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RESEARCH ARTICLE

Effect of Moderating Variables: Financial Leverage and Dividend Payout of Publicly-Listed Property Sector of the Philippines

Harrison Kendrick L. Chun, Cynthia P. Cudia, Tristan Dranel M. Papa,
Raveena S. Tahilramani, and Althea R. Tan
De La Salle University, Manila, Philippines
cynthia.cudia@dlsu.edu.ph

Various studies on the relationship between financial leverage and dividend payout have been conducted; however, different factors affecting this relationship remain unexplored. This study aimed to identify the effect of different firm-specific moderating variables on the relationship between financial leverage and dividend payout of Philippine publicly-listed companies under the property sector for the years 2012–2016. These firm-specific variables were classified into two categories—company profile and financial condition. By employing multiple regression with the interaction model, the results of this study found that business risk has a significant effect on the relationship between financial leverage and dividend payout. Similarly, firm size was determined to be significant to the relationship due to the growing importance of stakeholder relationships to larger and more influential companies. In addition, a significant effect on the relationship between financial leverage and dividend payout was determined from liquidity, tangibility, and non-debt tax shield. Thus, this study recommends that potential shareholders who aim to maximize their wealth through dividends invest in corporations with high levels of liquidity and tangibility, and with minimal amounts of non-debt tax shields.

***Keywords*:** dividend payout, financial leverage, moderating variables

JEL Classifications: G32, M40, M41

One of the leading problems in financial decision-making is determining if companies should maximize their wealth by appropriating the right amount of debt to the capital structure and, subsequently, help the managers decide on how to distribute earnings to shareholders. Dividend payments are a strong indicator of a company's performance as it signals a management's positive expectation for future earnings (John & Williams, 1985; Miller & Rock, 1985). Proof of a company's robustness attracts investors; thus, dividend payments create more demand for the company's shares and subsequently increases stock

prices. This condition will provide the company with an available source of funds arising from equity.

Aside from equity funds, managers may choose to acquire capital through financial leverage. Financial leverage is defined as the existence of debt in the firm's capital structure (Pandey, 2008). Debt or financial leverage presents a major challenge to financial managers because of the increased exposure to risk associated with it, such as the inability to pay the amortization and interest on a loan due to failed investments or improper liquidity management (Chui, Lloyd, & Kwok, 2002). Hence, there is a need to investigate those characteristics which would influence both the firm's dividend decisions and financial leverage.

There have been numerous studies conducted that examined the relationship between financial leverage and dividend payout. Studies, such as those done by Fatemian and Hooshyarzadeh (2016) and Tariq (2015), showed that an inverse relationship exists between a firm's financial leverage and its dividend payout; however, different factors affecting this relationship remain to be uninvestigated. This leads to the research problem statement of this study "What is the moderating effect of different firm-specific variables on the relationship between financial leverage and dividend payout?" This study examined a group of variables, focusing on fundamental firm-specific variables taken from previous research. These firm-specific variables were classified into two categories:(1) company profile, which includes business risk, firm size, and growth opportunity; and (2) financial condition, which includes liquidity, tangibility, profitability, and non-debt tax shield. This study also focused on the property sector, which has higher degrees of leverage than other industries (Ooi, 2001). This study is crucial in the development of a single comprehensive framework that will enable management and other stakeholders to execute a more thorough and informed decision on dividend behavior.

Review of Related Literature

Financial leverage is when the option to use outside borrowings is exercised to finance a company's operations (Pandey, 2008). According to the trade-off theory of leverage, debt is essential in the capital structure because benefits, such as interest tax shields, are being realized (Campbell & Kelly, 1994). However, the theory determined that such benefit is only realizable when the optimal capital structure is attained. It is upon the company to decide the debt-equity allocation to be used in running its operations. Thus, it is imperative to consider other factors that are related to company policies and the nature of operations such as business risk, market growth rate, tax exposure, market conditions, and cost of capital in assessing the decision to be implemented.

The study of Okoye, Amahalu, Nweze, and Chinyere (2016) centered around the impact of leverage on dividend payout on firms listed in the Nigerian Stock Exchange. The results showed that at a 5% significance level, financial leverage has a statistically significant impact on the dividend policy of quoted firms in Nigeria. This study is in line with the results from Asad and Yousaf (2014), who considered the effects of leverage on dividend payment patterns of manufacturing firms in Pakistan, which demonstrate that leverage has a significant negative effect on dividend payment patterns of sampled firms. The study of Fatemian and Hooshyarzadeh (2016) found that the impact of financial leverage on the dividend payout ratio is negative and significant regardless of being a multinational company or a domestic company.

