

Dividend Policy of Different Market Segmentations: A Dynamic Panel Data Analysis

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ABSTRACT

Dividend policy is determined by a company's board of directors (BOD) and is used to make dividend decisions. Dividend is a fragment of a firm's distributable earnings¹ that is announced by the firm's BOD with inputs from senior management (Baker, 2009). The dividends are determined according to the class of the firm's shareholders. Dividends can be given out as payments in cash, shares of stock or other assets. Dividend payment also affects the firm's ability to continue its earning in sustaining growth opportunities and shareholder wealth. The Asian financial crisis was a wake-up call for all Asian markets to recognise the structural issue that played an important part towards the disaster. Asian firms have however improved their corporate governance and transparency after the crisis. Consequently, the bond markets³ and equity markets⁴ especially in the United States, United Kingdom and Europe started to look into the prices of the Asian market. The investors found sustainable growth and income in the Asian market. Moreover, Asian countries for the last two decades have improved considerably and have been the driving engine for the world economic growth. Since firms in the Asian countries are not just about capital growth, firm's dividends are becoming the main sources of income for investors. Hence, distributing cash to shareholders via alternatives such as qualified dividends, stock splits and stock dividends, has increased significantly in many countries. In defining the determinants of dividend policy, numerous empirical studies have been conducted in many countries. Earlier studies include Lintner (1956) and Miller & Modigliani (1961). However, application of the dividend policy may be different across countries, either in terms of legal system or firm-specific differences. The differences complicate the transferability of dividend payments and decisions. Thus, dividend policy may vary across countries specifically in Singapore, Malaysia and Saudi Arabia, that over a period of time, has not been empirically investigated. Persistent focus on the developed market is another issue that endows fuzziness regarding dividend policy. Abandoning the developing and emerging markets also deters further new outlooks (Jabbouri, 2016).

Keywords: Dividend policy, Generalized Method of Moment, Dynamic panel, key determinants.