A Comprehensive Review of Dividend Policy Determinants and Their Impact on Corporate Performance and Shareholder Wealth Across Emerging and Developed Markets

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ABSTRACT

This study explores the impact of dividend policy on corporate performance, shareholder wealth, and market valuation. It aims to understand dividend payment patterns, explore determinants of dividend payout, assess retained earnings' impact on profitability ratios and shareholder wealth, and evaluate dividend policy's influence on firm market value. Factors influencing dividend payout include profitability, company size, development prospects, liquidity, and taxation policies. Retained profits are crucial for reinvestment and long-term growth, and they significantly influence shareholder wealth by increasing equity value or financing strategic investments. The study also explores the influence of dividend policy on market valuation, highlighting the relevance of signalling and agency cost hypotheses. Dividend payments impact investor views, diminish uncertainty, and influence stock prices across sectors. The report highlights the need for further research on the long-term effects of dividend programs, identifying gaps in emerging economies and under-researched sectors. This review provides a foundation for improving financial strategies for improving corporate performance and maximizing shareholder value.

Keywords: Profitability, wealth, pay-outs, retained earnings.

Introduction

Dividend policy is a crucial aspect of financial research, affecting corporate decision-making, shareholders, investors, and market dynamics. It directly impacts profitability, shareholder value, and market price. Scholars have studied dividend policies across various industries and economies, revealing discrepancies driven by firm-specific characteristics, macroeconomic constraints, and ownership structure. Understanding these patterns is crucial for evaluating organizational performance and informing managerial decisions.

Distribution payout ratios are also important, influenced by variables like ownership structure, leverage, free cash flow, and agency expenses. These factors influence dividend decisions and reflect larger company governance norms. Retained earnings, an essential element of dividend policy, fund expansion and affect profitability indicators like return on equity and return on assets. The correlation between retained earnings and shareholder wealth is crucial, as it highlights the balance between immediate dividend payouts and long-term value enhancement through reinvestment.

The influence of dividend policy on the market value of corporations has generated considerable discussion, with theories suggesting dividend irrelevance in ideal market conditions. However, numerous gaps remain, such as focusing on specific industries or regions, restricted time frames,

and inadequate sample sizes. The relationship between dividend policy and firm performance warrants further investigation, especially in emerging markets with distinct economic dynamics. This review paper aims to provide valuable insights for academics, practitioners, and policymakers by synthesizing existing literature and identifying research gaps, thereby optimizing corporate financial strategies and enhancing shareholder value.

Review of literature

National Studies (13) concentrate on particular nations, such India, Pakistan, and Nigeria, highlighting local characteristics such as profitability, scale, and tax regulations.

International Studies (27) examine many markets, industries, and transnational trends, emphasizing global governance, diversification, and multi-sectoral effects. Their examination encompasses all facets of dividend policy, including its causes, effects on corporate performance and shareholder wealth, as well as its correlation with financial metrics such as profitability, leverage, and liquidity.

These studies examine dividend policies across various countries, industries, or global situations.

Table:1

S.No.	Year	Authors	Key Focus	Methods	Key Findings
1	1983	Asquith & Mullins Jr	Commencement of dividends and shareholder wealth	Regression	There exists a positive association between early dividends and excess returns.
2	2002	Reddy	Trends in Indian dividend payments	Regression, Paired t-test	Profitability, size, and tax regime significantly impact dividend behavior.
3	2003	Manos	Ownership structure and dividend payout ratios	Regression, Tobit model	Positive impact of institutional ownership on dividend payouts.
4	2008	Khan et al.	Dividend payout and shareholder wealth	Regression, t-test	Dividend policy significantly affects organic chemical firms' shareholder wealth.
5	2009	Kapoor	Determinants of dividend smoothing in Indian sectors	Regression	Negative relation between retained earnings and current capital structure.
6	2012	Uwuigbe et al.	Firm performance and dividend payout	Ordinary Least Squares (OLS)	Positive relation between firm performance and dividend payout ratio.
7	2013	Ji'ah & Pujiati	Dividend disparities in Jakarta Stock Exchange firms	Regression	Manipulation doesn't affect dividend ratios or market outcomes.
8	2014	Arslan et al.	Dividend yield and stock prices	Correlation	Size and P/E ratio positively affect stock prices; dividend yield has a negative impact.

