

**UNIVERSITI TEKNOLOGI MARA**

**THE IMPACT OF DIVIDEND  
POLICY ON SHAREHOLDERS'  
WEALTH IN MALAYSIAN  
CONSUMER PRODUCT INDUSTRY**

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## ABSTRACT

Dividend policy is indeed one of the most controversial issues in an organization. Dividend payment and company's earnings have become one of the most concerning subjects to shareholders in company. The way on how company decided to spend their net profit, either by declaring dividend distribution or reinvestment for future capital gains, both will have direct effect on shareholders' wealth. This study aims to examine the impact of dividend policy on shareholders' wealth in Malaysian Consumer Product Industry. Dependent variables in this study are earning per share (EPS) and dividend per share (DPS) whilst dividend payout ratio (DPR), return on equity (ROE) and retention ratio (RR) are the independent variables. The data for all variables in this study has been collected through Thomson Reuters Datastream. 100 companies listed in Bursa Malaysia particularly in Consumer Product Industry have been selected as sample of this study starting from the year of 2011 to 2015. Descriptive statistic, correlation and regression analysis have been conducted in order to identify the impact of dividend policy on shareholders' wealth. The findings of this study show that there is positive and significant relationship between EPS and DPS. Nevertheless, DPR has showed negative significant relationship with EPS. Besides, there is insignificant yet positive relationship between EPS and ROE. On the other hand, RR has showed negative and insignificant relationship with EPS. From the regression's analysis, it is found that DPS is the most significant factor that influences shareholders' wealth. This study is beneficial to the policy makers, managers, shareholders and academicians.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Preamble**

In conducting a research, it is important for the researcher to know and study the research project purposes and the nature. This research study will begin with the first chapter. In the first chapter of this research it will start the presentation with the research background, problem statement, research questions, research objective, scope of the study, significant of the study and the definition of the terms and concepts. In this chapter, the information provided will act as a tool by giving basic information to the reader on the impact of dividend policy on shareholders' wealth particularly in consumer product industry. The first chapter plays important role in ensuring readers to have a clear picture and basic understanding of this research paper.

### **1.2 Research Background**

#### **1.2.1 Dividend Policy in Malaysia**

Payment of dividend is clearly being unsolved and vital issues in finance (Subramanian & Devi, 2011). Along with what had been recognized by Al-Shubiri (2012), the author stated that dividend policy had been puzzled in finance which is on the top ten issues. Pursuant to Ong, Lim, Lim & Tan (2014), dividend policy can be defined as a distribution of earning to shareholders as a reward for investing in the organization and ploughed back the profits for reinvestment in the future. In other words, Dividend can be considered as a payment made by the firm to be given to the shareholders for their investment in the firm. According to Subramanian & Devi (2011), the aim of a company is to increase shareholders' wealth in order to meet shareholders' satisfaction towards the performance of the company.

Based on Subramanian & Devi (2011), the authors stated that there are no specific rules on the standard of dividend policy in Malaysia which this show that company able to decide any way to distribute the earning to shareholder without going above the laws and regulations. Generally, the payment of dividend will be decided by the Board of Director and its must have shareholder's approval. In Malaysia, under