Capital Markets Review Vol. 16 No. 2, pp. 53-73 (2008) ISSN 1823-4445

Corporate Finance Practices in Malaysia: a Survey Analysis

Mansor Isa*
University of Malaya

Abstract: This paper discusses some aspects of corporate finance practices in Malaysia based on various surveys done from early 1990s until 2007. Time-series and cross-sectional analyses are done on the changes in the perceptions of corporate financial managers of Malaysian listed companies and their practices over the years. In particular, the study focuses on capital budgeting, capital structure and dividend policies and practices of the companies. It is found that in making capital investments, there is a clear indication that the managers are adopting the right evaluation tools in recent years compared to several years ago. In terms of capital structure practices, Malaysian companies are noted for their long-term debt aversion, but debt usage is increasing over the years. As for dividends, there are remarkable similarities in dividend behaviour and practices of local firms compared to those in developed markets, despite the differences in dividend tax regime in Malaysia compared to the US. In summary, our corporate managers seem to be progressing on a learning curve towards financial polices and practices of developed markets.

Keywords: Capital budgeting practices, capital structure practices, corporate finance surveys, dividend practices.

JEL classification: G31, G32, G35

1. Introduction

This paper presents the dynamics of corporate financial decision making by Malaysian managers based on survey evidence conducted over the years. It is interesting to note that some of the financial beliefs and practices of managers never change while a few others seem to evolve over time. It is even more interesting to note that those that evolved tend to align themselves with those in developed countries. This tendency may be taken to mean that managers are progressing on a learning curve in solving local corporate financial issues.

Corporate finance is about making financial decisions in a business organisation. The objective of corporate finance is to make financial decisions that result in an increase in the value of the firm. Basically there are three broad areas of corporate financial decisions: investment, financing and dividend. Investment decisions involve the choice, evaluation and implementation of real asset investments. The guiding principal in investment decisions is that a project should only be accepted if the present value of cash benefits outweighs the costs of funding the project, thereby increasing the value of the firm. Financing decisions

* Mansor Isa, Faculty of Business and Accountancy, University of Malaya, Malaysia
E-mail: *mansor@um.edu.my*.
This paper originates from my inaugural lecture presented at University of Malaya on 7 November 2006. The revised version was presented as a keynote address at the 10th Malaysian Finance Association annual conference at Kuching, Sarawak, on 5 June 2008. I thank Lee Siew Peng for her assistance in the survey and data analysis.

involve the choice of the type of securities to be used in raising funds to finance a firm's assets and activities, and the mix of these securities that yields the lowest overall cost of financing, thereby maximising the value of the firm. Dividend decisions involve deciding on the split of company profits between retention of earnings and payment of cash dividend to shareholders. The point of controversy is whether or not dividend decisions have an impact on firm value.

Finance academics have not been successful in developing a model to explain decision making in important areas such as capital structure and dividend. Because of the uncertainties in finance theories it should not be entirely surprising that empirical studies reveal great variances in financial practices across firms, industries and markets. Firms in similar industries may differ in their financial decisions due to firm-specific characteristics such as size, growth, operating leverage, growth rate, asset composition and profitability. Firms in different industries are expected to be different in some aspects of financial practices due to industry factors such as growth rate, earnings variability, amount of fixed assets and financial leverage. When making comparisons across countries, the differences in financial practices are even more puzzling due to a host of contributing factors such as the stage of economic and capital market development, financial deregulation and liberalisation.

The objective of this paper is to present a comprehensive overview of corporate finance practices in Malaysia, focusing on three major areas: investment, financing and dividend. The focus of the analyses is on the changing perceptions and practices of managers from the 80s to the present. This paper is organised into three main areas of study. Following the data section is the discussion on firms' investment practices. This is followed by discussion on capital structure and dividend perceptions and practices.

2. Sources of Data

Data for this paper is taken from different sources. Over the years I have conducted several surveys among Malaysian managers on their perceptions of various corporate finance issues. Results from these surveys are gathered and presented for the purpose of analysing the changing perceptions of managers over time. Results from other studies in local markets and in other countries are also collected to provide cross-sectional perspectives. For the purpose of updating the issues, a new survey was conducted using a 3-page instrument containing questions on managers' perceptions and their companies' practices on investment, financing and dividend. The questionnaire was mailed to the Chief Financial Officers of all non finance companies listed on the Kuala Lumpur Stock Exchange. The survey was conducted twice; first in August 2006 resulting in 109 usable responses, and later in January 2007 resulting in 96 responses, giving a total of 205 non over-lapping responses. This represents a response rate of about 20 per cent.

3. Making Investment Decisions

3.1 Objective of Financial Decisions

In making financial decisions, managers should be mindful of the effect or the impact of their decisions on the value of the firm. Hence, value-increase alternatives will be accepted and value-decrease alternatives will be rejected. In practice, do managers consciously care and seriously consider firms' objectives in making corporate decisions?

Table 1. Investment objectives stated in the form of mean scores (calculated as weighted average of scores ranging from 1 being least important to 5 being most important)

	U.K. 2002[a]	Netherlands 2002[a]	Germany [a] 2002	France 2002[a]	Indonesia 2000[b]	Malaysia 2007[c]
Growth in earnings	3.60	3.40	2.80	3.45	3.86	4.48
Growth in market shares of firm's business	3.20	3.45	2.95	3.55	3.29	4.00
Growth in stock price	3.05	3.00	1.95	1.60	3.19	3.60

Source: [a]Brounen *et al.* (2004) ; [b]Leon (2006); [c]Current study.

In a recent survey of four European markets (UK, Netherlands, Germany and France) Brounen *et al.* (2004) found that in making investment decisions, firms aim at maximising their profits, sustainable growth and strengthening their market position. These findings are remarkably consistent with the results of an Indonesian and Malaysian survey shown in Table 1. Growth in stock price, which in theory would mean growth in shareholder's value, ranks third in their objectives priority. However, these results may not necessarily indicate that practice is at variance with theory; as earnings growth may not be in conflict with value growth, provided managers do not strive for short-term earnings at the expense of long-term earnings.

In theory, a firm's true value is determined by the present value of all its future net profits, or to be more accurate, its future net cash flows. One can go about estimating the value by estimating future profits and obtaining its time-weighted value using some appropriate discount rate. An alternative way of obtaining a firm's value is through market valuation of its securities. A firm's "current market share price" may be appropriately used as a measure of a firm's equity value as it meets several criteria: clear, unambiguous, timely and readily available and it considers the long-term impact and externalities of a firm's decisions. Since market price is determined by investors in the market, firms have to ensure their value creation financial decisions are understood by the market and appropriately interpreted and impounded into the share prices. The increase in the number of listings on the Kuala Lumpur Stock Exchange (now called Bursa Malaysia) from 285 in 1990 to about 1,300 in 2007 signifies a positive development in creating a reliable share evaluation mechanism.

