

**INTRA-INDUSTRY CONFORMITY IN DIVIDEND POLICY
IN MALAYSIA**



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IN MALAYSIA**

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**Thesis Submitted to
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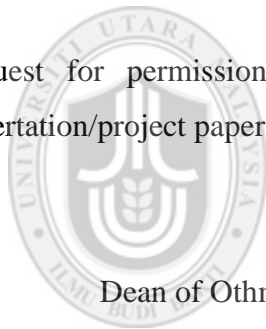
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Abstract

The topic on determinants of dividend policy has remained as a hot topic even though much relevant research had conducted. Every company wishes to increase their company's value by having a suitable dividend policy. The dividend policy of a company may be affected by other industry players due to the similar business environment. Besides, dividend decision can convey message to public about its performance which may indirectly affect a company's share price. Intra-industry effect on dividend policy was identified outside Malaysia. Since dividend is a crucial decision to a company, the same research should be conducted in Malaysia. The main purpose of this paper is to test the intra-industry effect on dividend policy in Malaysian market. In order to explore the influence of intra-industry effect, the logistic regression was performed by using the variables that may affect the probability of a company to pay dividend. The findings revealed a significant positive relationship between probability of a company paying a dividend and number of companies within plantation industry that pay a dividend. However, there is an insignificant relationship between probability of a company paying a dividend and number of companies within construction industry that pay a dividend. Overall, the findings support the view of intra-industry conformity in dividend policy in Malaysia. Thus, the intra-industry effect should be considered as one of the determinants in dividend policy. The findings are useful not only for investors but the company as well.

Keywords: Dividend, intra-industry effect, Malaysia

Abstrak

Topik mengenai penentu dasar dividen masih menjadi topik hangat walaupun banyak kajian berkaitan telah dijalankan. Setiap syarikat ingin meningkatkan nilai syarikat mereka dengan mempunyai polisi dividen yang sesuai. Dasar dividen syarikat boleh terjejas oleh peserta industri lain kerana persekitaran perniagaan yang sama. Selain itu, keputusan dividen boleh menyampaikan mesej kepada orang ramai mengenai prestasi dan boleh menjejaskan harga saham syarikat itu. Kesan antara industri dasar dividen telah dikenal pasti di luar Malaysia. Disebabkan dividen adalah satu keputusan yang penting untuk syarikat, penyelidikan yang sama, hendaklah dijalankan di Malaysia. Tujuan utama kajian ini adalah untuk menguji kesan antara industri dasar dividen di pasaran Malaysia. Dalam usaha untuk meneroka pengaruh kesan antara industri, regresi logistik telah dilakukan dengan menggunakan pemboleh ubah yang boleh menjejaskan kebarangkalian syarikat untuk membayar dividen. Dapatan kajian menunjukkan hubungan positif yang signifikan di antara kebarangkalian syarikat membayar dividen dan bilangan syarikat dalam industri perladangan yang membayar dividen. Walau bagaimanapun, terdapat hubungan yang insignifikan antara kebarangkalian syarikat membayar dividen dan bilangan syarikat dalam industri pembinaan yang membayar dividen. Secara keseluruhan, dapatan kajian menyokong pandangan antara industri pematuhan dalam dasar dividen di Malaysia. Oleh itu, kesan antara industri boleh dianggap sebagai salah satu penentu dalam polisi dividen. Hasil kajian ini berguna bukan sahaja kepada pelabur tetapi syarikat itu juga.

Katakunci : Dividen , kesan antara industri , Malaysia



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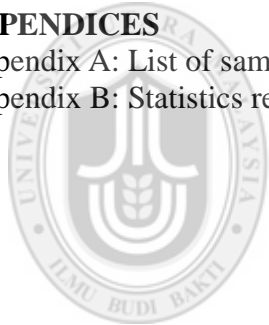
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Table of Contents

DESCRIPTION	PAGE
TITLE PAGE	
CERTIFICATION OF PROJECT PAPER	i
PERMISSION TO USE	ii
ABSTRACT	iii
ABSTRAK	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	viii
LIST OF FIGURES	ix
CHAPTER ONE INTRODUCTION	
1.1. Background	1
1.2. Problem Statement	4
1.3. Significance of Study	5
1.4. Scope and Limitations of the Study	6
1.5. Research Objectives	8
1.6. Research Questions	9
1.7. Organization of the Dissertation	10
CHAPTER TWO LITERATURE REVIEW	
2.1 Introduction	11
2.2 Dividend relevance and irrelevance theories	
2.2.1 Dividend irrelevance theory	12
2.2.2 Dividend relevance theories	12
2.3 Discussion on conformity tendencies in dividend policy	
2.3.1 Institutional templates for appropriate behaviour	14
2.3.2 Industry effect on dividend payout behaviour	15
2.4 Chapter Summary	19

CHAPTER THREE RESEARCH METHODOLOGY	
3.1 Introduction	20
3.2 Research Design	20
3.3 Data Collection	21
3.4 Sample Selection	22
3.5 Hypothesis Development and selection of relevant proxy variables	22
3.6 Chapter Summary	29
CHAPTER FOUR FINDINGS	
4.1 Introduction	30
4.2 Results of the Study	
4.2.1 Descriptive analysis	30
4.2.2 Correlation analysis	34
4.2.3 Regression analysis	39
CHAPTER FIVE CONCLUSION	
5.1 Summary of the Study	55
5.2 Limitation and implications of the study	56
REFERENCES	57
APPENDICES	
Appendix A: List of sampled companies	63
Appendix B: Statistics results	65



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List of Tables

Table	Description	Page
4.1	Descriptive statistics for construction and plantation industries	31
4.2	Descriptive statistics for construction industry	32
4.3	Descriptive statistics for plantation industry	33
4.4	Correlation matrix for construction and plantation companies	36
4.5	Correlation matrix for construction companies	37
4.6	Correlation matrix for plantation companies	38
4.7	Regression summary statistics for construction and plantation industries	43
4.8	Regression summary statistics for construction industry	48
4.9	Regression summary statistics for plantation industry	53



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List of Figures

Figure	Description	Page
3.1	Research Design	20
3.2	Research Framework	24



CHAPTER 1

INTRODUCTION

1.1 Background

A dividend is a form of profit distribution to shareholders. The board of directors' approval is needed to declare the interim dividend whereas the final dividend requires a majority shareholder's approval. Dividend is a source of income to shareholders. On the other hand, dividend is an expenses to a company. As a rule of thumb, a company is not in favour to pay dividend when the company is not performing. The ultimate objective of the company is to increase shareholder's wealth. Thus, the decision maker for dividend policy requires a comprehensive and careful judgement.

Dividend policy involves important financial decision. Dividend policy refers to a practice which followed by management representatives to decide the amount and the form of distribution to shareholders for a certain timeframe (Lease et al, 2000).

A company can distribute the profit by cash dividend or stock dividend. A cash dividend is a form of payment from the company's retained earnings. From a company's perspective, cash dividend is considered as an expenses at the expense of future investment opportunities. Therefore, it is not surprising that some companies prefer to pay stock dividend to attract investors. Stocks dividend does not reduce company's cash. It involves the issuance of new shares and increase the number of outstanding shares.

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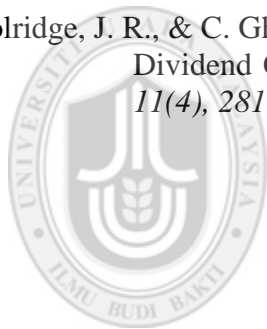
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