EXPLORING THE IMPACT OF FIRM CHARACTERISTICS ON DIVIDEND POLICY: INSIGHTS FROM PAKISTANI NON-FINANCIAL COMPANIES

Farhat Ullah Khan
Assistant Professor, Institute of Business Administration, Gomal University, Dera Ismail Khan, KP, Pakistan.
Email: farhatullahpk@gmail.com

Dr. Khalid Rehman
Assistant Professor, Institute of Business Administration, Gomal University, Dera Ismail Khan, KP, Pakistan.
Email: khalidrehman@gu.edu.pk

Muhammad Zulqarnain Safdar
Assistant Professor, Institute of Business Administration, Gomal University, Dera Ismail Khan, KP, Pakistan.
Email: zulqarnain.safdar@gu.edu.pk

Adnan Khan
Assistant Professor, Institute of Business Administration, Gomal University, Dera Ismail Khan, KP, Pakistan.
Email: adnankhan@gu.edu.pk

Muhammad Kamran Khan
Lecturer, Institute of Business Administration, Gomal University, Dera Ismail Khan, KP, Pakistan.
Email: kamragul9006@gmail.com

Taqi Ullah Khan
Government Commerce College, Dera Ismail Khan, KP, Pakistan.
Email: taqiullahk@yahoo.com

A B S T R A C T

Among the most challenging and often explored issues in the financial world is the impact of company-specific factors on dividend policies. Across Pakistan's non-financial sector, this study examines the impact of firm characteristics on dividend policy. In particular, the study examines how company characteristics, such as profitability, current earnings, cash flow, business risk, firm size, leverage, growth prospects, liquidity, and investment opportunities, influence dividend policy. By utilizing panel data techniques, this study analyzed 69 non-financial companies from 2016 to 2021. Based on the results obtained from the Gretl Statistical package, we found that the profitability and size of the companies contributed positively and significantly to the dividend policy. In contrast, the impact of cashflows and investment opportunities was negative and statistically significant. However, the rest of the firm's characteristics did not exhibit any effect. The study is expected to be of interest to financial managers, investors, and policymakers interested in dividend distribution strategies. Further, this study encourages further investigation across a wide range of industries, regions, and time periods as a result of industry- and country-specific variations. Understanding these nuances and variations would help us make better decisions about corporate finance.

1. INTRODUCTION

Paying dividends to stockholders is one of the most difficult decisions in corporate finance. It is a significant aspect of corporate finance that has implications for various stakeholders, including shareholders, management, and other market participants. It can affect shareholders' wealth, as it determines the cash

payments they receive from the company in the form of dividends. For investors who rely on regular income from their investments, dividends can be an important source of returns. Dividend policy decisions, such as the amount and timing of dividend payouts, can impact shareholders' wealth and influence their investment decisions. It can also affect the valuation of a firm. Firms with a consistent and attractive dividend policy may be perceived as more reliable and financially stable, which can enhance their stock price and market valuation. On the other hand, firms that deviate from the expected dividend policy may face market reactions and potential negative impacts on their valuation (Lestari, 2018).

The dividend policy of an organization tells investors and stakeholders about the company's health and profitability. By consistently paying high dividends, a company may signal to the market that it has stable earnings and positive prospects, while by retaining more earnings, a company may signal to the market that it intends to invest in growth opportunities or is concerned about its financial position. Dividend policy can influence stakeholders' perceptions and expectations about the firm's performance and prospects (Basri, 2019). Because ownership and control are separated in a company, dividend policies can affect agency costs. An employee's conflict of interest arises when the manager retains excess profits for personal gain or invests in projects that don't align with the company's interests. In some jurisdictions, dividend income may be taxed differently from capital gains or other types of income. A dividend policy can be a tool for aligning shareholders' interests with management, affecting cash flow available for discretionary expenditure. Dividend policy choices may affect shareholders' after-tax returns and their total tax liabilities. Investors, practitioners, and researchers must understand and analyze dividend policy decisions before making informed decisions (Petty, Titman, Keown, Martin, Martin, & Burrow, 2015).

