shareholders and voting power of each shareholder in block holders. Gompers et al. (2003) and Bebchuck et al. (2009) suggest that the higher the index value, stronger the powers of the manager in management decisions. Hence, the result from this study indicates that the level of managerial powers in Malaysian companies is still lower compared to UK companies.

B. The regression result of high and low entrenched manager.

According to Hausman (1981), the result based on fixed effect and random effects models would not be statistically different if the model is accurately specified and the individual effects are uncorrelated with the independent variables. To identify the model that is most suitable, Hausman test is performed, and the null hypothesis indicated that random effects model is better. The computed Hausman test favours the use of fixed effects model, *FEM*, for Model 1 and 3, while Model 2 suitable with random effects model, *REM*.

Variables	Model 1	Model 2	Model 3
Constant	5.207*	0.336	-2.353
	(3.143)	(1.122)	(2.941)
DENT1	0.202	0.059	-0.048
	(0.197)	(0.101)	(0.190)
DENT2	-0.312***	-0.035	-0.185
	(0.120)	(0.093)	(0.143)
AGE	-0.211	-0.180	-1.334*
	(0.453)	(0.221)	(0.704)
LEV	-0.004***	0.0001	-0.004***
	(0.001)	(0.001)	(0.002)
LIQ	0.002***	-0.001	0.001
	(0.001)	(0.001)	(0.001)
RK	0.147	0.006	0.398*
	(0.272)	(0.183)	(0.220)
ROA	0.018*	0.019*	0.040***
	(0.010)	(0.010)	(0.010)
ROE	0.013***	0.002	0.006
	(0.005)	(0.006)	(0.006)

SIZE	-0.187	0.627***	1.107***
	(0.347)	(0.136)	(0.345)
R ²	0.671	0.069	0.713
Adj. R ²	0.604	0.055	0.654
F-statistic	9.914***	4.789***	12.081***
DW	1.802	1.487	1.784
Hausman Test	23.485***	8.861	72.892***
<i>Notes.</i> α = constant term; <i>DENT1</i> = if high managerial entrenchment index ENT1, 1; otherwise 0; <i>DENT2</i> = if high managerial entrenchment index ENT2, 1; otherwise 0; Control variables consists of <i>AGE</i> = Company Age; <i>LEV</i> = Leverage; <i>LIQ</i> = liquidity; <i>RK</i> = Risk; <i>ROA</i> = return on assets; <i>ROE</i> = Return on Equity; <i>SIZE</i> = Company Size;. Significance level *** 1%, ** 5% and * 10%.			

The result on this study found that high managerial entrenchment ENT1 is positive and insignificant towards dividend payout and share repurchase and negatively insignificant on total payout. However, there is negative and significant relationship between high ENT2 and dividend payout policy at 1% significant level. The higher the level of entrenchment, the lower the company pay dividend payout with a coefficient of 31.2% (Model 1). However, in Model 2 and 3, there are no differences between high and low entrenched managers in influencing the company payout namely share repurchase and total payout. Therefore, this suggests that if the highly entrenchment power of the manager is unrelated to the firm ownership structure, (namely, concentrated, government, foreign, and managerial ownership); they tend to influence reduce in dividend payout with increases in the level of their power.

The control variables' liquidity position, *LIQ*, and profitability position, *ROE*, are positively related to dividend payout (Model 1) and insignificant on share repurchase (Model 2) and total payout (Model 3), while leverage, *LEV*, is negatively related to Model 1 and 3. This indicates that companies tend to increase the dividend payout once they gain more profits and liquidity with low level of debt. As for share repurchase, *ROA* and size of company shows positive relationship at 10% and 1% significant level, respectively. It indicates that when the management makes profit from their invested capital and the bigger the size of the company, they are more intent to make share repurchase. On the other hand, the higher the company's debt level and the older the company is, the higher the tendency that the company would reduce its total payout to shareholders. Mature or older company make knowledge, skills and expertise obsolete, and this could lead to decay of the company. It reduces the company ability to improve their profitability, hence results in reduced total payout (Leonard-Barton, 1992).

5. Conclusion

Most Malaysian companies categorized as concentrated ownership might act as owner-managers (Claessens et al., 2000; Faccio et al., 2001; La Porta et al., 2000). However, Malaysia entrenched managers who gain power based on ownership still unable to influence company payout decision regardless of the entrenchment level. When company control by highly managerial entrenchment ENT2, it's revealed that dividend payout tends to reduce. The highly entrenched manager would have enough power to make the decision and the tendency of the manager facing disciplinary action by the board is lessen. Hence, the possibility of these highly entrenched managers to misuse company's funds is greater. The type I agency problem between manager and shareholders is higher within Malaysian companies. This is consistent with the findings of Florackis & Ozkan (2009) and Banerjee & Masulis (2012). Highly entrenched managers tend to choose negative NPV projects if it gives them more personal benefits. The risk of reducing company value is lower if entrenched managers undertake projects with positive NPV. As a trade-off, to reduce company risk arising from the behaviour of managers, sufficient incentives and compensation should be

provided to align the shareholder and managerial interests. Managers try to achieve an appropriate balance between payments and investment, if given proper compensation (Bhattacharyya et al., 2008).

The company's decision regarding the payout method (dividend, share repurchase or total payout) is influenced by the entrenched manager. The Malaysian highly entrenched ENT2 only can influence in terms of dividends distribute instead of share repurchases or total payout. The level of entrenchment (high or low) will not give power to the manager in deciding matters regarding share repurchase and total payout (sum of dividend and share repurchase). The result is consistent with Wu (2012). The effectiveness of Malaysia's corporate governance mechanism plays an important role in deciding the payout preferences. Since most Malaysian companies are controlled by concentration of ownership, or family ownership, if the entrenched manager is able to influence share repurchase decision, it would hurt minority shareholders.

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