

CHAPTER 4
RESEARCH FINDINGS

4.0 INTRODUCTION

This chapter reports the findings of the binomial and chi-square tests that were performed to examine the objectives formulated.

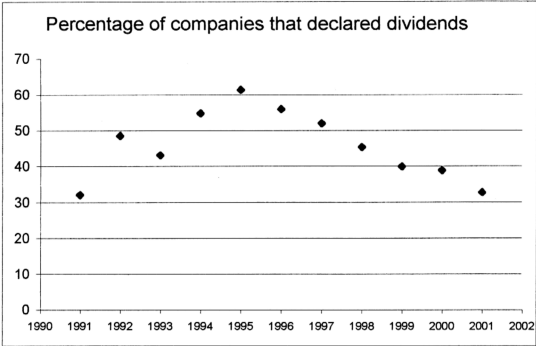
4.1 EXTENT OF CURRENT PRACTICE ON DISTRIBUTABILITY OF DIVIDENDS

Table 1 shows the distribution of dividends from retained earnings for the period 1991 to 2001. On the whole companies that declared dividends from negative earnings were rather high for the years 1991 to 1995, after which the trend subsequently showed a steady decline. It is also evident from Table 1 that the highest dividend distribution was in the year 1995 and 1996 and subsequently the figure declined. Chart 1 depicts the scenario explained above.

Table 1 Status of dividend declared for the period 1990 to 2001

No of years	Dividend declared	%	Not declared	%	Total
1991	10	32.3%	21	67.7%	31
1992	18	48.6%	19	51.4%	37
1993	16	43.2%	21	56.8%	37
1994	28	54.9%	23	45.1%	51
1995	40	61.5%	25	38.5%	65
1996	51	56.0%	40	44.0%	91
1997	50	52.1%	46	47.9%	96
1998	45	45.5%	54	54.5%	99
1999	38	40.0%	57	60.0%	95
2000	37	38.9%	58	61.1%	95
2001	21	32.8%	43	67.2%	64

Figure 1



Objective 1

The objective is to test if dividends declared from negative earnings are common among Malaysian companies. For this test we considered cross-sectional data obtained from companies that registered negative earnings.

We performed a binomial test to test if there is a significant difference between the percentage of companies with negative earnings declaring dividends and those that do not. The test was performed based on a cross-sectional period ranging from 1991 to 2001.

The p-values of the tests for 1999, 2000 and 2001 were < 0.05 . Therefore there is a significant difference in percentage of companies declaring dividends for these three years.

As in the year 1999, 78 % of companies with negative earnings did not declare dividends. For the year 2000, 73 % of companies with negative earnings did not declare dividends and for the year 2001, 78 % of companies with negative earnings did not declare dividends.

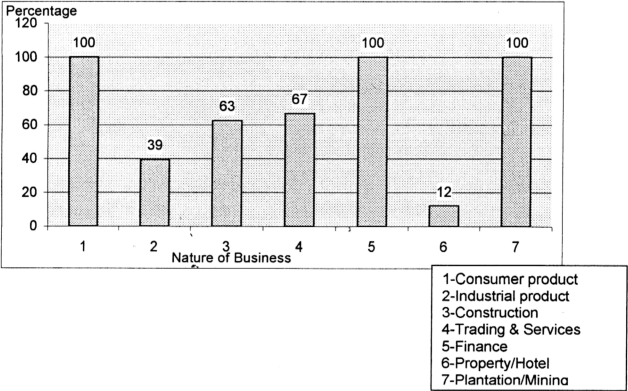
Therefore in conclusion we can say that it is not common for companies with negative earnings to declare dividends based on the total companies taken for the period 1991 to 2001. However based on the materiality concept, it is of concern even though comparatively the volume is small.

Objective 2

The objective is to test if there is an association between nature of business and retained earnings among Malaysian companies.

Figure 2 presents the retained earnings and the nature of business for all companies for the period 1991 and 2001.

Figure 2 Nature of Business and dividend declared from negative earnings.



