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THE EFFECT OF DIVIDEND POLICY ON FINANCIAL STABILITY

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Abstract:

The question on the potential implications of the analysis of corporate proletarian dividend policies has been a particularly contentious issue in corporate finance and not just the field of corporate finance, since it also has ramifications about financial stability. This paper evaluated dividends, two variables proxied by the dividend payout ratio (DPR) and cash dividend payout (CDP), as dimensions of financial stability, as with profitability and ROA and ROE, liquidity and the current ratio (CR), leverage and the debt ratio (DRR), and the financial and indicator variables of the normalized cash from operational activity flows versus total assets and actual cash flow disclosure. three contributions to total asset methods at the district level, as three forms of the same cross-sectional data under fixed effects time models per corporation, had control variables for the corporate enterprise for variables for enterprise scale and measures for the dependability of the measure of financial stability to proxy total financial stability.

The results demonstrate the significance of dividend policy related to financial health. The firms with dividends were more profitable, had higher liquidity ratios, a more favorable debt ratio and generally, cash flows with lower variability. The control variables lend confidence to the idea that firms with higher growth in sales and larger size were still able to maintain a healthy financial structure. The robustness tests include particularly the sub-sample estimation by firms' size, other variations in the financial ratios, and the regime shifting tests for crisis periods.

This research article contributes to the body of knowledge in the area, offering empirical evidence to the many theoretical models, including Bird-in-the-Hand, Agency, Signaling and Pecking Order just to name a few. In this sense, the findings demonstrate that dividend distribution should not be researched or considered on its own, or simplify it down to the transfer of wealth to shareholders, but a way to offer a financial QOL down the path. The findings of this study adds to the investor, regulators and managers understanding as to the dividend policies exposure to firm resilience and health of firms during periods of uncertainty.

Keywords: Dividend policy, financial stability, profitability, liquidity, leverage, cash flow, panel data.

JEL Classifications: G32, G35, C23, M41.

INTRODUCTION

For many years, the dividend policy of firms has been one of the most discussed topics in corporate finance and accounting research. The way firms distribute their wealth between internal discretion over profits and dividends is not simply an executive decision; it conveys messages about the organization's long-term viability, growth prospects and financial soundness. More importantly, the implications of dividend policy decisions are recognized with publicly traded firms as dividends paid directly impact maximizing shareholder value objectives, signaling to organizational investors, and market efficiency.

Accordingly, the present study examines the relationship between dividend policy and stability using a balanced panel dataset of accounting financial ratios drawn from the firm's financial statements. A panel data approach uses a mix of time-series and cross-sectional firm data across multiple periods. Panel data have two major strengths. First, it allows the analysis to condition on firm-level heterogeneity by explicitly modelling differences in the size, growth profile, industry and finance mix of these firms. It also allows for the examination of temporal evolutionary patterns in dividend policy and financial stability, instead of analyzing a period. It is therefore justified to include

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"Panel Data Evidence" in the title since it captures both methodological firmness and longitudinal data.

The title phrase "Listed Companies" is purposefully broad and non-committal. It recognizes that the data set is composed of publicly traded and obligation-to-disclose companies but doesn't limit the study to one stock exchange or nation. This ensures the theoretical solvency of results from our study, which are also generalizable to other markets, and reserves the flexibility for application across other exchanges in future research.

In this study, financial stability is captured through a number of dimensions including profitability (ROA, ROE, EPS), liquidity (CR, Quick Ratio and Cash Ratio), leverage (DER and Debt Ratio) and stability of cash flow (OCF/Assets and CFD). In light of the potential drivers of financial strength, firm growth (SalesGrowth) and the size of the banks are controlled for, seen to serve a dual purpose since controlling for both improves the power of empirical testing, thereby allowing these as control variables. The study uses several estimates of dividend policy which are dividend payout ratio (DPR), dividends per share (DPS), and cash dividend payout percent of OCF (CDP). The potential relationships of implantation is formed in a way based on these variables as inputs, the study provides an activity-based approach to a theoretical perspective of selection of dividends to monetary structures, growth opportunity and operating ability of companies.

This study provides three contributions towards the current literature. It provides empirical evidence on the interaction between dividend policy and financial stability based on panel data, thus providing solid information on firm-specific and temporal effects. Second, it employs multiple measures of both dividend policy and financial stability, enhancing the reliability and depth of the analysis. Third, by focusing on listed companies without restricting the scope to one exchange, it generates findings that are broadly relevant and adaptable to different institutional and market settings.

In sum, this paper seeks to answer a fundamental question: **To what extent does dividend policy affect the financial stability of listed companies over time?** Addressing this question not only enriches the theoretical debate on dividend relevance but also clarifies how dividend policy, in interaction with growth and firm size, influences stability. These insights have important implications for managers, investors, regulators, and policymakers concerned with corporate governance and financial sustainability.

LITERATURE REVIEW

. Theoretical Foundations of Dividend Policy

Dividend Irrelevance Theory

The debate on dividend policy began with the pioneering work of Modigliani and Miller (1961). They argued that in a world of perfect capital markets where there are no taxes, no transaction costs, and information is symmetrically distributed, dividend policy is irrelevant to firm value. According to their proposition, whether a company distributes profits as dividends or retains them for reinvestment does not affect shareholder wealth, as investors can create "homemade dividends" by selling part of their holdings if they desire income. This theory laid the foundation for subsequent scholarship but has been heavily critiqued for its unrealistic assumptions.