The decade of the 1990s may be considered the watershed of capital market development in the country. Among others, this period saw the introduction of the Second Board, the establishment of the Securities Commission, the reformation of the banking sector, the restructuring of the stock broking firms and the strengthening of market rules and regulations. There was a noticeable increase in institutional trading, market surveillance and information availability. With these developments, we would expect the market to be more efficient in its price formation.

Table 2. Managers' perception on market efficiency (per cent of time firm's securities are believed to be fairly priced).

	US 1989[a]	Hong Kong 1992[b]	Malaysia 1993[c]	Malaysia 2007[d]
50 or more per cent of the time	88.1%	62.2%	62.7%	44.4%
Less than 50 percent of the time	11.9%	37.8%	37.3%	55.6%

Source: [a]Pinegar and Wilbricht (1989); [b]Kester and Chang (1992); [c]Kester and Isa (1994); [d]Current study.

We asked managers on their perception as to whether the Malaysian stock market is efficient in estimating a firm's value. Table 2 shows comparative results of managers' perceptions in different markets. It may be reasonable to assume that the US stock market is the most price-efficient stock market in the world and we may use it as a market efficiency benchmark. In the US in the year 1989, 88 per cent of their managers stated that their stock market is providing fair pricing to their shares more than half of the time. The percentage is much less for Hong Kong (62 %) and Malaysia 1993 (63 %). It is alarmingly less (44 %) for Malaysia based on the current survey. It seems that there is a considerable deterioration of confidence among corporate financial managers in our stock market. The result is both surprising and puzzling. Given the increased awareness and education level of our market players, one would expect our current market price to be even more efficient compared to the time of the previous survey. If indeed this reflects the widespread and overall perception of Malaysian corporate managers, market regulators should be very concerned. In this regard, further investigation may be necessary to determine the reasons behind the lack of confidence of the corporate managers in the stock market. This perception is also somewhat contradictory to local event studies reporting the presence of a semi-strong form efficiency of the market (see for example, Isa and Lim 1993; Isa 1994; Isa and Kam 1996; Isa and Tan 1997; and Isa 2002)

3.2. Capital Budgeting Practices

The theoretical objective of a financial manager in a business organisation is to maximise the value of the firm. In making investment decisions, the financial manager should make those decisions that lead to the highest aggregate value-added to the firm. This is obtained when all the chosen projects are expected to bring cash benefits greater than the cost of financing them. In technical terms this is called "the positive net present value" projects. The investment theory says that Net Present Value (NPV) is the most appropriate criterion to be used in evaluating capital projects because it is consistent with the value maximisation objective. The NPV tells exactly the amount of expected net value to be added to the existing firm value. If a firm is facing multiple investment opportunities, it should consider a project combination that maximises total value-added to the company. Although other competing criteria, such as the Internal Rate of Return (IRR), may also lead to the right decision, it is unable to indicate the net value of the investment. The payback period method, another very popular investment criterion, is worse because it only indicates the time taken to recover initial outlay without indicating investment return nor investment value.

Table 3. The extent of usage of various capital budgeting criteria in evaluating capital investments. (Mean scores are calculated as weighted average of scores ranging from 1 for "very infrequently used" to 5 for "most frequently used". Numbers in brackets refer to position rank of the criteria)

	US 1999[a]	Australia 1996[b]	Malaysia 1996[b]	Malaysia 2007[c]
Internal Rate of Return (IRR)	3.09(1)	3.96(1)	3.54(3)	4.08(1)
Net Present Value (NPV)	3.08(2)	3.96(1)	3.63(1)	4.08(2)
Payback Period	2.53(3)	2.86(3)	3.60(2)	3.93(3)
Accounting Rate of Return	1.34(4)	1.89(4)	2.20(4)	2.51(4)

Source: [a]Graham and Harvey (2001); [b]Kester *et al.* (1999); [c]Current study.

In practice, how do companies evaluate capital projects? Many previous studies, overseas and local, report the Payback Period as the most preferred method of project evaluation. This is followed by the IRR and the NPV in that order. However, a survey of previous studies indicates an increasing trend in the usage of discounted cash flow (DCF) techniques and a decreasing trend in usage of non DCF techniques such as the payback period and the Accounting Rate of Return (ARR). Interestingly, also, despite academic assertion that NPV is a better criterion than IRR, an overwhelming majority of the results show a reverse order of preference. This obsession with "rates of return" of IRR as opposed to "absolute value" of NPV indicates that managers are more comfortable comparing percentages than comparing dollar values.

Recent studies indicate a clear preference among managers towards IRR and NPV. In a comprehensive survey conducted in 1999 Graham and Harvey (2001) report that the most preferred evaluation criteria are the NPV (75%) and the IRR (76%) with about equal rank (3.08 and 3.09 respectively). Additionally, they also report that CEOs with MBA degrees are more likely to use the sophisticated techniques compared to non MBA CEOs. It seems that education level does play a role in determining the usage of the 'right' decision criteria. Ryan and Ryan (2002), in their study of Fortune 500 companies in the US, report a clear preference for NPV (49%) to IRR (44%), and the Payback Period scores only 19 per cent.

Table 3 shows that managers in the US, Malaysia and Australia unequivocally prefer the DCF method with more or less equal strength between NPV and IRR. We can also see that there is a clear shift in preference towards the DCF techniques, especially the NPV, among Malaysian managers in the last 10 years. These results should bring confidence to investors as Malaysian managers are using sophisticated and scientific techniques in making investment decisions. Our results represent a clear alignment between theory and practice.

The NPV criterion stipulates that it is cash returns that count and that this cash must be discounted at an appropriate hurdle rate, or the required rate, in order to arrive at a total present value of cash benefits that is to be compared with the cash outlay of the project. Hence, NPV basically involves a very simple 3-step procedure: estimating the cash flows, estimating the hurdle rate and discounting the cash flows. Theoretically, the hurdle rate is the minimum rate of return required by investors that reflects a fair compensation for their funds given the risk of the project. An alternative definition would be in terms of the

Table 4. Estimation of the hurdle rate in making investment decisions

	Australia 1996[a]	HK 1996[a]	Malaysia 1996[a]	Indon 2000[b]	Malaysia 2007[c]
Weighted average cost of capital(WACC)	48.2%	23.8%	29.4%	50.0%	54.6%
WACC adjusted for risk of new project	37.5%	19.1%	23.5%	5.0%	28.8%
Others	14.3%	57.1%	47.1%	45.0%	16.6%

Source: [a]Kester *et al.* (1999); [b]Leon (2005); [c]Current study.

opportunity costs, that is, the best opportunity of equivalent risk that has to be foregone by investors. Alternatively, it may also be defined as the rate of return on investment projects that would keep share prices unchanged.

