

Article

Dividend Policy and Firm Value: A Systematic Literature Review of the Past Decade

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Abstract: This study aims to systematically evaluate and review the literature concerning the impact of dividend policy on firm value over the past decade. Utilizing a systematic literature review process, initially, 52 articles were identified, which were subsequently narrowed down to 14 that are most relevant to the scope of this research. This paper critically examines the influential studies in the literature on the impact of dividend policy on firm value. The literature review on dividend policy is analyzed from three perspectives: (a) dividend level, (b) tendency to pay dividends, and (c) dividend smoothing. The findings indicate that the majority of studies show a positive relationship between dividend policy and firm value. Additionally, it was found that most research conducted in Asia reveals a growing interest in evaluating the impact of dividend policies across various emerging market economies. This study contributes to the existing literature by highlighting research gaps in this field and providing a potential agenda for academics and researchers for future research.

Keywords: dividend distribution, payout policy, corporate value, content analysis

1. Introduction

Dividend policy has long been a crucial element in financial theory, managerial practice, and plays a significant role in determining firm value (Lintner, 1956; Miller & Modigliani, 1961). In an increasingly dynamic market context, dividend policy serves not only as a profit distribution mechanism but also as an informational signal regarding the financial health of a company and projections for future growth (Bhattacharya, 1979; Jensen, 1986). Previous research indicates that dividend-related decisions can influence investor perceptions and market stability, with broad implications for stock prices and firm value (Fama & French, 2001; Grullon et al., 2002). Over the past two decades, numerous studies have explored this relationship, yet variations in results and uncertainties about how dividend policy impacts overall firm value persist (Deangelo et al., 2006; Denis & Osobov, 2008). Changes in economic environments and regulations, alongside innovations in financial theory, underscore the importance of conducting systematic reviews to sift through these results and understand deeper dynamics. Against this backdrop, this study aims to thoroughly review the existing literature, hoping to provide new insights and clarify the relationship between dividend policy and firm value in a broader and more contemporary context.

Although dividend policy has been extensively studied, significant uncertainties remain about how it specifically impacts firm value. A major issue is the variance in findings within the existing literature. For instance, some studies indicate that dividend policy has a positive effect on stock prices and investor perception (de Villiers et al., 2024; Kapons et al., 2023), while others report contradictory outcomes, showing either a negative impact (Bakri, 2021; Mohammed & Ani, 2020) or an insignificant effect on firm value. This inconsistency is largely due to varied contextual variables such as corporate capital structure, market conditions, and changing macroeconomic policies (Febrianti et al., 2024). Additionally, many previous studies have focused on specific periods or regions, thus

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overlooking the global context that could differently affect this relationship (Cousijn et al., 2024). Therefore, a thorough systematic review is necessary to identify and detail these inconsistencies and provide better clarification of the impact of dividend policy in a broader and more contemporary context.

This research aims to conduct a systematic review of the existing literature on the impact of dividend policy on firm value over the past decade. The primary goal is to identify patterns, trends, and differences in previous research findings. By integrating insights from various studies and contexts, this research is expected to offer deeper and more comprehensive insights, recommend directions for future research, and provide practical strategies for corporate managers and stakeholders. Additionally, this study makes a significant contribution to understanding the relationship between dividend policy and firm value by presenting a comprehensive systematic review of literature from the last decade. A novel aspect of this research is its thorough methodological approach, integrating results from a wide time frame and various geographic contexts, differing from previous studies often limited to specific periods or regions (Cousijn et al., 2024). Thus, this study not only fills existing gaps in theoretical and practical understanding but also offers new insights into the dynamics of dividend policy in a more global and contemporary context. This contribution is crucial for financial theory and managerial practice, as it provides a more solid basis for strategic decision-making regarding dividend policy and its impact on firm value in an increasingly complex market.

2. Materials and Methods

This article employs a systematic review methodology adapted from Mohapatra & Panda (2022). Evaluating the contributions of prior studies necessitates a focused analytical review strategy. This current study utilizes a five-stage process for conducting a systematic literature review (SLR). The stages include: (1) Defining the scope of the SLR; (2) Formulating the search strategy; (3) Establishing filtering criteria; (4) Quality assessment procedures; (5) Reporting data and analysis.

2.1. Defining the Scope of the SLR

The primary objective of this study is to conduct an exploratory analysis followed by categorization and synthesis of existing studies concerning the impact of dividend policy on firm value.

