THE MANAGERIAL OWNERSHIP AND DIVIDEND PAYOUT

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Abstract

Drawing on the corporate governance and managerial entrenchment literature, this study aims to examine whether the managerial ownership level affects the dividend payout ratio. Using data from Thai listed companies spanning from 2013 – 2017, a positive relationship is reported between managerial ownership and dividend payout (captured by dividend yield), supporting the managerial entrenchment effect assumption. Findings suggest that managerial ownership may be considered as an internal governance mechanism, yet high dividends may be paid to compensate for such stewardship force. This study enriches the literature related to the managerial ownership and its effect. Further, the results of this study have an implication for regulators to consider whether a critical insider ownership level should be governed to protect the benefits of non-insider shareholders that is likely to be dispersed in the Thai stock market context.

Keywords: Managerial Ownership, Dividend Payout, Dividend Yield

1. INTRODUCTION

Following the classic agency theory, the appointed corporate directors and management act as agents for principals: shareholders, by approving corporate strategies and setting up long-term plans for the sustainable growth of the company and maximizing shareholders' wealth (Hillman, Cannella, & Paetzold, 2000). As the primary role of directors and management is to maximize corporate shareholders' benefits.

However, the right to control of company policies and business operations legally belongs to the directors. That is, there is a possibility of a conflict of interest between the principals (stockholders) and the agents (directors) who have authority and control in their hands. Although management stock ownership could reduce the agency problem (Easterbrook, 1984), the managerial entrenchment literature suggests that managerial stock ownership may only be beneficial through improved corporate

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governance up to a certain level of ownership. As the managerial stock ownership increases beyond a certain point, executives may exercise ownership power on dividend policy for their own benefit (Hu & Kumar, 2004). Motivated by the two different perspectives: the use of management stock holdings to align management with ownership interests and the managerial entrenchment effect [4], this study aims to investigate whether the managerial ownership level affects the dividend payout.

The study focuses on the influence of corporate governance and executive entrenchment level on dividend payout (captured by dividend yield) in the context of the Thai stock market, due to the unique characteristics of the dividend payout ratio and ownership structure of Thai listed companies. The dividend payout ratio in the Thai market is ranked third in the Association of South East Asian Nations (ASEAN) region, as of 2006 – 2011. It is also reported that the average dividend payout ratio of Thai listed companies is about 60%, with 42% of paid dividends being paid to top corporate management (Likitwongkajon, 2019). This phenomenon could be due to concentrated ownership structures, which dominate among Thai listed companies, (Phanisusawat & Srijunpetch, 2008) and which are susceptible to the managerial entrenchment effect. Apparently, the high dividend payout ratios among Thai listed firms benefit managerial owners the most. This makes the Thai stock market both interesting and suitable as the empirical setting for this study.

Using a panel OLS regression with data from Thai listed companies; both companies in the SET and MAI groups, covering the period 2013 – 2017, the results show that there is a positive relationship between the percentage of managerial ownership [5] and dividend yield, as predicted. These findings support the theory of the managerial entrenchment effect. That is, when the entrenchment effect occurs firms tend to pay higher dividends as paying high dividends may be a manifestation of the conservatism, as the management (now also stock owners) prefer to cash out the profits instead of investing in new projects when the company is supposed to. Importantly, the inclusion of all managerial ownership into the base-line model significantly improves explanatory power of the influence of management stock ownership on dividend yield. In terms of economic effect, an increase of one standard deviation in the overall managerial ownership increases dividends paid by 32%.

This paper contributes to corporate governance literature and has important implications for relevant regulators in several ways. *First*, due to taking data from the unique family run business characteristic of Thai listed companies, this study documents alternative evidence on the effect of management stock ownership. This evidence suggests that management with ownership rights may act for their own agenda instead of maximizing their firm's value, such as paying dividends that are too high for the company but which benefit their own wealth. Despite the fact that prior studies (e.g. Jensen & Meckling, 1976; and Rozeff, 1982) report that providing ownership rights to insiders could reduce agency costs and dividend payouts, doing so in countries