The correct way to estimate the hurdle rate is by estimating the return that is required to compensate for the project risk. If the project risk is similar to the risk of the existing asset of the firm, then the existing Weighted Average Cost of Capital (WACC) is appropriate to be used as the hurdle rate. However, if the project risk is different from the firm risk then WACC needs to be adjusted accordingly. In conglomerates, usage of divisional cost of capital is often employed as opposed to the single overall WACC, but to be accurate, it still needs to be fine-tuned to the project's risk. Companies lacking expertise may resort to an intuitive method of estimating the hurdle rate by taking its cost of debt plus a certain risk premium.

Table 4 shows the results of several surveys conducted in various countries on the estimation of the hurdle rates. For the Malaysian survey, the majority of the respondents (57%) in our 2007 survey indicated they use the WACC, presumably as a single rate to discount all project cash flows. Close to 30 per cent of the managers surveyed say they used the WACC adjusted for project risk. This represents a remarkable improvement over the previous study done in 1996. It is also significantly higher than those found in neighbouring markets such as Thailand where it was 12.5 per cent (Arsiraphongphisit *et al.* 2000) and Indonesia 7.4 per cent (Leon 2005). In a 1996 survey of six Asia-Pacific markets, Kester *et al.* (1999) reported that about half of the respondents in the Philippines, less than half in Australia and Singapore, and less than a third in Hong Kong and Malaysia indicated that their companies use the WACC, and that even less use the WACC adjusted for projects risk.

In summary it may be asserted that, in general, Malaysian managers are using the right tools to assist in making investment decisions. They also seem to have the right objective for their firms, that is, one of value maximisation. As far as investment activities are concerned there exists a very close alignment between theory and practice in the Malaysian corporate world. These are very important findings because it will help to shore up confidence in our capital markets. In addition, using the right tools helps us to be more resilient when facing turbulence in international financial markets. However, there is one disturbing thought – that our managers do not seem to have much confidence in the ability of our share market to provide fair valuation for their firms. Policy makers should seriously look into this matter to upgrade the professionalism of our investment community, market regulation and surveillance.

4. Capital Structure

Capital structure may be defined as the mix of different sources of financing for a firm's operations. A firm may issue distinct securities in a countless number of combinations. Although many types of securities may be involved in financing a company, only two types are dominant, that is, equity and debt; other types of securities are either small in quantity or hybrids of the two. Hence, capital structure decisions generally boil down to deciding the optimal mix between debt and equity.

Corporate decision on capital structure has long been a subject of debate and still remains an unresolved issue. In theory there are two views on the question of determining the optimal financing mix. The traditional view of capital structure is that the benefits of debt outweigh the costs at lower debt levels up to a certain point and beyond this point, the costs will be greater than benefits. This results in the weighted average cost of capital being U-shaped, which means that an optimal mix between debt and equity exists, at which point the cost of capital is lowest and the firm's value is maximised.

An alternative view is provided by Modigliani and Miller in their 1958 seminal paper, where they proved that in a world of no tax and no financial distress, capital structure is irrelevant to explaining firm values. However, when corporate taxes are considered, Modigliani and Miller (1963) find that the benefits from tax shields lead them to conclude that the value maximising capital structure is one of extreme leverage. But Miller (1977) revisited the issue by bringing in both corporate tax and personal tax into the model, and concluded that at the aggregate level, the benefits of debt will be exactly offset by the costs for every level of corporate borrowing, and that there is no optimal debt level for any individual firm.

In reality, studies reveal that a firm's behaviour seems to indicate that it conforms to some 'acceptable' mix between debt and equity. This observation may be explained by the trade-off theory that says there are two opposing forces at work for a levered company. The positive forces are derived from tax savings due to the creation of an interest tax-shield and the ensuing management discipline when companies employ debt in their capital structure. The negative forces are those associated with overleveraging, a situation where risk of default is reasonably high and this leads to financial distress. The trade-off theory is consistent with the traditional view that an optimal mix between debt and equity exists. However, it is still unclear where the optimal mix is located at, neither are the variables that should come into the equation to determine the firms' optimal capital structure.

What is puzzling to researchers is that in practice great variations in financial leverage exist among companies within a market and between markets. Table 5, taken from Booth *et al.* (2001), displays total debt to asset ratio around the world. Although the information is somewhat dated, it serves to show in very clear terms the variations of capital structure practices across countries. We may classify the developing countries in their study into three groups: low-debt group with an average debt ratio of 33 per cent, consisting of Brazil and Mexico; medium-debt group (average debt ratio 44%) consisting of Zimbabwe, Jordan, Malaysia and Thailand; and high-debt group (average debt ratio 67%) consisting of Turkey, Pakistan, India and South-Korea. When compared with developed countries, as documented by Rajan and Zingales (1995), it is found that generally developing countries (average debt ratio 51%) have debt levels below the average of the G-7 countries (debt ratio 64%). Among the G-7 countries, it is found that European companies (Germany, France and Italy) have a higher debt ratio (71%) than the rest.

Table 5. Debt to asset ratio for developing and developed countries

Country	Sample size	Sample period	Ratio (%)
Brazil	49	1985-87	30.7
Mexico	99	1985-87	35.4
Average (low ratio)			*33.1*
Zimbabwe	48	1985-87	40.3
Malaysia	96	1985-87	40.9
Jordan	38	1985-87	44.7
Thailand	64	1985-87	50.9
Average (medium ratio)			*44.2*
Turkey	45	1985-87	61.8
Pakistan	96	1985-87	65.2
India	99	1985-87	66.1
South-Korea	93	1985-87	72.8
Average (high ratio)			*66.5*
Average (developing countries)			*50.9*
US	2580	1991	58.0
Japan	514	1991	69.0
Germany	191	1991	73.0
France	225	1991	71.0
Italy	118	1991	70.0
UK	608	1991	54.0
Canada	318	1991	56.0
Average (developed countries)			*64.4*

Source: Booth *et al.* (2001)

One possible explanation for the variation is that the less developed countries do not have a properly developed debt market and there are limitations to bank lending. In addition, accounting procedures may differ across countries and this translates into different interpretations and classifications of assets and liabilities. Different stages of countries' economic development and business cycles may also lead to the international variations in corporate debt level. Whatever the reasons, the fact remains that there is no universal consensus in company practices regarding the optimal debt-equity mix.