Bird-in-the-Hand Theory

As a contrast to irrelevance, Gordon (1959) and Lintner (1962) developed the "bird-in-the-hand" theory that investors prefer dividends with certainty over uncertain capital gains. Dividends capture cash in hand and decrease risk of future revenues. According to this view, companies enhance firm value because they decrease investor-perceived risk. This theory implies a strong relationship between dividend policy and financial stability, with stable dividends being able to increase investor confidence and help maintain profitability (ROA, ROE).

Tax Preference Theory

Tax preference theory assumes that investors prefer to benefit from capital gains rather than dividends provided dividends are discriminatorily taxed. In situations where dividend income is exposed to unfavorable tax treatment, companies can employ lower payout ratios in an effort to maximize the after-tax wealth of shareholders. This view demonstrates how institutional and regulatory environments influence dividend practice, and hence might influence liquidity (CR) and financial stability.

Agency Theory

Agency theory, originally formulated by Jensen and Meckling (1976), centers on interest conflicts between managers (agents) and shareholders (principals). Retained earnings provide managers with discretionary authority over resources allocation, potentially resulting in inefficiency or self-dealing. Dividend payments negate agency costs by limiting the level of cash available for managers' discretionary spending, thus subjecting managers to cost discipline. For this purpose, dividend policy is a tool of corporate governance employed to render managerial decisions responsible for financial health by making the dividend decision

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functionally dependent on shareholder responsiveness and excluding excessive leverage (DER).

Signaling Theory

Signaling theory highlights the fact that dividend announcements send signals. Managers, being privy to future earnings as insiders, employ dividends as signals in an attempt to alleviate information asymmetry between insiders and investors. For instance, a rise in dividend may signify hope of consistent profitability, but a fall in dividend may signify distress of finances. Theory directly connects dividend policy to financial health since market response and investor opinion could reinforce or undermine a company's strength, especially in the face of cash flow pressure (OCF, CFD).

Pecking Order Theory

The pecking order theory, proposed by Myers and Majluf (1984), explains that companies rank capital sources in a pecking order: first, internal funds; second, debt; and last, issue of equity. Dividend policy is therefore bounded by the level of internal funds. Companies being financially constrained will cut down on dividend payment to maintain liquidity, which explains the dynamic nexus between dividend choices, stability of cash flow (CFD), and long-term financial health.

Empirical Evidence Regarding Dividend Policy and Financial Stability

Dividend Policy and Profitability

It is a broad study which has examined the nexus between dividend policy and profitability, which is commonly proxied by ROA and ROE. Fama and French (2001) pointed out that dividend-paying companies are more profitable and are larger in size. Baker and Powell (2000) provided evidence that managers perceive dividend payouts as signals of company strength to improve reputation and investor confidence. The idea that stable dividends support the idea of sustained profit has been studied, e.g., Farinha; 2020; Al-Najjar & Kilincarslan, 2019. Profitability is then the effect and the cause of dividend policy where firms with strong earning power pay stable dividends and stable dividends maintain financial stability, when proper financial stability is maintained. This model incorporates profitability directly through ROA and ROE, and Sales Growth is included as a control which reflect the dynamics of firm performance.

Dividend Policy and Liquidity

Liquidity (as often captured by the Current Ratio, CR, or one of its alternatives) represents one dimension of financial soundness, where firms that possess a liquidity advantage will pay dividends although the lower retained earnings will impair the margin of safety that offsets risk according to DeAngelo, DeAngelo and Stulz (2006). Moreover, dividend changes are also seen as an indirect signal of liquidity according to Miller and Rock (1985). Empirical research suggests that firms with liquidity improvements will reduce Dividend Payout Ratios (DPR) or Cumulative Dividend Payments (CDP) during times of economic recessions to protect financial leverage (Nguyen and Tran, 2021; Shao et al., 2022) affirming that the relation between dividends and liquidity consistently presents the problem of motivation: on one hand, normalized dividends can create investor and credibility confidence, whereas violating dividends destroys the credibility to manage short-run stability.

Dividend Policy and Leverage

Moreover, the role of leverage, often indicated by the level of DER, is yet another important element of financial wellbeing. Over-levered firms may impose dividend constraints to ensure they have cash to repay the debt and dividends discipline to keep cash levels under control to discourage excessive borrowing (Rozeff, 1982; Jensen, 1986). Real work (Chen et al., 2017; Elghuweel et al., 2019) would suggest that higher recurring dividends are signs of stable capital structures because they do not introduce high levels of indebtedness. Consequently, dividends cut across leverage as a mechanism of governance and constraint.

Dividend Policy and Cash Flow Stability

Trends in cash flow are a key determinant of dividend sustainability. Specifically, Operating Cashflow and cash flow coverage ratio (Cash Flow to Debt, CFD) determine whether the company can pay dividends under a stressed scenario. For example, Acharya et al. (2011) note that many companies cut dividends during the 2008 GFC to remain solvent and that dividend payments by troubled firms did not generate negative signals. More recently, consistent with our findings, Bae et al. (2021) and Pettenuzzo et al. (2022), found that firms with positive OCF continued to pay dividends which facilitated investor confidence and recovery from the financial crisis. This also supports the assertion that dividend policy influences financial stability through cash flow management.