We performed a chi-square test to ascertain if there is an association between the two attributes. The chi-square value was 41.520 with six degrees of

freedom. The p-value of the test is < 0.05. Therefore the association is significant. Less than 20% of the Industrial products, trading/ services and finance, declared dividends from positive earnings whereas property/hotel and plantation/mining registered dividends from negative earnings were at 38% and 46% respectively.

The objective is to test if there is an association between nature of business and dividends declared from negative earning among Malaysian companies.

TABLE 2 Nature of business and dividends declared among companies with negative earnings

Nature of business	Dividend distribution				Total
	Yes	%	No	%	Total
Consumer products	17	100.0%		0	17
Industrial Products	13	39.4%	20	60.6%	33
Construction	5	62.5%	3	37.5%	8
Trading/services	12	66.7%	6	33.3%	18
Finance	3	100.0%			3
Property/hotel	15	12.0%	110	88.0%	125
Plantation/mining	6	100.0%			6
Total	71	33.8%	139	66.2%	210

We performed a chi-square test to verify if there is an association between the two attributes. The chi-square value was 89.556 with six degrees of freedom. The p-value of the test is < 0.05. Therefore the association is significant.

Consumer products, finance and plantation/mining recorded the highest percentage i.e 100% declaration of dividends from negative earnings. On the other hand only 12% of the property and hotel sector declare dividends from negative retained earnings. The others were between the ranges of 40 to 60 percent.

Objective 3

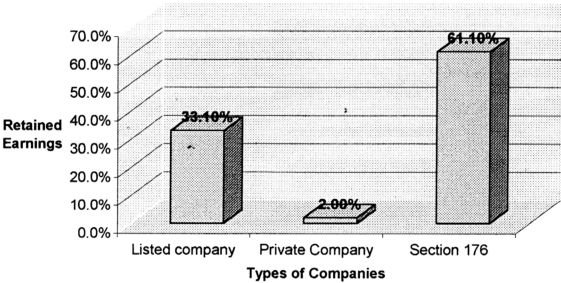
The objective is to test if there is an association between type of company and dividend declared from retained earnings among Malaysian companies.

Table 3 presents the dividend declared and types of companies from 1991 to 2001.

TABLE 3 Dividend declared and types of companies

Type	Dividend declared	%	Dividend not declared	%	Total
	Yes		No		
Listed company	121	66.9%	60	33.1%	181
Private Company	339	98.0%	7	2.0%	346
Section 176	91	38.9%	143	61.1%	234
Total	551	72.4%	210	27.6%	761

Figure 4: Retained Earnings & Types of Companies



freedom. The p-value of the test is < 0.05. Therefore the association was important.

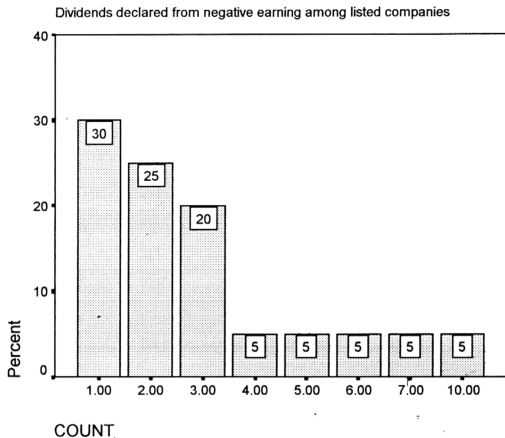
Figure 4 above presents that 61% of the companies registered under section 176 declared dividends from negative earnings, 33% constitute private limited companies and 25 constitute listed companies.

The objective is to test if there is an association between type of company and dividends declared from negative earnings companies.

TABLE 4 Percentage of listed companies that declared dividends from negative earnings for the period 1990 to 2001

Number of times dividends declared from negative earning	Frequency	Percentage
1	6	30%
2	5	25%
3	4	20%
4	1	5%
5	1	5%
6	1	5%
7	1	5%
10	1	5%

Figure 5



We performed a chi-square test to verify if there is an association between the two attributes. The chi-square value was 184.61 with two degrees of freedom. The p-value of the test is < 0.05 . Therefore the association is significant.

