

## Exploring the Relationship between Financial Sustainability and Dividend Policy: An Empirical Study in Malaysia

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### Abstract

This empirical study explores the relationship between financial sustainability and dividend policy in Malaysian real estate companies. The purpose is to examine the extent to which financial sustainability influences dividend policy decisions and to identify the key factors that affect dividend policy. The study employs a quantitative research design, utilizing unbalanced panel data from 45 firms listed in Malaysian Bursa between 2012 and 2021. The findings uncovered a significant negative relationship between financial sustainability and dividend policy, which denotes financially sustainable firms are likely to pay fewer dividends to their shareholders. Similarly, the study revealed that leverage and profitability significantly affected dividend policy. The limitations include using only the real estate sector's companies. Future research can comprise companies in other non-financial industries, financial sector, and firms or sectors of other countries. The practical implications suggest that firms should be rational and justified when making financial sustainability and dividend policy decisions and work a balance between them. Additionally, financial sustainability should be implemented as a mechanism to achieve comprehensive results. The originality of this study lies in providing insights into the key determinants of financial sustainability and dividend policy. Therefore, the findings have important implications for shareholders, managers, investors, and policymakers.

**Keywords:** Financial Sustainability, Dividend Policy, Real Estate, Unbalanced Panel Data, Malaysian Bursa.

**Introduction**

The dividend policy is a contradictory and perplexing phenomenon influenced by many variables. The firm's management makes a crucial decision identifying how the profit will be distributed to its shareholders. Numerous types of research have already been conducted in different regions and economies concerning factors that impact dividend policy, but it remains a controversial issue (Abu Afifa et al., 2022; Ahmed and Murtaza, 2015; Al-Najjar and Kilincarslan, 2018; Bakri et al., 2021; Hartono and Robiyanto, 2023; Khan et al., 2016; Masry *et al.*, 2018; Naser et al., 2013; Sari et al., 2022; Singla and Samanta, 2019; Ullah et al., 2019; Yang et al., 2020). Accordingly, the results of these studies displayed a significant relationship and influence of certain factors on dividend policy. Thus, comprehending how these drivers affect dividend policy is critical for shareholders and management. Further, the factors influencing the dividend policy assist investors in deciding whether to invest or not. One of these factors currently acquiring importance is the company's financial sustainability.

Dividend policy and financial sustainability are two critical concepts in corporate finance. Dividend policy has gained significant attention from researchers and practitioners alike. It is a decision whether the profits earned by the company will be distributed to shareholders as dividends or retained in the form of retained earnings to finance investment in the future (Muslih and Bachri, 2020; Sari et al., 2022). On the other hand, financial sustainability is more recent and has not received as much attention as dividend policy. It refers to a firm's ability to maintain its financial health over time by managing its resources efficiently and effectively (Shad et al., 2019). Dividend policy, in contrast, refers to a firm's decision on how much of its profits should be distributed to its shareholders in the form of dividends (Kanakriyah, 2020).

However, some researchers argue that financial sustainability is necessary to continue paying dividends. It is a stride towards profitability, such as (Kipesha and Zhang, 2013), while others suggest that firms with high financial sustainability may choose to retain earnings for future growth opportunities rather than paying dividends (Rahim, 2017). Furthermore, (Ramakrishnan et al., 2020) elucidated that the problems with sustainable financial growth in today's marketplace progressively become riskier. Hence, companies may face serious financial difficulties if their income growth is excessive and exaggerated and will cause financial pressures (Mamilla, 2019). Therefore, understanding the relationship between financial sustainability and dividend policy is vital for firms, stockholders, directors, investors, and policymakers.

Additionally, (Nikolaou et al., 2019) stated that financial sustainability is an essential matter for each company since it is a primary concern to improve their financial health in order to attain the target of "going concern". The same (Acemoglu et al., 2016; Al-Dirawi and Dahash, 2018) confirmed that due to its effect on the total financial system, it had become an issue and a challenge for companies of all types and sizes. Thus, from a long-term perspective, it is a decisive requirement for finding a proper equilibrium among fiscal policies and operational activities (Haigh, 2012; Przychodzen and Przychodzen, 2013). Furthermore, prior research (Amouzesh et al., 2011; Przychodzen and Przychodzen, 2013; Rahim, 2017) has demonstrated that a company's fiscal sustainability influences its financial performance. Based on the results of these researches, it can be concluded that non-sustainable corporate growth cause an enormous stress on a company's operating and financial features, which might have an impact on the dividend policy of the company.