The study of Machfiro, Sukoharsomo, and Nuzula (2017) found that leverage has an insignificant effect on dividend policy and vice versa, regardless of company classification. These findings contradicted the debt covenant theory and monitoring hypothesis. This study attributed this anomaly to other determinants of dividend policy, causing it to overshadow the impact of financial leverage. Asif, Rasoof, and Kamal (2010) examined the relationship between dividend policy and financial leverage and concluded that change in earnings has no significant impact on dividend policy in the case of Pakistani firms. The fixed effect model supports only the significant effect of dividend yield on dividend per share.

Mworia (2016) determined the relationship between financial leverage and dividend payout ratios of publicly-listed entities in Nairobi and found that there is a strong negative correlation between leverage and dividend payout. Therefore, an increase in borrowing yields a lower tendency to distribute earnings. Mworia (2016) also determined that due to the positive correlation between entity size and dividend payout, large companies are expected to have a higher and more frequent payment of dividends than smaller

companies. The study of Ahmed and Javid (2008, p. 1) demonstrated that the profitable firms with more stable net earnings can afford larger free cash flows and, therefore, pay larger dividends. Furthermore, it was found that ownership concentration and market liquidity have a positive impact on dividend payout policy. In contrast, investment opportunities and leverage have a negative impact on dividend payout policy.

Over the years, various researchers have studied the impact of liquidity on firm value and dividend payout. On the one hand, the study of Olang, Akenga, and Mwangi (2015) claimed that there is a positive relationship between liquidity and dividend payout. As the level of liquidity increases, the level of dividend payout also increases. The study of Ahmed and Javid (2009) and Mahapatara and Sahu (1993) stated that among all other factors, liquidity had a positive impact on dividend payout. Thus, those firms with higher liquidity will be able to settle their dividends without the need to borrow capital. The results of their study showed that dividends tend to vary due to current earnings and previous dividends, which is evidenced in the level of earnings that vary with the level of dividend. These studies were consistent with the studies of Kouser, Luqman, Yaseen, and Azeem (2015) and Rustam, Rashid, and Zaman (2013), which showed that liquidity has a significant positive impact on the firm value and claimed that liquidity is very important to a company because it relates to converting its assets into cash. It is in accordance with the signaling theory because when the investors see that a company has good liquidity, it will give them a positive signal to the company. On the other hand, the study of Jacob (2017) showed that leverage has a significant impact on dividend payout but with a negative direction. The study stated that dividend does not have a positive effect on dividend policy because there is an investment of retained earnings in fixed assets; hence, resulting in low inventory turnover and uncollectible large receivable balance.

Lang and Litzenberger (1989) believed that the presence of growth opportunities has an impact on dividend policy, which can be explained by free cash flow and signaling theory. Similarly, Lopez-Iturriaga and Crisostomo (2010) stated that the present growth opportunities result in a negative relationship between dividend and firm value. The researchers claimed that with a lack of growth opportunities, there is a positive relationship between dividend and firm value (Lopez-Iturriaga & Crisostomo, 2010). Firms with no growth opportunities would be able to prevent wastage of scarce resources of the firm through profit distribution. Thus, in a firm without growth opportunities, it is anticipated that there is a positive relationship between dividend and firm value. Rahimian, Ghalandari, and Josh (2012) concluded that there was a significant relationship between leverage and firm value, significant negative relationship with the presence of growth opportunities, and significant positive relationship in the absence of growth opportunities. Therefore, it can be said that the correlation between leverage and firm value depends on the presence of growth opportunities.

Previous studies showed that tangibility has a significant effect on capital structure, but whether the effect is positive or negative is still a question. The study of Shleifer and Vishny (1992) showed that there is a positive direction between tangibility and capital structure because it reduces the cost of financial distress, which in turn, results in higher debt financing. Similarly, Sibilkov (2009) also stated that leverage is positively related to asset liquidity. He also claimed that there is a positive relationship between asset liquidity and secured debt and the curvilinear relationship between asset liquidity and unsecured debt. On the contrary, the study of Morellec (2001) suggested that having tangible assets and leverage have a negative relationship and increase the exposure of firms with a high level of tangible assets to risk. This is because of the possibility for managers to use tangible assets and sell them underpriced for short term funding, which results in penalizing debt and shareholders.

