

## **CHAPTER 5: CONCLUSION AND RECOMMENDATIONS**

### **5.1 Summary and Conclusion**

The empirical works on dividend policy have been focused on developed markets such as US and UK, with limited investigation on dividend policy in emerging markets. Accordingly, this became a motivation for the present study.

The objective of this chapter is to summarize the results of the study, identify areas for future studies and discuss about implications of this study for dividend policy. This study examined the factors that influence dividend policy of public listed companies in Malaysia in the 5 years period of 2005–2009.

The sample of 263 public traded companies was collected from the Bloomberg terminal. Unlike most studies about Malaysian firms, the analysis is based on panel data. Some diagnostics tests were used to choose between the fixed effects model and the random effects model. Both the likelihood ratio and the Hausman test suggested that fixed effects model is preferred.

In order to detect the multicollinearity, VIFs were calculated and there was no multicollinearity problem among the independent variables.

The regression results indicated that agency cost measured by free cash flow do not seem to be related to dividend policy in Malaysia. However, size and profitability are positively related to the dividend payments in Malaysia. In sum, a large and profitable firm tends to pay higher dividends in Malaysia. This result is supported by the pecking order theory.

The analysis also showed that the firm's level of financial leverage negatively and significantly affects its dividend policy; which means that the more levered the firm, the more they are not willing to pay dividends. The growth opportunities were expected to be negatively related to the dividend policy of the firm; the results however, showed that during 2005-2009 the growth opportunities had no impact on the level of dividend payments.

## **5.2 Implications**

According to the analysis done and results presented in this study, several implications about dividend policy can be concluded.

The results demonstrated that most of the theoretical literatures on dividend policy can be applied to emerging markets such as Malaysia. Most of the factors found significant in determining dividend payments in Malaysia are the same as those found in the developed markets i.e. firm size, profitability and financial leverage. These results may also help the new investors to have a clearer view of the factors that influence the dividend policy of Malaysian firms.

To make a new investment decisions, an investor have to pay attention in profitability of a firm (earnings per share), the result of this study supported not only by previous literatures but also by empirical results of other studies in Malaysian market.

In addition, firm size in Malaysia is another factor that investors have to bear in their mind before making investment decisions. As the results show larger firms are willing to pay higher dividends which expected based on previous studies.

Interestingly, growth opportunities and agency cost does not affect the dividend payment policy in Malaysia during 2005-2009.

New investors may ignore the level of free cash flow of a firm they want to invest in, since the regression results are inconsistent with theories explained in chapter two. The results suggested that managers, CEOs and CFOs have to pay attention to choose suitable dividend policy for their company and reexamine dividend strategies once a year since economic status of a country may impact the financial performance of the firm; consequently, dividend decisions need serious management attention.

### **5.3 Limitations of the Study**

This study is based on a panel data which was constructed from the Bloomberg terminal. Although all efforts have been made to obtain the relevant data, nonetheless non-availability of some data still remained. Some data for proxies were not available; for example, the data related to the number of shareholders for each company for the 5 years and also the percentage of insiders' ownership was not available. This limitation prevented the researcher from using the two common proxies for measuring the agency costs.

Another common limitation for this kind of studies is the various proxies available for each variable. Hence, the results might be different if another proxy for each variable was chosen for empirical study in dividend policy.

#### **5.4 Suggestions for Future Research**

This study investigated the determinants of corporate dividend policy in Malaysia as an example of the emerging markets. Future studies may examine the factors influencing the dividend policy in other emerging markets and compare the results with Malaysia. Another incentive for future studies is that non-public listed companies also may be considered and compared to see if there is any difference in dividend policy between these two types of companies.

Moreover, a comparison can be done in different industries to examine the industry effect on dividend policy in public listed companies.

In addition, the research has to be done to test the reaction of share price changes in ex dividend days in order to conclude shareholders preference about dividend and capital gain.

Furthermore, researchers might also want to examine the effect of culture and economic status on dividend strategy in different markets. On the other hand, investor's preference on dividend policy should be considered because this might help companies to establish good dividend strategies.