The remainder of this paper is organized as follows: Review of the literature on financial sustainability and dividend policy, the methodology used in this study, including the data collection process, variables, and econometric model, the results of the empirical analysis with

a discussion of the findings and conclusions of the paper, limitations, implications and future studies.

### **Literature Review**

Dividend policy is a complex phenomenon that is influenced by several determinants. A vast literature has emerged to understand the factors that affect the dividend policy of firms. For this, several studies on Malaysia's dividend policy have been conducted (Bakri, 2021; Bakri et al., 2021; Chohan et al., 2022; Hasan et al., 2021; Kamaruddin et al., 2022; Shafai et al., 2019; Sinnadurai et al., 2021; Subramaniam and Wasiuzzaman, 2019; Tahir et al., 2020). These researches demonstrated that no single theory or set of factors determines dividend policy (the dividend puzzle). Hence the results of these studies were mixed. On the other hand, studies by Andrew et al (1989); Sadou et al., (2017) uncovered that the corporate sustainability of Malaysian listed firms concentrates on corporate social responsibility (CSR) and consider including this information in their annual reports. In addition, other studies exposed those Malaysian firms regarding their social responsibility in the short term and during specific times to improve their company picture (Amran and Devi, 2008).

Several studies have investigated financial sustainability's impact or relationship with several issues in different countries. Eshov (2020) study examined the Impact of Financial Sustainability on Enterprise Value Expansion of Electric Rural Construction-Joint Stock companies in Uzbekistan from 2013-2018. The study explores the theoretical aspects of enterprise value valuation and provides developed proposals to ensure the financial sustainability of enterprises. Another study conducted a non-systematic review of financial sustainability and financial distress (Raza et al., 2020). It developed different models related to financial distress and observed which models used which technique and what factors (variables) have been incorporated. This study suggests that if sustainable growth rate (SGR) is included in prediction modeling, then the accuracy of models can be improved. Ramakrishnan et al (2020) systematically investigated the relationship between financial sustainability and share price. The study revealed help-seeking that financial sustainability is one of the vital factors that impact the company's share price, as financial sustainability is a top priority for every firm. Therefore, the findings detected that the interest in the subject of financial sustainability and its impact on shareholder wealth is growing.

### **Theories Underpinning the Study**

#### **Signaling Theory**

According to this theory, managers inform shareholders and external investors of specific information concerning the company's potential for profits and their successful performance by using the payments of dividends as a signal. Thus, a topmost distribution would signal to investors that the company's forecast for future profits is optimistic. In other words, investors anticipate the firm value to increase when the allocation is lower than the dividend while payment with a larger proportion. Conversely, if investors expected a large proportion of the dividends but the company paid a much lesser balance, the value of shares would decline in the financial market.

Basoglu and Hess (2014) stated that the signaling theory provides a mechanism for two groups (stockholders and directors) to better understand one another by sharing information they have or by strengthening their relations. Additionally, the fact that the information has been given demonstrates the company's quality. Companies that pay tiny dividends must be clear about the restrictions of their dividend policy, which increases the information disclosed.

**Agency Theory**

The theory describes the relationship between a firm's principal and agent (Mitnick, 2013). As an illustration, principals are the stockholders, while the firm's managerial overseer represents the agents. Principals are the parties who hire the administrative staff by investing in the firm to earn profits or dividends. Agents, on the other hand, are the individuals who accept the function and administer the firm to attain the firm's objectives (Going concern or sustainability). Additionally, raising the dividend will result in fewer cases, including rising agency costs, declining free cash flows, the director's interest potential, and increased capital market supervision. However, the effect of corporate governance will resolve any agency conflicts between managers and stockholders, limit how much control managers have over dividend payments, and sustain dividend payments in the future.

