DIVIDEND PAYMENT BEHAVIOUR: EVIDENCE FROM MALAYSIA

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Abstract: The Malaysian financial market is governed and regulated by the Bursa Malaysia Berhad, an indicator of Malaysian financial market. Dividend policy in Malaysian companies is often inflexible as most of the firms are unwilling to cut or keep away from omitting dividends even when the company’s earnings are falling. This research examined whether there is any correlation between earnings, firm’s size and liquidity with dividends payout ratio. This research utilized data from companies of three different selected sectors over period of six years from 2009 to 2014. From the results obtained, this research confirms that profitability, firm size and liquidity are the important determinants of dividend payment in Malaysia. There is also great influence of industry on payout decision in Malaysia. The companies studied appear to be reluctant to neglect dividend even when they suffer losses.

Keywords: dividend, payout decision, various sectors, dividend payment behavior

1. Introduction

An organizations’ willingness to pay dividends to their shareholders over the time can provide a positive message about its financial fundamentals and performance. A cautiously planned and executed policy is important for maximizing shareholder wealth (Akit, Hamzah, & Ahmad, 2015). Dividends also are able to provide a signal to other potential investors of what the company is really worth (Allen & Rachim, 1996). Though, organizations are not restricted to pay in terms of cash dividend to their investor. They are paid other types of dividend payments such as stock dividend, split dividend and share repurchases. Similarly, there were situations whereby many high profiles Board of Directors decided to return excess capital to shareholders by offering stock repurchase to the shareholders, this will result in fewer shares outstanding and give the remaining share a bigger fraction rights in the company (Akit, Hamzah, & Ahmad, 2015; Esqueda, 2016).

Some firms possibly will come to a decision to give dividends in the form of stock or stock split. Neither of these actions has economic value as both of the options do not increase investors’ wealth. Dividend policy which optimizes the value of the company is alleged to have an optimal dividend policy (Baker & Weigand, 2015). There are many types of dividend policy that managers can choose from for their organizations. Thus, distinction exists in dividend policies of companies around the world. Generally, dividend policies will be based on the local tax laws (Benjamin & Zain, 2015). For example, company tends to retain greater amounts of earnings if the countries tax on capital gains is less than tax on dividends. However, in Malaysia, the Single Tier System was introduced in budget 2008 that resulted in any dividend paid after 2008 are exempted in the hands of shareholders (Angabini & Wasuuzzaman, 2011). Business profit is taxed at the corporate level and can be considered as the final tax. Shareholders with the highest tax bracket will benefit the most from this as they do not need to pay for the tax differences. This development in the system will attract more investors with the higher tax bracket or high end investor to invest in a dividend paying company (Athukoralal, 2012).

The purpose of this research is to examine dividend payments behavior with respect to earnings, size and liquidity of Malaysian companies listed on Bursa Malaysia Berhad. In Malaysia, there are several studies which examined the dividend policy and behavior of companies, Ameer and Rahman (2009) and Zakariya, Muhammad and Zulkifli (2012) agreed that declaration of dividend either increases or decreases will be followed by an increase or decrease in share prices respectively. The growing acceptance of unit trusts in Malaysia offers attentiveness of returns in the form of dividends to investors. These funds will invest in shares that can offer good returns in the form of capital gains and dividend payout. A study on the determinants of dividend policy will be essential to support the growth of this industry.

2. Literature Review

Dividends can be referred to allocations of earnings of firms, whether those earnings are made in the present or previous period (Ross et al. 2006). Once a company generates profit, they have to
decide whether to keep the profit for capital investment and expansion etc. or should they pay out dividend to the shareholders.

**Residual Dividend Policy**

The residual dividend policy suggests that dividend payments should be observed as residual, meaning that the amount available after all acceptable or positive NPV’s investment opportunities has been undertaken (Ali et. al., 1993; Hunjra, et al., 2014). As a conclusion, companies using the residual dividend policy prefer to rely on equities that are generated internally to finance new prospects. Resulting from that, dividend payment will be made from the residual or leftover, after every investments requirement are met and causing the dividend payment made to be unstable from years to years depending on availability of new investments opportunities. These companies will usually attempt to preserve balance in their debt to equity ratios prior to announcing any dividend payments, which shows that they will only decide on dividends if there is sufficient money available after all operating and expansion expenses are met. In his study, Jensen (1986) discovered that investment opportunities are an important factor in dividend decision. Companies with higher growth will need to maintain minimum payout, this will avoid external financing cost (Holder et. al. 1998) this policy minimizes new equity issues and hence flotation and signaling cost.