Figure 5 presents that at least thirty (30) of the listed companies declared dividends from negative earnings once (1), twenty five (25) of the companies declare dividends twice (2) from negative earnings and twenty (20) declared dividend thrice (3) from negative earnings. The other companies declared dividends on a basis of 4, 5, 6, 7 and 10 times over an average companies of five (5) each.

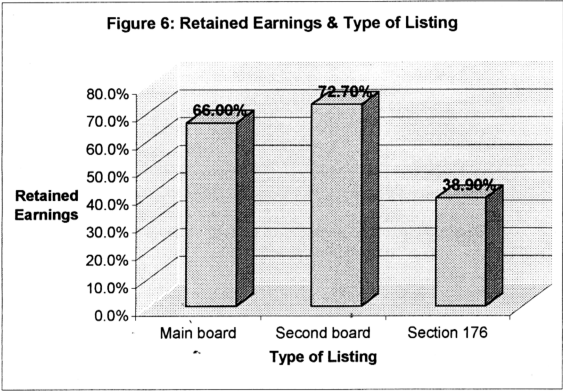
Objective 4

The objective is to test if there is an association between type of listing and retained earnings among Malaysian companies.

Table 5 presents the analysis on the retained earnings and the type of listing for the period 1991 to 2001.

TABLE 5 Retained earnings and type of listing

Type	Dividend declared	%	Dividend not declared	%	Total
	Yes		No		
Main board	105	66.0%	54	34.0%	159
Second board	16	72.7%	6	27.3%	22
Section 176	91	38.9%	143	61.1%	234
Total	212	51.1%	203	48.9%	415



We performed a chi-square test to verify if there is an association between the two attributes. The chi-square value was 32.28 with two degrees of freedom. The p-value of the test is <0.05. Therefore the association is significant. The dividends declared from negative earnings ranged from 39% to 73%. The listed companies from the second board recorded 73% as compared to 66%

of the first board companies. The companies under section 176 recorded 38%.

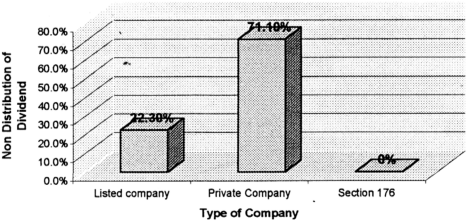
Objective 5

The objective is to test if there is association between the type of company and non-distribution of dividends among companies making profits for the period 1990 to 2001.

TABLE 6 Type of company and non-distribution of dividends among companies making profits.

Type of Company	Dividend declared	%	Dividend not declared	%	Total
	YES		NO		
Listed company	94	77.7%	27	22.3%	121
Private Company	98	28.9%	241	71.1%	339
Section 176	91	100.0%	0	0%	91
TOTAL	283	51.4%	268	48.6%	551

Figure 9: Type of Company & Non Distribution of Dividends from Profits



We performed a chi-square test to verify if there is an association between the two attributes. The chi-square value was 188.152 with six degrees of freedom. The p-value of the test is < 0.05 . Therefore the association is significant.

From the table above it can be deduced that companies under section 176 declared dividends as long as they had profits i.e 100% whereas listed companies declared at a rate of 78% and private limited companies at a rate of 29%

4.2 CONCLUSION

This chapter reports on the current practice of dividend distributed from negative earnings in relation to type of company, type of listing and nature of business. It also gives the overall percentage of companies that never paid dividend from positive retained earnings.

Supporting evidence has been found in both the cross sectional and tests performed that it is not common for companies with negative earnings to declare dividend. On the subject of association between nature of business and dividend declared from negative earnings, the chi-square test performed had shown that it is significant. The same test performed had also shown significant relationship between the nature of business and type of company. Another test performed on the association between the dividend declared and the type of listing also showed significant relationship between the dividend declared from negative earnings and type of listing.

The next chapter will provide the conclusion and recommendations for future research.