Although dividend policies vary from one company to another, it remains one of the most challenging and frequently discussed topics in the financial world today(Lestari, 2018). Despite similarities between developed and developing countries, there is a significant difference due to contexts and methodologies (Baker, Dewasiri, Yatiwelle Koralalage, & Azeez, 2019). In spite of the growing number of factors identified in the literature, there is no universally accepted explanation for how companies decide how to distribute dividends (Al-Malkawi, Rafferty, & Pillai, 2010). Due to the differences among countries, companies, and markets, dividend decisions cannot be reduced to a single universal model (Baker & Weigand, 2015).

Many studies have shown that company characteristics influence dividend policies. There has, however, been no consensus regarding the factors that determine dividend policies.Most of these factors are based on various theoretical frameworks. As Ain & Manping (2022) point out, most of the firm characteristics are derived from theories of dividend policy for non-financial-trading companies. According to their findings, singling theory, agency cost theory, cashflow theory, bird in hand theory, and dividend irrelevance theory remain popular theories. We can gain a better understanding of how non-financial companies make dividend decisions by exploring these theories. A company's dividends provide a reliable indicator of its financial health, according to the Singling Theory. The theory holds that companies that pay higher dividends are more financially stable, so they attract more investors. In contrast, agency cost theory suggests that dividend payments can reduce agency conflicts between managers and shareholders. By distributing dividends, management shows its commitment to shareholders and reduces the temptation to produce value-destroying outcomes. In general, dividend distributions can significantly impact a firm's future financial prospects. The higher dividend payouts, the greater the chance that companies will attract investors, leading to more capital inflow and opportunities for growth. As a result of dividend payments, shareholders and managers are aligned in their interests and company decisions are made in their best interest, reducing agency problems. Using dividends strategically to enhance a company's reputation, attract investment, and foster sustainable long-term growth is essential for its long-term growth and success.

According to the bird-in-hand theory, dividend payments are more valuable to investors than potential capital gains. This theory suggests that investors prefer dividend payments over uncertain future capital gains. In contrast, dividend irrelevance theory claims that dividend policy has no impact on a company's value. This theory holds that investors do not care whether they receive dividends or reinvest the earnings. These two opposing theories provide different perspectives on dividends and their impact on shareholder value and growth. With these theories in mind, this study examines how dividend policies of Pakistani non-financial companies relate to profitability, earnings, cash flow, business risk, growth prospects, leverage, liquidity, and investment opportunities. In dividend policy literature, we selected these factors based on their relevance. We aim to contribute to the existing body of knowledge about dividend policy by providing insights into its determinants in the Pakistani context. As a result of examining these factors, the study will shed light on how companies decide whether to distribute dividends, thereby offering recommendations for better dividend policies that can enhance performance and shareholder value. The study is particularly relevant to Pakistani markets since dividend

policies play a crucial role in attracting and retaining investors. Moreover, the findings of this study can be useful to policymakers and regulators in formulating effective regulations and guidelines relating to dividend distribution. In the end, the study seeks to bridge the gap between theory and practice by providing practical implications for Pakistani companies and investors.

2. LITERATURE REVIEW

The influence of firm characteristics on dividend policies is well-known. These characteristics can often be used to explain dividend policy differences between firms and can provide information on dividend policy decisions. For investors, it is important to understand these firm characteristics to assess dividend policies. Further, firm dividend policy decisions can be influenced by these characteristics. Despite decades of research, no consensus has been reached as to what factors or characteristics determine dividend policy. The exact factors that determine dividend policy can differ greatly depending on the context, vary by country, industry, and company. It is difficult to determine a dividend policy that suits all companies, so many factors must be considered. However, an optimal dividend policy considers all relevant factors. There are many variables that keep shifting, which makes predicting a dividend policy like hitting a moving target difficult. There have also been several empirical studies conducted in the field of finance examining the factors influencing dividend policy. Previous literature has identified many factors that influence dividend policy.

Factors Influencing Dividend Policy

In the following sections, we discuss some of the widely used firm characteristics or factors that influence dividend policy. A few of these factors include profitability, current earnings, business risk, firm size, cash flow, investments, leverage, and liquidity. Companies need to understand how these factors affect dividend distribution to make informed dividend policy decisions. Investors can also use this knowledge to determine dividend payouts of different companies and decide what to invest in.\