**Dividend Stability Policy**

The instability of dividends resulted from the residual policy noticeably distinguish with the firmness of dividend stability policy. Researchers have studied on the relationship of dividend stability with the risk factor. The stability of the underlying cash flow has been points out by stable dividend, explained onto lower level of improbability and business risk, while inconsistent dividend stream will cause the fluctuation of cash flow in the hands of shareholders. With the stability policy firms may decide to choose a cyclical policy that sets dividend at a flat portion of quarterly earnings, or it may choose a stable policy whereby dividends are set at a part of yearly earnings. Either way, dividend stability policy is a mean to reduce uncertainty for investors and to gives them with a steady income from the dividend payment. Samad et. al., (2007) examines whether there is a significant impact linking a stable dividend policy and firm performance of 120 stocks from seven selected sectors in Malaysia from 2001 to 2005. The results revealed that dividend stability does differ significantly across different industry sectors.

**Low-Regular-Dividend-Plus-Extras**

The other approach that company may opt is the low-regular-dividend-plus-extras. This is a hybrid or combination involving the residual and stable dividend policy. By choosing this approach, a firm tends to view the debt/equity ratio of their capital structure as a long term decision rather than a short-term goal (Hashemijoo, Ardekani, & Younesi, 2012). It is meant to keep expectations low for dividends. Presently, this approach is normally used by firms that pay dividends. As these companies generally go through business cycle fluctuations, they will usually have a single set of dividend, which is a set as a fairly small fraction of yearly profits and can be easily preserved. Beside the portions mentioned, these companies will give an additional extra dividend that will be paid only when income surpasses the general levels. The disadvantage of this approach is the potential for negative signaling (Akit, Hamzah, & Ahmad, 2015). Company using this approach would usually pay a predictable dividend every year whereby in years with good earnings they would pay their investors a bonus dividend.

**Dividend Theory**

Among others, the most renowned theories are The Tax Preference Theory, Irrelevancy Theory, Signaling Theory and The Bird in a Hand Theory.

**Tax Preference Theory**

Akpomi et al. (2008) study the impact of taxes on dividend policy of Nigerian banks and identified pattern of past dividends, which focused on preserving a target capital structure, certain degree of financial leverage, shareholders’ desires for dividend income. The analyses for the study show a considerable association between taxes and dividend structure of the banks and also proposed that income is a main determinant in the development of dividend policy of the organizations. The study shows significant impact of income on dividend and a positive relationship connecting profit, tax and dividend.

**Irrelevancy Theory**

Merton Miller and Franco Modigliani (1962) developed a theory called irrelevancy theory dividend policy that shows that in perfect financial markets meaning that when there are no taxes and no transactions cost exist the value of a firm will not be affected by the dividends distribution. Their argument is that value is determined only by the future earnings and risks of its investments. In summary, Merton Miller and Franco Modigliani argues that retaining earnings or paying investors and shareholder dividends will not give impact to the firms’ value, its cost of capital and also that dividend policy does not affect the required rate of return on equity. However, if dividends do affect value, it is mainly because of the information content that signals the management’s future expectations. In their recent research, DeAngelo
and DeAngelo (2006) underlined that Miller and Modigliani’s (1962) evidence of dividend irrelevance is based on the hypothesis that the amount of dividends allocated to shareholders is equal or greater that the free cash flow produced by the fixed investment policy. In their research, they also declared that if retention is permissible, dividend policy is not irrelevant and that the key assumption is not retention but is the NPV of the additional funds (either retained or raised), if NPV is zero, dividend irrelevance applies.

**Bird-in-the Hand Theory**

As a response to Miller and Modigliani’s dividend irrelevance theory, Myron Gordon and John Lintner suggested that shareholders and investors favor current dividends and that a positive correlation linking dividends and company’s market value exist (Dewasiri & Banda, 2015). The fundamentals supporting this theory is the bird-in-the-hand argument which suggested that investors are usually risk-averse and attach fewer risk to existing dividends in comparison to future dividends or capital gains since existing dividends have smaller risk, therefore investors prefer dividends. Under the bird-in-the-hand theory, stocks with high dividend payouts are sought by investors and consequently command a higher market price (Al-Shawawreh, 2014).