**The Important of A Company's Financial Sustainability**

Before making investment decisions or other commitments, potential investors and other shareholders must be au courant and aware of a company's financial health. Good management is essential to a company's long-term sustainability. Thus, an easy technique to assess a company's financial health (sustainability) at a glimpse is required (Osazefua, 2019). According to Afriyie (2015), the key to financial sustainability is maintaining a healthy financing structure and anticipating steady cash flows. Financial sustainability is a prime concern for every firm because the foremost priority of the firms is to enhance their financial position to achieve their objective of "going concern" (Nikolaou et al., 2019). Moreover, the management of default/credit risk is a primary concern for the financial sustainability of a corporation because bankruptcies or financial failures not only impact the organizational sustainability and stakeholders of the firm but also build an atmosphere that is susceptible to the entire economy (Inam et al., 2019). Further, financial sustainability is described as a constant growth of revenue and a persistent procedure of freely maneuvering and using the company's money. As a result, financial steadiness is a fundamental element of the enterprise's total sustainability and is created through production and economic actions.

Financial sustainability, on the other hand, has an opposite association with financial risk and distress (Imhanzenobe, 2020). As a concept, financial sustainability necessitates implementing several financial control measures that maximize long-term performance while minimizing financial risk. From a going concern standpoint, financial sustainability is a requirement for every organization to realize its goal and visibility (Adeyemi, 2011; Egboro, 2016; Wang et al., 2007). Part of defining financial position/condition is a company's capacity to meet its debt commitments on due (Lorig, 1941). Correspondingly, financial sustainability is a part of the broader economic sustainability construct connected to diverse management functions such as procurement, production, sales and logistics (Gleißner et al., 2022). Gleißner et al (2022) showed that the definition of financial sustainability is how firms are financially managed to ensure that current financial success does not jeopardize future financial success, including the success of future generations. Besides, financial sustainability is more than mere liquidity or short-term profit. Long-term profitability, growth prospects, and the capability to endure financial turmoil are all factors to consider (Osazefua Imhanzenobe, 2020). Financial sustainability is a company's ability to meet operational and financial

commitments and alleviate financial risk by preserving an adequate portion of profits to fund expansion.

### **Financial Sustainability, Dividend Policy and Hypothesis Development**

Theoretically, when a company is financially sustainable, dividends are generally distributed to its shareholders (owners). According to Bierman (2001), a dividend is a portion of a company's earnings delivered to its shareholders, as Kipesha and Zhang (2013) recognized that sustainability is a stride toward profitability. Nevertheless, as per the study of Rosenberg (2009), financial sustainability is equivalent to profitability. Financial sustainability and profitability are acted a decrease of costs, such as operation, managerial, and transaction costs, as a result of increased revenue. To be profitable, a company must be fiscally sound/healthy and appealing, with a generous dividend policy that initially results in positive market performance. Therefore, the dividend policy is the second of three powers (financial stability, dividend policy, and market performance) that, if available and were characteristics of the company, would guarantee long-term sustainability.

According to Elmirzaev (2017), fiscal solidity and stability are the primary driving force of dividend policy and performance success. Each company's financial sustainability and stability is a primary interest since investors intend for a profit while the dividends pay it. As per Johnson and Soenen (2003), a firm's strategic plan, dealing with fundamental policy restrictions on dividend payout and leverage, can maintain the firm's growth. Furthermore, (Naser et al., 2013) demonstrated that dividends are also significant for every company since they communicate information to the outgoing universe concerning the company's chances for growth and stability. Therefore, the distribution and growth rate level should be balanced when determining the dividend policy (Shubita, 2021). Consequently, if a firm's financial position is not robust or begins to deteriorate, it becomes hard for the company to distribute dividends. On the other hand, companies with a robust financial situation will pay dividends and send a positive signal to investors.