In Malaysia debt financing has never been a popular means of raising corporate capital. Table 6(a) shows that long-term debt to capitalisation ratio in Malaysia climbed steadily from about 13 per cent in the early 1990s to about 22 per cent in the late 1990s, with the decade's average being17 per cent. Table 6(b) presents more recent leverage data for companies in the Industrial sector. The table reveals a more conservative usage of long-term debt; it fluctuates in a narrow band between 13 and 16 per cent without a clear trend. The behaviour of Malaysian companies is in direct contrast to companies in the developed markets where the average long-term debt to capital ratio for the year 1991 was 33 per cent for the G-7 countries, with US and Canada topping the list with a ratio of 41 per cent (calculated from Rajan and Zingales 1995: 1428). Despite the obvious advantages of having a capital mix, and despite having a sufficiently developed private debt securities market and banking industry, it is somewhat puzzling as to why Malaysian corporations are averse to debt.

Table 6(a). Malaysia: mean long-term debt to total capitalisation ratio, 1990-1999

Year	No. of companies	Ratio (%)
1990	174	12.98
1991	173	12.62
1992	172	13.88
1993	173	14.52
1994	172	15.35
1995	173	16.13
1996	174	19.02
1997	170	21.67
1998	168	22.23
1999	166	22.23
Average		17.02

Source: Isa and Kam (2001)

Table 6(b). Malaysia: mean long-term debt to total capitalisation ratio for Industrial companies, 1997-2006

Year	No. of companies	Ratio (%)
1997	74	13.67
1998	74	16.44
1999	79	15.21
2000	86	14.53
2001	91	14.92
2002	105	12.91
2003	117	12.58
2004	124	14.33
2005	127	14.61
2006	127	15.18
Average		14.44

Empirical research on capital structure has zeroed down to two basic polarisation of capital structure choices: the static trade-off model and the pecking order hypothesis. The static trade-off model assumes companies behave as if an optimal debt-equity mix (or a target capital structure) exists determined by the relative strengths of the benefits and costs of debt at various debt levels. Since in practice, firms issue either debt or equity at any one time, deviations from the target may occur from time to time while maintaining the target structure in the long-run.

On the other hand, the pecking order hypothesis implies the existence of a hierarchy of sources of funds in which firms prefer internal financing to external financing and if it obtains external funds, debt is preferred to equity. This empirically motivated hypothesis,

Table 7. Preferred capital structure policy

	US	HK	Singapore	Malaysia	Malaysia
	1986[a]	1992[b]	1992[b]	1993[c]	2007[d]
Maintain a target capital structure	31.20%	21.6%	26.5%	22.1%	34.6%
Follow a financing hierarchy	68.80%	78.4%	73.4%	77.9%	65.4%

Source: [a]Pinegar and Wilbricht (1989); [b]Kester *et al.*(1994), [c]Kester and Isa (1994); [d]Current study.

Table 8. Preferred financing hierarchy (Numbers in the table are mean ranks ranging from 1 for "the least preferred" to 7 for "the most preferred". Numbers in brackets denote the rank).

	US 1986[a]	HK 1992[b]	S'pore 1992[b]	Malaysia 1993[c]	Malaysia 2007[d]
Internal equity	5.61(1)	6.17(1)	6.68(1)	6.49(1)	6.30(1)
New debt	4.88(2)	4.79(3)	4.11(3)	4.47(3)	5.29(2)
New equity	2.42(3)	5.30(2)	4.62(2)	4.67(2)	4.36(3)
New preference shares	2.22(4)	3.03(4)	2.15(3)	2.82(4)	2.91(4)

Source: [a]Pinegar and Wilbricht (1989), [b]Kester *et al.*(1994), [c]Kester and Isa (1994); [d]Current study.

which has been theoretically supported on the basis of asymmetric information by Myers and Majluf (1984), is consistent with Donaldson's (1961) observation that firms prefer internal financing and have an aversion to issuing common stock. Hence, the hypothesis stipulates that firms will only go for external financing when internal funds have been exhausted, in which case Table 7 reveals an overwhelming support for the financing hierarchy as opposed to maintaining a target capital structure among the US, Hong Kong, Singapore and Malaysian companies. Comparing the two Malaysian surveys, however, there is a noticeable shift towards an increased preference for the target debt-equity mix.

In terms of financing preference for those following a financing hierarchy policy, Table 8 shows very interesting results. In the US, it seems that managers have been following the stipulated financing hierarchy since the 1980s. This is hardly surprising as the 'hierarchy' (Donaldson 1961) was actually discovered prior to the theory that tried to explain the phenomenon (Myers and Majluf 1984). Hence, the theory perfectly fits the situation in the US and presumably other developed countries. The table shows that all the three Asian countries surveyed in the early 1990s have a clear preference to internal equity as first choice and this is consistent with the pecking order theory. However, contrary to the pecking order theory, when it comes to external financing, the three countries unanimously show preference to new shares over debt. One explanation offered is that the debt market was relatively undeveloped during the time of the survey. But this might not be a good explanation as there were efficient banking industries in these countries. An alternative

Table 9. Objective of financing decision (numbers in table are mean rank while numbers in brackets denote rank)

	US 1986[a]	HK 1992[b]	S'pore 1992[b]	Malaysia 1993[c]	Malaysia 2007[d]
Ensuring long-term survivability of firm	4.55(1)	4.05(1)	4.05(1)	4.45(1)	4.65(1)
Maintaining financial flexibility	4.55(1)	4.03(2)	3.88(2)	4.00(2)	4.24(2)
Maximising prices of publicly traded securities	3.99(3)	2.70(3)	2.63(3)	3.07(3)	3.58(3)
Maintaining comparability with firms in same industry	2.47(4)	2.30(4)	1.91(4)	2.74(4)	3.44(4)

Source: [a]Pinegar and Wilbricht (1989); [b]Kester *et al.* (1994); [c]Kester and Isa (1994); [d]Current study.

reason may simply be a cultural preference to avoid debt among Asian managers. However, the latest survey in 2007 should bring relief to researchers because the results are perfectly consistent with the pecking order theory.

