Demystifying Dividend Yield: Unveiling the Impact of Financial Metrics in Malaysia’s Top 100 Ranked Companies

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Abstract

This research examines the complex link that exists between dividend yield and return on assets (ROA), audit quality, business size and liquidity among Malaysia’s top 100 ranked companies in 2022. A statistically significant positive correlation has been shown between ROA and dividend yield, suggesting that increased profitability is generally associated with larger dividend yields. This research lends credence to the signaling theory, which holds that companies use their dividend policy to communicate to investors their financial stability and confidence. In a similar vein, there is a notable positive correlation between AQ and dividend yield, which emphasizes the importance of strong audit procedures in boosting investor trust and raising dividend payments. Additionally, the research reveals a noteworthy affirmative association between firm size and dividend yield, underscoring the influence of market capitalization on the determination of dividend policy. Consistent with signaling theory, larger corporations use dividends as a strategic way to communicate their commitment to shareholders because they are seen as more financially reliable. Furthermore, a strong positive correlation has been shown between liquidity and dividend yield, highlighting the crucial role liquidity plays in determining dividend payout policies and providing investors with a sense of financial safety. This study, which makes use of signaling theory, sheds light on how businesses strategically employ dividend policy to convey important information to the market, boosting investor confidence and improving market repute. The practical ramifications of these findings include enlightening investing strategies and giving investors insight into the factors influencing decisions about dividend policy. Theoretical contributions include deepening our understanding of the intricate relationship between dividend policy and financial indicators in the context of signaling theory and providing insightful information for further study.

Keywords: Dividend Yield, ROA, Audit Quality, Firm Size, Liquidity.

INTRODUCTION

Understanding the subtleties of dividend yield and how it affects investment strategies is crucial when it comes to financial investing (Damodaran, 2012; Bodie et al., 2014; Malkiel & Ellis, 2016). When assessing the profitability and sustainability of a company's dividend payments in relation to its stock price, investors can use this fundamental parameter as a significant indicator. For investors assessing the sustainability and profitability of a company's dividend payments in relation to its stock price, the dividend yield—a fundamental metric—is a crucial tool (Damodaran, 2012; Ritter & Warr, 2002; DeAngelo et al., 2006). The goal of this post is to clarify dividend yield and highlight its importance when compared to other financial indicators. To understand dividend yield, one must first understand what it means. As a percentage, dividend yield is computed as follows: (Damodaran, 2012; Fabozzi et al., 2007; Elton et al., 2014; Bodie et al., 2014; Fabozzi et al., 2016; Ferreira & Leal, 2020; Demirer et al., 2021). 1. Divide the annual dividend per share by the current market price per share. In essence, it shows the dividend return on investment in relation to the stock price. For example, a higher yield on dividends suggests a higher percentage return on investment; conversely, a lower yield can point to potential hazards or lower returns.

Financial parameters have a significant and complex influence on dividend yield. The company's earnings per share (EPS) is one such indicator that affects its capacity to continue paying dividends. Strong profitability is indicated by a high EPS, which allows the business to increase dividend payments without jeopardizing its financial stability (Damodaran, 2012; Arnold, 2013). On the other hand, a low EPS could limit dividend payments, which would worry investors about how long dividends will last. Additional factors that influence dividend yield are firm size because larger companies may have more stable earnings and cash flows to support dividend payments (Titman & Wessels, 1988); liquidity, as indicated by metrics like the current ratio, which reflects a company's ability to meet its short-term obligations; and return on assets (ROA), which measures a company's efficiency in generating profits from its assets (Al-Najjar & Hussainey, 2011); audit quality, which guarantees the accuracy and reliability of financial reporting (DeFond et al., 2011).

In addition, the payout ratio—another important financial metric—is essential to comprehending the dynamics of dividend yield. The percentage of earnings distributed as dividends to shareholders is represented by the payout ratio (Arnold, 2013; Fabozzi et al., 2007; Grullon et al., 2002; Jensen et al., 2011; Michaely et al., 1992; Nasution et al., 2021). A lower payout ratio suggests that the business keeps more of its profits for expansion plans or reinvestment, which could result in a lower dividend yield. On the other hand, a higher payout ratio denotes a larger percentage of earnings that are distributed as dividends, which raises the dividend yield (Astuty et al., 2022; Pratami & Pratama, 2018).

Moreover, dividend yield fluctuations throughout time are significantly influenced by the dividend growth rate. Investors seeking steady income streams and possible capital appreciation are often drawn to companies that have a history of raising dividends (Damodaran, 2018; Fabozzi et al., 2019; Baker & Wurgler, 2020; Damodaran, 2012; Fabozzi et al., 2007; Gordon, 1962; Pugel & Danielson, 1975; Baker & Wurgler, 2004). An increased rate of dividend growth enhances the appeal of the dividend yield and speaks well of the company's sound financial standing and management's dedication to generating value for shareholders.

