Moderating effect of audit quality: The case of dividend and firm value in Malaysian firms

ABSTRACT

This paper aimed to examine the effect of dividend on firm value, as well as the impact of audit quality on the relationship between dividend and firm value in Malaysian firms, which was measured via financial statements audited by four large-sized audit firms (henceforth the Big Four). The model projected was assessed by using Pooled Ordinary Least Square (OLS), panel random, and fixed effect regression. To ensure robust results, firm fixed effect were also employed. The results revealed that dividends negatively affected firm value, whereas audit quality moderated the relationship between the variables. The outcomes were robust even in further consideration of endogeneity concerns, specifically the omitted variable bias and reverse causality (i.e. firm fixed effect and Generalized Method of Moments (GMM)). The study findings provide novel information applicable for managers to devise investment strategies in the Malaysian market. The implication from this finding can be very useful for a manager to devise their strategy, especially by looking into the moderating effect of audit quality in mitigating information asymmetry that surrounds within dividend and firm value relationship. To the author's knowledge, this paper contributes significantly towards dividend and firm value literature by being the pioneering introduction into the moderating effect of audit quality, especially in the context of emerging markets.