CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

Chapter Four reports the extent of dividends distributed from negative retained earnings and the statistical tests performed. This chapter attempts to provide the summary and conclusion of this study and recommendations for future research.

5.1 SUMMARY AND CONCLUSION

This study has sought to investigate the current practices of dividend distribution among Malaysian companies. In order to access the validity of the subject, various developments on the international front has been studied. A review of developments from Europe inclusive of United States and United Kingdom, Australia/New Zealand, Middle East and Asia has been conducted.

On the objective to test if dividends declared from negative earnings are common among Malaysian companies, a cross sectional data was obtained on companies that registered negative earnings. A binomial test was conducted and the p-value result showed that there is significant difference in percentage of companies declaring dividends. The average of 78% in the year 1999, 73% in the year 2000 and 78% in the year 2001 had not declare dividend from negative earnings. It can be concluded that it is not common for companies with negative earnings to declare dividends. However even though in terms of volume as compared to the overall sample findings are small, it is still considered material based on the significance of the departure from the Malaysian Companies Act.

The second objective on the association between nature of business and dividend declared from negative earnings, the chi-square value obtained showed a significant association between the both attributes. Consumer products, finance and plantation/mining registered the highest percentage of i.e 100% on the declaration of dividends form negative earnings. There is also a significant difference between the dividend distribution and type of company. 30% of the listed companies declared dividends once for the period concerned, 25% twice, 20% thrice and an average of 5% at the range of 4 (four) to 10 (ten) times.

The fourth objective tested was on the association between type of listing and dividend declared from negative earnings, where it also showed significant difference. 73% and 66% of the companies listed under Second board and First board respectively had dividends declared from negative earnings whereas section 176 listed companies registered the lowest i.e 38%.

On the fifth objective of the study conducted on the association between type of company and distribution of dividends among companies making profits, the test showed significant association between the type of company and non-distribution of dividends among companies making profits. 100% of the companies listed under section 176 declared dividend as long as they had profits whereas 22% of the listed companies declared dividend when they were making profits.

5.2 IMPLICATIONS

Firstly, there has been no previous study conducted on this subject of dividend distribution from negative earnings in the Malaysian context. In the case of foreign studies on the similar note, there were issues on capital maintenance, agency cost rationale theory, creditors protection and stewardship function therefore this study can be made as the fundamental area for future researches to be conducted.

The present study on the distribution of dividends from negative earnings diagnosed that it is not common for companies to declare dividends from negative earnings. Statistics showed that for the year 1999, 78% of the companies did not declare dividends from negative earnings, year 2000, 73% and year 2001,78%. However Malaysian Companies Act 1965 was silent on this issue. The Companies Act 1965 stipulates that "no dividend shall be payable to shareholders of any company except out of profits or pursuant to section 60". The possible implication here is that Malaysian Companies do declare dividends from negative earnings and this is a departure from the Malaysian Companies Act 1965.

In the case of dividends distributed from negative retained earnings, 4% of the companies sanctioned under Section 176 declared dividends from negative earnings. Again therefore those companies protected under Section 176 had infringed the Companies Act. The companies protected under section 176 had declared dividend from negative earnings when the Act stipulates that dividend should be declared only from profits.

The test on the association between nature of business and dividends declared from negative earnings disclosed that the companies dealing with Consumer product, finance and plantation/mining had 100% of its dividends distributed from negative earnings. However in terms of the number of companies involved is rather high for the consumer product as compared to the related products. The possible implication here is that the distribution of dividends from negative earnings could be evaluated by way of nature of business then other form of classification.

Another test on the association between type of companies and non-distribution of dividend among companies making profits revealed that generally 71.1% of the private limited companies do not distribute dividends even when they make positive earnings. However the proportion of listed company that distribute dividend from positive earnings was 22% and the companies sanctioned under section 176 declared dividends whenever there was profits. This again is subjective and further study need to be undertaken on the implications of dividend policy of a company.

5.3 RECOMMENDATION FOR FUTURE RESEARCH

Although the present study is not based on any previous model or methodology, the tests conducted successfully gave an insight on the current practices of dividend distribution in Malaysia. However several other aspects merit further investigation.

As per figure 1 in Chapter 4, on the overall distribution of dividends over the period 1990 to 2002, there seemed to be a trend where from the year 1990 onwards, there was a rise in dividend distribution until it reached its peak in year 1995, after which there was a steady decline until year 2002. This indication of performance could be further investigated for future research.

Another set of comparison could be formulated on the basis of companies that only distribute dividends from current year losses instead of accumulated loss. Further analysis to be done to evaluate the extent of such dividend distribution on the type of company.

Lastly, the empirical evidence on creditor lending practices in the Malaysian context need to be undertaken in comparison with the Capital maintenance concept to reduce the financial agency cost i.e to protect creditors. This is evident from the companies sanctioned under Section 176. They declared evident from the companies sanctioned under Section 176. They declared dividends as long as they had profits. Furthermore 4% of those companies declared dividends from negative earnings and this is a clear contravention of the Malaysian Companies Act 1965 which stipulates that dividends should only be declared out of profits.

5.5 CONCLUSION

It is timely that the current study on the distribution of profits and capital maintenance is seriously considered and the relevant regulatory bodies be made responsible for such initiation. Furthermore based on the analysis obtained on the listed companies and companies sanctioned under section 176, it is rather clearly evident that there are numerous cases where companies declare dividend from negative earnings. Malaysian Companies Act though not clear on the mode of distributablity of dividends however the simple term which has been grossly ignored is that the Act stipulates that dividends should be declared from profits.

The Companies Act should therefore be streamlined in accordance with the rules and procedures set forth internationally by countries which had set proper precedent on the issues put forth. The best dividend policies to date would be the U.K Companies Act where it has clearly discussed at length the good attributes of dividend distribution. The main issues were on the realization and the capital maintenance principle.