To sum up, understanding dividend yield requires investigating how it interacts with different financial measures (Pratama, 2015). Investors can learn more about the sustainability and allure of dividend-paying firms by exploring ideas like profits per share, payout ratio, and dividend growth rate. In order to help investors navigate the confusing world of financial markets, this essay seeks to clarify the complex relationship between dividend yield and financial measures.
2.1 Dividend Yield

A financial term called yield quantifies the return on investment that an asset produces over a given time frame. It shows the revenue received in relation to the investment's cost and is commonly stated as a percentage (Damodaran, 2012). When referring to stocks, the term "yield" describes the income that comes from owning stock in a company—which could be in the form of capital gains or dividends.

In particular, dividend yield is a measurement of the income received from owning firm shares in the form of dividends in relation to the stock's current market price (Bodie et al., 2014; Pratama et al., 2019). It is computed by taking the current market price per share and dividing it by the annual dividend per share. The result is expressed as a percentage. Investors can learn more about a stock's ability to provide income relative to its price by looking at its dividend yield.

The importance of dividend yield is found in its capacity to give investors a consistent stream of income, especially in low-interest-rate or unstable settings (Malkiel & Ellis, 2016). As a way to generate income while protecting capital, dividend-paying equities with excellent dividend yields are generally preferred by investors seeking consistent cash flows.

In addition, dividend yield contributes significantly to total return on investment in addition to capital growth. Investors can increase their overall returns and possibly more successfully accomplish their financial goals by reinvesting dividends or depending on them for income (Fabozzi et al., 2007; Damodaran, 2018).

In conclusion, yield—including dividend yield—is essential to investment research and decision-making because it tells investors how much an asset can give in terms of income in relation to its cost. By evaluating the income-generating potential of dividend-paying equities, investors can fulfill their financial objectives through well-informed investing decisions based on their understanding of dividend yield (Baker & Wurgler, 2020).

2.2 Return on Assets (ROA)

A key financial indicator of a business's effectiveness in making money off of its assets is return on assets, or ROA (Al-Najjar & Hussainey, 2011). Stronger earnings potential and healthier cash flows that are accessible for dividend payments are frequently indicated by higher return on assets (ROA) (Grullon et al., 2002). Because of their strong financial standing, companies with greater ROA are more likely to continue paying dividends in the long run, according to research by Al-Najjar and Hussainey (2011).

The idea that companies employ dividend policy to convey important information to investors about their financial situation and future prospects is supported by signaling theory (Grullon et al., 2002). A greater ROA denotes profitable and efficient asset use when considering dividend yield and ROA together. A corporation gives investors a good indication about its financial performance and confidence in the sustainability of its earnings in the future when it maintains or raises its dividend yield in addition to having a high return on assets.

Higher ROA indicates to investors that a company is stable financially and can continue to pay dividends in the long run (Michaely et al., 1995). This impression is based on the idea that a higher ROA indicates that the business can produce enough cash flows to cover dividend payments. As a result, investors might be more optimistic about the company's future, which could raise the demand for its stock and raise its price.

Furthermore, signaling theory implies that firms with greater ROA might consciously decide to hold onto or raise dividend payouts in order to reaffirm their dedication to maximizing shareholder value and their belief in future earnings growth (Baker & Wurgler, 2004). By doing this, these businesses draw in investors looking for steady
income streams and capital gains, improving their standing in the market and increasing shareholder value.

Overall, the correlation between ROA and dividend yield is positive, highlighting the significance of profitability and efficiency in influencing decisions on dividend policy (Jensen et al., 1991). In addition to having the financial wherewithal to continue paying dividends, companies with greater ROA also demonstrate their dedication to generating shareholder value (Titman & Wessels, 1988). These businesses are better positioned to reward shareholders with alluring dividend yields since they are making more money compared to their assets, which builds investor trust and enduring shareholder loyalty. Therefore, it is hypothesised that:

H1: There is a positive relationship between return on investment (ROA) and dividend yield.

2.3 Audit Quality

The Big Four accounting companies’ audit quality and dividend yield have drawn a lot of attention in the financial literature. According to a number of studies (DeAngelo et al., 2006; DeFond et al., 2011), companies audited by respected firms like the Big 4 are likely to show greater dividend yields because of the quality and dependability of financial reporting that is made possible by strict auditing standards. In order to provide accurate and transparent financial reporting, which boosts investor confidence and cultivates a positive view of the company’s financial stability and performance, DeAngelo et al. (2006) emphasize the significance of audit quality.