2.2. Formulating the Search Strategy

The keywords selected for the search strategy include terms related to dividend policy such as "dividend" OR "payout". Meanwhile, keywords associated with firm value are "firm value" OR "company value" OR "corporate value" OR "enterprise value" OR "market value" OR "stock value". The search covered titles and/or abstracts of articles published from 2014 to 2024, conducted in the Scopus database.

2.3. Establishing Filtering Criteria

Initial article filtering involved reviewing titles and abstracts based on the predefined keywords. This stage identified 688 documents. Further filtering included only finalized journal articles, resulting in 580 documents. Subsequent filtering targeted English-language, open access journals, yielding 173 documents. The final filtering stage included only articles within the scope of Business, Management, and Accounting, resulting in 104 documents.

2.4. Quality Assessment Procedures

The quality assessment of articles to be included in the literature review was based on two parameters. The first criterion was the publication source. Articles for further

evaluation were only those published in journals categorized as Q1 or Q2 according to the Scimago Journal & Country Rank, from which 52 documents were obtained. The second criterion involved a thorough text completeness check to determine suitability for inclusion in this study. The relevance of each article was individually assessed, and articles deemed irrelevant were excluded, resulting in a final selection of 14 articles considered relevant for further analysis..

2.5. Reporting Data and Analysis

In this paper, an in-depth analysis of the metadata from the selected papers was conducted. The majority of the studies were empirical and analyzed using regression. There are three main themes of dividend policy when associated with firm value: dividend levels, dividend tendencies, and dividend smoothing. Additionally, the study found that most articles were published between 2020 and 2023, indicating a growing trend in research related to this topic, as illustrated in Figure 1.