Regarding Malaysia, it was found that most of the studies were conducted on non-profit institutions, whether governmental or charitable or otherwise. Lee et al (2022) studies examined the relationship between the financial sustainability of state-owned enterprises (SOEs) and government intervention in Malaysia. The results showed that the threshold effect of government ownership on financial sustainability in Malaysia is around 27%. The findings prove that the SOEs of an emerging country could reach financial sustainability only if government ownership is below the threshold. Cheuk (2021) researched the nexus among financial management capacity, accountability, own income generation, revenue diversification and financial sustainability. This study screened their impact on non-profit financial sustainability, utilizing 212 active charities in 2017 as a sample. The findings suggest positive and significant indirect relationships between financial management capacity and accountability with financial sustainability.

Furthermore, Mohamad and Murugesu (2020) investigated the linkages between capital structure, property overhang, and financial sustainability of property firms. The return on asset (ROA) was used to indicate financial sustainability. The research results demonstrate the importance of correctly choosing a capital structure mixed with a reduced overhang property to improve property firms' financial sustainability. On the other hand, Rahim (2017) has shown a negative relation between sustainable growth rate (SGR) firm performance and its reflection on the dividend policy. In conclusion, empirical evidence in Malaysia suggests that there is

significantly a positive and negative relationship between dividend policy and corporate sustainability. Hence, companies need to consider sustainability concerns when making dividend policy decisions. As a result, in this study, the developed hypothesis is:

**H1:** There is a significant relationship between financial sustainability and dividend policy.

### **Firm-level Variables**

Firm-level variables are those that affect the firm's dividend policy. The company-level factors are considerably debated in the literature and will be more related to the current study. In light of this, the dividend policy variables at the firm level are explained in the following subsections.

### **Leverage**

Leverage is the effect of utilizing borrowed money as a source of investment finance to extend the company's asset base and produce returns on risk capital. According to Yusof and Ismail (2016); Mat et al (2017), firms with high debt need more cash to settle debt obligations, thus leading them to reduce the dividend payment to shareholders. Therefore, leverage is another driver for dividends. As per (Almansour et al., 2016; Bashir and Asad, 2018). Chan et al (2021) documented that companies with higher leverage are more inclined to delete dividends of Malaysian non-financial firms. However, not all previous studies showed a negative association between leverage level and dividend policy; for instance, Sim (2011) found a positive association between leverage level and dividend payouts. Moreover, Mongrut Montalvan et al (2017) displayed a positive relationship between the leverage level and the dividend payout. Based on that, in the context of Malaysia, the present study anticipates a significant influence of leverage on dividend policy. Thus, the built-developed hypothesis is

**H2:** Leverage has a significant effect on dividend policy.

### **Operating Efficiency**

A company's operating efficiency is vital to its financial success. The operating income reflects the availability of resources allocable to new investments, which should increase the dividend payout ratio. Hence, an increase in the company's operating efficiency represents an increase in available free cash flows, and this could lead to a higher dividend payout, so the expected relationship between both is a positive one. In contrast, the study of Montalvan et al (2017) demonstrated a negative association with dividend payout. According to the results of the analyses of Sanyaolu et al (2017) study, it was revealed that there is no significant relationship between dividend policy and efficiency. Thus, this study expects a considerable effect of efficiency on dividend policy in Malaysia. Therefore, the formulated developed hypothesis is as follows

**H3:** Operating Efficiency has a significant influence on dividend policy.

### **Profitability**

Profitability has historically been seen as one of the most significant factors in a firm's ability to pay dividends (Issa, 2015). Immense profitability indicates a company is in a better financial position to commit capital to growth and expansion. Experimental documented in a

variety of well-known research Aivazian et al (2003); Fama and French (2001); Agyei and Marfo-Yiadom (2011); Prianda et al (2022) supports the concept that profitability has a positive effect on dividend payments. On the contrary, Khan et al (2016); Damayanti and Sucipto (2022) study showed a negative connection between return and dividend payout in non-dual enterprises. Based on prior literature and in the context of Malaysia, the current study predicts a positive link between profitability and dividend policy. Thus, the built-developed hypothesis is

**H4:** Profitability has a significant effect on the dividend policy.

#### Firm Size

Since of their various attributes and rates of development, finance patterns differ between big and small companies (Demirgüç-Kunt and Maksimovic, 1999; Sundas, 2019). According to Qammar et al (2017), company size is positively connected to dividend payment. In contrast, Naser et al (2013); Lestari's (2018) study revealed a significant negative association between firm size and dividend policy. Based on that, the present research foresees a substantial effect of company size on dividend policy in line with the context in Malaysian. Subsequently, the formulated developed hypothesis is