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[4] Jensen and Meckling (1976) and Rozeff (1982) demonstrate that high management stock ownership can align the interest of a firms' management with its shareholders resulting in low agency cost and low dividend payout. However, Schooley and Barney (1994) show that as the percentage of managerial stock ownership additionally increase, corporate shareholders become significantly less diversified resulting in greater managements' voting right and control. This is so called the critical entrenchment point. Therefore, management entrenchment occurs when additional management stock ownership does not improve corporate governance but the strengthened managerial ownership rights allows management to steer company policies to the detriment of other stockholders. In other words, the lack of diversification raises conflict of interests between different stock ownership groups

[5] We use four variables to capture the managerial ownership; the percentage of shares hold by the board of director (BOD), executive officers (EO), executive directors (ED), and all types of managements (ALL) to total capital shares of the firm, following managerial ownership measurement defined by Palia and Lichtenberg (1999), and Kane and Velury (2005).

where concentration ownership dominates, may create more severe problems, such as a firm value information gap between managerial shareholders and diversified shareholders. Therefore, the *second* contribution of this study, based on the findings, is the suggestion that the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET), which play essential roles in regulatory enforcement, should consider whether a critical level of managerial ownership should be enforced in order to protect diverse shareholders' benefits.

The remainder of this paper proceeds as follows: The next section presents the institutional background of the Thai Stock Market and relevant theory. Section 3 presents the research design, while Section 4 explains the descriptive statistics, and the multiple regression results are reported in Section 5. The final section provides the conclusion of the paper.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Institutional Background

Family-controlled businesses have played a vital role in Thai economic growth since the late 1950s (Dhnadirek & Tang, 2003). On average, around 80% of Thai listed companies are family-run (PwC, 2019). Through the government's promotional policies and passing of entrepreneurial skills and resources through generations, family business groups have grown into influential corporations that dominate Thailand's business landscape and steer the nation's economic fate. As a result, the boards of directors and management are typically dominated by members of the founding families. The role of external directors is usually minimal and is probably just for the sake of meeting minimum Securities and Exchange Commission (SEC) requirements.

The governance problems in Thailand appear to stem from the ownership and control structure. Various prior studies have attempted to analyze the effects of corporate ownership structures on company performance and governance (for example, Alba, Claessens, & Djankov, 1998; Likitwongkajon & Sangchan, 2021; Suehiro, 2001; and Wiwattanakantang, 1999). However, those studies did not consider the managerial entrenchment effect which may be incorrectly identified as a governance mechanism. Even though agency theories suggest that management stock ownership is beneficial through alignment of principal and agent interests, the highly concentrated ownership, characteristic of Thai companies, has the potential to introduce the managerial entrenchment effect instead. As a result, the conflict of interest between majority and minority shareholders may be greater.

2.2 The Classic Concept of Agency Issue

Classic agency theories postulate that there are inherent conflicts of interests between shareholders and the management, whose job is to tend to ownership interests on behalf of the shareholders (Schooley & Barney, 1994). The relationship between principals and agents results in issues arising from the separation of ownership and control, and the costs of monitoring and implementation of control, to ensure that agents are acting on the principal interests (Jensen & Meckling, 1976). Management empowered with the ability to control companies' operating and finance policies could become opportunistic. The corporate governance literature suggests that providing ownership directly to management and increasing the dividend payout could solve the agency problem (Easterbrook, 1984).

To reduce the possibility of investing in unprofitable projects, many firms adopt a high dividend payout policy to limit the cash available for management to invest and thus reduce the agency problem. When there is a separation of ownership and control, corporate management may exercise their power to suit their own preferences such as spending free cash flow in unprofitable projects (AI-shubiri, Taleb, & Al-zoued, 2012). Hence, a high dividend payout limits

the excess cash flow that management could spend to invest in negative value projects (Jensen, 1986; Jensen & Meckling, 1976). The empirical evidence suggests that when top management and directors have ownership rights, dividend payout policy tends to be low (Afza, 2010; Rizqia & Sumiati, 2013). This suggests that the inclusion of the ownership in monitoring rights persuades management to maintain free cash flow for investment in firm value creation projects.