The followers of financial hierarchy were subsequently asked about the principles or the guiding objectives of their choice of financing alternatives. Since the choices are not designed to be mutually exclusive, respondents may assign high scores for more than one objective. Table 9 compares results of the current survey with those of previous surveys. The table shows complete agreement among managers in different countries as to their reasons for choosing a particular financing alternative. The two top-most answers are "Ensuring long-term survivability of the firm" and "Maintaining financial flexibility". However, somewhat surprisingly, maximising share price is ranked third in all the surveys, although the US and Malaysian managers seem to place greater importance than Hong Kong and Singapore managers based on the mean scores. The relative unimportance of maximising share value may well be due to the lack of confidence among managers on the price efficiency of our stock market as alluded to in the beginning of this paper. Lastly, although one could make a case that industry norms may be a good benchmark for companies to set their capital structure targets, this is not to be the case with our respondents. They seem oblivious to what others are doing in setting up their own capital structures. Hence industry norms comparison is ranked last in all the countries surveyed. This is somewhat counter-intuitive given the preponderance of empirical evidence on the existence of an industry effect in capital structure.

In summary, studies indicate that Malaysian managers are averse to debt, but there is a noticeable trend over the years that companies are employing more long-term debt in their capital mix. Financial theory says this is good because it will lead to greater firm value and better returns to equity investors. However, static comparison still indicates that the leverage of Malaysian corporations is less than half of those in developed markets. This means there is much scope for corporate lending in the banking industry and also much scope for private debt securities in the capital markets.

5. Dividend Decision

5.1 Theoretical Overview

The question of whether dividend policy of a firm influences its share value has never received a conclusive answer, theoretically or empirically. Dividend is one of those areas of corporate finance that has very strong divergent views or schools of thought. The oldest is "the dividends are good" school that has its roots in the 1950s. The pioneers of this school include Graham and Dodd (1951) and Gordon (1959). The main argument of this school is the belief that investors prefer a safer return in the form of cash dividends rather than an uncertain promised return from earnings retention – popularly known as the "bird in the hand" argument. The proponents of this school claim that firm value is a positive function of dividend and that investors are willing to pay a premium to the shares of those companies paying generous dividends.

At the opposite end we have "the dividends are bad" school spearheaded by Litzenberger and Ramaswamy (1979; 1982) who say that in the existence of a differential rate between capital gains tax and dividends tax, shareholders may defer the higher tax on dividend indefinitely if they choose retention of earnings that will keep prices at the cum-dividend level. In US tax law, profits made from selling shares are capital gains that are taxed at a lower rate than ordinary income. Cash dividends are classified as ordinary income and taxed at the personal rate of the investor. Hence, it is in the best interest of the shareholders that firms do not pay cash dividends. However, in Malaysia where the "full dividend imputation" tax system is practised, the "dividends are bad" school does not apply. The dividend tax imputation system will be explained in more detail in the next section.

The third school posits that "dividends do not matter". In their seminal paper, Miller and Modigliani (1961) developed the theory on the premise that the value of the firm is determined based on its investment programme. Firm value is set once the investment programme is decided. Whether or not the firm retains all its earnings to finance investments or pay dividends and issue new shares to finance its investments is a matter of detail that is irrelevant to share valuation. The proof of this theory is accomplished under very restrictive assumptions; among others, there is no tax, no transaction costs, investors can make home-made dividends and company investments are unaffected by dividend decision. Although this looks like a rather naive theory, it has very strong intuitive implications. If a firm invests in bad projects, for example, its value will be badly affected even if it declares generous dividends. Likewise a firm with great investment opportunities should be able to sustain its value even if it does not pay dividends. Evidence of this school is provided by Black and Scholes (1974) and Miller and Scholes (1978).

5.2. Dividend in an Imputation Tax System

Corporate profits in the US are subject to 'double-taxation': one at the corporate level (corporate tax) and another at the shareholder level (either personal tax on cash dividends and/or capital gains tax on share price appreciation). However, in Malaysia there is no double taxation of corporate profits. Corporate profits are only taxed once, either at the corporate level at the corporate tax rate for retained profits or at shareholder level at the personal tax rate of investors for profits declared as cash dividends (there is no capital gains tax). Dividends are paid out from after-tax profits. Shareholders receiving these 'net

Table 10. Dividend payout ratio and dividend yield for Malaysia and G-7 Countries (1991)

Country	Payout ratio%	Yield %
Malaysia*	49.7	2.4
Canada*	50.0	n.a.
UK*	38.0	5.3
US	38.0	3.0
Germany	32.0	3.7
France	21.0	3.5
Japan	18.0	0.8

Source: IFC (1992); Rajan and Zingales (1995).
Note: *Countries practising dividend imputation taxation system.

dividends' will pay taxes at personal tax rates on the gross amount of dividends (the pre-corporate-tax equivalent of the dividend amount). However, the corporate-tax amount of the dividend will be reimbursed to the shareholder in full (because of the 'full' imputation system practiced in Malaysia). Brealey *et al.* (2006: 434-435) provide an excellent description of the imputation tax system.

The implication of an imputation system is that as long as personal tax rates are less than corporate tax rates, shareholder wealth maximisation will necessitate maximum payout of a firm's profits. For Malaysia, it has always been the case that average personal tax rate is lower than the corporate tax rate. Full imputation also means companies may avoid paying corporate tax altogether if all profits are declared dividends. Theoretically, therefore, in Malaysia, rational investors should be demanding high dividend payout and managers interested in maximising shareholder wealth should be declaring generous dividends.

5.3. Dividend Behaviour

In reality, however, firms do not pay high dividends, in Malaysia or anywhere else in the world, regardless of their taxation system. Table 10 shows the dividend payout ratio and dividend yield for Malaysia and G-7 countries in 1991. The payout ratio ranges from a low of 18 per cent for Japan to a high of 50 per cent for Canada and Malaysia. It should also be pointed out that the countries practising the dividend imputation tax system show relatively higher pay-out ratios. This is consistent with our argument that the imputation system should lead to a policy of high dividend.

In terms of dividend yield, there is also a wide variation across countries. The table shows the yield ranges from a low of less than 1per cent for Japan to a high of 5 per cent in U.K. For Malaysia, although the payout is highest, yield is quite modest, averaging 2.4 per cent. The table shows no discernible difference between the imputation and the non-imputation system countries. On another note, more recent data indicates a trend of lower yield towards the end of the 1990s across countries. Ehrhardt and Brigham (2003: 516) reports that for the year 1999, the US S&P500 dividend yield was 1.2 per cent, Canada TSE300 was 1.6 per cent, U.K. FTSE100 was 2.4 per cent, Germany DAX2 was 1.0 per cent and Japan Nikkei stocks was 0.7 per cent.

