



UNIVERSITI TEKNOLOGI MARA

**THE EFFECT OF DIVIDEND POLICY ON
FIRM PERFORMANCE IN MALAYSIA**

NURIN BATRISYIA BINTI AHMAD FAIZUL

2020974733

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ABSTRACT

Firm performance is a subjective evaluation of a company's capacity to produce revenue and expand operations utilizing assets from its primary method of operation. A dividend policy is a collection of rules or guidelines that a company uses to determine how much earnings to distribute to shareholders. The purpose of this study is to investigate whether the dividend policy makes an impact on firm performance in Malaysia. One of the most prominent concepts in organizational research is firm performance. Despite its significance, and despite the numerous developmental critiques that have appeared over the years, performance remains a difficult concept to apply in a scientifically rigorous manner. The question of whether a firm's dividend policy decision influences its performance remains unanswered. Previous researchers have mainly focused on developed countries while developing countries like Malaysia have limited research. Data collected have been used is from annual reports data of 10 Malaysia companies listed in Kuala Lumpur Stock Exchange from 2016 to 2020. Tobin's Q has been used as the proxy to measure financial performance. The independent variables used in this study are DPS, DPR, EPS, financial leverage, and firm size. In this study, the firm director will gain a new perspective on the findings regarding the effect of dividend policy on firm performance in Malaysia. Eviews is the program that was used to quantify the outcome. The multiple linear regression test is carried out using the t-test and the f-test. R-squared and normality tests were included in the assumption test.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

Firm performance is a subjective assessment of a company's ability to generate revenue and expand operations using assets from its principal mode of business. When a corporation has made a profit, it has two options. The surplus might be distributed to investors as dividends, or the company can keep profits and add them to shareholders' equity as retained earnings. A high dividend payout indicates that the corporation is not reinvesting as much money into its operations. From an institutional standpoint, it appears that firm performance is treated broadly in many areas of our academic lives because it has been embraced as a tool of legitimacy rather than a scientific tool that facilitates dialogue and knowledge accumulation (Miller et al., 2013). According to Kamran et al. (2019) companies that pay a high dividend tend to attract investors who prefer the certainty of a consistent source of income to a strong potential for share price rise. Companies that pay a lower dividend, on the other hand, are reinvesting in business growth, resulting in bigger future capital gains for investors.

A dividend policy is a set of rules or guidelines that a corporation employs to determine how much of its profit to distribute to shareholders. However, the decision to pay dividends is made by the business's board of directors, and once declared, dividends become a debt to the corporation and cannot be simply revoked (Viviers et al., 2013). Depending on the firm's policies, these payouts can take the form of cash dividends or stock dividends. Dividends are valuable in two ways. First, they provide investors with a sense of reality regarding the firm's financial interest. Second, they are regarded as a positive signal to the market regarding the firm's future performance. In their study for Malaysian firms, (Ong et al., 2014) emphasised the importance of dividend paying. Furthermore in Malaysia, there are no specific rules on the standard of dividend policy (Subramaniam & Devi, 2011).

The flow of this chapter continues with section 1.2, which explains about the background of the study. The problem statement, research questions, research objectives, the significance of the study and the scope of study, limitation of study, definition key term are based on section 1.3, 1.4, 1.5, 1.6, 1.7, 1.8 and 1.9 respectively