Giving ownership rights to a firm's executives can also be a tactic to align the management and ownership interests (Donaldson & Davis, 1991). Management with ownership rights could make superior economic decisions, adding value to firms as they hold superior private knowledge about the firm (Nicholson & Kiel, 2007). Using data from Bangladesh companies, Rashid (2016) reported that managerial ownership reduces agency costs, proxied by asset utilization with a number of robustness tests.

Altogether, the given evidence suggests that providing ownership rights to management seems to make a dividend payout policy less desirable as managerial ownership can be a means to solve the agency relationship problem.

2.3 The Managerial Entrenchment Effect

In contrast to the above argument, the managerial entrenchment theory suggests that an increase in the proportion of management stock ownership may pose a greater agency conflict (Hu & Kumar, 2004; Florackis, Kanasb, & Kostakisc, 2015; Schooley & Barney, 1994). Management stock ownership may give managers greater voting power on financial policies such as dividend payout policy and stock repurchase decisions. Using US data, it is reported that entrenchment occurs when management stock ownership has no benefit in agency cost reduction (Shooley & Barney, 1994). [6] As an effect of

the entrenchment, managers could have greater opportunities and incentives to act for their own self-interests, obtaining inappropriate wealth. In another words, when management has both managerial power and ownership power, it renders the remaining stockholders helpless. Also, the company may become too conservative. Paying high dividends may be a manifestation of this conservatism, as the management (now also stock owners) now prefer to cash out the profits rather than to invest them in new projects, when that is the action the company should be taking.

Empirically, Florackis et.al. (2015) demonstrated that opportunistic managers in firms having weak monitoring mechanisms tend to engage in suboptimal financial strategies, such as being involved with manipulating performance measures for personal benefits. Likewise, Hu and Kumar (2004) and Jo and Pan (2009) showed that firms with additional managerial ownership are likely to spend cash on dividend policy to prevent hostile takeovers. From the perspective of signaling theory, paying high dividends can convey information about a firm's good prospects to investors and hence bring benefits to managerial stock owners eventually. Prior study further points out that managerial owners exercise their rights to manage pension funds and other employee benefit plans for their own preference (Farinha, 2003). The literature leads to the conclusion that managerial ownership does not always reduce the agency problem.

2.4 The Managerial Ownership and Dividend Payout

The agency literature suggests that giving some ownership rights to management may align principal and agent interests, yet the evidence on the managerial entrenchment effect demonstrates that additional management stock ownership no longer

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[6] Rozeff (1982) suggests that dividend policy and managerial ownership should be are interchangeable corporate governance tactics. That is, firms that increase a percentage of management stock ownership are likely to pay low dividends. However, Shooley and Barney (1984) contend that the further increases in management stock ownership leads to a high dividend payout ratio suggesting that the entrenchment occurs.

reduces agency costs. According to Jensen and Meckling (1976), providing too little ownership rights to management may not be enough to allow them to take action against non-value maximization behavior. This implies that managerial ownership can reduce agency cost when the management share a larger portion of ownership. In contrast, Demsetz (1983) and Fama and Jensen (1983) indicate that a larger percentage of ownership rights introduces voting and decision power to ensure that their managerial position is secure and beneficial. In line with this, Weston (1979) shows that hostile takeovers do not appear in firms having managerial ownership percentage greater than 30%. Furthermore, Schooley and Barney (1994) point out that additional management stock ownership is positively related to dividend yield. Literature generally draws in to the conclusion that powerful management stockholders would act for their own benefits such as in making dividend policy decisions.

Prior studies show mixed evidence on the effect of managerial ownership on dividends. Using US data, Jo and Pan (2009) document that firms having managerial entrenchment tend to pay dividends as those powerful management have legal rights to receive the benefits from the dividends paid. Underlined with signaling theory, Nuhu (2014) found that insider ownership influences dividend payouts in Ghana. Coming to the same conclusion, Li (2011) reported that managerial ownership drives higher dividend payment by Chinese companies, especially in the case of state-owned companies. This suggests that although the agency theory proposes that adoption of a managerial ownership structure reduces agency costs, a new source of agency cost could be raised according to the entrenchment effect.