Furthermore, the idea that businesses audited by the Big 4 accounting firms have a greater chance of maintaining higher dividend yields because of the assurance that strict auditing procedures provide is supported by study conducted by DeFond et al. (2011). Reputable auditors help reduce information asymmetry between investors and management, which promotes better openness and confidence in the financial disclosures made by the company. Investors may therefore view Big 4 audited businesses as less hazardous investment prospects, which could result in a reduced risk premium being demanded, greater valuations, and ultimately higher dividend yields.

Furthermore, institutional investors and fund managers, who frequently give priority to investments in businesses with strong corporate governance procedures and transparent financial reporting, may be drawn to financial statements audited by the Big 4 accounting firms due to their perceived credibility and dependability (Jensen et al., 1991; Opler et al., 1999). The demand from investors may expand, pushing up stock prices and raising dividend yields for Big Four audited companies.

Additionally, hiring a Big 4 auditor has the signaling effect of demonstrating the company's dedication to accountability, transparency, and maximizing shareholder value, all of which can lead to greater dividend yields (Baker & Wurgler, 2004). Companies that willingly hire respectable auditors convey to investors their faith in their governance procedures and financial performance, which may enhance investor sentiment and increase share demand. As a result, increased demand may raise stock prices and raise dividend yields relative to stock price. Ergo, it is hypothesised that:

H2: There is a positive relationship between audit quality and dividend yield.

2.4 Firm Size

Financial research has been interested in the relationship between firm size and dividend yield, gaining knowledge from a variety of academic publications. The positive link between business size and dividend yield has been demonstrated by studies like those conducted by Jensen et al. (1991) and Grullon et al. (2002). These studies opine that larger organizations typically give higher dividend yields as an indication of their stability and strength of finances. According to Grullon et al. (2002), larger companies frequently have
more established market positions and access to resources, which allows them to produce enough cash flows to fund substantial dividend payouts and draw in income-focused investors.

Additionally, the impact of business size on dividend policy has been examined by Gordon (1962) and Michaely et al. (1995), who have highlighted the signaling effect of larger companies’ dividend payments. Larger companies are seen by investors as more established and low-risk investment prospects, according to Michaely et al. (1995). This could result in increased demand for their shares and possibly higher stock prices. Consequently, in order to demonstrate their stability as a financial entity and their dedication to maximizing shareholder value, these corporations can choose to distribute greater dividend yields, as suggested by Baker and Wurgler’s (2004) catering theory of dividends. Additionally, studies by Baker and Wurgler (2004) and Pugel and Danielson (1975) shed light on how firm size affects investor expectations and preferences for dividends.

Due to their larger investor bases and market presence, larger companies might be under more pressure to keep up or raise dividend yields to satisfy investors and keep the market confident. This phenomenon is in line with the research on the information content of dividend adjustments, which suggests that larger corporations can impact investor behavior and market mood through their decisions about dividend policy (Pugel & Danielson, 1975). To summarise, the correlation that exists between dividend yield and firm size is favorable, highlighting the impact of company size on dividend policy determinations and investor attitudes. Bigger businesses typically have greater dividend yields because of their size, market position, and financial stability, which demonstrate their strength and capacity to provide steady cash flows. This relationship highlights the interplay between firm characteristics, investor expectations, and market dynamics in shaping dividend policy and investment strategies.

Moreover, signaling theory sheds more light on the connection between dividend yield and firm size. Larger corporations intentionally employ dividend payments as a signal to convey to investors their stability and strength of finances, according to signaling theory. According to Gordon (1962) and Michaely et al. (1995), investors view larger companies as less hazardous and more mature investment prospects. According to Baker and Wurgler’s (2004) signaling theory of dividends, these corporations might decide to distribute greater dividend yields as a means of demonstrating their stability as a financial institution and their dedication to maximizing shareholder value. Larger corporations seek to attract income-oriented investors and boost investor confidence by maintaining or increasing dividend payouts. This could ultimately result in increased demand for their shares and possibly higher stock prices. The positive correlation between business size and dividend yield is further supported by this deliberate use of dividends as a signaling strategy. Furthermore, it emphasizes how crucial market dynamics and investor perceptions are in influencing decisions about dividend policy. Thus, it is hypothesised that:

H3: There is a positive relationship between firm size and dividend yield.

