Dividend Payout Policy: The Case of Islamic and Non-Islamic Banks in Malaysia

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Abstract

This research aims to identify the relationship between profitability, lagged dividends, financial leverage, and revenue growth towards the dividend payout of the Islamic and non-Islamic banks in Malaysia. The research examines ten banks listed by Bank Negara Malaysia, where five Islamic banks and five non-Islamic banks in Malaysia were chosen. The data were analyzed from the period 2016 to 2020. The findings revealed that profitability and financial leverage significantly impact dividend payout for non-Islamic banks. However, lagged dividend and revenue growth, significantly impact dividend payout for Islamic banks. The findings from this research provide a direction for potential shareholders to understand the financial health of companies to make better investment decisions. Besides, the results are essential for the board of directors to revise the dividend policy by considering the factors that significantly impact dividend payments.

Keywords: Dividend Payout, Islamic Banking, Return on Asset, Lagged Dividend, Financial Leverage, Revenue Growth

Introduction

Banking plays an essential role in the national economy. With the advent of globalization, the banking sector has improved its services in response to competitive pressures and increased demand for economic growth. The ability of banks to raise funds from various sources creates characteristics fund flow of the banking system. The concept of Islamic banking was introduced in Malaysia in the 1980s. It is a banking system under Shariah law that acts as a guideline to prevent prohibited activities such as Riba (Interest), Gharar (speculative trading), and Maysir (gambling). Islamic banks employed the concept of profit and loss sharing in its product and provide dividends (hibah) based on the agreed-upon percentage. However, non-Islamic banking is a profit-driven business with the most interest (usury) transactions. They generate profit with any business activity where the profits will be distributed to the shareholder as dividends.

A dividend payout is a sign of the stability of a firm. A firm's dividend payout can give shareholders more confidence in the company's future earnings. According to Omar and Abdelghani (2019), earnings and dividend announcements are important to investors. This can help the shareholders to get an insight into the firm performance by analyzing the

dividend policy. In the financial year ended 31 December 2019, banks in Malaysia paid higher dividends amid gloomy loan growth prospects and increased capital surplus (RAM Rating, 2020). Besides, Islamic financing has grown strongly and shares 30% to 35% of the total bank's gross loan despite the economic constraints of Covid-19 (Febrian & Tamma, 2019). The Islamic dividend policy of most banks is the payout of irregular dividends. A dividend (hibah) is a voluntarily given grant that may or may not be given in any given year. The dividend policy of non-Islamic banks is based on a regular dividend, in which a profit must be distributed yearly. Therefore, Malaysia is becoming more competitive in increasing the productivity of banking operations. In agency theory, there are discrepancies in the determinants of dividend policy that have been investigated. Some authors confirm a positive relationship between agency theory and dividends. Dividends can be used as a monitoring device that reduces agency costs (Chang et al., 2016). But, according to De Cesari (2012), there is no strong evidence that firms increase payouts to mitigate agency conflicts. It is believed that a dividend policy can help to reduce the agency costs associated with the separation of ownership and control (Mui & Mustapa, 2016).

Although dividend policy and financial institutions have been studied comprehensively, not many have explored in depth on the determinants of dividends payout of Islamic banking in Malaysia. Therefore, a lack of awareness of how Islamic banks function is a major problem. Malaysia presents an ideal case study based on two observations. First, Malaysian banks have faced declining dividend payout ratios following the implementation of the moratorium in recent years, especially since Covid-19 (Ee Lin, 2021). Banks determine and restructure eligible borrowers at their discretion. Second, the emphasis on risk management controls is enshrined in BNM's Investment Policy. The risk of capital loss is subject to the performance of the investment assets. However, in 2020, Malaysia suffered its worst economic performance by contracting 5.6% since the Asian Financial Crisis (Anisah, 2021).