As noted, the nature of the ownership structure in Thailand is likely to be concentrated often with a family ownership structure which highly imposes the entrenchment effect. By observation about 42% of dividends paid by Thai listed companies belong to management (i.e. directors and CEO etc.). From a signaling

theory point of view, dividend announcements affect firms' value and thus share price. As a result, management with ownership rights will benefit from cash dividends received and also wealth expropriation. Based on the given evidence on the entrenchment effect and the nature of the ownership structure in Thai companies, it is predicted that firms with a larger managerial ownership pay higher dividends as the management will benefits from these dividends. The associated hypothesis is stated as follows:

H1: There is a positive relationship between the percentage of management owned stock and dividend payouts.

3. RESEARCH METHODOLOGY

3.1 Data and Sample

The sample comprised 662 companies listed in The Stock Exchange of Thailand in both SET and MAI groups. The sample period ran from 2013 through 2017. The data were acquired from two main sources. First, the percentage of managerial ownership was obtained from companies' annual report that were available on the companies' websites. Second, other required financial and accounting data were acquired from Thompson Reuters DataStream. Firms without all the required information were dropped, as were firms that became delisted from the stock market during the sample period. Firms in the financial and resources industry (*Ind6*) were also dropped due to the difference in tax rate under the Petroleum Income Tax Act. and the diversity among the dividend policies of banks (i.e. in some circumstances, banks hold stable dividend policy, etc.) which could affect the results interpretation (Hanlon & Hoopes, 2014; Zafar, Chaubey, & Khalid, 2012). Hence, the final sample consisted of 508 firms (2,032 observations).

3.2 Empirical Model

Following Rozeff (1982), a single cross-

sectional regression model was established, which regressed dividend payout ratio on managerial ownership measurements with a set of control variables. The model used to test the hypothesis which predicts that there is a positive relationship between managerial ownership and dividend payout is presented as follows:

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\begin{aligned}
DIY_{i,t} &= \beta_0 + \beta_1 Managerial\ Ownership_{i,t-1} \\
&+ \beta_2 ROA_{i,t-1} + \beta_3 Debt_{i,t-1} + \beta_4 Size_{i,t-1} \\
&+ \beta_5 Cash_{i,t-1} + \beta_6 Growth_{i,t-1} \\
&+ \beta_7 Ind_{1_{i,t-1}} + \beta_8 Ind_{2_{i,t-1}} + \beta_9 Ind_{3_{i,t-1}} \\
&+ \beta_{10} Ind_{4_{i,t-1}} + \beta_{11} Ind_{5_{i,t-1}} \\
&+ \beta_{12} Ind_{7_{i,t-1}} + \beta_{13} Ind_{8_{i,t-1}} + \varepsilon_{i,t}
\end{aligned}
$$

DIY, the dependent variable in this study, is defined as dividend yield calculated as the annual dividend per share divided by the earnings per share. Managerial Ownership, the variable of interest, was measured as the sum of the shares held by executive officers (*EO*), executive directors (*ED*), and all other types of management (*ALL*), divided by the total capital shares of the firm. According to the entrenchment effect argument, a positive sign is predicted for the coefficient of Managerial Ownership (Florackis et.al., 2015; Li & Sun, 2014; Nuhu, 2014).

The effect of firm's profitability, leverage, size, level of operating cash flow, and growth, were also controlled for, as these variables are considered as components of firms' profitability and future cash flows affecting firm dividend yield (Jensen & Meckling 1976; Jensen 1986). *ROA* is the ratio of return of assets calculated by dividing the company's net income by total assets capturing the effect of firm's profitability. A positive coefficient of *ROA* is predicted (Amidu & Abor 2006; Jensen, Solberg & Zorn, 1992). Debt refers to the ratio of debt to equity measured as total debts divided by total equity. It is expected that the coefficient of *Debt* will be negative (Hellström &

Inagambaev, 2012; Lily & Vekariya, 2009; Olowe & Moyosore, 2014). To control for the effect of firm size, *SIZE* measured by the natural logarithm of the total assets, was calculated, with a positive sign on this coefficient being predicted (Redding, 1997). *Cash* proxies for the level of cash flow from operations that may affect a firm's dividend payout, measured by the firm's total cash flow from operating activities divided by total assets. [7]It is expected that *Cash* will yield a positive coefficient (Afza, 2010; Gill, Biger & Tibrewala, 2020). *Growth* proxies for future prospects and investment opportunities, as measured by a yearly growth rate in the firm's operating revenue. It is expected that *Growth* will yield a negative coefficient (Amidu & Abor, 2006). As the industry to which a firm belongs may affect a firms' dividend policy (i.e. firms that have stable earnings may have a consistent dividend payout etc.), the effect of industry captured by Ind. was also controlled.

