

## **ABSTRACT**

Despite a half century of research, the determinants of the dividend policy are still a controversial topic in finance. Companies often inform the investors about the firm's dividend policy and the changes in dividend payments. Investors have to know about the firms that pay a high level of dividends.

Numerous studies have been done and theories have been proposed, but no unanimous results have been reached about the factors that influence the dividend policy of a firm.

The present study examines the determinants of the dividend policy in public listed companies in Malaysia as a case study of an emerging market.

Malaysia was selected as an example of an emerging market because it aims to transform its economy to become a full developed country in the near future. In order to have this form of economy, a special dividend policy may be needed (Thanoon, Baharumshah, & Rahman, 2006).

Five research hypotheses were developed to test the impact of agency costs, firm size, profitability, financial leverage and growth opportunities on dividend yield. The firm-year panel data set was used and the data of 263 public traded firms between 2005 and 2009 were extracted from the Bloomberg data base.

The results suggest that the amount of free cash flow had no significant effect on the dividend yield. On the other hand, larger, more profitable and less levered firms are more likely to pay dividends.

This result is consistent with the pecking order theory. In addition, the growth and investment opportunities are not significantly related to dividend yield and have no impact on the dividend payments among the public listed companies in Malaysia during 2005-2009.

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