Malaysia became deflated in the period January until February in the year 2020 for the first time after the global financial crisis in 2009. Despite the implementation of large-scale monetary and fiscal stimulus measures, global risk aversion activities remained significant. Therefore, the bank has a role to play in managing monetary policy so that inflation remains low and stable. In addition, becoming a more advanced financial system is a system that can help absorb shocks, and in turn, contribute to the resilience of the country while being able to develop the non-Islamic financial system and Islamic finance.

However, there have been no general conclusions on the factors that determine dividend policy and how these factors interact. Therefore, this research is a development on the factors influencing dividend policy. This study uses factors that influence the dividend payment, such as return on assets, dividend payment ratio of the previous year, debt to assets ratio, and revenue growth in five Islamic and five non-Islamic banks in Malaysia during the period 2016 to 2020.

Research Question
The profitability, lagged dividend, financial leverage, and revenue growth are commonly used to observe and measure the bank's performance, especially dividend payout. The research questions for this study are as follows:
(a) Is there any relationship between profitability and dividend payout of banks in Malaysia?
(b) Is there any relationship between financial leverage and dividend payout of banks in Malaysia?

(c) Is there any relationship between lagged dividends and dividend payout of banks in Malaysia?

(d) Is there any relationship between revenue growth and dividend payout of banks in Malaysia?

Specific Objective
- The objectives of this research are: To investigate the relationship between profitability and dividend payout of banks in Malaysia.
- To investigate the relationship between financial leverage and dividend payout of banks in Malaysia.
- To investigate the relationship between lagged dividends and dividend payout of banks in Malaysia.
- To investigate the relationship between revenue growth and dividend payout of banks in Malaysia.

Literature Review

Al-Kayed (2017) studied the factors influencing financial institution dividends in Saudi Arabia from 2011 to 2014. The study's findings revealed that Islamic and non-Islamic bank profits have no significant impact. Islamic banks' profits do not go towards increasing dividends, but non-Islamic banks pay dividends regardless of their profitability. However, Bakri et al (2021), who studied the relationship between dividend policy determinants pre- and post-Malaysian Code on Corporate Governance (MCCG) in 2012, revealed that profits influence the dividend policy. According to Mughal et al (2012); Atmaja (2009), profitability has a positive impact on dividend policy where the profits rise, the dividend payout will rise as well. This is also supported by Lin et al. (2018), profitability has a considerable impact on dividend policy for the property market. If the profitability rises, the dividend payment will increase. On the other hand, Eng et al (2013); Jovković et al (2021) discovered that firm profitability negatively or insignificantly affected dividend policy.

Besides that, Aasia et al (2011) investigated the relationship between financial leverage and dividend policy for companies listed on the Karachi Stock Exchange from 2002 to 2008. The findings disclosed that leverage negatively affects the dividend payout, revealing that the larger the total debt, the fewer the benefits of rising dividends for shareholders. In the Malaysian context, Lin et al (2018) investigated the determinants of dividend policy in the property market from 2012 to 2016. The research found a negative relationship between leverage and dividend payout, indicating that highly leveraged companies are more likely to pay lower dividends. Anazonwu et al (2018); Patra et al (2012); Aasia et al (2011) found that leverage has a negative effect on dividend payout. Other than that, Yusof and Ismail (2016) investigated the determinants of dividend policy in Malaysia's highly leveraged enterprises from 2005 to 2014 and found that dividend policy negatively affected highly leveraged firms.

Next, Bassey et al (2014) revealed that the previous dividends influenced the firm's dividend payout, and the finding was based on research on Nigerian Commercial Banks using the Ordinary Least Squares (OLS) regression technique from 1989 until 2010. Moreover, Al-Kayed (2017); Alzomaia and Al-Khadhiri (2013) found that the lagged dividend has a significant effect on dividend policy. In addition, Al-Ajmi and Hussain (2011) applied unbalanced panel data to identify the determinants that affect a firm's cash dividend payout of 54 Saudi-listed companies from 1990 to 2006. The findings stated that Saudi firms are willing to decrease or skip payouts when earnings decline and not pay dividends when losses are recorded,

indicating a positive relationship between lagged dividend payments and dividend payments. In the Malaysian context, (Eng et al., 2013) used panel regression to examine the dividend policy in Malaysian financial institutions from 2001 to 2010. The research concluded that only the lagged dividend is relevant and positively affects dividend payout for Islamic banks. The findings signified that Malaysian Islamic banks base their future dividend payout on the lagged dividend.