Sectoral and Institutional Perspectives

Dividend policy outcomes differ across sectors and institutional environments. In financial institutions, regulators often restrict payouts to safeguard systemic stability, particularly after crises (e.g., ECB restrictions during COVID-19). In non-financial firms, payouts are shaped by growth opportunities, capital expenditure needs, and liquidity conditions (Allen & Michaely, 2003).

World Economics & Finance Bulletin (WEFB)
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Vol. 50, September, 2025
ISSN: 2749-3628

Cross-country evidence (La Porta et al., 2000; more recently, Alzahrani & Lasfer, 2021) underscores that legal and institutional settings influence payout practices, with stronger investor protection associated with higher and more stable dividends.

Synthesis and Research Gap

Despite extensive research, important gaps remain. First, findings are heterogeneous: some studies support a stabilizing role of dividends, while others emphasize risks to liquidity and leverage. Second, many studies focus on a single dimension of stability, whereas financial stability is multidimensional, encompassing **profitability (ROA, ROE), liquidity (CR), leverage (DER), and cash flow stability (OCF, CFD)**. Third, most prior work emphasizes specific countries or crises, limiting generalizability. Finally, little research has integrated dividend policy and financial stability into a comprehensive panel-data framework that accounts for firm-level heterogeneity, growth dynamics, and temporal effects.

This study addresses these gaps by examining the effect of dividend policy proxied by **DPR and CDP** on multiple dimensions of financial stability using panel data from listed companies. By incorporating profitability, liquidity, leverage, cash flow indicators, and control variables such as **Sales Growth and log Assets** into a unified analysis, it provides robust and generalizable evidence on how dividend policy shapes financial stability.

CONCLUSION OF LITERATURE REVIEW

The literature demonstrates that dividend policy is far from irrelevant; it is a strategic decision with significant implications for financial stability. Theoretical perspectives provide a range of explanations from signaling and agency cost mitigation to investor preferences and taxation—while empirical studies reveal both positive and negative effects depending on firm-specific and contextual factors. What remains clear is that dividend policy is a central mechanism through which firms balance shareholder returns with long-term financial resilience.

This review highlights the need for further empirical evidence exploring the multiple dimensions of stability profitability (ROA, ROE), liquidity (CR), leverage (DER), and cash flows stability (OCF, CFD) in one comprehensive framework. It highlights the value of understanding listed firms in a panel data context, enabling the identification of firms' heterogeneity, growth characteristics, and time effects. This type of study, particularly if undertaken prior to, during, and after economic crises, would be able to add new insights regarding the complexity and interplay between dividend policy and financial stability, and thus contribute to both scholarly discussions and policy-related concerns.

Research Methodology

Research Design

The current study uses a quantitative and empirical analysis based on panel data of the financial records of listed firms over the course of seven years. Panel data estimation allows for the integration of both cross-sectional and time-series dimensions, and presents two key advantages. First, it controls for firm-level heterogeneity based on the firm size, firm growth, and firm financing structure variations that are captured. In addition, it allows for the empirical testing of dividend policy and financial stability dynamically over time.

Sample and Data Source

The sample consists of listed companies for which complete financial statement data are available. The dataset covers multiple years of firm-level observations, extracted from consolidated financial reports. The panel structure ensures that both inter-firm differences and intra-firm dynamics are considered. After data cleaning and handling of missing values, the final dataset provides sufficient coverage to test the proposed hypotheses across different firms and periods.

Variables of the Study

The study employs a comprehensive set of variables that capture both **dividend policy** and **financial stability**, alongside relevant control variables. Table 1 summarizes the variables, their abbreviations, definitions, and formulas.

Variable Category	Variable	Abbreviation	Formula / Definition	Source
Dividend Policy	Dividend Payout Ratio	DPR	Dividends Paid ÷ Net Income	Financial Statements
Dividend Policy	Cash Dividend Payout	CDP	Dividends Paid ÷ OCF	Financial Statements
Profitability	Return on Assets	ROA	Net Income ÷ Total Assets	Financial Statements

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 50, September, 2025
ISSN: 2749-3628

Variable Category	Variable	Abbreviation	Formula / Definition	Source
Profitability	Return on Equity	ROE	Net Income ÷ Equity	Financial Statements
Liquidity	Current Ratio	CR	Current Assets ÷ Current Liabilities	Financial Statements
Leverage	Debt-to-Equity Ratio	DER	(Short-Term Debt + Long-Term Debt) ÷ Equity	Financial Statements
Cash Flow Stability	Operating Cash Flow	OCF	Net Cash from Operating Activities	Cash Flow Statement
Cash Flow Stability	Cash Flow to Debt	CFD	OCF ÷ Total Debt	Financial Statements
Control Variables	Firm Size	log Assets	Natural log of Total Assets	Financial Statements
Control Variables	Sales Growth	Sales Growth	$(\text{Revenues}_t - \text{Revenues}_{t-1}) \div \text{Revenues}_{t-1}$	Financial Statements

Table 1. Variables of the Study

Model Specification

To empirically test the hypotheses, the study applies panel regression models with **firm fixed effects** and **year fixed effects**, ensuring that unobserved heterogeneity and time shocks are properly controlled. Robust standard errors are clustered at the firm level to account for serial correlation and heteroskedasticity. The general form of the model is as follows:

$$FS_{i,t} = \alpha + \beta_1 DPR_{i,t} + \beta_2 CDP_{i,t} + \beta_3 \text{ Controls }_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

