



UNIVERSITI TEKNOLOGI MARA

**DIVIDEND POLICY AS THE DETERMINANTS
FOR DIVIDEND PAYOUT RATIO: EVIDENCE
FROM MALAYSIAN CONSUMER INDUSTRY**

NUR AZNIE ATIKAH BINTI ZAMAN

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ABSTRACT

The study conducted about the dividend policy as the determinants for dividend payout ratio. The study used the company listed in Bursa Malaysia under the consumer product industry. Panel data had been used to measure the total of 37 out of 130 companies listed under the consumer product industry in Bursa Malaysia over the period 2007 to 2015. The study used 5 independent variables that consists of profitability that used return on asset (ROA) as the proxy, liquidity (CR) as the proxy also, market to book value, dividend yield, and firm size. After run the suitable tests, the study have found that only liquidity has insignificantly related to dividend payout, whereas the rest of profitability, market to book value, dividend yield and firm size are found to be significant determinant of dividend policy. However, only market to book value is negatively correlated towards dividend payout, while the rests are positively correlated. All financial factors, as independent variables, are calculated in terms of percentage. In addition, dependent variable (DPR) is also used in percentage of dividend.

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CHAPTER ONE

INTRODUCTION

1.1 An Overview of Determinants of Dividend Payout

Dividend policy is one of the most interesting topics in financial research to be studied for. It leads to a lot of controversy of the dividend policy in the real world because of the market imperfection exists. This is because until now, there are a lot of theories uncountable evidences from the past researchers. It involved a lot of hypothesis provided even though it came from the same model. However, the main issues still can't be answered and required a lot of studies in future. In addition, dividend policy listed on the most unresolved dilemma in the financial field and did not have sufficient clarification for the observation of the dividend performance of the company (Black, 1976). Black (1976) wrote that "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just do not fit together". However, there is still the Dividend Puzzle that state whether the dividend payout policy will affect the value of the firms still in mystery. There are many reasons given to the dividend policy state that it is important factor need to be considered. Dividend policy decides to distribute the enterprise's profit in which business makes the choice whether use earning after tax to reinvest or pay out dividends to shareholders. In term of corporate, profit after tax, considered as the lowest cost of funding source, is kept to support capital for company in reinvesting, expanding scale, and approaching to a larger project for development of business networks. However, this maintaining a major proportion of retained earnings also makes company's shares become less attractive. In contrast, shareholders are always desirable to a significant dividend payout ratio because it is their income from capital gains of the stock. Generally, company's shares having the high dividend payment rate will attract more investors. Thus, a dividend payment policy whether is high or low is a difficult problem and is not an exact answer yet. However, there is also some statements state it is unreasonable. It is required a lot of reasons to clarify the relationship between the variables and the dividend payout. For instance, retained earnings are the main internal foundation of financing towards the firms, but somehow higher retained earnings could lead to less in the dividend payment and vice versa. Gill, Biger, and Tibrewala (2010) stated that the income of the firms can be reinvested in operating