Maladjian and El Khoury (2014) found that the revenue growth had a negative relationship with the dividend payouts of Lebanese banks listed on the Beirut Stock Exchange between 2005 and 2011. Mughal et al (2012) investigated the impact of several firm-specific factors on the dividend policy of KSE-listed banks from 2006 to 2011. According to the researchers, the growth rate weakly correlates with the dividend policy. However, the findings of Lestari (2018) and, Sulhan and Herliana (2019) contradict the results of this research, indicating that growth has an insignificant correlation with dividend policy. According to Duqi et al. (2020), banks like to pay huge dividends to indicate greater expected growth. Hosain (2016) also found that growth had a positive effect on dividend payments meanwhile, Atmaja (2009) found that growth was negatively related to dividend payout.

Methodology of Research
This study employs panel data by analyzing profitability, financial leverage, lagged dividend, and revenue growth to identify the relationship with dividend policy in Malaysia from 2016 until 2020. This study also employs secondary data, including official publications, books, internet sites, journals, and articles. The researcher extracts information from financial statements such as the Balance Sheet, Statement of Profit and Loss, and Statement of Owner's equity relative to Dividends Per Share of each company for the years 2016 to 2020 in the annual report. Besides, purposive sampling is used in this study based on the following criteria: the banks should have an annual report, publish annual audited financial reports, and always pay dividends during the observation period.

Estimation Model
An estimation model is a form of an economic model that may be tested empirically. This research employed the Malaysian context since it has one of the most developed capital markets among emerging markets (Yusof & Ismail, 2016). This research explores the relationship between profitability, financial leverage, lagged dividends, and revenue growth in determining dividend policy in Malaysia. This research uses a multiple linear regression model to test the relationship between selected dividend determinants and dividend policy. The following is the regression model that was applied in this research:

$$DPR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 LEV_{it} + \beta_3 LAGDIV_{it} + \beta_4 GROWTH_{it} + \mu$$

Where:
DPR_{it} = Dividend payout ratio in year t
ROA_{it} = Firm profitability in year t
LEV_{it} = Firm leverage in year t
$LAGDIV_{it}$ = Lagged dividend in year t-1
$GROWTH_{it}$ = Revenue growth in year t
μ = Random disturbance term
β = Regression coefficients

Variables

Dividend Payout Ratio (DPR)

The Dividend payout ratio (DPR) is frequently used to illustrate distributed dividends, representing the amount of dividends paid out as a percentage of net profit. Furthermore, information on the firm's efficiency in terms of investment opportunities and profits can be obtained through dividend payments (Alli et al., 1993). Dividends are paid to convey a positive message about the current firm's performance and the future (Salman, 2019). The DPR is a calculation that compares dividend per share (DPS) to earnings per share (EPS). This proxy is adopted by (Al-Kayed, 2017; Maldajian & El Khoury, 2014).

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per share}}{\text{Net Income per share}}$$

Return on Assets

Return on assets (ROA) is a proxy for profitability and is used to assess a company's capacity to generate a profit while managing its total assets. Besides, ROA also is a measurement to determine whether a company's profitability affects dividend policy (Eng et al., 2013). The larger the ROA indicates, the better the company's performance because the rate of return on investment is also greater. According to Della and Rukmini (2018), the higher the company's profits, the higher the dividend because revenue is paid even higher. ROA formula is calculated by dividing a firm's net income by total assets, as shown below:

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Debt Ratio

The debt ratio analyses a company's balance sheet by including all intangible and tangible assets, as well as short-term and long-term debt. It demonstrates how much debt is needed to support a company's assets and how those assets might be used to repay debt. However, a greater ratio indicates poor management, which causes investors to lose interest in investing in the company. The total debt to total assets formula is calculated by dividing a firm's short-term debt and long-term debt by total assets, as shown below:

$$\text{Total debt to total assets} = \frac{\text{Total Debt}}{\text{Total Assets}}$$

