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Dividend Announcements and Stock Market Reaction: Further Evidence

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Abstract: This paper examines stock market reactions to announcements of dividend increases and decreases in Bursa Malaysia. The data consist of all the firms that announced dividend increases or decreases from 2001 to 2005. Using an event study approach, the evidence shows that dividend increase announcements are greeted positively by investors, while there is some evidences suggesting investors react negatively prior to dividend decrease announcements. The observations are then separated into the magnitude of dividend change and income change. This paper also separates the observations into government linked companies (GLCs) and non GLCs. For the income-increase group of GLCs and non GLCs, the buy-and-hold abnormal return is positive and statistically significant in the post-announcement period.

Keywords: Bursa Malaysia, dividend announcement, market reaction

Introduction

This paper examines stock market reactions to announcements of dividend increases and decreases in Bursa Malaysia (formerly known as Kuala Lumpur Stock Exchange). Prior research on developed markets indicates a positive correlation between dividend changes and stock market reaction. Dividend increase is considered as good news while dividend decreases as bad news. Two of the most discussed theories of dividend behaviour are information signaling hypothesis and agency theory. The information-signaling hypothesis argues that since there is an information asymmetry between management and shareholders, the only way for the management to signal future prospects is by changing the dividend payout. According to the agency problem perspective, when the management increases dividends, it reduces the possibility of the management misusing the firm's free cash flow. Empirical evidence strongly supports this argument and thus confirms the theory.

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The evidence in this study indicates that the stock market welcomes announcements of a dividend increase. The buy-and-hold abnormal return in 3 days surrounding the announcements is about 0.54 per cent and the return is even higher at 1.49 per cent in the 20-day period following the announcements. The positive reaction is similar after controlling the magnitude of the dividend changes. When the observations are further split into income-increase group and income-decrease group, the positive buy- and-hold abnormal return remains significant. On the dividend decrease announcements, the immediate buy-and-hold abnormal return shows the expected sign but is not statistically significant. There is some evidence suggesting that investors react negatively prior to the announcements. For observations that reduced the dividend level significantly over the previous year level, investors reacted negatively prior to the announcements.

The observations were then separated into government-linked companies (GLCs) and non GLCs. The GLCs were chosen because they are an investment arm of the Malaysian government and their shares are actively traded in the stock market and the GLCs are also among the favorite stocks of foreign investors. Because GLCs have high growth potential and are monopolistic, studying them might give some insight into how the stock market reacts to dividend announcements. Our study attempts to partially fill this gap in the literature and to provide evidence on stock market reactions to announcements of dividend increases and decreases in Bursa Malaysia. This was done by relying on a large sample size and in depth analysis that required partitioning data into income increasing firms, income decreasing firms, GLCs and non GLCs.

The rest of this paper is structured as follows. Section 2 presents the literature review while Section 3 provides the data and methodology. The fourth section provides the empirical results and discussion. Finally, the fifth section concludes the study.

2. Literature Review

Declaring dividends, as the main method of distributing cash to shareholders, has received considerable prior attention in the finance literature. Lintner (1956) suggests that firms prefer to smooth their dividend and are reluctant to change their payout policy. The management is reluctant to cut dividends because it might send negative signals to investors and is also reluctant to increase payouts for fear that it might not be sustainable in the future. Following this, many empirical studies have been performed and concentrated on how the stock market reacts to the announcements. Almost all of the studies agree that dividend payout and stock market reaction move in the same direction. For example, Petti (1972) is among the earlier writers who found that the stock market treats dividend increase announcements positively and dividend decrease announcements negatively. That means the stock market reacts positively on dividend increase announcement and negatively on dividend decrease announcements. Two of the most widely discussed hypotheses on stock market behaviour on dividend announcements are the information signaling hypothesis and the free cash flow hypothesis.

The dividend signaling hypothesis developed by Bhattacharya (1979), Miller and Rock (1985) and John and Williams (1985) suggest that firms change their dividend payout to signal future performance. Since the management knows more about its firm than outsiders do, the only way for management to relay the information to the market is to change their dividend payout pattern. Many empirical studies confirm the theory. For example, Aharony

and Swary (1980) found that the market still reacts positively to the announcements even after controlling for contemporaneous earnings announcements. Asquith and Mullins (1986) investigated the first dividend announcement in the corporate history or dividend initiation after a 10-year interval and found that the stock market reacts more strongly to this type of extreme dividend announcements. Healy and Palepu (1988) found similar evidence on the firms that initiate and omit their dividend. The magnitude of negative stock market reaction is more severe on dividend omission firms. Employing a larger sample size, Michaely *et al.* (1995) and Robin (1998) reached similar conclusions. Docking and Koch (2005) found that the stock market reaction to dividend announcement is sensitive to the direction or volatility of the stock market.