**H5:** Company size has a significant influence on the dividend policy.

#### Conceptual Framework

The purpose of the model for this study is to identify if there is a substantial impact and relationship between financial sustainability and dividend policy (Dividend yield as a dependent variable) in Malaysia, besides other variables at the company level (independent variables). After the literature had been reviewed, the study espoused five interpretive factors. Figure 1 displays the five variables which supposed to influence the dividend policy among real estate firms in Malaysia.

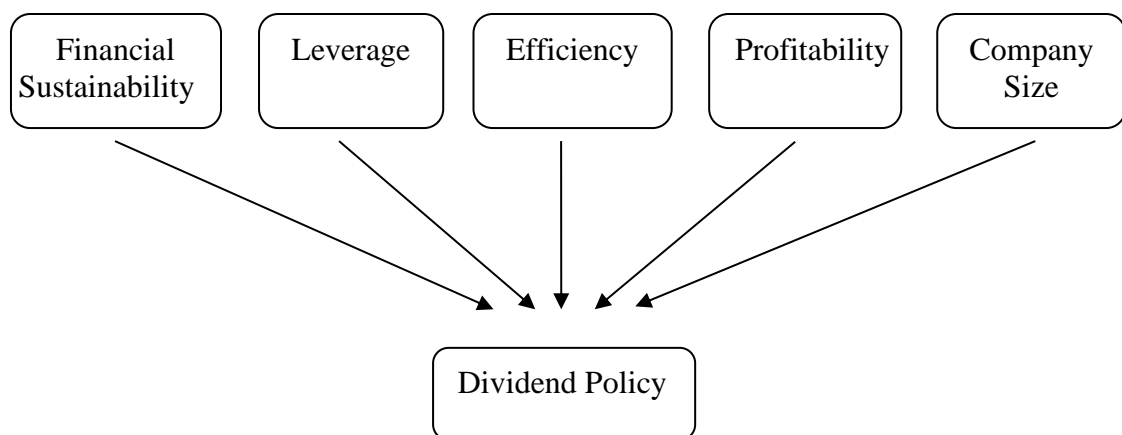


Figure.1 Proposed Conceptual Framework

#### Research Design and Data

##### Samples and Data

The sample includes real estate companies listed on Bursa Malaysia between 2012 and 2021 (Malaysian Stock Exchange). DataStream (Refinitive Eikon), Malaysian Bursa, and annual reports were used to collect financial data related to the dependent and independent variables.

All variables in this study have been documented over 10 years (unbalanced data). A statistical population for this study was drawn from 65 real estate companies listed on the Malaysian Bursa. Due to the absence of availability of their complete data across that period, 20 real estate firms were removed from the population sample. In the end, 45 companies were included in the study's sample.

### Diagnosics Tests for Regression Analysis

Generally, the data for the regression model should achieve the four basic presumptions, i.e., (i) collinearity, (ii) normality and (iii) homoscedasticity, before performing regression analysis (Berenson et al., 2012; Gujarati, 2012). The following subsections explain the diagnostic test findings employed in this study. Stata 14 software was utilized in all analyses.

### Collinearity Test

The purpose of the present study was to investigate the issue of multicollinearity by evaluating the collinearity between the variables using the variance inflation factor (VIF). According to the researchers, a VIF value larger than '10' indicates a multicollinearity issue's presence (exists) (Greene, 2003; Kennedy, 2008). Table 1 summarizes this study's variance inflation factor (VIF) test findings. The model includes variables at the firm and sector levels. Based on the collinearity test, the model met the basic assumption of multicollinearity and demonstrated that all VIF values are less than 10, implying no issue with multicollinearity among variables. As a result, the findings enabled the researcher to employ the data for further analysis.

