DISSEIREATION
The Impact of Dividend Policy on Shareholders' Wealth
Based on Agency Cost and Residual Dividend Theory

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DEDICATION

I dedicate this effort to the soul of my father Abubakar Ahmed Siad, who is my wise teacher in this life, my kindhearted mother Shakida Shiekh Mohamud, my eldest brother Abdi Fitah, my dear brothers Abdi karim, Mohamed, Zakaria and my beloved sister Nasteha Keyf.
DECLARATION

I hereby declare that the project paper is based on my original work accept for quotations and citations that have been duly acknowledged. I also declare it has not been previously or concurrently submitted for any other master's programme at UUM or other institutions.

Ahmed Abubakar Ahmed Siad

17 October 2010
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ABSTRACT

This study attempts to shed light on dividend policy for Malaysian companies by seeking to understand the explanations for corporate dividend policy's effect on shareholder's wealth (Market Price Share), for the year 2007 to 2009, with the focus on Agency Cost Theory and Residual Theory. Three variables associated with Residual Theory namely Size, Growth opportunity (GO) and Capital expenditure (CAPEX) and two variables associated with Agency Cost Theory, namely Leverage (LEV) and Free cashflow (FCF) are the focus of the study where their interaction effect with Dividend Per Share (DPS) are hypothesised to have significant effect on share price. Earnings per share (EPS), Exchange rate (EXR) and inflation (INF) are used as control variables. Results show that the interaction variables between DPS and CAPEX, DPS and Growth Opportunity have significant influence on share price but in the direction opposite to that hypothesized under Residual Dividend Policy. Nevertheless, the interaction effect between DPS and Size is also significant in influencing share price in the manner predicted by Residual Dividend Policy. Variable associated with agency Cost Dividend Theory are shown not to play a significant mediating role in the relationship between stock price and DPS.
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CHAPTER ONE

RESEARCH BACKGROUND

1.0 INTRODUCTION

The impact of dividend over shareholders' wealth has been a controversial issue in financial research over last few decades. For more than half a century, financial economists have engaged in modeling and examining corporate dividend policy. Black (1976) hinted that, "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together". What might be important to mention, is that researchers have primarily focused on developed markets, while little attention has been paid to dividend policy in emerging markets.

Dividends are commonly defined as the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. Dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time. Managements' primary goal is shareholders' wealth maximization, which translates into maximizing the value of the company as measured by the price of the company's common stock. This goal can be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of firm's dividend policy on shareholders wealth is still unresolved.
The contents of the thesis is for internal user only
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Abdullah et al. (2002). The effect on dividend announcements on stock returns for companies listed on the main board of Kuala Lumpur stock exchange. Malaysian management journal, 1&2, 81-89.