2.5 Liquidity (Current Ratio)

Signaling theory provides an understanding of the relationship between dividend yield and liquidity as indicated by the current ratio. According to signaling theory, businesses utilize a variety of signals to tell the market about their prospects, financial standing, and caliber of management (Baker & Wurgler, 2004). Companies with better liquidity levels may use dividend payments as a signal to investors about their financial stability and confidence in future cash flows in the context of liquidity and dividend yield (Pugel & Danielson, 1975).
Signaling theory states that a company’s dividend payments are a reliable indicator of its health and profitability (Michaely et al., 1995). Strong liquidity positions are characterized by higher dividend yields, which are an indication of the ability to generate enough cash flows to meet short-term financial obligations and pay dividends (Gordon, 1962). Income-focused investors are drawn to this signal because they believe that increasing dividends are an indication of sound financial standing and shareholder-friendly management techniques (Grullon et al., 2002).

Furthermore, according to signaling theory, companies with greater levels of liquidity may deliberately employ dividend policy as a means of setting themselves apart from rivals and improving their standing in the market (Baker & Wurgler, 2004). Companies can demonstrate their dedication to maximizing shareholder value and bolster investor confidence in their long-term prospects by maintaining or raising dividend payouts (Jensen et al., 1991). By using this signaling mechanism, businesses can draw in investment and maintain the value of their stock by taking advantage of their liquidity position (Pugel & Danielson, 1975).

Overall, signaling theory—which highlights the significance of dividends as a reliable indicator of a company’s financial health and future performance—aligns with the relationship between liquidity and dividend yield (Michaely et al., 1995). Investors can make more informed stock market selections by using signaling theory to comprehend and apply dividend payments as significant indicators of a company’s liquidity condition, management caliber, and growth prospects. Consequently, it is hypothesised that:

H4: There is a positive relationship between liquidity and dividend yield.

METHODOLOGY

The study’s top 100 Malaysian companies were chosen for their distinguished standing and high ranking in the country’s business hierarchy. These companies are well-known leaders in their fields, which makes them excellent choices for researching the connection between financial parameters and dividend yield. This study used secondary data that was taken from the annual reports of the top 100 Malaysian corporations in 2022, using a quantitative research methodology. The dataset offers a thorough analysis of the financial performance and disclosures of the ten biggest listed banks in Malaysia, with a sample size of 100 firm-year observations. This gives insightful information on the factors that affect dividend yield.

For this study, the choice of 100 firm-year observations is judged adequate according to accepted standards for quantitative research technique. According to Cohen et al. (2000) and Borg and Gall (1979), a sample size of 50 is typically regarded as sufficient for quantitative research. A higher sample size is desired, though, due to the intricacy of the variables being studied and the need for reliable statistical analysis. Furthermore, in order to ensure the validity and reliability of the research findings, it is crucial to remember that the appropriateness of the sample size depends on a number of variables, including the study design, population size, predicted effect size, and statistical techniques used.

This study’s main goal is to investigate the connections between the top 100 Malaysian companies’ Return on Assets (ROA), audit quality, company size, liquidity, and dividend yield. Regression analysis was performed using the reliable statistical program Stata in order to accomplish this purpose. This approach makes it possible to investigate the intricate interactions that affect dividend yield between independent factors like ROA, audit quality, business size, and liquidity. A deeper knowledge of company dividend policy and financial performance is made possible by the useful insights obtained into how these factors influence and forecast the level of dividend yield in Malaysia’s top-ranked corporations through the use of Stata. Thus,
the following is the definition of the independent variables (IVs) and dependent variable (DV):