The study of Hassan, Tanveer, Siddique, and Mudasar (2013) claimed that tax shield and leverage have an insignificant relationship on the dividend payout policy. These results do not fall to the same line of thought as Overesch and Voeller's (2010) study, which argued that the tax shield of debt financing does, in fact, significantly affect companies' capital structure due to the contrasting capital income tax rates at stockholders' level. The results of their study showed that there is a significant positive relationship between relative tax benefit of debt and the company's debt ratio. The researchers confirmed the substitutive relationships between non-debt tax shields and tax incentives to use debt and find a significant impact of the dividend tax rate and the tax imposed on interest income on companies' debt ratios.

Miller (1977) stated that there is no best capital structure for any single firm under the current personal tax concessions made to equity income. DeAngelo and Masulis (1980) contradicted this statement by creating a theoretical explanation for the existence of a firm-specific optimal debt to equity ratio to reduce the corporate tax burden into account.

The study of Hashemijoo, Mohammad, and Mahdavi-Ardekani (2012) claimed that amongst all the firm-specific variables, size and dividend yield have the most significant effect on the share price volatility. This study is in line with the study of Karathanassis and Philiappas (1988), which concluded that the size of a firm could explain the volatility of share price. Their study also showed that there is a higher average return on smaller stocks and lower on large stocks. Atiase (1985) stated that when the firm's size increased, the company share price would most likely decrease. This is in line with the study of Benishay (1961) and Allen and Rachim (1996), wherein they found that smaller firms will be less likely to be placed in critical observation as compared to larger firms because they are not as involved as larger firms in diversification activities. Therefore, the stocks of smaller firms traded in a market become less informed, mores illiquid, and have higher price volatility. This is consistent with the studies of Adjaoud and Ben-Amar (2010) and Ramli (2010), which reported a positive relationship between dividend payout and firm size.

Several studies (Bhattacharya, 1979; John & Williams, 1985; Miller & Rock, 1985) believed that managers have first-hand information about the firm's present financial status and outlook and expectations, which are not known to the shareholders. This is in line with the signaling theory, which proposes that managers may have insider information that is not available to stakeholders. Thus, managers can disclose this private information to the shareholders in the form of dividends that acts as a signaling tool in which managers can receive rewards for conveying private information to shareholders. Moreover, business risk is the uncertainty of a firm's current and future profits. Hence, lower profits would signal lower dividends.

The pecking order theory states that companies should finance their new investment opportunities by internal finance first, which refers to retained earnings (Myers & Majiluf, 1984). The theory further relates that insufficient internal finance results in a firm's likelihood of obtaining debt finance over equity finance to reduce the information asymmetry costs and transaction costs. Myers and Majiluf (1984) further claimed that companies who have a higher growth rate would need higher investment requirements; and, in turn, will likely have a lower dividend payout ratio.

In agency cost theory, the problem arises between the principal owner (shareholders) and agent (manager) when the manager makes decisions, which are not favorable to shareholders but to his own advantage or self-interest. For example, managers whose incentives are related with the size of the firm may choose to expend richly on projects that enlarge the firm's size beyond its optimal capacity. The company should opt to pay dividends to common stockholders so that it will reduce the excess cash flow available with managers, thereby reducing the agency problem between the manager and shareholders (Jensen & Meckling 1976; Rozeff, 1982; Easterbrook, 1984). Hence, a positive relationship is predicted between free cash flow and dividend payout ratio in relation to the agency problem. The agency problem may also occur between the bondholders and shareholders. The higher tangibility of the company's assets will result in a higher level of protection for bondholders, which reduces the agency problem that is brought about by conflicts between the bondholders and equity shareholders. Thus, a positive relationship may exist between a firm's tangible assets and its dividend payout ratio.

The study of Labhane and Das (2015) claimed that the size of the firm might also affect the dividend decision of a firm. Firms who are larger tend to have a higher proportion of institutional shareholding pattern, which allows easy access to capital markets that leads them to pay a higher amount of dividends. From the same study, it was also mentioned that larger firms may find it difficult to monitor themselves, which increases the agency problem between the managers and shareholders. Consequently, larger firms are obliged to pay more dividends to reduce the agency problem. The natural logarithm of total assets was used in this study to measure firm size and a positive relation was predicted.

The transaction cost theory states that firms who have a higher proportion of debt finance in total capital will have a higher level of commitment to pay the fixed interest charges, and this will reduce the dividend payment to common equity holders (Higgins, 1972; Fama, 1974). Firms who raise capital from debt are committed to honor the fixed interest charges on

the debt and its principal amount. The theory further assumes that if a firm fails to honor its commitment, then it must undergo liquidation. Hence, there is a risk involved in taking on a high percentage of debt as it will result in a lower dividend payout because, holding other things constant, the firm will need to use its internally-generated profit to pay interest charges instead of paying it as dividends to its stockholders. The theory then suggests a negative relationship between the level of financial leverage and dividend payout ratio.