9	2014	Chowdhury et al.	Free cash flow and signalling theory in China	Regression	Dividends signal good governance; cash dividends tied to profitability.
10	2015	Ojeme et al.	Dividend policy and shareholder wealth during crises	Empirical analysis	Dividend payments significantly affect shareholder wealth post-financial meltdown.
11	2015	Dada et al.	Dividend determinants in banking sector	Regression	Liquidity negatively, leverage positively impacts dividends.
12	2015	Kodongo et al.	Effects of leverage on financial results	Panel Regression	Leverage negatively impacts profitability but not firm value.
13	2015	Majanga	Dividend effects on stock price	Correlation Analysis	Dividends strongly influence stock prices in Malawi-listed firms.
14	2016	Labhane & Mahakud	Dividend policy determinants in Indian firms	Panel Data Analysis	Larger, profitable firms with lower leverage have higher payouts.
15	2016	Shahnaz et al.	Dividend policy determinants across industries	Regression	Larger, more profitable firms have lower payouts; leverage reduces payouts.
16	2016	Eliasu et al.	Dividend payout in financial vs non-financial firms	Panel Regression	Profitability impacts dividend payouts in both sectors; varied taxation effects.
17	2016	Thirumagal & Vasantha	Dividend choices and shareholder wealth in pharma	t-tests, Averages	Dividend-paying firms have higher market-to-book equity ratios.
18	2016	Fitri et al.	Factors affecting dividend payouts in Islamic index	Panel Regression	ROA and past dividend payouts significantly affect current payouts.
19	2017	Farrukh et al.	Impact of dividend policies on shareholder wealth	Regression	Positive relation between dividend policies, profitability, and wealth.
20	2017	Abdul	Dividend policy impact on agriculture firms	OLS Regression	Positive correlation between dividend policy and shareholder wealth.
21	2017	Majumdar	Corporate dividend policy in Nifty 50 firms	Panel Regression	Growth, liquidity, and profitability negatively affect payout ratios.
22	2017	Shahnaz et al.	Industry-specific dividend determinants	Regression Analysis	Agency costs positively impact dividends in the basic materials sector.
23	2018	Biswas	Profitability and dividends in the Indian paint sector	Regression	Dividend payout ratios strongly correlate with profitability metrics.
24	2018	Hafeez et al.	Dividend policy and manufacturing firm performance	Correlation, Regression	Dividend payout positively affects ROA, EPS, and P/E ratio.

25	2018	Naeem et al.	Determinants of dividend policy in textile sector	Regression Analysis	Profitability positively correlates with payouts; leverage negatively affects them.
26	2018	Rajesh Kumar & Sujit	Payout trends and determinants in Indian firms	PLS-SEM	Growth firms show low payouts; profitability positively affects dividends.
27	2018	Turakpe & Fiiwe	Dividend policy in breweries and banks	Multi-regression Analysis	Dividends positively correlate with profit in breweries, but varied results in banks.
28	2019	Pinto & Rastogi	Sectoral factors affecting dividend policies	Regression, Panel Models	Profitability and cash flow significantly influence dividend payout.
29	2019	Miglani & Mogla	Dividend policy in IT and banking sectors	Correlation Analysis	Positive correlation between dividends and market prices.
30	2019	Mehmood et al.	Corporate diversification and financial structure	Dynamic Panel Regression	Diversification enhances financial performance; dividends optimize value.
31	2019	Chauhan et al.	Dividend policy in IT companies	Panel Regression	Weak positive correlation between payout ratios and P/E ratios.
32	2020	Abbadi et al.	Earnings management and dividend policy in Kuwait	Modified Jones Model	No significant relation between earnings management and dividend policy.
33	2020	Kathuo et al.	Dividend payout in deposit-taking Saccos	Panel Data Models	High leverage negatively impacts dividends; smaller Saccos use dividends strategically.
34	2021	Molly & Michiels	Dividend decisions in family businesses	Systematic Review	Conflicting findings need clarification; family business context matters.
35	2021	Gabriel	Dividend policy in oil and gas firms	Panel Data Regression	Dividends negatively affect ROE and ROA; earnings retention suggested.
36	2021	Salim & Aulia	Dividend payout and firm value in food and beverages	Panel Regression	Debt-to-equity and ROA positively correlate with dividends.
37	2021	MS et al.	IT firm performance and dividend payout ratios	ANOVA, Correlation	DPR positively influences ROCE, ROA, and ROE; some firms show insignificance.
38	2022	Nazarova et al.	Financial drivers in luxury companies	Panel Regression	Profitability and growth positively influence market capitalization.
39	2022	Wulandari et al.	Dividend policy in food and beverage sector	Panel Regression	Dividend policy mediates financial performance and firm value.