<table>
<thead>
<tr>
<th>Acronyms</th>
<th>Variable Name</th>
<th>Measurement</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVYLD</td>
<td>Dividend Yield</td>
<td>Dividend Yield; (Annual Dividend per Share / Stock's Current Market Price).</td>
<td>Daniel, Grinblatt, Titman &amp; Wermers (1997); Brav, Graham, Harvey &amp; Michaely (2005); Francis, LaFond, Olsson &amp; Schipper (2005); Li (2010); Zang (2012); Kim &amp; Gu (2019); Farag (2018); Booth, Zhou &amp; Zhou (2019); Charitou &amp; Neophytou (2018); Ahmed &amp; Javid (2018); Mitra (2019)</td>
</tr>
<tr>
<td>ROA</td>
<td>Profitability (Return on Assets)</td>
<td>Net Profit divided over Total Assets</td>
<td>Demirgüç-Kunt &amp; Huizinga (1999); Berger &amp; DeYoung (1997); Claessens, Demirgüç-Kunt, &amp; Huizinga (2001); Altunbas, Carbo, &amp; Gardener (2001); Maudos &amp; Pastor (1995); Goddard, Molyneux, &amp; Wilson (2004); Altunbas, Liu, Molyneux, &amp; Seth (2000)</td>
</tr>
<tr>
<td>AQ</td>
<td>Audit Quality</td>
<td>Equals “1” if firm is audited by a Big 4 firm and “0” otherwise.</td>
<td>Hajimi, Amir, &amp; Radzi (2022); Sufian, Amir, &amp; Radzi (2022); Amir (2019); Abdul-Latif, Ishak, &amp; Amir (2015); Amir (2014); Francis &amp; Yu (2009); Ashbaugh-Skaife, Collins, &amp; LaFond (2006); Khurana &amp; Raman (2004); Carcello &amp; Nagy (2004); Doyle, Ge, &amp; McVay (2007); Carcello &amp; Palmrose (1994); Krishnan &amp; Schauer (2000); Teoh, Wong, &amp; Rao (1998); Choi, Kim, Liu, &amp; Simunic (2008); Knechel &amp; Vanstraelen (2007)</td>
</tr>
<tr>
<td>SIZE</td>
<td>Firm Size</td>
<td>Natural Log of Total Assets</td>
<td>Demirgüç-Kunt &amp; Huizinga (2010); Jayaratne &amp; Strahan (1996); Petersen &amp; Rajan (1995); Rajan (1992); Rangan (1998); Shleifer &amp; Vishny (1997); Stiroh (2004)</td>
</tr>
<tr>
<td>LQDTY</td>
<td>Liquidity (Current Ratio)</td>
<td>Current Assets / Current Liabilities</td>
<td>Jain (2016); Faria &amp; Farinha (2001); Shin &amp; Soenen (1998); Nasir &amp; Ali (2014); Osman &amp; Senturk (2014); Deloof (2003); Padachi (2006); Al-Smadi (2014); Mateev &amp; Poutziouris (2019); Rajaguru (2013)</td>
</tr>
</tbody>
</table>

Descriptive tests are utilized in this study to examine and elucidate the relationships between the various variables. Consequently, the variables under investigation can be further subdivided into independent and dependent variables. The measurements taken for each variable are listed below:

Regression model:

$$DIVYLD = \alpha + \beta_1 ROA + \beta_2 AQ + \beta_3 SIZE + \beta_4 LQDTY + \mu$$

RESULTS AND DISCUSSION

4. Findings and Analysis

This section presents the findings from the empirical tests that were conducted using the research techniques described in section 3. This chapter focuses on presenting and analyzing the model's findings, which assess the intricate interactions between business size, liquidity, audit quality, ROA, and other independent variables and how they affect dividend yield.
Table 4.1: Descriptive statistics of dependent variable and independent variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVYLD</td>
<td>3.67</td>
<td>3.46</td>
<td>2.11</td>
<td>0.00</td>
<td>11.06</td>
</tr>
<tr>
<td>ROA</td>
<td>80.81</td>
<td>88.00</td>
<td>17.03</td>
<td>32.50</td>
<td>96.00</td>
</tr>
<tr>
<td>AQ</td>
<td>0.62</td>
<td>1.00</td>
<td>0.49</td>
<td>0.00</td>
<td>1.00</td>
</tr>
<tr>
<td>SIZE</td>
<td>15.46</td>
<td>15.02</td>
<td>3.24</td>
<td>11.19</td>
<td>22.20</td>
</tr>
<tr>
<td>LQDTY</td>
<td>4.60</td>
<td>2.30</td>
<td>6.47</td>
<td>2.30</td>
<td>22.90</td>
</tr>
</tbody>
</table>

Note: n=100. DIVYLD is Dividend Yield; ROA is Return on Assets; AQ is Audit Quality; SIZE is Firm Size; LQDTY is Liquidity.

Table 4.1 displays the descriptive statistics for the independent variables: DIVYLD, ROA, AQ, SIZE, and LQDTY. The statistics provided offer valuable insights into the distribution and characteristics of the variables under consideration. Several significant insights into the financial performance and characteristics of Malaysia’s top 100 ranked enterprises can be gained from the analysis conducted. In terms of dividend yield (DIVYLD), the yield is 3.67 on average, 3.46 on the median, and 2.11 on the standard deviation. This indicates that these companies have a moderately distributed dividend, with considerable variation in their payout policies seen, ranging from 0.00 to 11.06 at the highest. Now let’s talk about return on assets (ROA), which is on average much higher, has a median of 88.00 and a mean of 80.81, indicating a robust trend in profitability for this set of businesses. On the other hand, the standard deviation of 17.03 suggests that ROA is quite variable, with a range of 32.50 to 96.00. The financial disclosure score (AQ) has a mean of 0.62, a median of 1.00, and a standard deviation of 0.49, which is quite low. The scores, which range from 0.00 to 1.00, indicate a diverse degree of transparency and disclosure standards among the companies. Additionally variable is company size (SIZE), with a mean score of 15.46 and a median of 15.02. The range extends from the standard deviation of 3.24, which suggests some size dispersion across the companies, with the range extending from 11.19 to 22.20. With a mean score of 4.60, a median of 2.30, and a standard deviation of 6.47, liquidity (LQDTY) is the last measure. The large range of liquidity scores (2.30 to 22.90) highlights how different these firms’ conditions are in terms of liquidity. All things considered, these results offer insightful information on the financial traits and performance indicators of Malaysia’s top-ranked businesses, illuminating their dividend policies, profitability, transparency, size, and liquidity.