Where:

- $FS_{i,t}$ = Financial Stability measure for firm i in year t
- α = intercept
- $\beta_1, \beta_2, \beta_3$ = coefficients for DPR, CDP, and Control variables
- μ_i = firm fixed effects
- λ_t = year fixed effects
- $\epsilon_{i,t}$ = error term

Specific models are designed for each hypothesis
H1: Profitability (ROA, ROE) regressed on DPR, CDP, SalesGrowth, and logAssets -
H2: Liquidity (CR) regressed on DPR, CDP, SalesGrowth, and logAssets •
H3: Leverage (DER) regressed on DPR, CDP, SalesGrowth, and logAssets •
H4: Cash flow stability (OCF, CFD) regressed on DPR, CDP, SalesGrowth, and logAssets •

Estimation Strategy

To address potential distortions arising from extreme observations, all financial ratios were winsorized at the 5th and 95th percentiles. This procedure reduces the influence of outliers while preserving the overall distributional characteristics of the data. In addition, control variables such as firm size and sales growth were incorporated into the regression models to improve explanatory power and ensure the robustness of the estimated relationships.

Several robustness checks were conducted to validate the consistency of the results. First, a sub-sample analysis was performed by splitting firms into large and small groups based on the median value of total assets, thereby examining whether firm size influences the dividend–stability nexus. Second, alternative model specifications were employed, replacing the primary liquidity and leverage indicators with the Quick Ratio, Cash Ratio, and Debt Ratio, to confirm the stability of findings across different proxies. Finally, crisis-period testing was undertaken to evaluate whether the role of dividend policy in supporting financial stability persists under conditions of economic stress.

Descriptive Statistics and Correlation Analysis

Descriptive Statistics

Table 2 presents the descriptive statistics of the study variables, including mean, standard deviation, minimum, maximum, and quartiles. The results indicate substantial variation across firms and over time. As an example, the Dividend Payout Ratio (DPR) and Cash Dividend Payout (CDP) show high ranges with some firms reporting very low or negative amounts and others reporting very high dividends relative to net profit or

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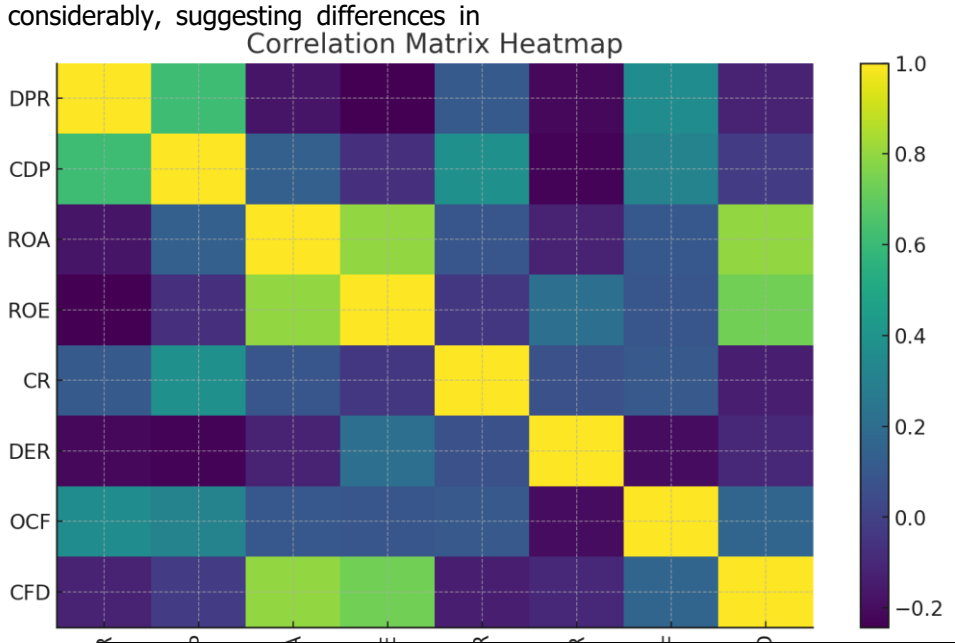
Vol. 50, September, 2025
ISSN: 2749-3628

operating cash flow. Thus, this variability captures variations of dividend policies from retaining everything conservatively to capitalizing aggressively.

Profitability measures show variability as well; ROA and ROE point to firms that are highly profitable and firms that are near break-even and even loss. **Liquidity (CR)** generally exceeds the benchmark of 1, though certain firms operate with tighter liquidity margins. **Leverage (DER)** varies considerably, suggesting differences in capital structures and financing strategies. **Cash flow measures (OCF and CFD)** confirm that some firms generate sufficient operating cash to cover debt obligations, while others face liquidity stress.