Agency theory provides an alternative explanation of market reaction to dividend announcements. Easterbrook (1984) and Jensen (1986) suggest that the dividend acts as a disciplinary tool to the management. The distribution of free cash flow to shareholders reduces agency conflict by making it less likely that the management will invest in an unprofitable business. According to this line of reasoning, the stock market reacts positively to announcements of a dividend increase. Alternatively, stock market reacts negatively to firms that reduce their dividend payout on the possibility that the management might invest in an unprofitable business. Both hypotheses imply that the stock market should react in the same direction as dividends payment. If the market is efficient, then the subsequent operating performance should improve. However, the evidence on the subsequent performance is mixed. For example, Grullon *et al.* (2005), Grullon and Michaely (2002), Benartzi *et al.* (1997), and DeAngelo *et al.*(1996) found that the subsequent operating performance reacted negatively to the announcements, while Zhou and Ruland (2006), Arnott and Asness (2003), Nissim and Ziv (2001), Jagannathan *et al.* (2000) and Healy and Palepu (1988) conclude that the signals are credible. These contradictory results suggest that the evidence so far on the post-operating performance of dividend paying firms is inconclusive.

The evidence presented so far on stock market reactions and two hypotheses described above were developed with reference to the US market. A similar line of study was conducted on the European market. Lonie *et al.* (1996), McCluskey *et al.* (2006) and Travlos *et al.* (2001) looked into stock market reaction in the UK, Ireland and Cyprus markets. They found similar evidence that the stock markets reacts in the same direction as dividend changes and attribute the positive relationship to the information signaling hypothesis. In Japan, Fukuda (2000) found that the stock markets react positively to dividend increase and dividend initiation announcements. However, the magnitude of the reaction is smaller than the studies of the developed market and the post-operating performance of the firms contradicts the predictions of theory. In contrast, Kato *et al.* (2002) found that the free cash flow hypothesis might explain the positive stock market reaction in Japan. Their results show that dividend increasing firms have the characteristics of free cash flow hypothesis such as higher earnings and lower debt ratio. The evidence from the free cash flow hypothesis, however, is opposite to what theory predicts. They concluded that the reason for this is the close relationship between shareholders and management.

The dividend signaling hypothesis and the free cash flow hypothesis might be applicable to the developed market such as in the US or Japanese markets because of a diverse relationship between investors and management. In other words, the corporate governance structures in the US market allow management more freedom to run the business.

For this reason, the stock market may be the best way to signal management's intentions about the future performance of their firms.

However, other markets have a different corporate governance structure. For example, there was a close relationship between shareholders and management prior to the real estate bubble in Japan and in other markets (see Dewenter and Warther 1998; Lonie *et al.* 1996; McCluskey *et al.* 2006; Travlos *et al.* 2001) that explain the relationship between shareholders-investors in their respective markets. This close relationship mitigates the agency problem and there should be other explanations for the positive stock market reaction which are not captured by the traditional information-signaling hypothesis and agency theory explanations. However, after the financial market and real estate bubbles, the Japanese government introduced new regulations and amended the rules to make corporate governance more market-based and investor-oriented. For example, the gradual decline in cross-shareholding and the increase in participation by foreign investors have exacerbated the agency problem in recent years (see Seki 2005; Yoshikawa and Phan 2005; Jackson and Moerke 2005; Bebenroth and Tabuchi 2004). In a more recent study, Harada and Nguyen (2005) concluded that dividend-signaling hypothesis can explain well the situation in the Japanese market if the data used in the study is not aggregated across different economic situations.

In Malaysia, there is still a very close relationship between block shareholders and management. In fact, the Chief Executive Officer and the Chairman of the firms are normally the nominees of the block shareholders. GLCs exist because of the active privatisation programme and the high growth economic policy of the Malaysian government. The special characteristics of GLCs allow them to control the strategic business that is monopolistic and which has the potential for higher investment growth.