Lagged Dividend

According to Lintner (1956), lagged dividends are the most important determinant in corporate dividend policy. The current dividend positively correlates with the prior year's dividend (Naser et al., 2013). According to Che-Yahya and Alyasa-Gan (2020), a company's current dividend payout ratio is influenced by the previous year's dividend. Eng et al., (2013) further revealed that Malaysian Islamic banks used the lagged dividend to determine future dividend payouts. This study uses the previous year's dividend payment as a proxy variable for lagged dividends. Lagged dividends are equal to the dividend paid during the previous year (Div_{t-1}), for bank i in time t.

Revenue Growth

According to Zhou and De Wit (2009), a company's revenue growth is a key indicator of its success. Revenue growth represents the preceding period's investment success and can be used to forecast future growth. In addition, growth indicates an increase in revenue in the company's operating assets, which can be used to determine how well the company sells its

products or services. The revenue growth formula is calculated by the current year's revenue, deducting the previous year's revenue, and dividing a previous year's revenue as shown below:

$$\text{Revenue growth} = \frac{(\text{Current year's revenue}) - (\text{Previous year's revenue})}{(\text{Previous year's revenue})}$$

Statistical Analysis
Descriptive Statistics

Table 4.1
Summary statistics among Islamic banks

Variables	N	Minimum	Maximum	Mean	Std deviation
DPR	25	0.0775	4.2499	0.7112	0.9725
ROA	25	0.0043	0.0181	0.0091	0.0038
LEV	25	0.8160	0.9332	0.9010	0.9559
LAGDIV	25	0.0939	4.2499	0.7262	0.0367
GROWTH	25	-0.2150	0.2806	0.0637	0.1154

According to the data obtained, DPR has the lowest value of 0.0775, and the highest value is 4.2499. The average DPR is 0.7112. Second, the lowest ROA value is 0.0043, while the maximum value is 0.0181. The average ROA is 0.0091, with a small standard deviation of 0.3845. The lowest LEV value is 0.8160, and the highest LEV value is 0.9332. The lowest LAGDIV value is 0.0939, and the highest LAGDIV value is 4.2499. The average LAGDIV is 0.7262, and the standard deviation is 0.0367. The lowest value of GROWTH is -0.2150, and the highest GROWTH is 0.2806.

Table 4.2
Summary statistics among non-Islamic banks

Variables	N	Minimum	Maximum	Mean	Std deviation
DPR	25	0.2237	0.9012	0.4626	0.2013
ROA	25	0.0004	0.0684	0.0167	0.0197
LEV	25	0.3027	0.9106	0.7839	0.2297
LAGDIV	25	0.2267	0.8707	0.4802	0.1923
GROWTH	25	-0.3685	0.5370	0.0465	0.1424

As shown above, DPR has the lowest value of 0.2237, and the highest DPR value is 0.9012. The average DPR is 0.4626, indicating that non-Islamic banks in Malaysia have a lower DPR than Islamic banks in Malaysia. Second, the lowest ROA is 0.0004, and the maximum ROA is 0.0684. The lowest LEV is 0.3027, and the highest LEV value is 0.9106. The average LEV was 0.7839, with a standard deviation of 0.2297. Next, the lowest LAGDIV is 0.2267, and the highest LAGDIV is 0.8707. The average LAGDIV was 0.4802 with a standard deviation of 0.1923. The lowest GROWTH is -0.3685, and the highest GROWTH is 0.5370.