40	2023	Le Thi Huong et al.	Factors influencing profit growth	Regression, Panel Data	Combined financial measures provide insights into corporate profit trends.

Source: Author's Result

Objective

This review article aims to deliver a thorough overview of the available literature regarding dividend policy and its effects on corporate performance, shareholder wealth, and market valuation.

Research Methodology

This review study employs a research methodology aimed at methodically analysing and synthesizing the considerable literature on dividend policy and its effects on business performance, market value, and shareholder wealth. The approach encompasses the subsequent essential steps:

1. Research Design

This study employs a qualitative and exploratory research design to examine existing empirical and theoretical literature on dividend policy. The methodology emphasizes the identification of patterns, trends, and deficiencies in the literature to furnish a thorough comprehension of the topic.

2. Data Collection

Source of Data: Secondary data was obtained from peer-reviewed journal papers, doctorate dissertations, industry reports, and conference proceedings. The sources are papers published in esteemed journals, like the Journal of Business, Managerial Finance, International Journal of Financial Research, among others.

Search Strategy: Keywords including "dividend policy," "shareholder wealth," "firm performance," "retained earnings," "market value," and "determinants of dividend payout" were employed to extract pertinent papers from databases such as Scopus, Web of Science and Google Scholar.

Time Frame: Research conducted over multiple decades (1983-2023) was used to provide both historical and contemporary insights into dividend policy.

3. Analysed Variables

The study examined key variables, including independent variables such as profitability, business size, growth potential, ownership structure, leverage, and liquidity; dependent variables such as dividend payout ratio, dividend yield, shareholder wealth, and corporate value; and control variables encompassing industry-specific characteristics, macroeconomic factors, and regulatory influences.

4. Criteria for Inclusion and Exclusion

Eligibility Criteria: Research examining dividend policies across many industries and regions. Empirical investigations examining the correlation between dividend policy and corporate performance, shareholder wealth, or market valuation. Investigation into the factors influencing dividend payout ratios or retained earnings.

Criteria for Exclusion: Research marked by insufficient methodological rigor or unclear outcomes. Articles that focus solely on irrelevant financial policies or markets lacking importance to dividends.

5. Data Analysis

Thematic Analysis: The review used thematic analysis to categorize findings into key areas, including trends in dividend distribution. Determinants of dividend payout ratios. Influence of retained earnings on profitability indicators. The impact of dividend policies on shareholder wealth and market valuation.

Comparative Examination: Research was analyzed across different geographies (e.g., developed versus emerging markets), industries (e.g., IT, FMCG, manufacturing), and temporal contexts to discern discrepancies in results.

6. Compilation of Results

The findings from the examined research are aggregated to evaluate the determinants and impacts of dividend policy, as well as to detect contradictions or inconsistencies in the literature. Provide practical insights for company leaders, investors, and policymakers.

7. Literary Contribution

The process ensures that the review article enhances value by synthesizing decades of research on dividend policy into a unified narrative. Establishing a foundation for future research by addressing identified shortcomings. Providing actionable advice for improving financial strategy related to dividends.

This organized approach guarantees that the review article is thorough, methodical, and perceptive while maintaining academic integrity.

Outcomes

The literature review on dividend policy demonstrates varied perspectives, approaches, and conclusions across different industries, nations, and temporal contexts. This document summarizes the principal conclusions and findings derived from the investigations.