The current ratio compares a firm's current (liquid) assets to its current (short-term) liabilities. From a study conducted by Labhane and Das (2015), it was pointed out that there may be instances where firms have enough profits to declare dividends but not sufficient cash on hand to pay dividends. For that reason, there is an expectation that dividend decisions may be affected by the firm's liquidity position. Higher liquidity means that firms can pay higher dividends due to the excess amount of cash available. According to Titman (2015), overall liquidity is analyzed by comparing a firm's current assets to the firm's current liability. The study utilized the current ratio as a measure of liquidity.

In a survey, Lintner (1956) found that the key factor affecting the dividend decision of a firm is net earnings. This supports the study of Fama and French (2001), which claimed that the larger and more profitable firms pay more dividends as compared to smaller and less profitable firms. As the dividends are paid directly from profits after tax, companies who have retained more earnings from periods where they experienced high profitability are expected to distribute more dividends.

Based on these literary findings, variables used in this study (Table 1) were expected to obtain the outcomes as indicated. Moreover, several theories, such as the signaling theory, pecking order theory, and agency cost theory, provide reasonable basis that business risk will have a negative effect, growth opportunity will have a negative effect, and firm size and tangibility will have a positive outcome on the relationship between financial leverage and dividend payout, respectively. Various concepts in Table 1, such as current ratio, earnings before interest and taxes (EBIT) margin, and accumulated-depreciation-to-fixed-assets ratio, also provide a basis on the positive effect of liquidity, profitability, and non-debt tax shield on the said relationship, respectively.

Table 1. ***Summary of a Priori Expectations***

Variables		Expected Outcome	Supporting Theory/Concepts	Sources
Company Profile	Business Risk	-	Signaling Theory	Bhattacharya, 1979 John & Williams, 1985 Miller & Rock, 1985
	Firm Size	+	Agency Cost Theory	Jensen & Meckling, 1976 Rozeff, 1982 Easterbrook, 1984 Labhane & Das, 2015
	Growth Opportunity	-	Pecking Order Theory	Myers & Majiluf, 1984
Financial Condition	Liquidity	+	Current Ratio	Titman, 2015 Labhane & Das, 2015
	Profitability	+	Earnings before Interest and Taxes (EBIT) Margin	Lintner, 1956 Fama & French, 2001
	Tangibility	+	Agency Cost Theory	Jensen & Meckling, 1976 Rozeff, 1982 Easterbrook, 1984
	Non-debt Tax Shield	+	Accumulated - Depreciation - to - Fixed - Assets Ratio	Overesch & Voeller, 2010

This study introduced moderating variables that affect the relationship of financial leverage and dividend payout, as established by prior studies; therefore, this study is crucial in the development of a single comprehensive framework in making dividend decisions. To determine the effect of these variables that would enable stakeholders to execute a more thorough and informed decision-making process, this study formulated a multiple regression with interaction model, as discussed in the methodology.

Methodology

This study used archival research design in testing the hypotheses regarding the effects of firm-specific variables on the relationship between financial leverage and dividend payout; and employed correlational research design because it determined the extent to which two variables are correlated (Siegle, 2015). The population for this research included firms listed in the Philippine Stock Exchange (PSE) under the property sector. The property sector shows characteristics of a higher degree of leverage than companies of other sectors since because most companies under this category usually buy out large properties, which entail large upfront investments and often funded by an immense quantity of debt (Blokhin, 2015). To be specific, this study included data regarding business risk, firm size, growth opportunity, liquidity, profitability, tangibility, and non-debt tax shield of publicly-listed firms under the PSE for the years 2012–2016.

In this study, although 37 companies are publicly-listed under the property sector, two of those were listed only within the last five years; hence, they will not be able to provide data from the years 2012–2016. Out of the 35 companies, only 16 companies have consistently paid dividends for the range of time aforementioned. Thus, all of these 16 companies were used as the sample for this study.