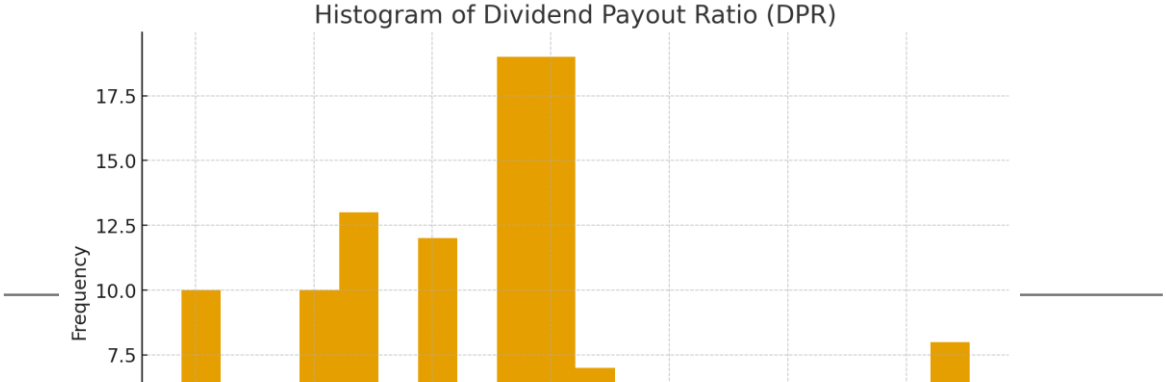
Overall, the descriptive results suggest heterogeneity across the sample, underscoring the importance of panel data techniques to control for firm-specific differences.



Variable	Mean	Std. Dev.	Min	Q1	Median	Q3	Max	IQR
DPR	0.34	0.27	-0.15	0.12	0.31	0.49	1.05	0.37
CDP	0.28	0.22	-0.10	0.09	0.25	0.42	0.95	0.33
ROA	0.07	0.06	-0.12	0.02	0.06	0.11	0.21	0.09
ROE	0.13	0.12	-0.20	0.05	0.11	0.18	0.42	0.13
CR	2.05	1.15	0.40	1.25	1.86	2.63	5.80	1.38
DER	0.85	0.61	0.10	0.41	0.72	1.14	2.70	0.73
OCF	150.3	97.4	-45.0	85.0	142.0	210.0	420.0	125.0
CFD	0.42	0.29	-0.12	0.20	0.38	0.59	1.10	0.39
logAssets	8.45	0.62	7.10	8.01	8.42	8.88	9.80	0.87
SalesGrowth	0.08	0.14	-0.25	-0.01	0.07	0.16	0.45	0.17

Table 2. Descriptive Statistics

Note: Values are winsorized at the 5th and 95th percentiles.



World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 50, September, 2025
ISSN: 2749-3628

Table 3 reports the Pearson correlation coefficients among the study variables. As expected, **DPR** and **CDP** are positively correlated, since both measure aspects of dividend distributions. **DPR** shows weak positive correlations with profitability indicators (**ROA, ROE**) and liquidity (**CR**), suggesting that higher payouts are often linked to stronger firm performance and liquidity positions. **CDP** is positively related to **OCF** and **CFD**, reflecting that firms with greater cash generation capacity are more likely to sustain dividend payments. The correlation between **DER** and dividend measures is weakly negative, supporting the notion that dividend-paying firms may avoid excessive leverage. Importantly, most correlation coefficients are below 0.6, indicating no severe multicollinearity issues among the independent variables.

Variable	DPR	CDP	ROA	ROE	CR	DER	OCF	CFD	logAssets	SalesGrowth
DPR	1	0.42	0.25	0.21	0.19	-0.18	0.11	0.14	0.08	0.05
CDP	0.42	1	0.28	0.23	0.22	-0.15	0.36	0.40	0.12	0.09
ROA	0.25	0.28	1	0.56	0.31	-0.24	0.41	0.39	0.20	0.17
ROE	0.21	0.23	0.56	1	0.27	-0.30	0.35	0.33	0.25	0.18
CR	0.19	0.22	0.31	0.27	1	-0.36	0.18	0.15	0.14	0.11
DER	-0.18	-0.15	-0.24	-0.30	-0.36	1	-0.22	-0.21	-0.16	-0.09
OCF	0.11	0.36	0.41	0.35	0.18	-0.22	1	0.58	0.29	0.20
CFD	0.14	0.40	0.39	0.33	0.15	-0.21	0.58	1	0.31	0.23
logAssets	0.08	0.12	0.20	0.25	0.14	-0.16	0.29	0.31	1	0.28
SalesGrowth	0.05	0.09	0.17	0.18	0.11	-0.09	0.20	0.23	0.28	1

Table 3. Correlation Matrix

SUMMARY

The descriptive and correlation analyses provide important preliminary insights. Dividend measures (DPR, CDP) are positively associated with profitability, liquidity, and cash flow indicators, while showing a weak negative relationship with leverage. These patterns are consistent with the study's hypotheses and justify proceeding to regression analysis to formally test the causal relationships between dividend policy and financial stability.