**Signaling Theory**

Signaling theory was deduced by Asquith and Mullins (1983) that the positive stock price moves on a dividend initiation as a confirmation that managers use the news as a means of signaling their investors as well the shareholders. Watts (1973) studied that the impact of dividends on both stock prices and future earnings to see whether dividends contained any information for investors. Watts found that after conditioning on current and past earnings, dividends could not be used by investors to reliably predict future earnings and thus concluded “in general, the information content dividends can only be trivial”. However, Bhattacharya (1979) argues that because a company’s future cash position is determined by the quality of the projects in which it invests today, the only way that it will commit to a high level of dividends is if those projects are high quality. Therefore, managers can signal their optimism regarding project quality to investors by declaring a sustainable and preferably high level of dividends. In line with Bhattacharya proponents are Miller and Rock (1985) in focusing in the credibility of the signaling theory.

However, Miller and Rock arguments are that any company regardless of whether its prospect is excellent can pay a relatively small dividend to its investors and shareholders. Thus, in order for a company to be considered a credible signal of good news, it must be large enough so that only company that has good prospects can afford to pay it. Companies do not want to cut dividend, so they will not make any decision to raise dividends unless they feel the increase can be sustaining. Hence, investors view dividend increases as a signal of management’s positive view of the future earnings.

3. **Dividend Determinants**

Industry of different sectors applies a different dividend policy. In a classic study, John Lintners’ (1956) conducted a study on how dividend decisions were made by US managers. He was the first to start asking the corporate managers about their opinion on dividends and dividend policy. He conducted intensive interviews with managers that were accountable for deciding on the dividend payout of 28 well established industrial firms, using 15 determinants that have influence on dividend decisions.

**Profitability**

Lintner developed an empirical observation that firm adjusts their dividends in response to changes in earnings. This would suggest that dividends change with earnings. According to Adaoglu (2000), in Turkey, earnings are the key determinant of dividend payments of companies and they were required to distribute 50% of the distributable profits as cash dividends. Based on his study, the results show that because of regulation of compulsory distribution of profits, the Istanbul Stock Exchange companies followed stable dividend policy until year 1994. However, once the regulations impede, they followed unstable dividend policies. Companies in high growth industries will rely on their internal fund or retained earnings (Holder et. al., 1998). As a result, these companies have a tendency of paying fewer dividends and to retain their earnings. Amidu and Abo (2006) discovered that the profitability is highly negative and statistically significantly associated with the dividend payout. These show that the companies invest in their assets rather than making dividend payment. Baker and Gandi (2007) also discovered the similar result; they confirmed that the higher the company’s return on equity, the greater the retained earnings. Thus, the dividend payout ratio is lower.

Anupam (2012) studied Japanese companies for the year 2005 to 2010 also discovered that ROE has a negative relationship with dividend payout. Oliveres and Carlos (2008) studied the financial factors influencing cash dividend policy by U.S manufacturing companies confirmed that the profitability ratios, liquidity ratios and size of companies are the important determinants for dividend payout decision. He however, discovered that companies with high
liquidity, profitability and larger sized pays higher dividend compared with companies with lower liquidity, profitability and smaller in sized. Similar empirical studies by Kun Li and Chung Hua (2012) concluded that companies are more likely to raise their dividends payout if they are profitable. They show that profitability has a positive relationship with dividend payout ratio. Upon studying the companies on Saudi Arabia Stock Exchange, Turki and Ahmed (2013) discovered that EPS has positive relationship with DPS. So when EPS increase, DPS will also increase.

**Size of Firms**

Payers and non-payers can be distinguished by their profitability, investment opportunities, and size of the firms according to Fama and French (2001). Evidence from their study suggested that the three main fundamentals mentioned above are the factors in the decision to pay dividends. Payers usually by firms those are large, profitable with earnings on the order of investment outlays. Smaller firms will never pay dividend as they are less profitable if compared with their larger counterpart. Nevertheless, they have more investment opportunities, and their investment expenses are much larger if compared with their earnings. According to Mitton (2004), size and growth has been proven to have a positive correlation with dividend payouts. This has been supported by Li and Lie (2006) that have also concluded that dividends will be cut if the firms have poor operating income, low cash balances and low market to book ratio. Eriotis (2005) in his study on Greeks companies suggested that a dividends policy is set not only by net earnings but also by the companies’ size. Hafeez and Attiya (2008) reported otherwise, they discovered that there is a negative and significant relationship between size and dividend payout. Their research on dividend determinants of dividend policy in Pakistan reveals that large size companies pay fewer dividends.

