DIVIDEND POLICY AND FACTORS INFLUENCING: A STUDY OF MALAYSIAN LISTED CORPORATIONS

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MAY 2011

ACKNOWLEDGEMENT

In the name of ALLAH, the Most Gracious and the most Merciful.

First and foremost, we would like to express our heartfelt gratitude and appreciation to the Research Management Institute for their financial support and cooperation.

We would also like to acknowledge those people who have provided assistance in the development of this study. Our appreciation goes to Miss Ayuernie Ibrahim who has involved directly in the data gathering process throughout the completion of this project and Miss Erina Mohd Taib for her assistance in formatting the final report.

Finally, we would also like to acknowledge Prof. Dr Ibrahim Kamal Abdul Rahman, Dean. Faculty of Accuntancy UiTM Shah Alam for his continuous support and encouragement.

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ABSTRACT

The study investigates a sample of 526 publicly listed companies on Bursa Malaysia during 2005 – 2008. Our results show that for both measurement of dividend policy, past dividend has a positive and significant association with the policy. The results also show that the past dividend payment variable makes the strongest contribution to the prediction of company's dividend payment when the variance explained by all other variables in the model is controlled for. The result is consistent with one of the renowned dividend behavior i.e smoothing of firm's dividend vis-à-vis earnings and growth. Managerial shareholdings on the other hand have a significant positive association with dividend yield and not dividend per share. Other variables of current earnings, institutional ownership, market to book ratio and free cash flow variables are positively associated with dividend payment and significant at the 1% level, while leverage is negatively associated with dividend payment at the 1 % level. The results of this study generally support previous survey findings and empirical evidences that the company dividend payment policy is influenced by the pattern of past dividend, current earnings, and their investment opportunities

CHAPTER 1

INTRODUCTION

1.0 Preamble

Dividend policy is one of the important decisions made by the firm. Healy and Pelepu (1989) suggest that other than choice of how much debt to hold in the firm's capital structure, choice of how much earnings to pay out as dividends have a significant impact on stock price. Since dividend payment has a great influence of stock prices and prior evidence in both developed and developing markets show that investor react negatively to dividend cut (Denis, Denis and Sarin, 1994; Norhayati, 2006), maintaining smooth dividend payment is crucial. These evidences confirmed Lintner's (1956) pioneering study that managers are reluctant to cut dividends. This renowned behaviour is consistent with DeAngelo and DeAngelo's (2006a) contention that dividends are of first-order importance to investors. Later study by Daniel, Denis and Naveen (2008) find that firms view expected dividend levels as important earnings thresholds and thus, they managed earnings to meet expected dividend levels.

Al-Twaijry (2007) in their study of Malaysian firm's dividend policy uses only pearson correlation and mean comparison analysis in providing empirical evidence regarding the association between past dividend and firm's dividend policy. A more rigorous analysis than Al-Twaijry (2007) using OLS regression, allows for a more sophisticated exploration of the interrelationship among a set of variables. The analysis therefore provides information about the model as a whole and a relative contribution of each of the variables that make up the model.

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