To avoid spurious results, preliminary tests were conducted. These tests include a test for assumption of normality, homogeneity, heteroskedasticity, and multicollinearity. Moderated multiple regression is the recommended statistical technique for examining interactions between predictors, especially when some

Table 2. *Measurement of Variables*

Variable	Abbr.	Type		Formula
Financial Leverage	FL	independent	Debt Ratio	$\frac{total\ long-term\ debt}{total\ assets}$
Dividend Payout	DP	dependent	Dividend Payout Ratio	$\frac{dividends\ declared}{net\ income}$
Business Risk	BR	moderating	Natural Logarithm of Share Price	$\delta\ of\ share\ price$
Firm Size	FS	moderating	Natural Logarithm of Total Assets	$\delta\ of\ total\ assets$
Growth Opportunity	GO	moderating	Change in Total Assets	$\frac{new\ total\ assets-old\ total\ assets}{old\ total\ assets}$
Liquidity	LIQ	moderating	Current Ratio	$\frac{current\ assets}{current\ liabilities}$
Profitability	PRO	moderating	EBIT Margin	$\frac{earnings\ before\ taxes\ \&\ interests}{total\ sales}$
Tangibility	TAN	moderating	Fixed Assets Ratio	$\frac{fixed\ assets}{total\ assets}$
Non-debt Tax Shield	NDTS	moderating	Accumulated-Depreciation-to-Fixed-Assets Ratio	$\frac{total\ accumulated\ depreciation}{total\ assets}$

of the predictors are continuously scored (Aiken & West, 1991). A moderator is a "variable that affects the direction and/or strength of a relationship between an independent or predictor variable and a dependent or criterion variable" (Baron & Kenny, 1986, p. 1174). Moderation or interaction "occurs when the strength or direction of the effect of a predictor variable on an outcome variable varies as a function of the values of another variable, called a moderator" (Marsh, Hau, Wen, Nagengast, & Morin, 2013).

To test the hypotheses of this study, the following regression model was estimated:

$$DP_{it} = \alpha + \beta_1 FL_{it} + \beta_2 FL_{it} BR_{it} + \beta_3 FL_{it} FS_{it} + \beta_4 FL_{it} GO_{it} + \beta_5 FL_{it} LIQ_{it} + \beta_6 FL_{it} PRO_{it} + \beta_7 FL_{it} TAN_{it} + \beta_8 FL_{it} NDTS_{it} + \beta_9 FL_{it} BR_{it} FS_{it} GO_{it} + \beta_{10} FL_{it} LIQ_{it} PRO_{it} TAN_{it} NDTS_{it} + \varepsilon_{it} \quad (1)$$

where DP = dividend payout for firm *i* in period *t*, FL = financial leverage for firm *i* in period *t*, BR = business risk for firm *i* in period *t*, FS = firm size for firm *i* in period *t*, GO = growth opportunity for firm *i* in period *t*, LIQ = liquidity for firm *i* in period *t*, PRO = profitability for firm *i* in period *t*, TAN = tangibility for firm *i* in period *t*, and NDTS = non-debt tax shield for firm *i* in period *t*.

The different variables employed in this study were computed through the measurements shown in Table 2.

Results and Discussion

Financial Leverage (FL)

As shown in Table 3, the mean financial leverage is 0.28. The minimum financial leverage is 0.00, whereas the maximum financial leverage is 0.99. Mean average is the most commonly used method of describing the central tendency. This conveys that the average of the 80 observations represented by the financial leverage variable with values between 0.00 to 0.99 is 0.28. As the mean from Table 3 is 0.28, and the standard deviation is 0.16, we can estimate that approximately 95% of the scores will fall in the range of 0.28-(2*.16) to 0.28+(2*0.16) or between -0.05 and 0.61.

Firm Size (FS) The mean firm size is 24.08, whereas the minimum is 19.55, and the maximum is 27.01. This indicates that the average of the 80 observations under the firm size variable with values between 0.19 to 27.01 is 24.08. The range of the values is 7.46. As the mean from Table 3 is 24.08, and the standard deviation is 1.89, it can be estimated that approximately most of the scores will fall in the range between 20.30 and 27.86.

Growth Opportunity (GO) The mean growth opportunity is 0.32, whereas the minimum growth opportunities is -0.14, and the maximum is 0.12. As the standard deviation for the data provided above is 1.14, we can estimate that most of the scores will fall in the range between 1.95 and 2.60.