Table 1

*Variance inflation factor (VIF)*

<b>Variables</b>	<b>VIF</b>
Financial Sustainability (FS)	3.60
Leverage (LEV)	1.23
Efficiency (EFF)	1.42
Profitability (PRO)	3.52
Company Size (SIZ)	1.23
Mean VIF	2.20

*This table presents the VIF test for all independent variables used to examine dividend yield. It comprises of firm-level (FS, LEV, EFF, PROF, SIZ) variables. The results predict **no issue** of collinearity. This enables the researcher to use the data for panel data analysis.*

### Normality Test

The normality of the error term is using a set of data to measure how likely the data is normally distributed. Abugri (2008) stated that the Jarque-Bera test has been used to calculate the normality of the residual test. A regression model's primary presumption is that the data variables are distributed normally, which could give more authoritative outcomes (Berenson et al., 2012). The study used the Jarque-Bera statistical analysis test to test the normality presumption. The p-value for this test indicates if the sample is normally distributed when it is greater than 0.05. Otherwise, it is not normal. The result of this statistical test revealed that the statistically significant p-value is more than 0.05. It provides evidence that the null hypothesis



“residuals are normally distributed” is failed to reject. Therefore, the researcher uses the data for further analysis.

### **Homoscedasticity Test**

When the contrast of the error term is similar via all levels of independent variables or all observations, there is Homoscedasticity, and an infraction of this diagnostic test is determined as heteroscedasticity (Berenson et al., 2012). Gujarati and Porter (2009) specified that heteroscedasticity could separate the term to “hetero,” which means difference and “scedasticity,” which means spread and combine it, will come out with “different variances”. If the homoscedasticity assumption is incorrect, the result will be a deceptive standard error value. Thus, the study used Breusch-Pagan / Cook-Weisberg test. The results show that the computed chi-square is statistically significant as the p-value is greater than 0.05, which entails a failure to reject the null hypothesis that “homoscedasticity present in data.” The finding indicates that there is no issue of heteroscedasticity in data. Therefore, the study employs the data for further analysis.

### **Linearity Test**

Linearity is the last presumption of regression analysis. According to the concept of linearity, independent and dependent variables have a straight-line relationship. This premise is crucial since regression analysis only examines a linear relationship between the dependent and independent variables.

### **Hausman Test for Selection of Panel Model**

The current study employed Hausman (1978) test to select the most suitable panel model (fixed effect or random effect) for analysis. This test determines that if the p-value is lower than the study confidence level of 5%, then the null hypothesis presumption for the random effects assessment is violated, and an alternative hypothesis for the fixed effects assessment should be employed, and vice versa. The findings of the Hausman test are given in Table 2, which denotes that the p-value is lower than the study confidence level of 5% (i.e., less than 0.05) and is significant. This means that the presumptions for the random effect assessment are violated (the null hypothesis is rejected), and the fixed effect model requires to be used. Therefore, the present study elucidates the fixed effect model and its results in the following sections.

Table 2

*Hausman Test*

<b>Test</b>	<b>Chi-square</b>	<b>P-value</b>
Hausman Test	13.80	017)**

*This table presents the result of the Hausman test for panel model selection. The p-value is significant at 5% level. Therefore, the fixed effect model is selected for this study. The significance levels are as follows: \*\*\* shows significance at 1%, \*\* at 5%, and \* at 10%.*

### **Empirical Model**

The regression fixed effect model to verify financial sustainability's impact on dividends is shown by Equation (1). Financial sustainability is measured by sustainable growth rate (SGR), which could be useful for assessing a firm's financial sustainability (Crijns et al., 2008; Onyiri, 2014; Rahim, 2017). It depicts the highest proportion of revenues or assets increase that a

corporation could fund interiorly without alteration of financial leverage or obtaining additional internal equity capital (Gómez-Bezares et al., 2016; Przychodzen and Przychodzen, 2013). The proportion level measure of sustainable growth is a criteria parameter that can be identified using financial statement data. According to Palepu and Healy (2013), the sustainable growth rate is the ratio that a company can maintain with a mix of interior funds like undistributed earnings (retained earnings) and outside funding (debt). According to the return on equity (ROE) and retention rate, the sustainable growth rate (SGR) is calculated as [ROE x retention rate or (1-dividend payout ratio)] (Rahim, 2017; Ramakrishnan et al., 2020). Therefore, SGR will alter based on the actual sizes of every variable utilized in the computation because it represents a proportion scale metric. The following equation (1) illustrates the regression model developed to investigate the association between financial sustainability and dividend policy.