Pandey (2003) found that the dividend behaviour of the Malaysian companies is sensitive to the changes in earnings as there are significant industrial differences in payout ratios in Malaysia. Mansor and Subramaniam (1992) examined the effect of dividend and earning announcements on share prices in Malaysia using weekly data. Their findings show that dividend and earning is associated with positive effects whereas dividend and earning decrease lead to negative reactions. In addition, Abdullah *et al.* (2002) examined stock market reactions to the announcement of final dividend. Using 120 listed companies surrounding sixty days of the announcement dates, they found evidence that dividend increases lead to positive abnormal return in the Malaysian capital market. However, their results suggest that dividend decreases are not associated with a negative abnormal return. In a more recent study, Foong *et al.* (2007) investigated the relationship between individual stock return with dividend yield, dividend stability and changes in dividend yield from 1992 to 2000 in the Malaysian Trading/ Services and Plantation firms. The results suggest weak evidence to support the significant role of dividend yield and dividend stability in influencing firm stock returns.

3. Data and Methodology

The initial observations in this study are from all the firms that announced dividend increases or decreases from 2001 to 2005. All the firms were listed for at least two years. Firms that announced special dividends in the announcement year were excluded. This requirement ensured that all firms in the sample had the dividend and daily stock price data. Subsequently

utilities, financial, and closed-end funds or REITS were excluded from the sample. Stock price data and dividend data were available from Datastream, Thompson Financial Service. A firm is defined as having increased (or decreased) its dividend in a given year if there was an annual dividend increase (or decrease) relative to the prior year.

Data on government-linked companies were obtained from the Khazanah Nasional Malaysia, the investment holding firm of the Malaysian government. The final observations consisted of 853 dividend increase announcements and 376 dividend decrease announcements (these figures were obtained after the data were truncated at 5 per cent).

The announcement dates of the firms were obtained from Bursa Malaysia database. For purposes of the study, day 0 is defined as the day on which the firm announces its final dividend and with the same announcement appearing in the Bursa Malaysia website. To control for other events, the announcements were not contaminated by other firm specific information such as share repurchase and bonus issue at least five days surrounding the announcement day.

A standard event study method was used to analyse stock market reactions on the dividend increase and dividend decrease announcements. The following market model was used to calculate the abnormal return: $R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_i$, where R_{it} and R_{mt} are, respectively, the return to stock and the return on Kuala Lumpur Composite Index on day t with α_i and β_i being ordinary least squares estimates.

The estimation period was from day –140 to day –21 relative to the announcement date. The mean buy-and-hold abnormal return was employed to measure market reactions to the dividend announcements in different event windows.

4. Results

Table 1 shows the buy-and-hold abnormal return for the 40-day period surrounding dividend increase announcements for the observations of dividend increase firms in Bursa Malaysia. The immediate 3-day event windows surrounding the announcements for the entire sample shows the buy-and-hold abnormal return is 0.54 per cent positive and statistically significant. On the longer event windows 20 days after the announcements, the buy-and-hold abnormal return is 1.49 per cent and significant. The evidence indicates that investors treated dividend announcements as good news and reacted positively to the news.

The buy-and-hold abnormal return on the event windows of the entire observations was then divided into 4 groups according to the magnitude of the dividend change. The buy-and-hold abnormal returns on the immediate 3-day event window surrounding the announcements across the groups are all positive. However, only the buy-and-hold abnormal return in Group 2 is statistically significant, while the evidence on the longer event windows are all positive and significant with the highest buy-and-hold abnormal return of 1.66 per cent in Group 3.

The observations were then separated into income increase-group and income-decrease group. For the income-increase group, the evidence is similar to the results of the whole dividend increase observations. The difference is that the buy-and- hold abnormal return prior to the announcements is negative and significant in Group 1. One may interpret the results as investors having expectations that those firms may not increase the dividend substantially and over-reacted by selling the stock prior to the announcements. However, the post announcements buy-and-hold abnormal return in this group is 1.78 per cent and it

Table 1. The buy-and-hold abnormal returns (%) for dividend increase firms in different event windows.

