

CHAPTER 1: INTRODUCTION

1.1 Shareholder Value, an introduction

A largely neglected but important field of financial research in Malaysia has been that of shareholder value maximization. The goal of corporations from the financial management point of view is to maximize stockholder wealth or in other words to maximize shareholder value. This is especially so for the management of firms in Britain and the United States (Bughin and Copeland, 1997). Since equity holders are the "residual" claimants on a company's cash flows, shareholders not only take the greatest risks but also are the only stakeholder group that need the full details of all other claims by all the other stakeholders prior to making decisions for their self benefit (Copeland, 1994). Shareholders can profit only after all other claimants, that is the other stakeholders have been compensated (Bughin and Copeland, 1997). This leads to shareholders maximizing the value of all the other stakeholders' claims in attempting to maximize their own.

However, the believe of maximizing shareholder value is not universal. Harari, Oren (1992) noted that managers whose priority is to make profits and enhance shareholder value would achieve precisely the opposite results. This is in line with the stakeholder theory (Mitchell et al. 1997) which is an approach to business that incorporates the interests of all stakeholders in a business and not only that of the shareholders.

1.2 Scope of the Study

This research paper is an exploratory research that attempts to identify the relationship between firms' shareholder value levels and the varying levels of the other independent variables such as corporate performance, dividend policy, financing policy or capital structure, and growth opportunities. This approach is adopted in order to increase knowledge in shareholder value issues of Malaysian companies. As an exploratory study, a period of five years is taken into consideration, with a total of 106 companies listed in the Kuala Lumpur Stock Exchange (KLSE).

1.3 Significance of the Study

The significance of the research becomes more evident when considering Malaysian companies that contemplate competing in the global market. When competing in global markets, It is important to take note of the increasingly deregulated and globalized capital markets that will result in companies facing a freer flow of capital. Moreover, investors will have the ease of options to put their money where they can best achieve the highest returns. All this will further pressure companies to maximize value, specifically shareholder value.

Due to the importance of shareholder value, this research will attempt to determine if good corporate performance and growth opportunities are synonymous with shareholder value maximization. If this can be shown, then shareholder value maximization will be a good objective as it is beneficial to the company as a whole. Also, it is of interest to see if companies in Malaysia

use dividend policy as a tool in giving value to shareholders. In addition to the dividend aspect of firms' overall corporate financial policy, this research will also try to discover if an optimal capital structure exists to maximize shareholder value because if so, leverage can be used as a financing policy tool to increase shareholder value.

1.4 Organization of the Study

This study first attempts to determine if any relationship exists between shareholder value and a firm's corporate performance, corporate financial policies or more specifically its financing and dividend policies, and last but not least the firm's corporate growth opportunities. To further explore the nature of this relationship, the varying levels of the firms' shareholder value levels are also determined with regard to the different levels of the said variables. Lastly, multiple regression is done to determine the nature of the linear relationships.