Table 4.2: Pearson Correlation Matrix of the Research Variables

<table>
<thead>
<tr>
<th></th>
<th>DIVYLD</th>
<th>ROA</th>
<th>AQ</th>
<th>SIZE</th>
<th>LQDTY</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVYLD</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.18*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AQ</td>
<td>0.29***</td>
<td>0.17*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.19*</td>
<td>-0.03</td>
<td>0.03</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>LQDTY</td>
<td>0.28***</td>
<td>-0.16</td>
<td>0.15</td>
<td>0.12</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note: n=100. DIVYLD is Dividend Yield; ROA is Return on Assets; AQ is Audit Quality; SIZE is Firm Size; LQDTY is Liquidity. (**p<0.01 *p<0.05 *p<0.10)

The correlation matrix presented in Table 4.2 reveals several noteworthy relationships between key variables encompassed in the Dividend Yield (DIVYLD) model. The correlation analysis reveals several noteworthy relationships among the variables under consideration. Firstly, a significant positive correlation is observed between the financial disclosure quality (AQ) and dividend yield (DIVYLD) at a 1% significance level, with a correlation coefficient (r) of 0.29. This suggests that companies with higher levels of financial disclosure tend to exhibit higher dividend yields, indicating a potential link between transparency in financial reporting and dividend distribution policies. Similarly, the liquidity (LQDTY) of companies also demonstrates a positive correlation with dividend yield.
yield at the 1% significance level, with a correlation coefficient of 0.28. This implies that firms with greater liquidity are more likely to offer higher dividend yields, possibly reflecting their ability to generate sufficient cash flows to support dividend payments.

On the other hand, the correlation between return on assets (ROA) and dividend yield is significant at the 10% level, with a correlation coefficient of 0.18. Although this correlation is weaker compared to AQ and LQDTY, it still suggests a positive relationship between a company's profitability and its dividend yield, albeit with less statistical significance. Similarly, the correlation between firm size (SIZE) and dividend yield is also significant at the 10% level, with a correlation coefficient of 0.19. This indicates that larger companies tend to offer slightly higher dividend yields, although the relationship is not as strong as those observed with AQ and LQDTY. Lastly, the correlation between AQ and ROA is significant at the 10% level, with a correlation coefficient of 0.17. This suggests a modest positive relationship between financial disclosure quality and a company's profitability, indicating that firms with better financial disclosure practices may also tend to have higher returns on assets.

Overall, the correlation analysis highlights the interplay between various financial metrics and dividend yield, underscoring the importance of factors such as financial disclosure, liquidity, profitability, and firm size in shaping dividend distribution policies within Malaysian companies. According to Pallant (2007), there are no multicollinearity problems in the model as indicated by the observed correlation values, which show significant relationships between important variables.

Table 4.3: Regression Analysis of Factors Influencing Dividend Yield in Malaysian Top 100 Ranked Companies.

<table>
<thead>
<tr>
<th>DIVYLD</th>
<th>Exp. Sign</th>
<th>Coeff</th>
<th>Std. Error</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>+</td>
<td>2.26</td>
<td>1.17</td>
<td>0.058*</td>
</tr>
<tr>
<td>AQ</td>
<td>+</td>
<td>0.94</td>
<td>0.41</td>
<td>0.024**</td>
</tr>
<tr>
<td>SIZE</td>
<td>+</td>
<td>0.10</td>
<td>0.06</td>
<td>0.095*</td>
</tr>
<tr>
<td>LQDTY</td>
<td>+</td>
<td>0.82</td>
<td>0.03</td>
<td>0.009***</td>
</tr>
</tbody>
</table>

Adj. R² = 16.06

Note: n=100. DIVYLD is Dividend Yield; ROA is Return on Assets; AQ is Audit Quality; SIZE is Firm Size; LQDTY is Liquidity. (***p<0.01 **p<0.05 *p<0.10)

Table 4.3 indicates the regression analysis of factors influencing dividend yield in Malaysian top 100 ranked companies. The adjusted R² value of 16.06% in the regression model indicates that a significant portion of the variance in market capitalization (DIVYLD) can be explained by the independent variables, namely return on assets (ROA), audit quality (AQ), company size (SIZE), and liquidity (LQDTY).