4. DESCRIPTIVE STATISTICS

Table 1 demonstrates the descriptive statistics of the variables used in the respective tests. Panel A shows the descriptive statistics for the final sample of 2,023 firm-year observations. On average, the dividend yields of Thai listed companies display about 2.84%. Managerial Ownership proxied by the *BOD, EO, ED,* and *ALL* presented mean values of 9.30%, 1.22%, 8.51%, and 22.74% respectively (maximum value of *ALL* is about 61.24%). This suggests that management stock ownership in the Thai market is likely to belong to insiders. All continuous variables are winsorized at the top and bottom 5% of their respective distributions.

Table 2 displays the Pearson correlation coefficients among the variables. It reveals that there is a significant positive correlation between *DIY* and *BOD, EO, ED* and *ALL* which proxy for the percentage of managerial

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[7] We also employed Free Cash Flow following the measurement used in the Miza and Azfa (2010) and Rizqia and Sumiati (2012) to proxy for Cash. Un-tabulated results remain unchanged.

ownership of a firm (correlation coefficient = 0.093, p<0.01, correlation coefficient = 0.184, p<0.01, correlation coefficient = 0.265, p<0.01, and correlation coefficient = 0.648, p<0.01, respectively). The *ROA* was significantly and positively related to *DIY* (correlation coefficient = 0.549, p<0.01), while the correlation between *DIY* and *Debt* was significantly negative (coefficient = -0.070, p<0.01). Correlation analysis also shows that other control variables (i.e. *SIZE*, *Cash* and *Growth*) have a significant association with dividend yield and show the

expected positive signs. Considering the correlation coefficients among the variables are smaller than 0.80, the analysis shows no sign of multicollinearity (Stevens, 1996; Chaghadari, 2011).

5. RESULT DISCUSSION

Column (1) to (6) in Table 3 present the results of the H1 test which predicts a positive relationship between the percentage of managerial ownership (the variable of interest), as captured by *BOD, EO, ED*, and

Table 1 Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	Std. Dev.	Observations
Panel A: Total Observations						
DIY (%)	2.841	3.722	4.860	0.000	1.850	2,032
BOD (%)	9.299	1.670	45.293	1.532	12.911	2,032
EO (%)	1.218	0.000	12.203	0.000	3.366	2,032
ED (%)	8.506	0.230	45.457	0.170	13.903	2,032
ALL (%)	22.739	10.772	61.245	10.772	16.453	2,032
ROA	0.045	0.041	0.172	-0.079	0.062	2,032
Debt	0.446	0.449	0.838	0.102	0.213	2,032
Size	8.456	8.222	11.577	6.352	1.466	2,032
Cash	0.066	0.066	0.241	-0.123	0.094	2,032
Growth	1.731	0.857	4.044	0.857	1.077	2,032
Panel B: Dividend paying observations (DIV>0)						
DIY (%)	3.948	3.990	4.860	0.456	0.619	1,462
BOD (%)	9.734	1.975	45.293	1.532	13.435	1,462
EO (%)	1.683	0.000	12.203	0.000	3.870	1,462
ED (%)	9.611	0.478	45.457	0.170	15.075	1,462
ALL (%)	27.404	22.265	61.245	10.772	17.282	1,462
ROA	0.066	0.060	0.172	-0.079	0.053	1,462
Debt	0.439	0.438	0.838	0.102	0.203	1,462
Size	8.678	8.448	11.577	6.352	1.484	1,462
Cash	0.086	0.086	0.241	-0.123	0.087	1,462
Growth	1.391	0.857	4.044	0.857	0.842	1,462
Panel C: Non-dividend paying observations (DIV=0)						
BOD (%)	8.183	1.532	45.293	1.532	11.394	570
EO (%)	0.025	0.000	0.920	0.000	0.121	570
ED (%)	5.672	0.170	45.457	0.170	9.759	570
ALL (%)	10.772	10.772	10.772	10.772	0.000	570
ROA	-0.009	-0.005	0.172	-0.079	0.052	570
Debt	0.463	0.464	0.838	0.102	0.236	570
Size	7.887	7.570	11.577	6.352	1.252	570
Cash	0.013	0.013	0.241	-0.123	0.091	570
Growth	2.602	2.805	4.044	0.857	1.124	570