Pearson Correlation
Table 4.3
Pearson correlation of Islamic banks

	DPR	ROA	LEV	LAGDIV	GROWTH
DPR	1.0000				
ROA	-0.4013	1.0000			
LEV	0.0060	-0.7656	1.0000		
LAGDIV	0.7865	-0.3896	0.0480	1.0000	
GROWTH	-0.2759	0.0396	0.2918	0.0779	1.0000

Pearson correlation is the preferred approach as it relies on the covariance method. The ROA to DPR has a moderate negative correlation, with a value of -0.401263. The LEV to DPR has a value of 0.006051, indicating a weak correlation. Next, the LAGDIV to DPR is 0.786456, indicating a significant positive correlation. If LAGDIV increases, DPR will increase as well. The GROWTH to DPR has a weak negative correlation of -0.275895.

Table 4.4
Pearson correlation of non-Islamic banks

	DPR	ROA	LEV	LAGDIV	GROWTH
DPR	1.0000				
ROA	-0.0867	1.0000			
LEV	-0.0137	-0.9471	1.0000		
LAGDIV	0.7869	-0.1442	0.0341	1.0000	
GROWTH	0.0900	0.4053	-0.2224	-0.0185	1.0000

The results show that the ROA to DPR and LEV to DPR are -0.086699 and -0.013710 relatively. It shows the independent variables to dependent variables have a weak correlation. Next, the LAGDIV to DPR shows a value of 0.786906, which means LAGDIV to DPR has a moderate positive correlation. The variables GROWTH to DPR has no correlation, which is 0.089959.

Hausman Test: Random vs Fixed Effect Model
Table 4.5
Hausman Test for Islamic banks

Variables	Coefficients		(b-B) Difference	sqrt(diag (V_b-V_B)) S.E.	Chi-square	Prob>chi-square
	(b) fe	(B) re				
ROA	57.28084	-20.18828	77.46912	67.30372		
LEV	-17.41488	.1598655	-17.57475	14.11859	6.49	**0.1652**
LAGDIV	.3373874	.7951977	-.4578103	.196265		
GROWTH	-2.308559	-2.825578	.5170187	.5620757		

Table 4.6

Hausman Test for non-Islamic banks

Variables	Coefficients		(b-B) Difference	sqrt(diag (V_b-V_B)) S.E.	Chi-square	Prob>chi-square
	(b) fe	(B) re				
ROA	6.270429	-6.167755	12.43818	.	63.73	**0.0000**
LEV	-2.678101	-.4922124	-2.185889	1.865063		
LAGDIV	.0905863	.7570095	-.6664232	.0815799		
GROWTH	-.2162691	.3161631	-.5324322	.		

Hausman test is a statistical test to select whether the most appropriate Fixed Effect Model or Random Effect Model is used. The result shows that the p-value is 0.1652, which is greater than 0.05, and that the random effect model is more appropriate for Islamic banks are shown in Table 4.5. Table 4.6 shows the result of the p-value is less than 0.05, finding that the fixed effect model is most appropriate for non-Islamic banks.

Diagnostic Test
Normality Test
Table 4.7
Normality test of Islamic Banks

Skewness/Kurtosis tests for Normality				
Obs	Skewness	Kurtosis	Jarque- Bera	Prob
25	1.040731	4.348498	6.407221	**0.040615**

Table 4.8
Normality test of non-Islamic banks

Skewness/Kurtosis tests for Normality				
Obs	Skewness	Kurtosis	Jarque- Bera	Prob
25	0.398596	3.283233	0.745557	**0.688818**

The Jarque Berra test was used to test the samples were drawn from the population's normal distribution (Hosain, 2016). The results in Table 4.7 for the normality test of Islamic banks show the p-value is 0.040615, lower than 0.05 means the Jarque-Berra test is significant. Meanwhile, Table 4.8 for the normality test of non-Islamic banks show a p-value of 0.688818, indicating the assumption of normality occurs.