Table 11. Percentage of listed companies that pay dividends, dividend payout ratio and dividend yield

Year	No. of listed companies	% Paying dividend	Payout ratio (%)	Dividend yield (%)
(a) Listed companies 1981-1992				
1981	253	54.9	59.2	3.80
1982	261	54.4	58.2	4.49
1983	271	60.1	56.4	3.28
1984	282	62.1	48.9	3.35
1985	284	62.3	59.9	4.03
1986	288	51.0	64.2	4.70
1987	291	55.0	57.9	2.84
1988	295	53.6	56.1	3.47
1989	307	57.0	49.4	3.23
1990	285	65.5	51.6	2.63
1991	324	69.5	46.3	2.78
1992	369	62.6	49.7	3.26
Average	-	59.2	55.1	3.43
(b) Main Board companies, 2002-2007				
1998	454	54.9	43.1	2.71
1999	474	50.0	30.5	2.15
2000	498	51.0	50.6	2.19
2001	520	52.5	31.1	2.95
2002	562	59.8	37.4	2.81
2003	598	62.9	56.4	3.18
2004	622	65.3	36.2	2.84
2005	646	68.8	31.9	3.47
2006	649	69.2	54.0.	3.58
2007	636	74.5	49.4	3.34
Average	-	60.9	42.1	2.92

Source: (a) Isa (1993), (b) *Source*: Lim (2008)

Table 11 shows dividend behaviour of Malaysian listed companies over two periods of time. The table shows that about 60 per cent of the companies were paying dividends for both periods of study. In the 1980s and early 1990s, the proportion of dividend paying companies ranged from 51per cent in 1986 to a high of 70 per cent in 1991, while in the later study it ranged from 50 per cent in 1999 to 75 per cent in 2007. It is interesting to observe that less companies would be paying dividend in the bad years (1986-89 and 1998-2001) compared to good years.

As for the payout ratio, it was fairly constant in the 1980s and early 1990s as shown in Part (a) of Table 11. It fluctuated within a tight range of 46 per cent in 1991 to 64 per cent in 1986. The movements of the payout over the years of study tend to indicate company efforts to stabilise dividend payments where higher payouts were recorded in the recession years of the mid-1980s and lower payouts in the recovery years towards the end of the 1980s and early 1990s. In the later study, Part (b) of Table 11 shows that the ratio fluctuates

quite wildly, with two noticeable spikes in the years 2003 and 2006 while substantially low in other years. It should also be noticed that the payout ratio suffers a big drop over time from an average of 55 per cent in the 1980s and early 1990s to 42 per cent in the later study. The results clearly indicate that Malaysian companies are not subscribers of a constant dividend payout policy. However, to an investor, dividend yields are more relevant than payout ratios. Part (a) of Table 11shows that dividend yields were fairly constant in the 1980s and early 1990s, ranging from a low of 2.63 per cent in 1990 to a high of 4.70 per cent in 1986. The average yield was 3.43 per cent. In the later study, for the years 1998 to 2007, there is a clear increasing trend in the yield from about 2.35 per cent in the first three years to about 3.46 per cent in the last three years. However, the average of 2.92 per cent is lower than that in the earlier study.

The evidence that in some years almost half of the listed companies did not pay dividend, coupled with the relatively low dividend yields, are quite inconsistent with our argument that "dividend is good" for the Malaysian setting. There may be several reasons for this behaviour. First, there is a possibility that many investors and even corporate managers are ignorant about the implication of the dividend imputation system. Hence, their behaviour is governed by the investment and management rules stipulated in finance textbooks that are written by western scholars. Second, it could be due to the observation that many investors in the local market, individual and institutional, local and foreign, are short-term investors. Hence, they are more concerned with price appreciation than with dividend income. Third, it could be due to high costs of issuing external capital. If firms are paying high payouts and having little earnings retention, they have to resort to external capital to finance their investments.

5.4. Dividend Practices

In order to have a better understanding of dividend behaviour among Malaysian companies, surveys were made on their perceptions on various dividend issues. Table 12 shows results of two surveys that were conducted, one in 1991 and the other in 2007 on dividend policy choices. For both surveys the top policy choice is a "stable dividend policy". This means most firms prefer a policy of constant dollar amount of dividend. This also means the payout ratio will be higher in bad years and lower in good years. The second choice is the "constant payout ratio", which means that the dividend amount will fluctuate depending on the amount of profits in the particular year; higher profits mean higher dividends and vice-versa. The third policy choice among Malaysian managers is the "residual dividend policy" in which financing investments are given priority over dividend. Profits will first be used to finance investments and dividends will only be paid from the remainder of the earnings, if any. It seems that a great majority of the firms are claiming that they practice either the stable dividend policy or the stable payout policy. This is true for both surveys. This is consistent with the prescription of high dividend payout in an imputation environment.

However, empirical evidence seems to suggest otherwise. Our analysis in the earlier section of the stable dividend policy choices among Malaysian companies are at best a weak approximation. Lim (2008) analysed dividend behaviour of KLSE Main Board companies for the years 1998-2007 and found that very few companies are indeed practising the stable dividend policy or the stable payout policy. For example, from a total number of 2,641 dividend-year observations in her study, she found only 237 incidences of two consecutive

Table 12. Dividend policy choice among Malaysia companies, 1991 and 2007 (Numbers in the table are relative frequency of response choosing a particular dividend policy).

	1991 (N=65)	2007 (N=205)
Stable dividend	50.77%	39.5%
Constant payout ratio	21.54%	29.3%
Passive residual	13.85%	24.9%
Zero dividend	1.54%	3.9%
Others	12.3	2.4%

Source: Isa (1992) and current study.

Table 13. Factors influencing dividend decisions

	US1999[a]	Malaysia1991[b]	Malaysia
1. Availability of cash	2.53(1)	2.80(2)	4.57(1)
2. Current year's earnings	2.29(4)	2.95(1)	4.54(2)
3. Shareholders' expectation	1.52(7)	2.75(3)	3.74(3)
4. Future expected earnings	2.38(2)	2.52(4)	3.61(4)
5. Availability of profitable investments	1.59(6)	-	3.59(5)
6. Past dividend policy	2.33(3)	1.52(6)	3.42(6)
7. To maximise share price	1.86(5)	-	3.56(7)
8. Industry norms	1.30(8)	2.02(5)	2.69(8)

Source: [a]Baker and Powell (2000); [b]Isa (1992); [c]Current Study. Mean scores are calculated on a 0 to 3 for the US study, 1 to 3 for the 1991 Malaysia study and 1 to 5 for Malaysia 2007.

years of stable dividend; the number dropped to 71 for three consecutive years and four consecutive years of stable dividends. The departure from the stable dividend p among companies is shown by the results of our surveys. Table 12 shows that the substantial drop in the stable dividend policy response and an increase in the p residual policy response.

