

**THE DETERMINANTS OF DIVIDEND POLICY:  
EVIDENCE FROM MALAYSIAN FIRMS**

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MASTER OF SCIENCE (FINANCE)

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**THE DETERMINANTS OF DIVIDEND POLICY: EVIDENCE FROM  
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I also certify that the substance of this project paper has never been submitted for any degree and is not currently being submitted for any other qualifications.

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## ABSTRACT

The aim of this study is to investigate the relationship between dividend payout ratio in Malaysian firms with profitability, size, growth opportunities, free cash flow, business risk and market to book value. The paper used a sample of 284 firms listed on the Kuala Lumpur Stock Exchange (KLSE) from seven sectors viz., Consumer Products, Industrial Products, Construction, Finance, Technology, Properties, and Telecommunication. In order to decipher the relationships as stated above, multivariate regression analysis is used to test the hypotheses. The study found that at the pooled data level for All sectors, free cash flow, return on assets, return on equity, earning per share, market to book value and market capitalization have significant positive correlation with dividend payout ratio. The variable Beta, however, has a strong negative correlation with dividend payout ratio. The findings however differ from sector to sector; results reflect that Market capitalization; Beta, ROA and ROE are the common variables which have influence on DPR across various sectors except in technology sector where as the variable Market capitalization is not significantly associated with DPR. Similarly, ROA, which is significant determinant variable of DPR in four sectors like Construction, Consumer Products, Properties and Telecommunication Sector, it has no influence on the dividend payout ratio of the companies in the Industrial, Technology and Finance sectors.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of Study**

Since early days of the development of the theory of corporate finance, dividend payout decision of the corporate sector has been a subject of debate in the literature. Role of agency cost, taxation, and transaction cost etc. on dividend decisions continue to draw the attention of researchers. Many models were developed by researchers across the globe to identify factors that drives dividend decisions by companies; findings of these studies varied widely from country to country. Identification of driver variables of dividend payout ratio in an emerging market like Malaysia is more challenging.

Ling, et al (2008) defines dividend payout as distributions of retained earnings to the investors “Shareholders” based on their proportionate ownership. Dividends are usually paid in cash, but sometimes paid in stock or other means. Firms always look for an optimal dividend policy, among others to reach equilibrium among current dividend, future growth, and maximize firm’s stock price.

Miller and Modigliani, in their seminal paper in 196, developed the dividend irrelevance hypotheses and argued that given perfect capital markets, the dividend decision does not

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