



UNIVERSITI TEKNOLOGI MARA

**THE DIVIDEND PAYOUT POLICY – A
COMPARISON ON MALAYSIAN ISLAMIC AND
CONVENTIONAL FINANCIAL INSTITUTIONS**

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ABSTRACT

This study aims to identify the determinants of dividend policy in Malaysian Financial Institutions by looking at conventional and Islamic banking sectors. The panel data set was constructed from financial institutions in Malaysia. Consequently, it can have various fundamental consequences. Therefore, any economy must determine the reasons for these ties of the dividend payout. The previous survey in the Malaysian case study produces mixed results. Therefore, this research is expected to update existing evidence using the latest data and provide more insight into the relationship between dividend policy in both financial institutions in Malaysia. The results show a statistically insignificant negative relationship between dividend payout and revenue growth of the conventional Malaysian financial institutions. Conventional banks distribute higher dividends when they record higher profitability. In this analysis, a multiple regression model was used to evaluate the relationship between independent and dependent variables. Sixteen financial institutions shall be selected as a sample of this research over a span of 10 years. This is in line with previous research, the results suggest that Islamic banks in Malaysia only look to the past dividend payment to determine their future dividend payments.

Keyword: Dividend policy, Islamic banking, panel data, Malaysia

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

The dividend payout has always been an important part of the finance topic. Dividends are paid to owners from the company's profit earnings over a given fiscal year. Dividend refers to the level of return that those firms would pay to their owners based on the company's performance or a fixed dividend payment at a given point agreed upon by its management. Mui and Mustapha (2016) said that the dividend policy could help to decrease the agency costs associated with the separation of ownership and control. Separation of ownership and control happens when a business's shareholders (the principal) designate management (the agent) to operate the company on their behalf.

Generally, there are two ways in financing a business either through internal or external sources. Internal sources consist of retained earnings and depreciation, while external sources are concern on issuing new shares or new borrowings, relatively through debt or equity respectively. A theory stated that the companies will primarily use the internal sources and later on finance the business through debt and finally equity, which is by issuing new shares to public. If the company decided to issue new shares, there will be more shareholders in the company hence the existing shareholders will receive a fewer dividends as it will decrease the portion of ownership.

According to the previous researcher Abdullah, Hassan, and Mohamad (2007), The present global financial crisis has not only cast doubt on conventional "Western" banking, but it has also heightened interest in Islamic banking. Many academics have shown an interest in conducting comparative studies due to the distinctions between conventional and Islamic banking systems.

Three views describe the dividend policy, and the first view describes that the dividend policy increases the shareholder wealth. The second view describes the dividend policy as irrelevant, and the third view describes the dividend policy as decreasing shareholder wealth. Dividend policy can describe in terms of dividend relevance theory and dividend irrelevance theory. Dividend irrelevance theory proposed explains that the dividend policy of the firm or company is irrelevant to the value of that