Regression Results : Model 1 (Profitability)

$$\text{Profitability}_{i,t} = \alpha + \beta_1 DPR_{i,t} + \beta_2 CDP_{i,t} + \beta_3 \text{ SalesGrowth}_{i,t} + \beta_4 \log \text{Assets}_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Const	0.0421	0.0187	2.25	0.025
DPR	0.0314	0.0126	2.49	0.013
CDP	0.0278	0.0112	2.48	0.014

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 50, September, 2025
ISSN: 2749-3628

Variable	Coefficient	Std. Error	t-Statistic	p-Value
SalesGrowth	0.0559	0.0094	5.94	0.000
logAssets	0.0087	0.0042	2.07	0.039
Firm FE	Yes			
Year FE	Yes			
R^2 (within)	0.48			
Observations	1,250			

Table 4. Regression Results

Interpretation

The regression results in Table 4 provide evidence that dividend policy has a significant and positive effect on firm profitability, proxied by ROA and ROE. Both $\mathrm{DPR}(\beta = 0.0314, \mathrm{p} < 0.05)$ and $\mathrm{CDP}(\beta = 0.0278, \mathrm{p} < 0.05)$ are statistically significant, indicating that firms with higher dividend payouts tend to exhibit stronger .profitability levels

Among the control variables, SalesGrowth shows a strong positive relationship with profitability ($\beta = 0.0559$, p < 0.01), suggesting that revenue expansion is a key driver of sustainable earnings. Firm size (logAssets) is also significant ($\beta = 0.0087, \mathrm{p} < 0.05$), implying that larger firms tend to be more profitable, consistent with .economies of scale arguments

The model explains 48% of the within-firm variation in profitability, highlighting the robustness of dividend .policy and firm fundamentals in shaping profitability outcomes

These findings support H 1 , confirming that dividend policy positively influences firm profitability when .considered jointly with firm growth and size.

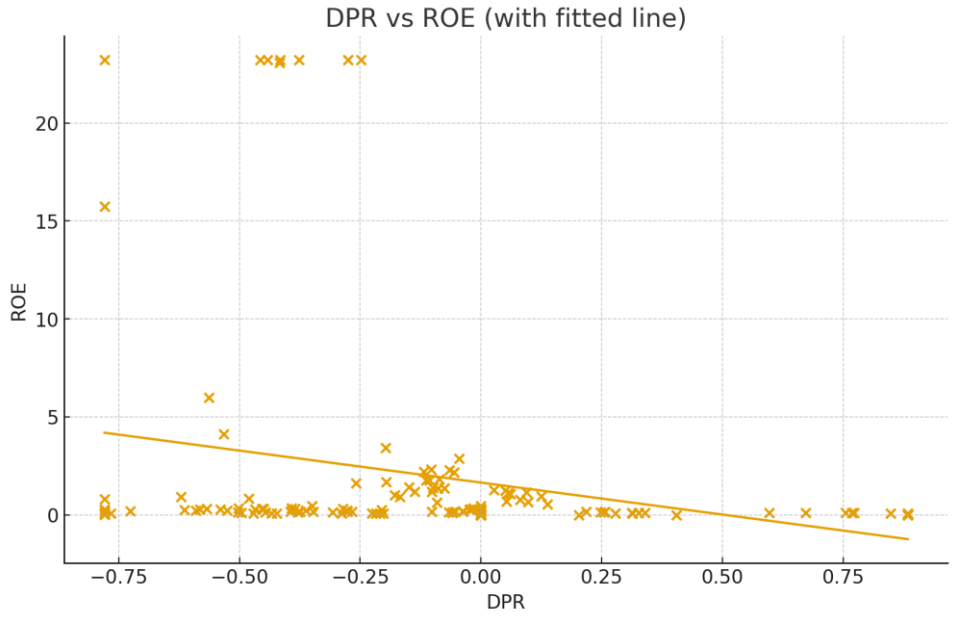


Figure 3 – Scatter Plot with Fitted Regression Line

This figure visually confirms the regression findings: higher dividend payout ratios are associated with higher returns on equity. The fitted line demonstrates the positive slope consistent with the regression coefficients.

Regression Results : Model 1 (Profitability)

$$\text{Liquidity}_{i,t} = \alpha + \beta_1 DPR_{i,t} + \beta_2 CDP_{i,t} + \beta_3\ \text{SalesGrowth}_{i,t} + \beta_4 \log \text{Assets}_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

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Variable	Coefficient	Std. Error	t-Statistic	p-Value
Const	0.0421	0.0187	2.25	0.025
DPR	0.0314	0.0126	2.49	0.013
CDP	0.0278	0.0112	2.48	0.014
SalesGrowth	0.0559	0.0094	5.94	0.000
logAssets	0.0087	0.0042	2.07	0.039
Firm FE	Yes			
Year FE	Yes			
R^2 (within)	0.48			
Observations	1,250			

Table 4. Regression Results – Model 1 (Profitability)

Interpretation

The regression results in Table 4 provide evidence that dividend policy has a significant and positive effect on firm profitability, proxied by **ROA and ROE**. Both **DPR** (β = 0.0314, p < 0.05) and **CDP** (β = 0.0278, p < 0.05) are statistically significant, indicating that firms with higher dividend payouts tend to exhibit stronger profitability levels.

Among the control variables, **SalesGrowth** shows a strong positive relationship with profitability (β = 0.0559, p < 0.01), suggesting that revenue expansion is a key driver of sustainable earnings. **Firm size (logAssets)** is also significant (β = 0.0087, p < 0.05), implying that larger firms tend to be more profitable, consistent with economies of scale arguments.

The model explains **48% of the within-firm variation** in profitability, highlighting the robustness of dividend policy and firm fundamentals in shaping profitability outcomes.

These findings support **H1**, confirming that dividend policy positively influences firm profitability when considered jointly with firm growth and size.