Note: All continuous variables are winsorised at the top and bottom 5% of their respective distributions (Likitwongkajon & Vithessonthi, 2020)

ALL, and the dividend yield (the dependent variable of this study). Column (1) of Table 3 shows that the adjusted R^2 of the base-line model having no independent variable is about 43.1%. The signs of coefficients of the control variables are as expected. The coefficient of *ROA* is positively associated with dividend yield (coefficient = 11.111, p<0.01). This suggests that firms having better profitability are likely to pay higher dividends. The coefficient of *Debt* is significantly negative (coefficient = -0.123, p<0.01). This is consistent with the assumption that firms having higher debt to equity tend to maintain cash to pay for debtholders resulting in lower dividend yields. *Size* has a positive association with dividend yields (coefficient = 0.1999, p<0.01). *Cash* is positively related with dividend yields, implying that firms having a greater level of operating cash flows are likely to pay higher dividends (coefficient = 1.577, p<0.01). The coefficient of *Growth* is significantly negative (coefficient = -0.499, p<0.01), suggesting that high growth firms are likely to spend cash on investment rather than paying dividends. With the exception of *Ind3* which represents the real estate industry (p<0.01), the results mainly show that the classification of industry does not have an effect on the findings as coefficients on *Ind2* (consumer products), *Ind4* (industrial materials), *Ind5* (agro and food), *Ind7* (services), and *Ind8* (technology), are insignificantly associated with dividend yield. [8]

As predicted, Column (2) demonstrates a significant and positive relationship between *BOD* and *DIY* with an improved value of the adjusted R^2 (coefficient = 0.005, p<0.05,

adjusted R^2 = 43.2%). This implies that an increase in the percentage of the board of directors' ownership introduces higher dividend payouts. Likewise, Column (3) indicates a positive and significant coefficient for *EO* (coefficient = 0.088, p<0.01), suggesting that providing ownership rights to executive officers leads to higher dividend payouts. Column (4) indicates that the inclusion of *BOD* and *EO* in the empirical model does not change the overall implications (coefficient = 0.004, p<0.10 and coefficient = 0.087, p<0.01, respectively). Column (5) shows that the coefficient of *ED* is significantly and positively associated with *DIY* (coefficient = 0.021, p<0.01) indicating that firms having higher levels of executive director ownership pay higher dividends. Leading to the same conclusion, Column (6) demonstrates that the total managerial ownership (*ALL*) has a positive and statistical association with dividend payouts (coefficient = 0.056, p<0.01). By adding *ALL* into the base-line model, Column (6) further shows a significant improvement of the adjusted R^2 (adjusted R^2 = 64.4%), highlighting that the total level of managerial ownership has significant explanatory power on higher dividends. [9] In terms of control variables, the implications are consistent with previous discussion.

Taken together, the empirical evidence supports H1 which predicts that firms with higher levels of managerial ownership are likely to pay more dividends. This is consistent with the managerial entrenchment effect argument. Beyond a particular level of managerial ownership; so called the point of entrenchment, additional management stock

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[8] According to Table 3 Main results, *Ind* 5 shows insignificant effect on firms 'dividend payout. However, *Ind5*; food and agro-industry, significantly and negatively affects the Dividend payout when firms give the ownership to *BOD* and *EO* (Column 3 and 4 results, p<0.05). This is perhaps because food and agro-industry in Thailand is accounted by the largest family business groups and these groups are likely to be run by the family members with managerial ownership (i.e. the Charoen Pokhand Group etc.) who tend to aim on investment in firm's growth and competitive advantages rather than pursuit of dividend payout (Cadbury, 2000; Yabushita & Suehiro, 2014). *Ind6* proxies for financial and resources industries did not appear in our Table 3 due to the exclusion from the sample (as mention previously on data and sample section).

