A STUDY ON DIVIDEND POLICY AND VALUE OF THE FIRM: MANAGERIAL PERSPECTIVES IN MALAYSIA

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Abstract

This study investigates the views of corporate managers about the relationship between dividend policy and value; explanations of dividend relevance including the bird-in-the-hand, signaling, tax-preference, and agency explanations; and how firms determine the amount of dividends to pay. We obtain data from 2004 mail survey sent to 207 chief financial officers/financial controller/corporate managers of firms listed on the Bursa Malaysia. Based on 64 usable responses, the empirical result show that most survey respondents believe that dividend policy affects firm value. Of the four explanations for dividend relevance, the respondents generally express the highest level of agreement with statements about signaling. The results also show that managers are concerned about the continuity of dividends when setting dividend payments

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many companies pay dividend to their shareholders as yield or return for the money they invest in the company. Dividend can be regarded as any direct payment by the corporation to the shareholders. Cash dividend is popular and very desirable from the view of investors.

In addition to the declaration of cash dividend, the firm has other options for distributing profits to the shareholders. These options are the stock dividend, stock split and stock repurchase. A share dividend represents a distribution of additional shares to the existing shareholders. It involves nothing more than a bookkeeping transfer from retained earning to capital stock accounts (common stock plus capital surplus); a shareholder's percentage ownership remains constant. Stocks dividends are frequently used to conserve cash and still appease investors' desire for dividends.

A stock split is a change in the number of outstanding shares of stock achieved through a proportional reduction or increase in the par value of the stock. Only the par value and number of outstanding shares are affected. The amounts in the common stock, premium and retained earning accounts do not change. Stock dividends and stock split can be used to keep the market price of the stock within a popular trading range. Many companies