Multicollinearity
Table 4.9
Multicollinearity of Islamic Banks

Variable	VIF	1/VIF
ROA	5.01	0.199513
LEV	4.62	0.216304
GROWTH	1.71	0.585825
LAGDIV	1.59	0.628591
Mean VIF	**3.23**	

Table 4.10

Multicollinearity of non-Islamic banks

Variable	VIF	1/VIF
ROA	19.60	0.051016
LEV	16.86	0.059295
GROWTH	1.86	0.536493
LAGDIV	1.24	0.807833
Mean VIF	**9.89**	

According to the rule of VIF coefficients, more than 10 indicate the presence of multicollinearity. Table 4.9 shows that the mean value of VIF for Islamic banks is 3.23, which is less than 10, so there is no multicollinearity problem. Meanwhile, Table 4.10 shows the mean value of VIF for non-Islamic banks is 9.89. Thus, this study shows no multicollinearity exists for Islamic and non-Islamic banks in the period 2016 to 2020.

Heteroskedasticity

Table 4.11

Heteroskedasticity of Islamic Banks

Breusch and Pagan Lagrangian multiplier test	
Test: Var(u) = 0	
chibar2(01)	0.00
Prob>chi2	**1.0000**

Table 4.12

Heteroskedasticity of non-Islamic banks

Modified Wald test	
H0: sigma(i)^2 = sigma^2 for all i	
chi2 (5)	652.35
Prob>chi2	**0.0000**

The Modified Wald test was used to determine the heteroskedasticity in the fixed effect of the model in the study, while the Breusch pagan test was used in the random effect model. The results in Table 4.11 for heteroskedasticity of Islamic banks indicate the p-value is greater than 0.05, which means there is no heteroskedasticity problem. Table 4.12 shows the heteroskedasticity results of non-Islamic banks, indicating the p-value is less than 0.05.

Autocorrelation

Table 4.13

Autocorrelation for Islamic Bank

Wooldridge test for autocorrelation in panel data	
H0: no first-order autocorrelation	
F(1,4)	5.227
Prob > F	**0.0842**

Table 4.14
Autocorrelation for non-Islamic banks

Wooldridge test for autocorrelation in panel data	
H0: no first-order autocorrelation	
F(1,4)	8.607
Prob > F	**0.0427**

This study uses the Wooldridge test because it is most appropriate for panel data models with significant test statistics indicating the presence of serial correlation (Hosain, 2016). The result of Islamic banks indicates that the p-value of the test for Islamic banks is greater than 0.05 means there is no autocorrelation problem. The result for non-Islamic banks indicate the p-value of the test for non-Islamic banks is smaller than 0.05.

Regression Results

Table 4.15
Regression results for factors that affect dividend policy

	Islamic Bank		Non-Islamic Banks	
Model	Random Effect		Fixed Effect (with Robust Standard Errors)	
Regressors	Regression Coefficient	t-statistics	Regression Coefficient	t-statistics
Constant	0.354185	0.06	2.423801	5.50***
ROA	-20.18932	-0.31	6.270429	2.00**
LEV	0.159788	0.02	-2.678101	-4.53***
LAGDIV	0.795194	5.24***	0.090586	0.57
GROWTH	-2.825532	-2.33**	-0.216269	-1.60
Observations	25	25	25	25

Note: ** Denotes rejection of the null hypothesis at the 5% significance level; *** Denotes rejection of the null hypothesis at the 1% significance level.

Discussion for Islamic Banks

This research is in line with the study conducted by Eng et al. (2013), where they used a random-effects model to analyze Islamic bank data. Profitability and leverage on dividend policy have an insignificant relationship with the dividend payout ratio, which expresses that managers are not significantly influenced by these two aspects when making dividend decisions. The finding is consistent with May and Yacob (2018); Jovković et al (2021); Mui and Mustapa (2016); Farahani and Ghara (2013), whereby they claimed that profitability and leverage have no significant effect on dividend policy.

The negative and significant relationship between revenue growth and dividend policy among Islamic banks is at a 5% significant level. This result shows that the company with high growth tend to pay low dividends because they are interested in financing the investment with their internal funds. Furthermore, since growth banks require more capital to finance their expansion, they would normally keep a larger percentage of their profits by paying low dividends. This is supported by the signalling theory which a reduction or no payout may send a negative signal to investors, resulting in a dramatic decline in stock prices. This is in line with Hosain (2016); Thanatawee (2011), which is revenue growth has a significant effect on dividend policy. However, the findings of Che-Yahya and Alyasa-Gan (2020) contradict the

findings of this research, indicating that revenue growth has been positively significant with dividend policy.