Table 3. *Descriptive Statistics*

Variable	Obs.	Mean	Std. Dev.	Min	Max	Range
Financial Leverage	80	0.2773009	0.1636227	0.0000000	0.9924856	0.9924856
Firm Size	80	24.0834304	1.8901570	19.5484375	27.0082075	7.45977
Growth Opportunity	80	0.3245359	1.1358020	-0.1384011	10.1201587	10.2585598
Business Risk	80	1.2226760	0.3968285	-0.0947184	3.0300965	3.1248149
Profitability	80	0.4939315	0.3066059	0.0004089	1.8930184	1.8926095
Liquidity	80	2.9380880	2.7526373	0.0047493	15.270013	15.2652637
Dividend Payout	80	0.2949316	0.2019344	0.0000000	1.1328327	1.1328327
Tangibility	80	0.5646962	0.1704890	0.1808850	0.9995671	0.8186821
Non-debt Tax Shield	80	0.0504581	0.1013366	0.0000000	0.5143849	0.5143849

Note. Obs.=observations. Std. Dev.=standard deviation. Min=minimum. Max=maximum.

Business Risk (BR) The mean business risk is 1.22, whereas the minimum is -0.09, and the maximum is 3.03. The negative value implies that a company suffered a net loss within the time frame under study. The range of the values is 7.46. The standard deviation is 0.40. It can be estimated that most of the scores will fall in the range between 0.43 and 2.02.

Profitability (PRO)The mean profitability for this study is 0.49. The minimum profitability is 0.00, whereas the maximum profitability is 1.89. This indicates that the average of the 80 observations under the profitability variable with values between 0.00 and 1.89 is 0.49. With the standard deviation of 0.31, we can estimate that most of the scores will fall in the range between -0.12 and 1.11.

Liquidity (LIQ) Liquidity has a mean of 2.94. The minimum liquidity, as shown in Table 3, is 0.00, whereas the maximum is 15.27. This indicates that the average of the 80 observations under the liquidity variable with values between 0.00 and 15.27 is 2.94. With a standard deviation of 2.75, we can estimate that most of the scores will fall in the range between -2.57 and 8.44.

Dividend Payout (DP) The dividend payout ratio has a mean of 0.29. The minimum dividend payout is 0.00, whereas the maximum dividend payout from the data provided is 1.13. This indicates that the average of the 80 observations under the dividend payout variable with values between 0.00 and 1.13 is 0.29. The standard deviation of 0.20 indicates that most of the scores will fall in the range between -0.11 and 0.70.

Tangibility (TAN) The mean tangibility is 0.56, whereas the minimum is 0.18, and the maximum is 1.00. This indicates that the average of the 80 observations under the tangibility variable with values between 0.18 and 1.00 is 0.56. The standard deviation of 0.17 indicates that most of the scores will fall in the range between 0.23 and 0.91.

Non-debt Tax Shield (NDTS) The mean non-debt tax shield used in the study is 0.05. The minimum non-debt tax shield is 0.00, whereas the maximum is 0.51. This indicates that the average of the 80 observations under the non-debt tax shield variable with values between 0.00 and 0.51 is 0.05. The standard deviation is 0.10 indicates that most of the scores will fall in the range of between -0.15 and 0.25.

Financial Leverage (FL) As established by prior studies (Fatemian & Hooshyarzadeh, 2016; Tariq, 2015), financial leverage has a significant negative effect on dividend payout. Based on the results presented in Table 4, the samples yielded a coefficient of -0.59 and a *p*-value of 0.036 for its financial leverage (FL), which is less than the 0.05 level of significance use, verifying the relationship between the independent and dependent variable. Financial leverage, therefore, has a significant negative effect on dividend payout.

Business Risk (FLBR) In this study, as shown in Table 4 results of the fixed effects based on multiple regression analysis showed that the samples yielded a coefficient of -0.02 and a *p*-value of 0.02 for its FLBR, which is less than the 0.05 level of significance use, indicating that the variable is significant to this study

Table 4. *Results of Fixed Effects Regression*

Variables	Coefficient	Standard Error	z	P > z	95% Confidence	Interval
FL	-0.5937776	0.2762129	-2.15	0.036	.0410769	1.146478
FLBR	-0.0160888	0.0067648	-2.38	0.021	-0.0296698	0.0428659
FLFS	0.0405686	0.0011443	35.45	0.000	0.0382713	0.0428659
FLGO	-0.010127	0.0226037	-0.45	0.656	-0.0555059	0.0352518
FLLIQ	0.0070222	0.0025106	2.8	0.007	0.001982	0.0120625
FLPRO	-0.0048887	0.0174669	-0.28	0.781	-0.0399549	0.0301775
FLTAN	0.0915237	0.0277978	3.29	0.002	0.0357172	0.1473301
FLNDTS	-0.3586816	0.1422181	-2.52	0.015	-0.6441964	-0.0731667
FLBRFSGO	0.0007273	0.0011142	0.65	0.517	-0.0015096	0.0029641
FLLIQPROTANNDTS	0.1376531	0.0810227	1.7	0.095	-0.0250068	0.3003129

and that there is sufficient reason to reject the null hypothesis. The variable, therefore, has a significant negative effect on the relationship between leverage and dividend. This also indicated that for every 0.02 increase in business risk, there is a 0.02 decrease in dividend payout or vice versa.