$$DY_{it} = \alpha_1 + \beta_1 FS_{it} + \beta_2 LIV_{it} + \beta_3 EFF_{it} + \beta_4 PRO_{it} + \beta_5 SIZ_{it} + \mu_i + \varepsilon_{it} \quad (1)$$

In equation (1), the dependent variable is dividend yield (DY),  $\alpha_1$  is the intercept of the equation,  $\beta_i$  indicates the slope (Beta Coefficient) assigned to an independent variable. The Independent variables are financial sustainability (FS), leverage (LEV), efficiency (EFF), profitability (PRO) and firm size (SIZE), which affected the level of dividends in previous studies were selected. The  $\mu_i$  is the company's fixed effect to control for cross-sectional variations via companies and  $\varepsilon_{it}$  is the error (disturbance) term.

## Empirical Results

### Analysis of Descriptive Statistics

Table 3 provides a summary of Malaysia's dependent and independent variable statistics. The average dividend yield (DY) was 4.7%, and the standard deviation was 2.3%. Given that, most firms had a dividend yield of more than 1%. The average financial sustainability (FS) is -4.4%, and the average leverage evaluation (LEV) is 25.8%. The efficiency evaluation (EFF) average is 20%, and the profitability evaluation (PRO) average is 4.6%. The firm size (SIZ) is 9.254 on average, and the standard deviation is 0.529.

Table 3

#### *Descriptive Statistics of Dependent and Independent Variables*

Variable	Obs.(N)	Mean	Std. Dev.	Min	Max
Dividend Yield (DY)	450	0.047	0.023	0.003	0.130
Financial Sustainability (FS)	443	0.044	0.057	0.166	0.402
Leverage (LEV)	431	0.258	0.135	0.000	0.794
Efficiency (EFF)	442	0.201	0.155	0.016	0.925
Profitability (PRO)	441	0.046	0.040	0.082	0.279
Company Size (SIZ)	442	9.254	0.529	8.011	10.597

*This table presents the descriptive statistics of independent variables based on the unbalanced sample for real estate firms from 2012 to 2021. N is the number of observations of each sample*

dataset. The mean variance (Mean) is termed to measure the central tendency. The statistic standard deviation (Std.Dev.), minimum (Min), and maximum (Max) measure the dispersion.

### Pearson Correlations

The correlation matrix between the dependent variable and the independent variables is displayed in the correlation table. To investigate the connection between the variables, Table 4 exhibits the outcomes using Pearson correlation analysis of major variables. Dividend yield (DY) shows a significant negative relationship with financial sustainability (FS), efficiency (EFF) and Firm size (SIZ). On the other hand, profitability presents (PRO) significant positive relationships with dividend yield (DY). However, leverage has noticed no significant association with dividend yield.

Table 4  
Correlation Matrix

	DY	FS	LEV	EFF	PRO	SIZ
DY	1.00					
FS	-0.07*	1.00				
LEV	-0.03	-0.25*	1.00			
EFF	-0.10*	0.43*	-0.30*	1.00		
PRO	0.22*	0.83*	-0.34*	0.37*	1.00	
SIZ	-0.17*	-0.09	0.28*	-0.33*	-0.21*	1.00

This table presents the Pearson correlation matrix between variables based on the unbalanced data across the real estate firm's sector. \* Shows the significance of the coefficient estimates at the 5% level.

### Findings and Discussion

Table 5 shows the regression analysis findings using the fixed effect model of equation (1). The F value is exposed to be significant at a level of 1% (0.000), signifying that the empirical model is appropriate. As shown in Table 5, the regression coefficient ( $\beta_1$ ) of financial sustainability on dividend yield was shown to be -0.179 with a p-value of 0.000, a significant negative value at the level of 1%. By mapping growth with financial policies, financial sustainability can help managers to do financial planning efficiently. This implies that companies operating in the real estate sector have steady financial performance. In addition, investors prefer to invest in companies with consistent financial performance since it shows stakeholders that the company is financially sustainable. Therefore, improving the financial sustainability in this sector makes it possible for the company generates higher returns and back up the signaling theory.