We also asked managers about factors that are taken into consideration in their di decision. Table 13 shows the results of our survey (1991 and 2007) along a US (1999) s Malaysian managers rank "availability of cash", "current earnings", "shareho expectation" and "future expected earnings" as very important considerations. This dividends are based on affordability rather than adhering to a strict "stable" or "co payout" policy. This type of response seems to be quite universal as other markets a the world show a similar response with one exception, that is, "shareholders expectati ranked quite important among Malaysian managers, whereas manages in the US rank as least important. Another noticeable difference between Malaysian and US manag the dividend issue is the influence of "future expected earnings"; US managers rank a very important determinant of current dividend, whereas Malaysia managers do not this as very important. This result has an important implication on the "signalling "information content" of dividends between the two countries. If this survey truly re

the dividend practices in both countries, we should expect to find the signalling and the information content hypothesis to be less supported in Malaysia compared to the US.

The factor "availability of profitable investments" refers to the residual dividend policy and our results are consistent with the above discussion that most local companies do not adopt this particular dividend policy. This is also the case with the US survey. "Past dividends" are not an important factor in setting current dividends as far as Malaysian managers are concerned, unlike the US managers who seem to ascribe it considerable importance. "Share price maximisation" and "industry norms" are least important in all the surveys.

5.5. Managers' Perceptions on Dividends

Studies in the US (Lintner 1956) found that dividends lag earnings in that increases in earnings tend to be followed by an increase in dividends and vice-versa. Also it was observed that dividends are sticky in that once they are increased, they tend to stay at the new level. Managers will avoid making dividend changes that have to be reversed later. It was also found that dividends tend to be smoother than earnings over time. In order to gain insights into the behaviour of dividends among Malaysian firms, we surveyed managers to find out their attitudes and perceptions on various issues concerning dividends. An abstract of some of their responses is shown in Table 14. The first three statements in the table refer to the beliefs of managers on the relationship between dividend and share value. Our results reveal that respondents for all three surveys are agreeable to all these statements, acknowledging that dividend policy is relevant to share valuation. It is somewhat surprising that the results of the latest Malaysian survey show very strong agreement among managers on the first statement that dividend affects share price.

Statements 4 and 5 refer to a "stable dividend" policy and it seems respondents in all three surveys are agreeable to these statements with a very high degree of agreement. These statements have been generally accepted as established behaviour among US firms. But for Malaysia, as discussed earlier, it seems that this response is not perfectly consistent with the empirical evidence. This suggests more rigorous studies need to be conducted to uncover the true perceptions of local managers.

Statements 6 and 7 refer to a "residual" dividend policy and our results reveal a lack of enthusiasm among our respondents. This is not surprising since a recent study in the US, (Baker and Smith 2006) concludes it is difficult to find firms that explicitly admit following a residual policy.

The last three statements attempt to obtain management perceptions of the expectation of shareholders and whether companies should be sensitive to their needs. Weak agreement exists on the suggestion that firms should be responsive to investor preferences regarding dividends, and also on the contention that price gains from retained earnings are riskier than cash dividends, which is actually the "bird in the hand argument". The last statement is somewhat provocative in nature but the response is quite consistent with those in previous statements, that managers weakly agree that capital gains and cash dividend are different from shareholders' perspectives.

In summary, there are remarkable similarities in dividend behaviour and practices of our local firms compared to other international markets. Based on surveys conducted there is also remarkable agreement of local managers' perceptions on various issues on dividend

Table 14. Managers' perceptions on dividends

	Variables	U.S. 1986[a]	Malaysia 1996[a]	Malaysia 2007[b]
1	Dividend payout affects the share price	1.42	1.02	3.83
2	Dividend payments provide a "signalling" device of future company prospects.	1.32	1.18	3.54
3	The market uses dividend announcements as information for assessing security values.	1.03	0.56	3.42
4	A firm should strive to maintain uninterrupted dividend payments.	2.06	2.12	3.71
5	A firm should avoid making changes in dividends that might have to be reversed in a year or so.	2.38	1.71	3.69
6	Dividend distributions should be viewed as a residual after financing desired investment from available earnings.	0.07	0.63	3.38
7	New capital investment requirements of the firm generally have little effect on modifying the pattern of dividend behaviour	0.30	-0.37	2.86
8	Management should be responsive to its shareholders' preferences regarding dividends.	0.74	1.15	3.44
9	Capital gains expected to result from earnings retention are riskier than dividend expectations.	0.69	0.56	3.35
10	Investors are basically indifferent between returns from dividends versus those from capital gains.	-1.37	-0.79	2.70

Source: [a]Kester and Isa (1996); [b]Current study. Note: Mean scores are calculated on a scale of 1 to 5 for the 2007 Malaysia study and -3 to +3 for all other studies.

with those in the US market, with one exception; Malaysian managers place greater importance on current earnings in determining dividends and less importance on future earnings, while US managers behave conversely, that is, placing greater importance on future earnings and less importance on current earnings.

Our managers seem to be oblivious of the fact that our tax environment is completely different from the US situation as far as dividend is concerned and that we need to approach dividend decisions differently. Black (1976) in his paper entitled "The Dividend Puzzle" presented extensive arguments of various schools of thought on dividend, and concludes at the end that "We Don't Know" if dividend is relevant or otherwise. But in Malaysia, given the full tax imputation of dividend, our answer would be, "Yes, we do know that it is in the best interest of the shareholders that companies pay high cash dividends but we don't know why they are not doing it."

6. Conclusion

Our research indicates that Malaysian managers are quite sophisticated, employing up-to-date management techniques available in corporate financial decisions. They have the right goals in guiding them to make their decisions. In making investment decisions, for example, techniques used by local managers are found to be equivalent in sophistication to those of developed markets. In addition, it seems that the behaviour of our local managers is becoming more in conformity to western financial theories.

In deciding the capital structure, local managers are found to be reluctant in employing long-term debt in the company's capital mix. Theoretically there are compelling arguments that employing a modest amount of debt results in benefits that far outweigh its costs. Evidence suggests that our average debt level is less than half the international average. Given our fairly developed private and bank debt markets, impediments to issuing debt may be ruled out.

Although many theories on human behaviour are universal in nature, some obviously need adjustment to be applicable to the local environment. Our companies' behaviour towards dividend policy is a case in point. Compared to the US situation, Malaysia is clearly governed by an entirely different tax regime when it comes to dividend, and, therefore, demands a decision model that is home-based. In the dividend tax imputation system, theoretically, shareholder value maximisation would be consistent with high dividend. However, our studies reveal that our companies are no different in their dividend practices compared to the US companies.