Event windows	Entire observations	Groups ranked by the magnitude of dividend increase			
		1 (Low)	2	3	4 (High)
(-20,-1)	0.10	-0.74	0.65	0.59	-0.10
(-1,1)	0.54**	0.49	0.94*	0.37	0.35
(1,20)	1.49***	1.38***	1.55***	1.66***	1.37**
N	853				
Income-increase group					
(-20,-1)	-0.22	-1.57**	0.12	1.15**	-0.60
(-1,1)	0.57*	0.73	0.66	0.56	0.33
(1,20)	1.48***	1.78***	1.41**	1.50***	1.23*
N	471				
Income-decrease group					
(-20,-1)	0.50	0.53	0.62	0.14	0.73
(-1,1)	0.49	0.42	0.90	0.35	0.31
(1,20)	1.50***	0.78	2.01**	1.69**	1.52***
N	382				

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

is the highest among the dividend change magnitude groups. For the income-decrease group, the buy-and-hold abnormal return is positive and significant in the post-dividend announcements windows except in Group 1 which has the lowest magnitude of dividend change. The evidence on stock market reactions across the various magnitudes of dividend increase and between income-increase and income-decrease groups indicate that the stock market treated dividend increase announcements as good news and responded positively to the announcements.

Comparatively, the buy-and-hold abnormal return earned surrounding the event windows is not much different when compared to the evidence found in the developed markets. The abnormal returns earned on the dividend increase announcement in the other markets are about 1.34 per cent in the US (Grullon *et al.* 2002), 1.42 per cent in the UK (Lonie *et al.* 1996) and about 0.85 per cent in Japan (Fukuda 2000). These results indicate that the stock market reacts positively to announcements of dividend increases in Bursa Malaysia, as in the case of evidence from other markets.

Table 2 presents the buy-and-hold abnormal return in different event windows for dividend decrease observations. The result shows that the signs on the magnitude of dividend decrease announcements across all groups in the immediate event windows surrounding the announcements are negative as predicted. However, the results are not statistically significant. There is insufficient data to reject the hypothesis that the buy- and-hold abnormal return is not equal to 0 in the 3-day period surrounding the announcements. In Group 3 on the entire observations on dividend decrease announcements, the buy-and-

Table 2. The buy-and-hold abnormal returns (%) for dividend decrease firms in different event windows

Event windows	Entire observations	Groups ranked by the magnitude of dividend decrease change			
		1 (Low)	2	3	4 (High)
(-20,-1)	0.13	0.63	0.25	1.21*	-1.56**
(-1,1)	-0.34	-0.22	-0.14	-0.25	-0.74
(1,20)	0.44	-0.34	0.57	0.86	0.69
N	376				
Income-increase group					
(-20,-1)	0.29	0.58	-0.23	1.52	-0.70
(-1,1)	-0.51	0.01	-0.60	-0.31	-1.13
(1,20)	0.89*	0.48	0.76	0.93	1.38
N	169				
Income-decrease group					
(-20,-1)	0.01	0.23	0.75	0.33	-1.31
(-1,1)	-0.19	0.23	-0.22	-0.03	-0.77
(1,20)	0.08	-1.11	0.59	0.74	0.12
N	207				

** Significant at 5% level, * Significant at 10% level

hold abnormal return is positive at 1.21per cent and significant. Further investigation to find the source of the positive reaction prior to the dividend decrease announcements revealed that the positive buy-and-hold prior to the announcements belong to the income increase group.

The buy-and-hold abnormal return for the income-increase group is 1.52 per cent, while the income-decrease group is 0.33 per cent. However, the data are not sufficient to reject the hypothesis that the buy-and-hold abnormal return in the immediate event window is not equal to 0. The evidence on the income-increase group also reveals that the post-announcements buy-and-hold abnormal return subsequent to the announcement is a positive 0.89 per cent and significant. One possible explanation for this scenario is that investors place more emphasis on income increase than the negative aspect of dividend decrease announcements. Thus, there is a possibility that investors treat the dividend decrease announcement from the income-increase group due to the reason that the firms may want to conserve cash for future projects.