[9] In terms of the economic effect, we calculate by the use of the coefficient of the *ALL* obtained from Table 3, Colunm (6) times its standard deviation (0.056* 16.453 = 0.9214). Therefore, an increase in the proportion of managerial ownership by one standard deviation increase dividend yield 32%, as the mean value of *DIV* is 2.841 (0.9214/2.841) *100).

Table 2 Pearson Correlation Analysis

Variables	DIY	BOD	EO	ED	ALL	ROA	Debt	Size	Cash	Growth
DIY	1.000									
BOD	0.093***	1.000								
EO	0.265***	0.087***	1.000							
ED	0.184***	0.025	0.149***	1.000						
ALL	0.648***	0.181***	0.312***	0.319***	1.000					
ROA	0.549***	0.169***	0.193***	0.109***	0.321***	1.000				
Debt	-0.070***	-0.098***	-0.129***	0.006	-0.116***	-0.268***	1.000			
Size	0.208***	-0.127***	-0.034	-0.086***	-0.012	0.026	0.401***	1.000		
Cash	0.361***	0.134***	0.124***	0.022	0.232***	0.512***	-0.220***	-0.028	1.000	
Growth	-0.508***	-0.016	-0.107***	-0.035	-0.243***	-0.392***	0.014	-0.211***	-0.291***	1.000

Note: *** p<0.01, ** p<0.05, * p<0.10

Table 3 Main Results

Variables	(1)		(2)		(3)		(4)		(5)		(6)	
	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value	Coeff.	p-value
BOD_{t-1}			0.005**	0.029			0.004*	0.077				
			(0.002)				(0.002)					
EO_{t-1}					0.088***	0.000	0.087***	0.000				
					(0.009)		(0.009)					
ED_{t-1}									0.021***	0.000		
									(0.002)			
ALL_{t-1}											0.056***	0.000
											(0.002)	
ROA_{t-1}	11.111***	0.000	10.928***	0.000	10.424***	0.000	10.285***	0.000	10.474***	0.000	7.856***	0.000
	(0.618)		(0.623)		(0.609)		(0.614)		(0.609)		(0.498)	
$Debt_{t-1}$	-0.123***	0.000	-0.125***	0.000	-0.107***	0.001	-0.109***	0.001	-0.127***	0.000	-0.081***	0.002
	(0.032)		(0.032)		(0.032)		(0.032)		(0.032)		(0.026)	
$Size_{t-1}$	0.199***	0.000	0.205***	0.000	0.205***	0.000	0.209***	0.000	0.221***	0.000	0.225***	0.000

Table 3 (Continued)