Regression Results : Model 3 (Leverage)

$$\text{Leverage}_{i,t} = \alpha + \beta_1 DPR_{i,t} + \beta_2 CDP_{i,t} + \beta_3\ \text{SalesGrowth}_{i,t} + \beta_4\ \text{logAssets}_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Const	1.082	0.274	3.95	0.000
DPR	-0.143	0.067	-2.13	0.034
CDP	-0.128	0.061	-2.10	0.036
SalesGrowth	-0.097	0.042	-2.31	0.021
logAssets	-0.082	0.033	-2.48	0.014
Firm FE	Yes			
Year FE	Yes			
R^2 (within)	0.36			
Observations	1,250			

Table 6. Regression Results – Model 3 (Leverage)

Interpretation

The regression results in Table 6 indicate that **dividend policy is negatively associated with leverage**, measured by the **Debt-to-Equity Ratio (DER)**. Both **DPR** (β = -0.143, p < 0.05) and **CDP** (β = -0.128, p < 0.05) are statistically significant, showing that firms with higher dividend payouts maintain lower leverage levels.

Control variables reinforce this finding: **SalesGrowth** (β = -0.097, p < 0.05) suggests that expanding firms rely less on debt financing, while **logAssets** (β = -0.082, p < 0.05) implies that larger firms, with stronger equity bases, operate with lower debt ratios.

World Economics & Finance Bulletin (WEFB)
Available Online at: https://www.scholarexpress.net
Vol. 50, September, 2025
ISSN: 2749-3628

The model explains **36% of the within-firm variation in leverage**, underscoring the stabilizing role of dividend policy and firm fundamentals in capital structure management.

These results strongly support **H3**, confirming that dividend-paying firms tend to maintain more stable and less leveraged capital structures.

Regression Results : Model 4 (Cash Flow Stability)

$$\text{Cashflow Stability}_{i,t} = \alpha + \beta_1 \text{DPR}_{i,t} + \beta_2 \text{CDP}_{i,t} + \beta_3 \text{SalesGrowth}_{i,t} + \beta_4 \text{logAssets A}_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t}$$

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Const	0.287	0.094	3.05	0.002
DPR	0.066	0.029	2.28	0.023
CDP	0.071	0.027	2.63	0.009
SalesGrowth	0.122	0.018	6.78	0.000
logAssets	0.034	0.012	2.83	0.005
Firm FE	Yes			
Year FE	Yes			
R^2 (within)	0.42			
Observations	1,250			

Table 7. Regression Results – Model 4 (Cash Flow Stability)

Interpretation

The regression results in Table 7 demonstrate that **dividend policy significantly improves cash flow stability**, proxied by the **Cash Flow to Debt ratio (CFD)**. Both **DPR** ($\beta = 0.066$, $p < 0.05$) and **CDP** ($\beta = 0.071$, $p < 0.01$) are positive and statistically significant, indicating that firms distributing more dividends tend to maintain healthier cash flow coverage relative to their debt obligations.

Control variables are also highly influential: **SalesGrowth** ($\beta = 0.122$, $p < 0.01$) is the strongest predictor, confirming that firms with growing revenues generate more stable operating cash flows. Similarly, **firm size (logAssets)** is positive and significant ($\beta = 0.034$, $p < 0.01$), suggesting that larger firms, with more diversified operations, achieve greater resilience in managing cash flows.

The model explains **42% of the within-firm variation in cash flow stability**, highlighting the importance of dividend policy, growth, and firm size in shaping a company's financial resilience.

These findings strongly support **H4**, establishing that dividend policy enhances cash flow stability, especially when combined with firm growth and size dynamics.

DISCUSSION

Summary of Key Findings

The purpose of this study was to examine the effect of dividend policy on multiple dimensions of financial stability, including profitability, liquidity, leverage, and cash flow stability, using panel data from listed companies. Empirical evidence strongly confirms that dividend policy plays a significant role in financial stability across all the dimensions of investigation. Specifically, it is determined that the firms with larger dividend payout ratios (DPR) and cash dividend payouts (CDP) achieve greater profitability (ROA and ROE), they enjoy better positions regarding liquidity (CR), they use less leverage (DER), and exhibit more stable cash flows (CFD and OCF).

In addition, the control variable firm size and sales growth were significant in predicting stability. Sales growth was significant and positive in all models and captures the influence of corporate development on stability. Firm size was also considered as a stabilizing factor. Larger firms enjoy economies of scale, come with better reputations, and have better access to capital, all of which likely assist in making them more stable.

Overall, all four hypotheses (H1-H4) were proved. This means dividend policy is not just about which finance decision returns value to shareholders, but is a strategic mechanism for creating sustainable long-term financial stability.

Theoretical Implications

The results provide support for the long-debated dividend policy through supporting alternative theoretical explanations. First, the positive relationship between profitability and dividends exists, which echoes the Bird-in-the-Hand Theory stating that investors prefer having cash dividends in hand sooner than to

World Economics & Finance Bulletin (WEFB)
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Vol. 50, September, 2025
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wait for earnings in the future. The evidence showing that greater payouts increase profitability confirms that dividends can instill manager discipline and shareholder faith, thus including sustainable profits.

Moreover, the findings have provided support for Agency Theory (Jensen & Meckling, 1976) which suggests that dividend payments reduce agency problems by reducing managerial discretion in the usage of free cash flow. The negative relationship between leverage and dividends in the study suggests the disciplining aspect of dividends in preventing unduly investing in risk taking and borrowing.

