

## Wealth and Signalling Effects of Cash Dividends

L.V.L.N. SARMA\*  
KOK LEE KUIN\*\*

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### Abstract

The objective of the present study is to identify the wealth effect and signalling significance of cash dividend, viz., regular cash dividend and special dividend in the Malaysian corporate sector. This study convincingly conveys that regular cash dividend increase and special dividend generate significant wealth effect. Special dividend, surprisingly, turned out to be a more effective wealth creation tool as compared to regular dividend increase. In the matter of the signalling effect, regular cash dividend increase is found to possess very significant information about future, current as well as past earnings. Special dividend, could not demonstrate a significant signalling role in predicting future corporate earnings. Extending the explanation of empirical results on the signalling front to the process of generating investor confidence in reported corporate earnings amidst wide-spread 'earnings management' practices is unique to the present paper.

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### 1. Introduction

COMPANIES DISTRIBUTE DIVIDENDS to their shareholders for various reasons like desire to enable the shareholders meet their current consumption needs, desire to demonstrate their strength, to reduce uncertainty of rewards to shareholders, to curb extravagant spending by managers, to meet the goal of wealth maximization and so on. Companies follow different distribution methods like cash dividend (regular as well as special), stock dividend, and stock repurchases. The purpose of this paper is to assess the wealth effects and signalling significance of regular and special cash dividends in an emerging capital market viz., Malaysia.

Among the three earnings distribution methods mentioned above, cash dividend is the most common distribution method. There are two types of cash dividends, viz., regular dividend and special dividend. Regular cash

\* Professor in Finance Director-PhD & M.S. Programmes in Management Graduate School of Business University Tun Abdul Razak Kuala Lumpur, MALAYSIA.

\*\* Lecturer, Faculty of Management Multimedia University Cyberjaya, MALAYSIA.