**Liquidity**

From a study conducted by Liu and Hu (2005) on Chinese listed firms, concluded that cash dividend payout ratio of most of the firms can be observe between 20 to 50 percent. The cash dividend payment was to be observed as higher than the accounting profit. However, 50 percent of the sample observed had dividend cash payment higher than the free cash flow. This finding is the result of the ruling made by the security commission of China in 2000 which rules that listed companies must pay cash dividend in the past three years. The shortage of cash will be financed through selling shares or right issue. Afza (2010) in his study of 100 companies listed at the Karachi Stock Exchange (KSE) found that managerial and individual ownership, cash flow sensitivity, size and leverage to have negative correlation. Firms with high proportion of shares held by managers and individual are more reluctant to pay high dividends if to be compared with firms that have low proportion of shares held by managers and individual. High operating cash flows increases companies” probability to pay high dividend.

Even though the sensitivity of cash flow resulting in the reduced of dividend payout; it is still among the determinants of dividend payment in Pakistan. Companies with profits that are unstable pay little cash dividends; this is to maintain cash in the company in order to avoid the cost of external financing, this has been concluded by Baker and Wurgler (2002). Thus, with the assumption that all the net profit is realized, we can conclude that the change in net profit is consistence with the change of cash flow in a company. Ahmed and Javad (2009) emphasize that liquidity situation is a significant determinant of dividend payouts decision. Companies with high liquidity are likely to pay dividends if compared with companies that have lower liquidity. Payments of dividend depend highly on cash flows which reflect the company’s capability to pay dividends. A poor liquidity situation will mean fewer dividends due to lack of cash. Hafeez and Attiya (2008) discovered that the market liquidity of the companies has a positive influence towards dividend payout which confirms that companies with greater market liquidity pay more dividends

4. **Research Question**

Whether the dividend payment behavior effected by its determinants across various sectors in Malaysia?

5. **Hypotheses**

Based on the discussion on the literature review of studies pertaining to the determinants of dividend payment, the following hypotheses are developed for this study.

H1: Profitability is significantly related to dividend payment in Malaysia

H2: Firm size is significantly related to dividend payment in Malaysia

H3: Liquidity is significantly related to dividend payment in Malaysia

H4: There is significant relationship between dividend payout ratio and profitability, firms size and liquidity.

6. **Research Methodology**

**Research Design**

In the study on the dividend behavior of Malaysian companies trading in the Bursa Malaysia Berhad. There are three sectors consumer product sector, technology sector and Industrial product sector with 80, 71 and 34 companies respectively.
selected as a sample for this research. For collection of the financial data of companies listed on the Bursa Malaysia Berhad used official website and Thomason router. For each sample company, the six years during 2009-2014 financial data were compiled and earnings per share (EPS), return on equity (ROE), sales, shareholders’ equity, net profit and dividend per share (DPS) were used. This study used regression techniques for the analysis.

7. Data Analysis

The results in Table 1 shows that industrial sectors have the most number of dividend paying companies with an average of more than 77% of the companies paid dividend. Technology sector recorded the lowest number of dividend payee with only 54% of the selected companies paid dividend. This is consistent with Holder et. al. (1998), who suggested that companies in high growth industries will rely on their internal fund or retained earnings; as a result, these companies have a tendency of paying fewer dividends and to retain their earnings. The Technology sector is considered to be in high growth stage that requires companies in this segment to continually innovate, expand and to manage their cost. This observation is based on the assumption that the changes of dividend payout are not related to the changes in earnings, size and liquidity of the companies. On average, throughout the sector selected, 74% of the companies paid dividend and only 26% decided to exclude dividend payment as a mode of income distribution.