For observations in Group 4 for the entire dividend decrease observations, the prior announcements buy-and-hold abnormal return is -1.56 per cent and significant. This evidence suggests that investors have the ability to identify those firms that may reduce their dividend level significantly. This is surprising as listed firms in Malaysia are required to submit quarterly financial reports and these reports are available on the Bursa Malaysia website. The evidence suggests that investors anticipate which firms may reduce the dividend level significantly and react negatively prior to the announcements. When the dividend decrease

Table 3. The buy-and-hold abnormal returns (%) for dividend increase government-linked companies (GLCs) in different event windows

Event windows	Entire observations	Groups ranked by the magnitude of dividend increase change for GLC			
		1 (Low)	2	3	4 (High)
(-20,-1)	0.43	-0.10	-1.40	1.10	2.10
(-1,1)	0.96	1.29	0.48	0.82	1.25
(1,20)	1.37**	2.01	-0.48	2.20	1.74
N	100				
Income-increase group					
(-20,-1)	-0.97	-2.15	-2.64	-0.15	1.05
(-1,1)	1.05	1.65	0.93	1.21	0.42
(1,20)	1.31	2.43	-0.73	3.86*	-0.31
N	56				
Income-decrease group					
(-20,-1)	2.21*	2.24	0.55	2.98	3.07
(-1,1)	0.84	1.00	-0.21	-0.15	2.72
(1,20)	1.43	0.70	0.72	0.10	4.21*
N	44				

**Significant at 5% level, * Significant at 10% level

is announced, there is no element of surprise as the level of dividend reduction is anticipated.

To investigate further, the sample was separated into GLC and non GLC subsamples. As mentioned earlier, GLCs are only involved in strategic businesses and are inherently monopolistic. Furthermore, GLCs are high-growth companies. The stock market reaction to dividend change announcements may indicate whether the market treats the announcements of GLCs differently compared to the non GLCs.

Table 3 presents the buy-and-hold abnormal return of the GLCs firm in the different event windows surrounding the dividend increase announcements and in the magnitude of dividend change group. The immediate event windows have a positive sign but are not significant. For the entire period, the buy-and-hold abnormal return is positive 1.37 per cent. When the dividend increase was controlled for magnitude of dividend changes, the buy-and-hold abnormal return was not significant in all event windows and in all dividend magnitude changes groups. For the income-increase group, the buy-and- hold abnormal return was positive and statistically significant in the post announcement period in Group 3 while for the income-decrease group, the prior announcement buy-and- hold abnormal return was positive and significant. The highest dividend increase change yielded a positive buy-and-hold abnormal return in the post-announcement period, as shown in Group 4.

Table 4 shows the buy-and-hold abnormal return for the dividend decrease GLCs. For the entire observations, the buy-and-hold abnormal return prior to the announcements and in the highest magnitude of dividend decrease is -5.62 per cent and significant. The evidence suggests that the stock market seems to anticipate the severity of dividend decrease level

Table 4. The buy-and-hold abnormal returns (%) for dividend decrease government-linked companies (GLCs) in different event windows

Event windows	Entire observations	Groups ranked by the magnitude of dividend decrease change for GLC			
		1 (Low)	2	3	4 (High)
(-20,-1)	-0.91	2.57	3.61	-3.74	-5.62**
(-1,1)	-0.13	-0.16	-0.44	0.11	-0.03
(1,20)	1.45	2.16	0.87	-0.29	2.91
N	41				
Income increase group					
(-20,-1)	0.66	1.93	2.12	0.64	-2.06
(-1,1)	-0.01	-0.87	-0.67	-0.14	1.65
(1,20)	3.62**	4.99	3.46	1.78	4.24
N	20				
Income decrease group					
(-20,-1)	-2.41	3.21	5.11	-8.12**	-8.58**
(-1,1)	-0.24	0.55	-0.21	0.35	-1.43
(1,20)	-0.61	-0.66	-1.72	-2.35	1.81
N	21				

**Significant at 5% level

prior to the announcements for the GLCs. The evidence for the two largest dividend decrease magnitudes belonging to the income-decrease group further supports these results. This evidence shows some support that the market treated severe dividend decrease announcements negatively. They reacted negatively ahead of the release of the dividend decrease news. However, the post-announcement buy-and-hold abnormal return in the income-increase group is 3.62 per cent and significant. This evidence may suggest that investors do not punish the firms that decrease their dividend due to the reason that these firms may want to conserve cash for future projects.