1. Patterns of Dividend Payments

Dividend payout patterns vary significantly across companies and geographic areas. The electricity and mining sectors in India show significant dividend distributions, while the textile industry has relatively lower payouts (Reddy, 2002); organic chemical companies display a considerable impact of dividend policy on shareholder wealth, unlike inorganic chemical firms (Khan et al., 2008); the IT and FMCG sectors in India reveal unique factors affecting dividend smoothing, such as profitability and the debt-equity ratio (Kapoor, 2009).

2. Factors Influencing Dividend Policy

Industry-Specific Profitability, liquidity, leverage, firm size, development potential, and ownership structure are consistently acknowledged as essential characteristics. Institutional ownership positively influences dividend distributions (Manos, 2003; Bataineh, 2021). Larger corporations with heightened profitability typically allocate larger dividends (Labhane & Mahakud, 2016; Chauhan et al., 2019). Leverage negatively impacts dividend distributions in various studies (Manneh & Naser, 2015; Kathuo et al., 2020).

Macroeconomic variables, like tax systems and legal frameworks, impact influence; for instance, Turkish corporations exhibit dividend smoothing influenced by regulatory changes post-2003. (Al-Najjar and Kilincarslan 2017).

3. Impact of Retained Earnings on Profitability

Retained profits exhibit complex relationships with profitability metrics; specifically, a positive link between return on equity (ROE) and return on assets (ROA) was observed in Nigerian cement

companies (Enekwe et al., 2015). Retained earnings demonstrate an inverse relationship with capital structure while positively influencing long-term performance in Indian firms (Kapoor, 2009; Naeem et al., 2016).

4. Impact of Retained Earnings on Shareholder Wealth

Retained earnings increase shareholder wealth by enabling reinvestment and improving stock value. In the Indian pharmaceutical sector, firms that distribute dividends exhibited higher market-to-book value ratios compared to those that do not distribute dividends (Thirumagal & Vasantha, 2016). In Nigeria's agriculture sector, shareholder wealth is significantly influenced by retained earnings (Abdul, 2017).

5. Dividend Policy and Market Value

The relationship between dividend policy and market value is disputed. Dividend distributions positively influenced market valuations in Malawian companies (Majanga, 2015). However, extensive research has demonstrated minimal or no impact of dividend policy on market prices in sectors such as IT and banking in India (Panchal, 2018; Miglani & Mogla, 2019). Research demonstrates that the signaling effect of dividends is bolstered by evidence suggesting that increased payouts imply robust governance and augment investor trust (H. Chowdhury et al., 2014; Farrukh et al., 2017).

Identified Research Gaps

- **Geographic Emphasis:** Predominantly, research centres on industrialized economies; rising markets such as India necessitate further investigation.
- **Sectoral Examination:** Specific industries, such as textiles and energy, are comparatively underexplored relative to IT and FMCG.
- **Temporal Frameworks:** Constrained long-term evaluations hinder comprehension of enduring effects.
- **Numerous research** employs small sample sizes or restricted variables; thorough models are essential.

Conclusion

National and international studies on dividend policies underscore the crucial influence of profitability, business size, and regulatory frameworks in determining these policies. It also emphasizes country-specific issues, including tax policies, institutional ownership, and economic stability, that affect dividend payout ratios. This localized approach elucidates how corporations manoeuvre dividend programs amid fluctuating market conditions. International studies provide comprehensive insights into worldwide trends and sector-specific differences in dividend policies, including governance practices, market maturity, and the influence of regulatory frameworks on dividend decisions across various economies. They utilize various approaches, such as regression, correlation analysis, and systematic reviews, to investigate how economic settings and regulatory frameworks influence dividend policy worldwide. The results indicate that companies should take into account not just financial measures but also regulatory frameworks and market situations when developing dividend programs.

Comprehending these elements can assist corporations in refining their dividend strategies to enhance shareholder value. Future study paths may concentrate on longitudinal studies to monitor the progression of dividend policy over economic cycles, investigate the incorporation of sustainability criteria into dividend decisions, and examine dividend practices in emerging markets more thoroughly. Limitations encompass the prevalence of secondary data sources and potential biases inherent in published studies, alongside the necessity for additional comparison studies across various geographic regions and industries. Future research may investigate the influence of

emerging legislative frameworks, technology innovations, and global economic trends on dividend policy

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