References

Arsiraphongphisit, O., G. W. Kester and M. T. Skully. 2000. Financial policies and practices of listed firms in Thailand: capital structure, capital budgeting, cost of capital, and dividends. *Journal of Business Administration* 88: 72-93.

Baker, H. K. and G. E. Powell. 2000. Determinants of corporate dividend policy: a survey of NYSE firms. *Financial Practice and Education* (Spring/Summer): 29-40.

Baker, H. K. and D. M. Smith. 2006. In search of a residual dividend policy. *Review of Financial Economics* 15: 1-18.

Bancel, F. and U. R. Mittoo. 2004. Cross-country determinants of capital structure choice: a survey of European firms. *Financial Management* (Winter): 103-132.

Black, F. 1976. The dividend puzzle. *Journal of Portfolio Management* 2(2): 5-8.

Black, F. and M.S. Scholes. 1974. The effects of dividend yield and dividend policy on common stock prices and returns. *Journal of Financial Economics* 1:1-22.

Booth, L., V. Aivazian, A. Demiguc-Kunt and V. Maksimovic. 2001. Capital structures in developing countries. *Journal of Finance* 56(1): 87-130.

Brealey, R. A., S. C. Myers and F. Allen. 2006. *Corporate Finance*. McGraw-Hill Companies, Inc., 8th Ed.

Brounen, D., A. De Jong and K. Koedijk. 2004. Corporate finance in Europe: confronting theory and practice. *Financial Management* (Winter): 71-101.

Donaldson, G. 1961. *Corporate Debt Capacity: A Study of Corporate Debt Policy and the Determinant of Corporate Debt Capacity*. Boston: Harvard School of Business.

Ehrhardt, M. C. and E. F. Brigham. 2003. *Corporate Finance: A Focused Approach*. Thomson South-Western.

Gordon, M.J. 1959. Dividends, earnings and stock prices. *Review of Economics and Statistics* 41: 99-105.

Graham, B. and D.L. Dodd. 1951. *Security Analysis: Principles and Techniques*. McGraw-Hill, 3rd Ed.

Graham J. R. and C. R. Harvey. 2001. The theory and practice of corporate finance: evidence from the field. *Journal of Financial Economics* 60: 187-243.

IFC. 1992. *Emerging Stock Markets Factbook 1992*. Washington D.C.:International Finance Corporation.

Isa, M. 1992. Dividend policies and practices of listed Malaysian companies. *Securities Industry Review* 18(1): 53-64.

Isa, M. 1993. Dividend and share value: the case of Malaysia. *Securities Industry Review* 19(2): 43-56.

Isa, M. and L.L. Lim. 1993. Share price behaviour around acquisition announcement in Malaysia. *Capital Markets Review* 1(2): 1-23.

Isa, M. 1994. The effect of acquisition announcement and method of payment on shareholder returns in the Malaysian stock market. *Securities Industry Review* 20(1): 19-31.

Isa, M. and L.C. Kam. 1996. Acquisition of Multi Purpose Holdings Berhad: a case analysis. *Malaysian Management Review* 31(2): 62-73.

Isa, M. and K.H. Tan. 1997. The announcement effects of rights and bonus issues on Malaysian stock prices. *Capital Market Review* 5(2): 45-58.

Isa, M. and J.K. Kam. 2001 Capital Structure and Financial Performance Among Listed Malaysian Companies. Paper presented at the *Asia Pacific Finance Conference*, Bangkok.

Isa, M. 2002. Reverse takeover in Malaysia: motives, regulations and market reaction. *Malaysian Journal of Economic Studies* 39: 95-113.

Kester, G.W. and R. P. Chang. 1992. The views on Corporate Financial Policy in Hong Kong. Paper presented at the *4th Annual PACAP Conference*, Hong Kong.

Kester, G. W., R. P. Chang and C. K. Tsui. 1994. Corporate financial policy in the Pacific Basin: Hong Kong and Singapore. *Financial Practice and Education* (Spring/Summer): 117-127.

Kester, G. W. and M. Isa. 1994. Capital structure policy in Malaysia: a comparative analysis. *Capital Markets Review* 2(2): 1-16.

Kester, G. W. and M. Isa. 1996. Dividend policy in Malaysia: a comparative analysis. *Malaysian Journal of Economic Studies* 33(1): 33-48.

Kester, G. W., R. P. Chang, E. S. Echanis, S. Haikal, M. Isa, M. T. Skully, K. C. Tsui, and C. J. Wang. 1999. Capital budgeting practices in the Asia Pacific Region: Australia, Hong Kong, Indonesia, Malaysia, Philippines, and Singapore. *Financial Practice and Education* 9(1): 25-33.

Leon, F. M. 2005. Capital Budgeting Practices among Indonesian Firms, Ph.D. Thesis. Faculty of Business and Accountancy, University of Malaya.

Lintner, J. 1956. Distributions of incomes of corporation among dividends, retained earnings and taxes. *American Economic Review* 46: 97-113.

Litzenberger, R. and K. Ramaswamy. 1979. The effect of personal taxes and dividends on capital asset prices: theory and empirical evidence. *Journal of Financial Economics* 7: 163-196.

Litzenberger, R. and K. Ramaswamy. 1982. The effects of dividends on common stock prices: tax effects or information effects? *Journal of Finance* 37: 429-444.

Lim W. L. 2008. Do Changes in Dividend Policy Signal the Future or the Past? MBA Thesis, University of Malaya Graduate School of Business.

Miller, M.H. 1977. Debt and taxes. *Journal of Finance* 32: 261-276.

Miller, M. H. and F. Modigliani. 1961. Dividend policy, growth and the valuation of shares. *Journal of Business* 34: 411-433.

Miller, M. H. and M.S. Scholes. 1978. Dividends and taxes. *Journal of Financial Economics* 6:333-364.

Modigliani, F. and M. Miller. 1958. The cost of capital, corporation finance and the theory of investments. *American Economic Review* 48: 261-297.

Modigliani, F. and M. Miller. 1963. Taxes and the cost of capital: a correction. *American Economic Review* 53: 433-444.

Myers, S. C. and N. S. Majluf. 1984. Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, June: 187-221.

Pinegar J.M. and L. Wilbricht.1989. What managers think about capital structure theory: a survey. *Financial Management* (Winter): 82-91.

Rajan, R., and L. Zingales. 1995. What do we know about capital structure? Some evidence from international data. *Journal of Finance* 50: 1421-1460.

Ryan, P. A. and G. P. Ryan. 2002. Capital budgeting practices of the Fortune 1000: How have things changed? *Journal of Business and Management* 8: 335-365.