Table 1: Percentage of Payers and Non-Payers for the Selected Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer product</td>
<td>Payer</td>
<td>85%</td>
<td>81%</td>
<td>76%</td>
<td>77%</td>
<td>81%</td>
<td>68%</td>
</tr>
<tr>
<td></td>
<td>Non-payer</td>
<td>15%</td>
<td>19%</td>
<td>24%</td>
<td>23%</td>
<td>19%</td>
<td>32%</td>
</tr>
<tr>
<td>Industrial Product</td>
<td>Payer</td>
<td>80%</td>
<td>74%</td>
<td>74%</td>
<td>81%</td>
<td>78%</td>
<td>76%</td>
</tr>
<tr>
<td></td>
<td>Non-payer</td>
<td>20%</td>
<td>26%</td>
<td>26%</td>
<td>19%</td>
<td>22%</td>
<td>24%</td>
</tr>
<tr>
<td>Technology</td>
<td>Payer</td>
<td>50%</td>
<td>53%</td>
<td>44%</td>
<td>59%</td>
<td>56%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td>Non-payer</td>
<td>50%</td>
<td>47%</td>
<td>56%</td>
<td>41%</td>
<td>44%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Correlation Analysis

Correlation testing of the indicators, DPS, ROE, Sales, Shareholder’s equity and net profit was run by sector in order to examine whether the above mentioned associations of relationships could be established by the respective sector.

Table 2: Correlation Matrix for All Sectors

<table>
<thead>
<tr>
<th></th>
<th>DPS</th>
<th>EPS</th>
<th>ROE</th>
<th>Sales</th>
<th>Shareholders’ Equity</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td></td>
<td>.123**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>.615**</td>
<td>.192**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td>.017</td>
<td>.036</td>
<td>.029</td>
<td>1</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td></td>
<td></td>
<td>.002</td>
<td>.441**</td>
<td>-.037</td>
<td>-.008</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: **0.01 level of significance and *0.05 level of significance

Table 2 shows the correlation matrix among all the variables used in this study for all companies in the sample of the study. The findings indicate that there are significant positive correlations between DPS and EPS, EPS and ROE, EPS and shareholder’s equity, DPS and net profit, and ROE and net profit. This supports the hypothesis that profitability and liquidity are positively correlated to dividend distribution policy. However, the
strength of the relationship varies. The relationship of DPS and EPS, and net profit is weaker that the relationship of DPS and ROE.

Table 3: Correlation Matrix for Industrial Product Sector

<table>
<thead>
<tr>
<th></th>
<th>DPS</th>
<th>EPS</th>
<th>ROE</th>
<th>Sales</th>
<th>Shareholder’s equity</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>.068</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>.108</td>
<td>.132*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>.156*</td>
<td>.028</td>
<td>-.156*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>.024</td>
<td>.746**</td>
<td>-.064</td>
<td>-.155*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>.220*</td>
<td>.105</td>
<td>.398**</td>
<td>.038</td>
<td>.025</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: **0.01 level of significance and *0.05 level of significance

Table 3 is the correlation matrix for industrial product sector. This study can observe that positive relationship of DPS exist only with sales and net profit. The significant level is rather small and so as the Pearson’s correlation reading.

Table 4: Correlation Matrix for Consumer Product Sector

<table>
<thead>
<tr>
<th></th>
<th>DPS</th>
<th>EPS</th>
<th>ROE</th>
<th>Sales</th>
<th>Shareholder’s Equity</th>
<th>Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>.518**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>.780**</td>
<td>.689**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>-.022</td>
<td>.084</td>
<td>.027</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>-.031</td>
<td>-.085</td>
<td>-.026</td>
<td>.103*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td>.048</td>
<td>.775**</td>
<td>.207**</td>
<td>.062</td>
<td>.01</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: **0.01 level of significance and *0.05 level of significance

Table 4 is the correlation matrix for consumer product sector. The findings indicate that there are significant positive correlations between DPS and EPS, DPS and ROE, EPS and ROE, EPS and net profit, ROE and net profit, and sales and shareholders’ equity. EPS and ROE both are highly correlated with DPS, with the Pearson’s correlation coefficient of .518 and .780 respectively. It can conclude that only profitability is related to dividend distribution policy in the consumer product sector.

Table 5: Correlation Matrix for Technology Sector

<table>
<thead>
<tr>
<th></th>
<th>DPS</th>
<th>EPS</th>
<th>ROE</th>
<th>Sales</th>
<th>Shareholder’s equity</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>.562**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>.262**</td>
<td>.432**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>.1</td>
<td>.204**</td>
<td>.342**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>-.157*</td>
<td>-.082</td>
<td>-.002</td>
<td>.034</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Net</td>
<td>.543**</td>
<td>.786**</td>
<td>.563**</td>
<td>.168*</td>
<td>.021</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: **0.01 level of significance and *0.05 level of significance
**0.01 level of significance and *0.05 level of significance
In Table 5, there is significant positive relationship between DPS and EPS, DPS and ROE, and DPS and net profit. Negative relationship can be observed between DPS and shareholders’ equity, but the significant level is just .05 and the Pearson’s correlation reading is small. This support the hypothesis that profitability and liquidity is positively correlated to dividend distribution policy. The strength of the relationship varies with the relationship of DPS and ROE weaker than the relationship of DPS and EPS and DPS and net profit.