Lastly, the lagged dividend of Islamic banks is positively significant, with the dividend policy at a 1% significant level. This shows that lagged dividends are effective in changing a company's dividends and also a great consideration to the agency costs. The managers and shareholders may expect higher dividend payouts if the previous year's dividend was stable. Besides, positive relationships support the signalling theory, which states that dividend payments fluctuate as a signal to shareholders about a company's present performance. Similar results were expressed by Al-Kayed (2017) May and Yacob (2018); Aasia et al (2011), which is that lagged dividends have a significant effect on dividend policy. Unlike the research conducted by Atmaja (2009), which found a negative relationship between dividend policy and lagged dividend. Considering all these findings, the hypothesis for revenue growth and lagged dividend were supported, and the other variables were not supported.

Discussion for non-Islamic banks

This study is in line with the study of Al-Kayed (2017), who found that the fixed-effect model is most appropriate for non-Islamic banks. Table 4.15 shows that revenue growth and lagged dividends of non-Islamic banks show an insignificant relationship. The results of this study strongly support the results of prior studies by Alzomaia and Al-Khadhiri (2013), and Lestari (2018) found that growth has an insignificant impact on dividend policy. For lagged dividends, Eng et al (2013); Che-Yahya, and Alyasa-Gan (2020) found there is an insignificant relationship with dividend payout.

The profitability shows a positive relationship towards dividend payout at a 5% significant level. The higher the company's profits, the higher the dividend payout because the company can generate more profit. This is consistent with the signalling theory that when a company makes a higher profit, the dividend payout is increased. This research is in line with research conducted by Atmaja (2009); Sulhan and Herliana (2019), which state that profitability has a positively significant effect on dividend policy. However, the empirical findings of the research contradict previous studies, which prove that profitability has a negatively significant influence on dividend policy, including research by (Yusof and Ismail, 2016).

The leverage of non-Islamic banks showed a negative relationship towards dividend payout at a 1% significant level. The results indicate that firms with the ability to pay more dividends as leverage decreases. According to Mui and Mustapa (2016); Eng et al (2013), a company has a lot of leverage, which means it has a lot of debt obligations that can diminish a company's ability to generate enough residual income to pay dividends. Agency theory explains that high leverage will cause shareholders to receive more information from creditors about the company's ability to pay its obligations. This research is in line with research conducted by Atmaja (2009); Patra et al (2012), which state that leverage have a negatively significant effect on dividend policy. Unlike the research conducted by Jovković et al (2021); Al-Ajmi and Hussain (2011) found that there was an insignificant relationship between dividend policy and leverage. Hence hypotheses for profitability and leverage were supported, and the other variables were not supported.

Conclusion

The findings meet the research objectives to identify the relationship between profitability, lagged dividend, financial leverage, and revenue growth on dividend payout among Islamic

and non-Islamic banks in Malaysia. Islamic banks found that the lagged dividend and revenue growth are significant with the dividend policy, whereas profitability and financial leverage have not been found. The findings of non-Islamic banks show a significant relationship between profitability and financial leverage with dividend payout, meanwhile, lagged dividend and revenue growth are insignificant. The results are confirmed by signalling theory, which states that the dividend pay-out relies on information the shareholders receive regarding the company's performance. Thus, dividends are used by shareholders to lower agency costs.

Furthermore, this study points out some recommendations for future research. The first is to examine more variables to produce a clearer view of Malaysia's determinants of dividend payments. Second, to gather more samples and observation years for greater generalizability of the findings and to reflect the determinants of the dividend payout ratio in Malaysia. Despite its limitations, this study contributes to the existing literature regarding such updated analysis, which will provide a direction for potential shareholders to understand the financial health of companies to make better investment decisions. Lastly, the findings are essential for the board of directors to revise the dividend policy by considering the factors that significantly impact dividend payments.

Acknowledgements

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