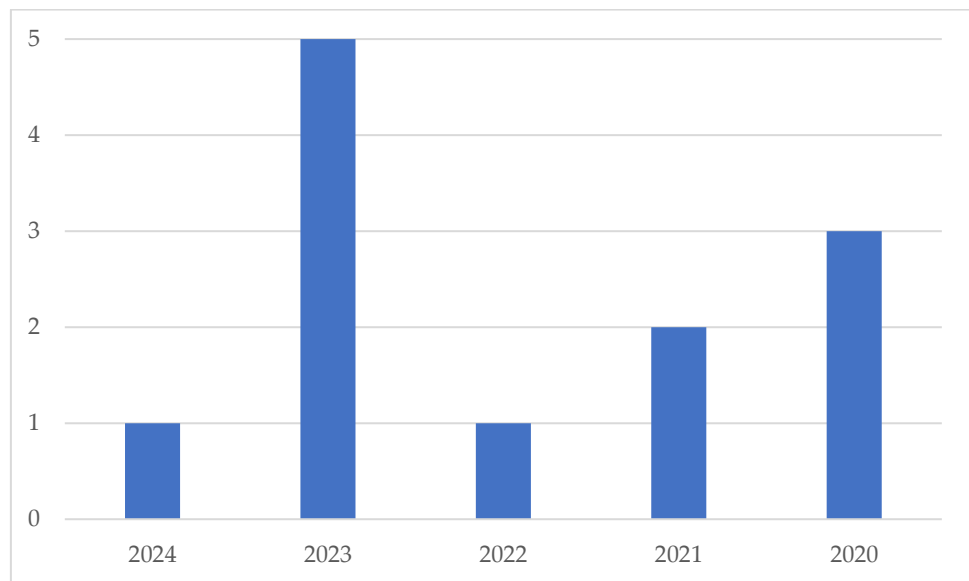


Figure 1. Year wise No. of papers published

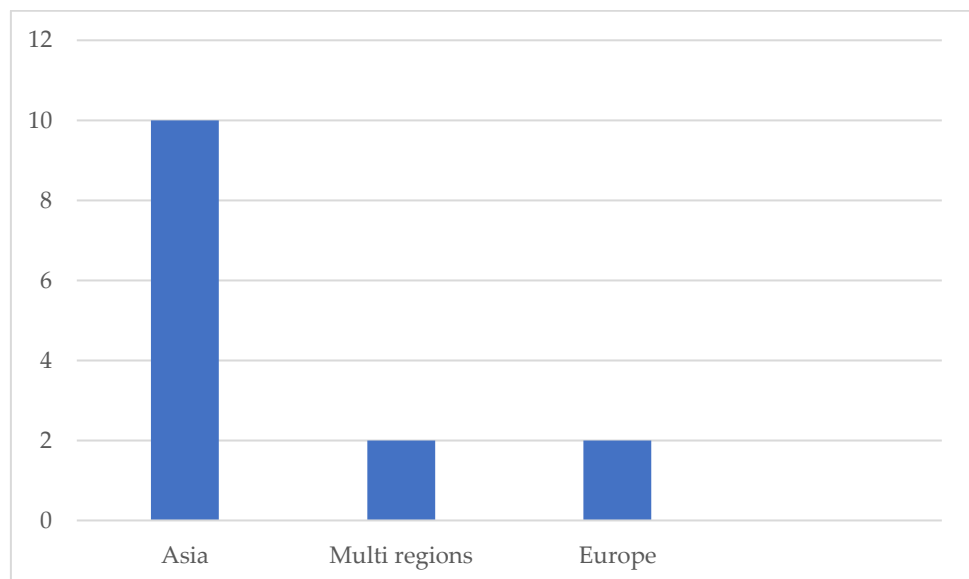


Figure 2. Regions of study

Additionally, as presented in Figure 2, the majority of the studies were conducted in Asia, indicating that the topic of the relationship between dividend policy and firm value

remains of significant interest in the region. Within Asia, Indonesia emerged as the most frequently studied country, followed by India and Jordan (refer to Figure 3).

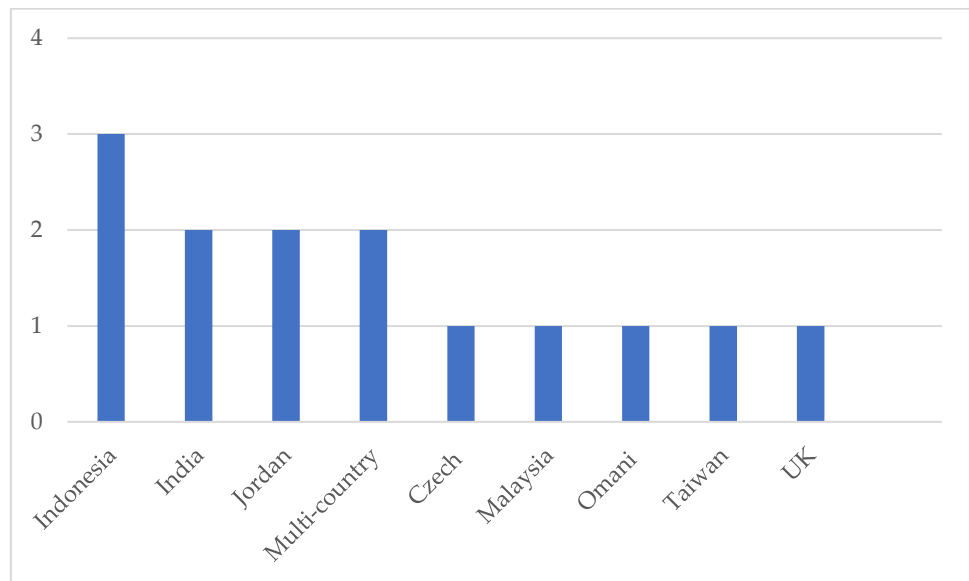


Figure 3. Countries of study

3. Results and Discussion

This study conducted a literature review on dividend policy from three perspectives: (a) the impact of dividend levels on firm value (de Villiers et al., 2024; Martowidjojo et al., 2019; Kadim et al., 2020; Mohammed & Ani, 2020), (b) tendency to pay dividends and their effect on firm value (Azmi & Bertuah, 2020; Kapons et al., 2023; Mazouz et al., 2023; Sejkora & Duspiva, 2015), and (c) dividend smoothing and its impact on firm value (Seth & Mahenthiran, 2022). The literature review reveals a growing trend in the number of studies published in the past year concerning the impact of dividend policies on firm value. This suggests an increasing interest in exploring the role of dividend policies in influencing firm value.

3.1. Methodology and Tools Used

The research identified two primary methodologies in the reviewed articles: empirical and survey-based approaches. Of these, empirical methods were the most dominant, employed in over 85% of the studies. For instance, de Villiers et al. (2024) conducted empirical research examining the relationship between dividend payments and firm value across 28 countries. Similarly, Seth & Mahenthiran (2022) studied the effects of dividend payment stability on firm value in India, while Azmi & Bertuah (2020) investigated empirical data from Indonesia to explore the correlation between dividend-paying tendencies and increased firm value. On the other hand, survey-based research was carried out by Kapons et al. (2023) who distributed questionnaires to global investors, and by Sejkora & Duspiva (2015), who gathered the perspectives of company executives regarding the relationship between dividend policy and firm value.