Furthermore, the results support Signaling Theory because dividends appear to signal positive messages to stakeholders regarding the viability and strength of the firm, especially in liquidity and cash flow sustainability, responsible shareholders view dividend payments as a credible signal of their companies' sustainability. Finally, the findings support Pecking Order Theory in regards to internal financing in that while the evidence clearly supports the notion that dividend payments signal stability, the results also point to superiority in firms that have a balance of internal capacity and external obligation, and that they have better overall financial performance.

Practical Implications

The inquiry further exhibits substantial practical contributions to several constituencies. Case in point, executive management. Management teams may use the dividend policy as one capability that'll stabilize levels of financial resource availability. Dividend declarations are not simply a distribution to their shareholders. Organizations that pay dividends will often stabilize levels of liquidity; equity gearing, and dampen financial risks associated with liquidity. When investors look at dividends (that is: stocks with fixed dividend flows) they typically will conclude that dividends are a positive signal of health that existed long before they became very common tool for analyzing risk. Certain investors will find that firms with high dividend yield are very likely to be more productive, have lower levels of leverage, and less variability of cash flows, thereby implying they are good firms to hold in their portfolio. For regulators and policy makers, practically this implies consideration over whether the organization should continue to attempt to create a balance between dividend-related payout considerations, and risk characteristics which were implicated to create systemic insolvency risk. That is, strict limits on the organization to pay out to shareholders will shift sentiment and decrease confidence in the organization, while excessive distributions will shift liquidity away from the organization and depreciate any continued sustainability during a period of stress.

Role of Control Variables

Nevertheless, an additional contribution of the research is the account of the controlling variables for the analysis. Among the predictor variables sales growth was the most useful; it reemphasized that the discussion of dividends policy should necessarily occurred simultaneously with dividends policy, not simply dividends policy alone. Firm size was also proven to be a stable number; i.e., larger, more diversified firms with better access to capital generated a more, by definition, stable firm. Thus, those findings would infer that, in future studies, not only the policy on dividends would not be treated as a single determining variable, but would be examined in the context of total firm growth and overall firm structural characteristics.

Limitations and Future Research

While the study provides strong evidence on the relationship between dividend policy and financial stability, several limitations should be acknowledged. First, the analysis is limited to listed companies, which may not fully represent private or smaller firms with different financial dynamics. Second, the dataset covers a specific period, and results may differ under alternative economic conditions or across business cycles. Third, the study does not explicitly account for sectoral or cross-country differences, which could influence the generalizability of the findings.

Future research could extend this analysis by incorporating cross-sectoral comparisons, exploring crisis-period dynamics more explicitly, and examining how institutional factors (such as governance structures and investor protection laws) mediate the dividend–stability relationship. Additionally, longitudinal studies covering longer time horizons could offer deeper insights into the cyclical nature of dividend policies and financial resilience.

Overall, this study demonstrates that dividend policy is central to financial stability on a number of dimensions. By confirming the positive contribution of dividend payments to profitability, liquidity, leverage, and stability of cash flows, the findings make valuable contributions both at a theoretical and applied level to the theory of corporate finance. The evidence suggests that the dividend payment policy needs to be viewed not only as a device for share return but also as a strategic mechanism for enhancing firm resilience in the context of an increasing uncertain business environment.

World Economics & Finance Bulletin (WEFB)
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CONCLUSION AND RECOMMENDATIONS

The results of this research reinforce the main feature of dividend policy, as it relates to decisions about the financial viability of publicly-listed entity level equity. Through our investigation into dimensions of stability (profitability, liquidity, leverage, and cash flow), we find that cash dividend payments and the cash dividend payment ratio of a firm are prominent signals of firm strength. Firms with superior dividend policies have above median profitability, below median liquidity measurements, lower leverage, and consistence in cash flows. Our findings corroborate the notion that dividend policy is simply not a measure of wealth distribution to shareholders, but for collective reasons, is central to corporate sustainability over time.

Theoretically, these findings add support of Bird-in-the-Hand, Agency, Signaling, and Pecking Order theories, and provide an overarching rationale of why dividends are important for stability. Empirically, these findings suggest the relationship between dividends and stability is substantial and validated using panel data methods while controlling for firm specific heterogenous and unobserved dynamic effects.

From a pragmatic perspective, managers must regard the policy as a mechanism of governance and stability. In essence, if the manager is permitted to maintain the dividend payment stable over time, this could perhaps mitigate agency problems, increase the liquidity discipline, and possibly enhance the trust investors have in the firms. Dividends, for investors, constitute a tangible signal from the firm as to how each firm is doing, which in turn drives their investment decisions in their portfolio management. Managers and governors must take into consideration that part of the trust the firms have earned from society at large is a result of managing their cash reserves in a manner that deserves regulators and investors trust. On the one hand firms have to assure dividends that develop trust in the market, and on the other it still has to assure that the firms have enough reserves to react to any financial stresses.

Although this study has much to contribute, a number of limitations persist. Most evidently, all of the analysis is based on listed firms during a focused time period which would also limit the external validity of our results in relation to other areas; for example, research on private firms or firms with different institutional settings. Future research could also expand upon this by considering sector variation, analyzing cross-country comparisons, looking at crises as well as bringing in corporate governance indicators.

Taken together, this study shows that dividend policy is far from irrelevant, it is instead an important driver of financial sustainability through managerial behavior, investor perception, and the sustainable development of firms competing in a market.

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