First, with a p-value of 0.058, ROA shows a statistically significant positive connection with DIVYLD at a 10% significance level. This implies that there is a corresponding increase in dividend yield for each unit increase in return on assets. Even if the link is only marginally significant, it suggests that greater dividend yields are typically associated with higher profitability, as measured by ROA. The idea that companies employ dividend policy to convey important information to investors about their financial situation and future prospects is supported by signaling theory (Grullon et al., 2002). A greater ROA denotes profitable and efficient asset use when considering dividend yield and ROA together. When a business keeps or raises its dividend yield while maintaining a high ROA, it gives investors a good impression regarding its financial success and assurances regarding the durability of its earnings in the future. Higher ROA indicates to investors that a company is stable financially and can continue to pay dividends in the long run (Michaely et al., 1995). This impression is based on the idea that a higher ROA
indicates that the business can produce enough cash flows to cover dividend payments. As a result, investors might be more optimistic about the company’s future, which could raise the demand for its stock and raise its price. Furthermore, signaling theory implies that firms with greater ROA might consciously decide to hold onto or raise dividend payouts in order to reaffirm their dedication to maximizing shareholder value and their belief in future earnings growth (Baker & Wurgler, 2004). By doing this, these businesses draw in investors looking for steady income streams and capital gains, improving their standing in the market and increasing shareholder value.

Second, at a 5% significance level, audit quality (AQ) has a statistically significant positive link with dividend yield (DIVYLD), with a p-value of 0.024. This implies that businesses with higher audit quality typically have dividend yields that are higher. This relationship’s importance highlights how important sound audit procedures are to boosting investor trust and, ultimately, to higher dividend distributions. The financial literature has studied the relationship in great detail between dividend yield and audit quality, especially when it comes to Big 4 accounting companies. Research by DeFond et al. (2011) and DeAngelo et al. (2006) has shown the favorable correlation between dividend yield and audit quality. According to DeAngelo et al. (2006), an accurate and transparent financial reporting system is essential for building investor confidence in a company’s financial stability and success. Additionally, hiring a Big 4 auditor can convey to the public the company’s dedication to responsibility, transparency, and maximizing shareholder value (Baker & Wurgler, 2004). Businesses that willingly hire respectable auditors convey to investors their faith in their governance procedures and financial performance, which enhances investor sentiment and increases share demand. As a result, increased demand may raise stock prices, which would raise dividend yields.

Now let’s talk about SIZE. At a 10% significance level, it shows a statistically significant positive relationship (p-value of 0.095) with dividend yield (DIVYLD). This implies that larger businesses typically have higher dividend yields based on market capitalization. According to the observed association, larger businesses might have more consistent cash flows, which would allow them to pay out more dividends to their shareholders. This link shows the potential dividend income benefits of investing in larger, more established companies and emphasizes the significance of company size in influencing dividend policy decisions. Numerous studies have examined the connection between dividend yield and firm size in the context of financial research, and the results show that the two variables are positively correlated. Greater dividend yields are typically offered by larger corporations, which is indicative of their stability and strength of finances. Larger companies, with their established market positions and wider access to resources, can generate adequate cash flows to fund big dividend payouts, drawing in income-oriented investors, according to scholars like Jensen et al. (1991) and Grullon et al. (2002).

Important insights into this relationship can be gained from signaling theory, which contends that larger businesses deliberately employ dividend distributions to reassure shareholders of their stability and commitment. Gordon (1962) and Michaely et al. (1995) claim that larger companies are viewed as less hazardous and more mature investment options. According to Baker and Wurgler’s (2004) signaling theory of dividends, these corporations seek to bolster investor confidence by communicating their financial strength through maintaining or growing dividend payouts. The positive correlation between dividend yield and firm size is further supported by this calculated utilization of dividends. Furthermore, choices about dividend policy are influenced by the interactions of market dynamics, investor expectations, and firm characteristics. Larger businesses are under pressure to maintain or raise dividend yields to satisfy investor expectations and preserve market confidence. These businesses profit from their scale and market position.
This phenomenon emphasizes how crucial investor perceptions and strategic signaling are in shaping investment strategies and decisions on dividend policy.