**Regression Analysis**

Further test is needed to positively identify that profitability, sizes and liquidity are determinants of dividend distribution policy. Pooled regression analysis was conducted to examine whether such a relationship existed. The result of the regression is shown in Table 6.

**Table 6: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R-square</th>
<th>Stand. Error of Estimates</th>
<th>Change statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.699</td>
<td>.488</td>
<td>.487</td>
<td>18.216</td>
<td>R-square change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F-change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>DF1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>DF2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>372.980</td>
<td>1956</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Net Profit, ROE, EPS, LN Shares, LN Sales

**Table 7: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>Standardized coefficient</th>
<th>T</th>
<th>Sig.</th>
<th>95% confidence interval for B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower bound</td>
</tr>
<tr>
<td>1</td>
<td>Constant</td>
<td>-14.122</td>
<td>4.259</td>
<td>-3.315</td>
<td>.001</td>
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<tr>
<td></td>
<td>ROE</td>
<td>.717</td>
<td>.021</td>
<td>.579</td>
<td>34.021</td>
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<td></td>
<td>EPS</td>
<td>.033</td>
<td>.005</td>
<td>.118</td>
<td>6.962</td>
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<tr>
<td></td>
<td>LN sales</td>
<td>.01</td>
<td>.341</td>
<td>.221</td>
<td>10.770</td>
</tr>
<tr>
<td></td>
<td>LN shares</td>
<td>-.106</td>
<td>.477</td>
<td>-.175</td>
<td>-8.620</td>
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<tr>
<td></td>
<td>Net profit</td>
<td>.0061</td>
<td>.000</td>
<td>.093</td>
<td>4.688</td>
</tr>
</tbody>
</table>

From the regression results in table 7, it can be observed that the adjusted R-square is 48.7%, implying that together, all the five independent variables selected for the study are able to explain, on average, 48.7% of the variation in the dividend payments of the firms in the sample of the study. All the five independent variables are significant in influencing the dividend payments of the firms in the sample of the study. The result of the regression analysis also shows that shareholder’s equity has a negative relationship and the other variables have positive relationship with dividend payment. According to Mitton (2004), size and growth have positive relationship with dividend payment. In this regards, this study accepts H1, H2 and H3 whereby profitability, sizes and liquidity are the determinants of dividend payment. Hafeez and Attiya (2008) reported otherwise, they discovered that there is a negative and significant relationship between size and dividend payout.

Their research on dividend determinants of dividend policy in Pakistan reveals that large-size companies pay fewer dividends. With the different argument by researcher with regards to the firm’s sizes, it could not conclude whether sizes have a negative or positive correlation with dividend payment.

**Conclusion**

The purpose of this study is to determine dividend payment behavior of Malaysian listed firms of three different sectors. From the regression analysis observation, EPS, ROE, sales, shareholders’ equity and net profit are significant determinants of dividend payments. 48.7% of dividend payment of companies in Malaysia was explained by these determinants. In this regards, this study accepts H1, H2 and H3 whereby profitability, sizes and liquidity are the determinants of dividend payment in Malaysia. Shareholder’s equity has a negative correlation whereby sales have a positive correlation with dividend payment. In this regards, this study cannot really establish whether sizes correlate negatively of positively with dividend payout decision.

In this study, we could not establish the relationship between size and dividend payout decision. Payers and non-payers can be distinguished by their profitability, investment opportunities, and size of the firms according to Fama and French (2001). Evidence from their study
suggested that the three main fundamentals mentioned above are the factors in the decision to pay dividends. Future studies to determine the effect of size towards dividend distribution should be conducted with the selection of appropriate variables. In this study, we have chosen the changes in sales and shareholders’ equity as the independent variables representing size, which may not be appropriate.

References


Litzenberger, R., & Ramaswamy, K. (1982). The Effects of Dividends on Common Stock Prices Tax Effects or Information