Table 5 shows that for the non GLCs, the buy-and-hold abnormal return is positive and significant in the immediate announcements windows and in the longer period subsequent to the announcements. In the magnitude of dividend change groups, the buy-and-hold abnormal returns are significant in all the 20-day post-announcement period. The evidence found supports the notion that stock markets treat dividend increase announcements as good news and react positively to the announcements. For Group 1 of the income-increase group which has the lowest magnitude of dividend increase, the buy- and-hold abnormal return is negative and significant prior to the announcements. The evidence suggests that investors may not favour the lower magnitude of dividend increase initially. However, the buy-and-hold abnormal return continued to increase in the post- announcement period. The overall conclusion from this dividend increase in the non GLCs group is that the post-announcement return is positive and significant in most of the groups.

Table 6 shows that for the entire observations, the buy-and-hold abnormal return is

Table 5. The buy-and-hold abnormal returns (%) for dividend increase non GLCs in different event windows

Event windows	Entire observations	Groups ranked by the magnitude of dividend increase change for non GLCsfor non GLC			
		1 (Low)	2	3	4 (Low)
(-20,-1)	0.06	-0.83	1.11	0.33	-0.38
(-1,1)	0.48*	0.44	0.93	0.34	0.20
(1,20)	1.51***	1.27***	1.84***	1.64***	1.27**
N	753				
Income increase group					
(-20,-1)	-0.12	-1.57**	0.60	1.27*	-0.80
(-1,1)	0.51	0.54	0.75	0.51	0.23
(1,20)	1.50***	1.68**	1.79**	1.11	1.44*
N	415				
Income decrease group					
(-20,-1)	0.28	0.02	0.93	-0.18	0.37
(-1,1)	0.45	0.30	1.08	0.27	0.13
(1,20)	1.51***	0.77	2.20***	1.77**	1.30
N	338				

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

Table 6. The buy-and-hold abnormal returns (%) for dividend decrease non GLCs in different event windows

Event windows	Entire observations	Groups ranked by magnitude of dividend decrease change for non-GLC			
		1 (Low)	2	3	4 (High)
(-20,-1)	0.26	0.48	-0.06	1.54*	-0.95
(-1,1)	-0.36	-0.24	-0.11	-0.29	-0.82
(1,20)	0.32	-0.63	0.64	0.83	0.45
N	335				
Income increase group					
(-20,-1)	0.24	0.40	-0.60	1.69	-0.52
(-1,1)	-0.58	0.13	-0.65	-0.34	-1.43
(1,20)	0.52	-0.13	0.34	0.67	1.19
N	149				
Income decrease group					
(-20,-1)	0.28	-0.31	0.56	1.66	-0.74
(-1,1)	-0.19	0.18	-0.26	-0.11	-0.55
(1,20)	0.16	-1.42	1.34	0.86	-0.13
N	186				

* Significant at 10% level

positive and significant prior to the dividend decrease announcements in Group 3. The evidence suggests that investors appear to ignore the potential dividend decrease announcements initially but react negatively when the announcement is made. However, the buy-and-hold abnormal return in the immediate event windows is not significant, although it has the expected sign.

5. Conclusions

The results in this paper indicate that, consistent with studies on other markets, the dividend increase announcement is greeted positively by the stock market. The evidence suggests that the positive reaction is across different magnitudes of dividend increase change and across income change groups. There is also evidence that investors do not favour a small magnitude of dividend increase. However, the post-announcement return shows that investors treat dividend increase announcements as good news and react positively to the announcements.

Thus the findings support the dividend signaling hypothesis developed by Bhattacharya (1979), Miller and Rock (1985) and John and Williams (1985) suggesting that firms change their dividend payout to signal future performance. In addition, according to the agency problem perspective, when the management increases dividends, it reduces the possibility of the management misusing the firm's free cash flow. Empirical evidence strongly supports this argument and thus, confirms the theory.

For the dividend decrease announcements, the immediate buy-and-hold abnormal returns have the negative sign but is not statistically significant. The data is not sufficient to support the hypothesis that the buy-and-hold abnormal return for the dividend decrease is not equal to 0. However, there is some evidence indicating that investors react negatively prior to the announcements, as evidenced by the highest magnitude of dividend decrease change for the entire observation of dividend decrease group and the GLCs group.

One possible reason for lack of response to dividend decrease announcements in the immediate event windows is that investors in Malaysia anticipate that firms may decrease their dividend significantly. The share price is negative prior to the announcements and this evidence indicates that investors react negatively before the dividend decrease is announced.

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