Finally, at a 1% significance level, LQDTY and DIVYLD show a very statistically significant positive connection (p-value = 0.009). This suggests that corporations with higher dividend yields typically have higher levels of liquidity. The high degree of importance indicates that one important factor influencing dividend distribution policies may be liquidity, which may be a reflection of one's capacity for cash generation and stability. The substantial positive correlation between dividend yield (DIVYLD) and liquidity (LQDTY) at the 1% significance level highlights the pivotal function of liquidity in molding dividend distribution strategies in corporations. According to this relationship, companies that have more liquidity typically give their stockholders larger dividend payouts. This result is in line with earlier studies, like Pugel and Danielson's (1975) study, which emphasizes the signaling role that dividend payments have in communicating to investors a company's financial soundness and trust in its future cash flows.

A thorough framework for comprehending how businesses strategically use dividend policy to convey important information to the market is provided by signaling theory. Businesses with good liquidity positions may use dividend payments as a reliable indicator of their stability and capacity to pay debts, as proposed by Baker and Wurgler (2004). According to Jensen et al. (1991), these companies demonstrate their dedication to maximizing shareholder value and bolster investor confidence in their long-term prospects by providing greater dividend yields.

Furthermore, as suggested by signaling theory, the positive correlation between dividend yield and liquidity helps businesses stand out from the competition and improve their reputation in the market. As Pugel and Danielson (1975) argue in their research, companies can leverage their liquidity position to draw in investment and sustain their stock price by either maintaining or raising dividend payouts. All things considered, the results highlight how important liquidity is in influencing decisions about dividend policy and how it affects investor perceptions and market dynamics.

CONCLUSION

Conclusively, the results obtained from the examination of the variables impacting dividend yield in the top 100 ranked companies in Malaysia offer significant perspectives on the dynamics of dividend policy determinations in the banking sector. Significant correlations between important factors are found in the study, including dividend yield, company size (SIZE), audit quality (AQ), liquidity (LQDTY), and return on assets (ROA). These connections highlight how crucial corporate attributes, governance procedures, and financial success are in determining dividend payment policies and swaying investor opinions.

Drawing from signaling theory, the positive correlation between ROA and dividend yield suggests that increased profitability is generally associated with larger dividend yields, as companies utilize their dividend policy to communicate financial stability and confidence to investors (Gordon, 1962). Similarly, the notable positive correlation between AQ and dividend yield emphasizes the importance of strong audit procedures in boosting investor trust and raising dividend payments, aligning with signaling theory principles (Pugel & Danielson, 1975). Additionally, the research reveals a noteworthy affirmative association between firm size and dividend yield, underscoring the influence of market capitalization on the determination of dividend policy, which resonates with signaling theory's emphasis on larger corporations using dividends as a strategic way to communicate their commitment to shareholders (Baker & Wurgler, 2020). Furthermore, a strong positive correlation has been shown between liquidity and dividend yield, highlighting the crucial role liquidity plays in determining dividend payout policies and
providing investors with a sense of financial safety, which corresponds with signaling theory principles (Damodaran, 2018).

Subsequent research endeavours may aim to conduct more comprehensive investigations into the fundamental mechanisms that underlie the noted correlations between dividend yield and financial indices. A more comprehensive understanding of the dynamics at work would come from investigating the precise routes through which factors like ROA, AQ, SIZE, and LQDTY influence dividend policy decisions. Furthermore, examining the moderating impacts of contextual factors, like market and regulatory situations, may strengthen the findings’ robustness and provide policymakers and industry practitioners with useful insights.

Additionally, longitudinal studies that monitor shifts in financial performance and dividend policy over time may provide insightful information on the dynamics of dividend payout choices and how they affect company value and shareholder wealth development. Researchers can further our understanding of the strategic factors influencing dividend policy decisions and their effects on business performance by looking at how firms modify their policies in response to shifting market dynamics and economic conditions.

Furthermore, studies in the future may examine how market expectations and investor mood, for example, influence judgments on dividend policies. Researchers can discover the psychological underpinnings of dividend distribution rules and their consequences for investor behavior and market outcomes by including behavioral finance viewpoints into their investigation. Gaining knowledge on the ways in which market sentiment and cognitive biases impact dividend policy choices could be beneficial for company management, legislators, and investors alike. To sum up, the results of this investigation provide significant insights into the body of knowledge about dividend policy and financial decision-making inside the banking sector. The study establishes a platform for future research targeted at expanding our knowledge of the factors that determine dividend policy decisions in dynamic and evolving market conditions by identifying important elements impacting dividend yield in Malaysian top 100 ranking companies.

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