Firm Size (FLFS) Results of the fixed effects regression analysis exhibited a coefficient of 0.04. This means that for every 0.04 increase in firm size, there is a 0.04 increase in dividend payout. Moreover, the results showed a *p*-value of 0.00. The *p*-value is less than the level of significance used (0.05). This implied that there is sufficient reason to reject the null hypothesis and that the variable is, therefore, significant to this study with a positive effect.

Liquidity (FLLIQ) The coefficient of 0.01 and the *p*-value of 0.01 were generated for liquidity. As shown in the results, the *p*-value is less than the level of significance used (0.05). This implies that there is sufficient reason to reject the null hypothesis and that the variable is, therefore, significant to this study with a positive effect. It is concluded that for every 0.01 increase in liquidity, there is a 0.01 increase in dividend payout.

Tangibility (FLTAN) Tangibility showed a coefficient of 0.09 and a *p*-value of 0.002. The *p*-value is less than the level of significance used (0.05). This means that there is sufficient reason to reject the null hypothesis and that the variable is, therefore, significant to this study with a positive effect. It was concluded that for every 0.09 increase in tangibility, there is a 0.09 increase in dividend payout.

Non-debt Tax Shield (FLNDTS) The results showed that FLNDTS has a coefficient of -0.36 and a *p*-value of 0.02. The *p*-value is less than the level of significance used (0.05). This implied that there is sufficient reason to reject the null hypothesis and that the variable is, therefore, significant to this study with a negative effect. It was concluded that for every 0.36 increase in non-debt tax shield, there is a 0.36 decrease in dividend payout or vice versa.

The succeeding paragraphs discuss findings in this study on the relationships identified by prior literature and the most likely causes behind inconsistencies from a priori expectations. This study suggests that business risk has a significant negative effect on the relationship between financial leverage and dividend payout. The property sector normally consists of highly leveraged entities that tend to incur financial stress from bankruptcy risk. Due to financial stress, corporations become more sensitive towards other factors affecting stakeholder expectations, such as business risk. In accordance with the signaling theory, the board of directors will then increase dividend payout to manage the stakeholders' expectations. This supports the study of Benishay (1961) and Allen and Rachim (1996), who claimed that lack of risk diversification makes the stocks less informed and subsequently reduces dividend payout.

Another component of the company profile, firm size, revealed a significant positive effect on the relationship. This validated the study of Mworia (2016), who found that larger companies are more likely to incur debt with high borrowing yields, and thus, less likely to distribute earnings. In this study, we found that larger companies are also more sensitive to the growing significance of stakeholder satisfaction to the business. For highly leveraged entities, this provided a higher drive to solve the agency problem between bondholders and shareholders. Hence, to maintain a good relationship with the creditors, a company will limit its dividend payout as the company size increases.

This study unexpectedly found that growth opportunities have no significant effect on the relationship between financial leverage and dividend payout. This opposed the findings of Lang and Litzenberger (1989), who argued that there exists an agency problem because growth opportunities cause higher funds to remain in the hands of the managers. This yields a lower tendency to declare dividends because of an incentive to retain earnings to have higher funds at the manager's disposal. In this study, the variance in outcomes was attributed to the ongoing change in Philippine entities' strategy for sustainable growth, from a financial investment focus to a social investment focus. This transition caused the agency problem to be questionable because it provides the board of directors with an incentive to declare dividends even during a period of numerous growth opportunities. Furthermore, liquidity was found to have a significant positive effect on the relationship. Highly leveraged entities, who tend to have lower liquidity than others, are more likely to have lower dividend payout than other entities. This is consistent with the study of Ahmed and Javid (2009) and Mahapatara and Sahu (1993), who found that the higher a firm's liquidity, the higher its ability to satisfy its dividend

payments without resorting to borrowing capital which would incur additional costs.

Profitability has an insignificant effect on the relationship between financial leverage and dividend payout. This finding goes against the study of Wijaya and Panji (2015), which stated that profitability is the main consideration of dividend payout; thus, it gives a positive and significant impact on dividend policy. In our study, we have found that the insignificance is attributable to the long operating cycle and a lower turnover of the property sector, which yields an unpredictable volume of sales per period. Given that the sales figure is highly fluctuating, the dividend payout decision would rely on accumulated profits rather than current profitability.