Furthermore, panel data regression was identified as the most widely used data analysis tool in the majority of empirical articles, as seen in the works of Mazouz et al. (2023) and Mohammed & Ani (2020). The use of panel data regression indicates a tendency to analyze time-varying data while accounting for unobserved heterogeneity. Meanwhile, the Structural Equations Model (SEM), implemented by de Villiers et al. (2024) and Seth & Mahenthiran (2022) highlights the complexity of the relationships between the variables under investigation. Additionally, path analysis and the Sobel test, as utilized by Kadim et

al. (2020), provided deeper insights into the direct and indirect effects of dividend policy variables on firm value.

3.2. Themes Researched

The general consensus from evaluating the impact of dividend policy on firm value is that most studies indicate higher dividend payments or stability in dividend policy tend to be viewed positively by the market. This is evidenced by the findings of de Villiers et al. (2024) and Martowidjojo et al. (2019), who found that higher dividend levels can enhance firm value. However, not all results show a positive impact; some studies, such as those Bakri (2021) and Mohammed & Ani (2020), discovered that dividend policies can negatively affect firm value, particularly in specific contexts like Malaysia, suggesting that the effects of dividends may vary depending on local economic and market conditions.

Most research focuses on the relationship between dividend levels and firm value as the primary topic. This indicates a broad interest in how companies determine their dividend levels, which can reflect corporate financial policy, stability, and market signaling. This research may include factors influencing dividend level decisions, such as company profits, cash needs, and investor expectations (Bakri, 2021; Chakkravarthy et al., 2023; de Villiers et al., 2024; Kadim et al., 2020; Nebie & Cheng, 2023). Meanwhile, some studies focus on "dividend-paying tendencies," exploring factors that influence a company's decision to pay or not pay dividends. This topic could involve psychological or strategic analysis in management-level decision-making and how these policies are received by the market and shareholders (Azmi & Bertuah, 2020; Mazouz et al., 2023; Sejkora & Duspiva, 2015). Another study noted a focus on "dividend smoothing," which is the practice of companies maintaining consistent dividend payments over time, despite fluctuations in financial performance. This reflects research into how companies attempt to reduce uncertainty for investors and build a reputation as stable dividend payers (Seth & Mahenthiran, 2022).

Other important findings include the role of dividends in risk management. Mazouz et al. (2023) indicate that dividend policies can also play a role in managing a company's liquidity risk, mitigating the adverse effects of economic downturns. This suggests that dividends are important not only in the context of profit distribution but also as a strategic tool in financial management. Additionally, research by Kapons et al. (2023) reveals that investor confidence in the market can be influenced by dividend policies. They found that in times of uncertainty, investors tend to favor companies with stable dividend payment policies. The geographical impact is highlighted by Nebie & Cheng (2023), who found that while there is a positive relationship between high dividends and firm value in Taiwan, the effect is not statistically significant, indicating that dividend policy may not always have a directly significant impact on firm value in every context.

Overall, the analysis shows that while dividend policies are generally seen as positive in enhancing firm value, important nuances depend on economic context, market confidence, and a company's financial conditions. This analysis reinforces the importance of considering both external and internal factors when assessing dividend policies and profit distribution strategies.

Table 1. Summary of the studies dividend policy on firm value

Authors (year)	Research Question	Research Sample	Findings
(de Villiers et al., 2024)	Does dividend payment affect firm value in the capital market?	Firms in 28 countries	Higher dividend payments can contribute to an increase in firm value in the capital market.