Furthermore, the Malaysian real estate sector companies appear to handle cash flow properly, which diminishes the agency problem and enables the companies to maximize shareholder value, which will be reflected in the company's dividend policy. In line with the agency theory, the company resources are allocated to financial sustainability practices because if it is assigned to non-financial sustainability operations, it will not be in the best interest of the shareholders; hence this is consistent with Rezaee's (2017) suggestion. As a result, this study reveals that Malaysia's real estate firms, in terms of their financial sustainability, have a negative effect on dividend policy. That is, this is an empirical outcome viewing that the practices of financial sustainability activities of the firm lead to a decrease in

the level of dividend distribution of the firm in the current perspective. This result indicates that the more active a firm's financial sustainability activities are the fewer dividends the firm pays. In other words, this result can be interpreted from the viewpoints of the agency theory and the signaling theory concerning various motives for paying dividends. In addition, this supports the view that financial sustainability activities can enhance the relationship with shareholders and increase earnings through efficient cash flow management. Thus, an earnings increase will drive a dividend increase in the near future.

The same regression coefficient ( $\beta_2$ ) of leverage was shown to be -0.023 with a p-value of 0.025, which was a significant negative value at the level of 5%. Conversely, the profitability regression coefficient ( $\beta_4$ ) is 0.305 with a p-value of 0.000, which had statistically significant positive values at 1%.

Table 5

Firm-level Variables of Dividend Yield based on Fixed Effect

Variables	Coefficient	T-Value	P-Value
Financial Sustainability (FS)	-0.179	-5.17	(0.000)***
Leverage (LEV)	-0.023	-2.24	(0.025)**
Efficiency (EFF)	-0.013	-1.31	(0.191)
Profitability (PRO)	0.305	5.81	(0.000)***
Company Size (SIZ)	0.002	0.26	(0.796)
Constant (Const.)	-0.029	-0.46	(0.644)
F-stat.			7.85
P-value (F)			(0.000)***
Obs.	431		431

*This table presents the firm-level determinants of dividend yield for real estate firms based on the fixed effect model using an unbalanced dataset from 2012 to 2021. The independent variables are financial sustainability (FS), leverage (LEV), efficiency (EFF), profitability (PRO) and firm size (SIZ). The coefficients of each variable are recorded in the table to show the strength of the coefficient with a p-value in parenthesis along with the significance level. The p-values are shown in the parenthesis. The significance levels are as follows, \*\*\* shows significance at 1%, \*\* shows significance at 5%, and \* shows significance at 10%.*

## Conclusion

This study aims to inspect the relationship between financial sustainability and dividend policy with some indicators that can be considered supportive measures of financial sustainability. This empirical study revealed that the two determinants, financial sustainability and leverage, had a significantly negative effect on dividend policy, while profitability had a positive and significant effect on dividend policy. Besides that, this study finds that financial sustainability plays a vital role in the association between company variables (leverage, efficiency, profitability, and company size) and dividend policy throughout Malaysian non-financial companies in the real estate sector. In addition, investors prefer to invest in

companies with consistent financial performance since it shows stakeholders that the company is financially sustainable.

### **Suggestion**

To increase a company's financial sustainability and dividend distribution, management should strive to have a positive relationship between financial sustainability and dividend policy. Maintaining the continuous improvement of financial sustainability makes it possible for the company to generate higher returns. Then, when companies achieve high profits, this will be reflected in an increase in the distribution of profits. In this case, the relationship between the dividend policy and financial sustainability will change positively, which both the company's management and shareholders/investors prefer.

Improve financial planning by implementing robust financial planning and budgeting processes to ensure the effective allocation of resources to financial sustainability practices because it will not be in the shareholders' best interest if assigned to non-financial sustainability operations. This involves setting clear financial goals, monitoring and identifying areas for cost savings. Moreover, the companies handle cash flows properly, which diminishes the overinvestment problem and enables the companies to maximize shareholder value, which will be reflected in the company's dividend policy.

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