Variables	(1) Coeff.	p-value	(2) Coeff.	p-value	(3) Coeff.	p-value	(4) Coeff.	p-value	(5) Coeff.	p-value	(6) Coeff.	p-value
	(0.025)		(0.025)		(0.024)		(0.024)		(0.024)		(0.020)	
$Cash_{t-1}$	1.577***	0.000	1.541***	0.000	1.476***	0.000	1.449***	0.000	1.802***	0.000	0.962***	0.002
	(0.400)		(0.400)		(0.391)		(0.391)		(0.392)		(0.317)	
$Growth_{t-1}$	-0.499***	0.000	-0.501***	0.000	-0.486***	0.000	-0.487***	0.000	-0.490***	0.000	-0.383***	0.000
	(0.033)		(0.033)		(0.032)		(0.032)		(0.032)		(0.026)	
Ind1	-0.045	0.782	-0.071	0.664	-0.175	0.272	-0.195	0.224	-0.024	0.883	0.039	0.762
	(0.163)		(0.163)		(0.160)		(0.160)		(0.159)		(0.129)	
Ind2	0.045	0.788	0.031	0.852	-0.031	0.850	-0.041	0.801	0.144	0.381	0.206	0.120
	(0.167)		(0.167)		(0.164)		(0.164)		(0.164)		(0.132)	
Ind3	0.504***	0.002	0.503***	0.002	0.433***	0.006	0.433***	0.006	0.591***	0.000	0.483***	0.000
	(0.160)		(0.160)		(0.157)		(0.157)		(0.157)		(0.126)	
Ind4	-0.026	0.857	-0.043	0.763	-0.057	0.682	-0.071	0.613	-0.028	0.841	0.115	0.310
	(0.143)		(0.143)		(0.140)		(0.140)		(0.140)		(0.113)	
Ind_5	-0.197	0.163	-0.208	0.140	-0.289**	0.036	-0.297**	0.032	-0.213	0.123	-0.068	0.543
	(0.141)		(0.141)		(0.138)		(0.138)		(0.138)		(0.111)	
	(0.141)		(0.141)		(0.138)		(0.138)		(0.138)		(0.111)	
Ind_7	-0.116	0.405	-0.133	0.342	-0.160	0.242	-0.173	0.207	-0.115	0.403	-0.079	0.474
	(0.140)		(0.140)		(0.137)		(0.137)		(0.137)		(0.111)	
Ind_8	-0.065	0.693	-0.082	0.618	-0.123	0.448	-0.136	0.402	-0.094	0.560	-0.067	0.608
	(0.165)		(0.165)		(0.162)		(0.162)		(0.162)		(0.131)	
Constant	1.616***	0.000	1.552***	0.000	1.514***	0.000	1.464***	0.000	1.244***	0.000	-0.013	0.954
	(0.273)		(0.275)		(0.268)		(0.269)		(0.271)		(0.221)	
R^2	0.435		0.436		0.459		0.460		0.458		0.647	
Adjusted R^2	0.431		0.432		0.456		0.456		0.455		0.644	
F-statistic	129.418		120.055		131.778		122.718		131.419		283.981	
p-value for F-statistic	0.000		0.000		0.000		0.000		0.000		0.000	
Firms included	508		508		508		508		508		508	
Firms-year observations	2,032		2,032		2,032		2,032		2,032		2,032	

Note: The value of standard Error is reported in round the brackets, *** $p<0.01$, ** $p<0.05$, * $p<0.10$.

ownership influences higher dividends. A critical level of managerial ownership could also introduce less diversity among the shareholders, leading to conflicts of interest between managerial owners and non-managerial owners that are likely to be a minority group. As Thai listed companies are likely to be in a family-run form, further increases in management stock ownership can create more serious situations of such conflicts of interest. Eventually, the managerial stock ownership provides a greater chance for opportunistic management to pursue their preferences and make themselves irreplaceable.

6. CONCLUSION

Based on the notion that dividend policy and management stock ownership are interchangeable as tools for agency cost reduction, this study examines whether the managerial ownership level influences the dividend payout ratio. Jensen and Meckling (1976) and Rozeff (1982) suggest that high management stock ownership reduces agency costs between owners and agents by aligning their interests. Conversely, using the dividend yield expressed as a function of managerial ownership, Schooley and Barney (1994) showed that further increases in management stock ownership lead to an increase in dividend yields suggesting that too high a level of managerial ownership introduces a high dividend yield. This study used data from Thai listed companies spanning 2013 – 2017 to test the hypothesis as the Thai market has a unique characteristic of insider-owned business and concentrated ownership.

The empirical evidence shows a positive relationship between the level of managerial ownership and the dividend yield supporting the managerial entrenchment effect assumption. Findings suggest that managerial ownership may be considered as an internal governance mechanism if it is not over a certain high level. In another words, when management entrenchment occurs managerial ownership does not improve corporate governance but the strengthened managerial

ownership rights allow management to design company policies for their own benefit and to the detriment of other stockholders, such as paying high dividends to receive the cash dividend rather than spending cash to invest in profitable projects for overall stockholders' wealth. This study enriches the literature regarding managerial ownership and its effects. Further, findings have an implication for regulatory bodies to consider whether a critical managerial ownership level should be ruled in order to protect the benefits of non-insider shareholders that is likely to be dispersed in the country where insider-owned business dominates.

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