Tangibility was found to have a significant positive effect on the relationship between financial leverage and dividend payout. In accordance with the agency cost theory, tangibility grants more protection to bondholders; hence, the risk of bankruptcy decreases. Subsequently, more investors will be willing to buy the firms' shares of stocks. When shares are sold, the entity obtains easier access to fresh sources of funds, which increases the dividend payout. This supports the study of Morellec (2011), which argued that bondholders expect that their claims would decrease. When tangibility is high, debts are more likely to be collateralized. Collateralized debt generally incurs a lower cost of debt, and subsequently, a higher source of fund and higher dividend payout.

The findings also revealed that a non-debt tax shield has a significant negative effect on the relationship. This contradicts Overesch and Voeller's (2010) findings, who argued that the non-debt tax shield has a significant positive effect on the relationship because it increases the cash available for dividend distribution. However, our study opposes the idea by considering the allocated cost of spending on the purchase of depreciable assets. As this cost is often greater than the tax benefit, the net effect decreases the earnings available for dividend distribution.

Company profile, which represents the interactive effect of the business risk, firm size, and growth opportunity, was unexpectedly found to be insignificant. This can be attributed to the transition in strategies for corporate development, from a profit-oriented approach to a stakeholder wellness approach. Similarly, financial condition, the interactive effect of liquidity, profitability, tangibility, and non-debt tax shield were also found to be insignificant due to the lack of relationship between the variables involved.

Conclusion and Recommendations

The results of this study revealed that the following moderating variables are significant to the relationship between financial leverage and dividend payout: business risk, firm size, liquidity, tangibility, and non-debt tax shield. However, comparison with the a priori expectations revealed two contradictions. First, the individual effect of growth opportunity and profitability, and the compound effect of company profile and financial condition variables were revealed to be insignificant. Second, the direction of profitability and non-debt tax shield were found to be negative, inconsistent with prior studies.

By providing an understanding of the significant factors affecting the relationship between leverage and dividend payout, this study provides a reliable basis on the formation of a comprehensive framework on dividend decision making. Future researchers may also rely on this study to develop new theories on related topics such as capital budgeting. This study is also expected to enable corporations and investors to have a better understanding of their roles in a dividend transaction. Specific implications of this study's results and conclusions on different groups are discussed accordingly.

As the firm size and business risk are significant, we recommend entities to restructure their investment plans periodically by appropriating their funds to various stakeholders. This is to update the appropriateness of the dividend policy, in accordance with the changing needs associated with their growth and the changing stakeholders' expectations. In addition, because liquidity, tangibility, and non-debt tax shield are significant, they should find a balance between liquidity and investment in fixed assets and assess its suitability to the nature of business operations.

Given that the company profile is insignificant to the relationship, the shareholders and other investors are recommended to consider investing in companies of a lower company profile when dealing with an industry composed of highly leveraged entities. This is because they tend to cost less than companies with higher company profile. At the same time, they yield returns from dividends that are similar to high profile companies. However, they should also consider the

liquidity of the company to ascertain that the expected return from dividends will be realized.

Based on the findings that firm size is significant to the relationship, we recommend that creditors of large highly-leveraged entities consider debt-to-stock conversion offers and assess if the interest received from the loan is still greater than the return to be realized if the loan is converted to stocks. Furthermore, given that liquidity is significant, even if the creditor has no desire to exercise the conversion offers, they may still determine the company's capability to pay the loan through its capacity to distribute earnings as dividends. The company's tangibility can be considered. The greater the excess of the company's fixed assets over its debt, the more secure the creditor's loans are because these assets serve as mortgage collateral to secure their claims from the entity.

This study also revealed several gaps in fully understanding the relationship between financial leverage and dividend payout. First, knowing that there is a possibility that the significance of growth opportunities is greatly affected by the growing importance of stakeholder relationships, we recommend future researchers to explore the relationship between company growth and stakeholder expectations. Furthermore, because both company profile and financial condition were found to be insignificant, it is recommended for future researchers to explore other variables and determine if they can be included in the groups. Examples of variables to be explored are the effect of corporate social responsibility and corporate governance for company profile and share prices for the financial condition. Lastly, we recommend that future researchers use other measures of the financial ratios to ascertain consistency or to discover other variables that may affect relationships found in this study.

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