(Kapons et al., 2023)	Does dividend policy affect the market value of a company?	Global Investor	Investor demand for dividend-paying stocks rises when confidence levels decline.
(Chakkravarthy et al., 2023)	Does the dividend payout ratio influence firm value?	India Firm	Dividend payments have a significant positive impact on firm value.
(Nebie & Cheng, 2023)	Does dividend policy impact firm value?	Taiwan Firm	A high dividend policy is positively associated with firm value in Taiwan, but its effect is not statistically significant.
(Shubita, 2023)	Does dividend policy influence firm value?	Jordanian Banks	Dividend policy does not have a significant impact.
(Mazouz et al., 2023)	Does dividend policy influence the value of the company?	UK firms	Dividend policy can be used by corporate managers for liquidity risk management and to mitigate the adverse effects of economic downturns on firm value.
(Seth & Mahenthiran, 2022)	Does dividend policy affect firm value in India?	India Firm	There is a positive relationship between dividend policy and firm value in India.
(Bakri, 2021)	Does dividend policy impact the value of companies in Malaysia?	Malaysia Firm	Dividends have a negative impact on firm value in Malaysian companies.
(Soda et al., 2021)	Does dividend policy affect Market Value Added?	Jordan Firm	Dividend policy has a significant positive effect on Market Value Added (MVA).
(Azmi & Bertuah, 2020)	Does dividend policy affect firm value in companies in Indonesia?	Indonesia Firm	Companies that pay dividends tend to be valued higher as it increases shareholder confidence in investing.
(Kadim et al., 2020)	Does dividend policy affect firm value?	Indonesia Firm	Dividend policy has a significant impact on firm value.
(Mohammed & Ani, 2020)	Does dividend policy influence the value of industrial sector companies on the Oman Stock Exchange?	Omani Firm	Cash dividend policy has a negative impact on firm value.

(Martowidjojo et al., 2019)	Do dividend payments affect company valuation?	Indonesia Firm	Companies that pay dividends have higher value.
(Sejkora & Duspiva, 2015)	Does dividend policy influence firm value?	Czech CEO	Dividend policy influences firm value.

3.3. Geographic Orientation

The literature review provides an intriguing overview of the geographic distribution of research on dividend policy. This analysis reveals a wide variation in research focus and context across different regions of the world, indicating how dividend policies and perceptions of firm value can significantly vary depending on local economic environments and market conditions. Regarding global and regional significance, authors such as de Villiers et al. (2024) and (Kapons et al., 2023), for instance, conducted studies spanning multiple countries, demonstrating that dividend policy is a global issue with implications that may differ based on regional market conditions. This underscores the importance of understanding capital market dynamics within a broader context and recognizing the substantial variability in research findings depending on geographic location.

On the other hand, many studies are focused on Asian countries such as Indonesia, India, Malaysia, Taiwan, and Jordan, emphasizing how these markets view dividends as a critical component of corporate financial strategy. The varied findings from these countries, ranging from positive to negative impacts on firm value, highlight the economic and financial diversity within this region. Additionally, research from Oman and Jordan (Mohammed & Ani, 2020; Shubita, 2023; Soda et al., 2021) illustrates the growing interest in dividend policy studies in the Middle East, a region often underrepresented in global financial literature. This suggests further research opportunities and the need to understand how local norms and economic conditions influence dividend policies. Meanwhile, research from Europe, such as that by Mazouz et al. (2023) from the UK and Sejkora & Duspiva (2015) from the Czech Republic, tends to reflect a more mature approach to dividend management, with a deep understanding of how dividend policies affect firm value in more stable and developed economies.

3.4. Scope for Future Research

Despite extensive research on the global impact of dividend policy on firm value, several underexplored areas could be the focus of future studies. The findings from the systematic literature review indicate that very few theoretical and empirical studies evaluate the impact of dividend policy on firm value from the investor's perspective, with most research focusing on the corporate viewpoint. Additionally, future studies could explore qualitative approaches, as there has been a lack of research from this perspective in the past decade. Moreover, the absence of studies in the African region suggests a significant opportunity for further research on dividend policy across this continent.

4. Conclusion

Academic research on the impact of dividend policy on firm value has been abundant over the past decade. However, the relationship between the two remains largely shrouded in mystery. This article seeks to provide a comprehensive literature review on the impact of dividend policy on firm value and contributes to the field of dividend policy in various ways. After analyzing the existing literature on this topic, it was found that the majority of studies indicate that dividend policies in different countries have a positive impact on firm value, although some research shows negative or insignificant results.

On the other hand, while this study provides significant insights into existing knowledge and identifies areas for future research, it also has some limitations. First, this study employed the systematic literature review process recommended by Das Mohapatra & Panda (2022), but the Boolean keywords used for screening might not be exhaustive, potentially overlooking some keywords. Second, this study utilized the Scopus electronic database for Q1 and Q2 journals only, so there may be other databases containing excellent articles that could not be analyzed in this study.

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