Profitability

An important factor that influences dividend policy is a firm's profitability. In the literature, higher profitability has been correlated with higher dividend payouts (Lintner, 1956; Fama & French, 2001; Jensen, 1986). According to the agency theory, firms with higher profitability can distribute more dividends to shareholders, reducing agency conflicts between shareholders and managers. Dividends and profitability can also be explained by the pecking order and signaling hypotheses. The pecking order hypothesis says firms prefer internal financing over borrowing. Dividends are generally paid by companies following the pecking order hypothesis when they have a sufficient amount of money. This reduces borrowing needs and helps maintain a good credit rating. Consequently, companies adhering to the signaling hypothesis use dividends as a signal of financial health and good performance. Therefore, the company's share price will rise as investors become attracted to the company. A positive correlation exists between higher profitability and higher dividends according to both the pecking order and signaling hypotheses. The current study hypothesizes that profitability has a positive influence on dividend policy based on the above discussion. Prior literature also supports the relationship. According to Basri (2019), profitability influences the dividend policies of Indonesian government-owned firms significantly. Labhane and Mahakud (2016) found similar results when analyzing 240 Indian stocks listed on the National Stock Exchange between 1994 and 2013. Profitability was shown to positively influence dividend policy by Farooq, Al-Jabri, Khan, Ali Ansari, and Tariq (2022). As a result, the hypothesis is:

H:1 Profitability influences dividend policy positively and significantly.

Current Earnings

Another factor that impacts on a company's dividend policy is its current earnings. Companies may adjust their dividend policy in response to changes in their earnings. A company might increase dividend payments if earnings increase. In contrast, falling earnings can lead to a reduction or suspension of dividend payments. It is also possible for companies to reinvest their earnings. It may include investing in research and development, developing new products, or expanding operations. It has implications for signaling theory as well as Lintner's (1956) contention that earnings drive dividend policy. This indicates that a dividend policy can be used to communicate future prospects to investors. Following Lintner's study, a number of studies have confirmed his

findings, indicating that dividend policy plays a significant role in the decision to invest. Jabbouri and El Attar (2018), Yusof and Ismail (2016), and Baker and Jabbouri (2016) are a few of them. According to these studies, earnings have a positive impact on dividends. Therefore, the following hypothesis is proposed:

H2: Current earnings can affect dividends significantly and positively.

Business Risk

Increasing risk reduces the ability of a company to generate profits, which in turn reduces the ability to pay dividends. Consequently, dividends may be reduced or suspended, reducing dividend yields for shareholders (Dewasiri et al., 2019). Shareholders tend to receive lower dividends from companies with higher business risks since these companies have to prioritize resources to manage these risks. Conversely, low risk can result in higher dividend yields because the company is more likely to generate profits and pay dividends. As a result, the stock value can rise and the return on investment can be higher. It follows that business risk and dividend yield are inversely related. A similar relationship was proposed by Bulan, Subramanian, and Tanlu (2007) and Hoberg and Prabhala (2009), but it's been empirically tested by Tahir and Mushtaq (2016), Al-Najjar and Hussainey (2009), Komrattanapanya and Suntraruk (2014), Patra, Poshakwale, and Ow-Yong (2012), and Bokpin (2011). However, Dewasiri et al. (2019) found no significant results when testing empirically. Accordingly, higher business risks lead to lower dividend yields, indicating a negative relationship between business risk and dividend yield. As a result, we propose:

H3: Business risk negatively influences dividend policy.

Free Cash flow

Dividend policy is also influenced by cash flow availability. According to Jensen's Free Cash Flow theory (FCF), firms with a high FCF pay more dividends, while those with a low FCF invest more. Free cash flow, however, does not necessarily guarantee dividend payments, because the excess cash can also be used for share buybacks or debt reduction instead. It is also important to note that low free cash flow doesn't mean a company can't pay dividends, as it may still secure financing in other ways. Several empirical studies have tested this theory, with mixed results. Kadioglu and Yilmaz (2017) used Borsa Istanbul companies to test this hypothesis. They found a negative correlation between free cash flow and dividends. In his study between 2009 and 2014, Yeo (2018) examined the impact of free cash flow on 135 shipping firms' dividends and investment decisions. Free cash flow negatively affects dividend payout ratios. Prša et al. (2022) examined Croatian firms' dividend payouts and free cash flows. The authors examined 70 Zagreb Stock Exchange-listed companies. Positive correlations were found in some years, but not significantly. Rochmah and Ardianto (2020) examined data from 186 Indonesian Stock Exchange (IDX) manufacturing companies to test the hypothesis that dividend premiums and free cash flow influence dividend policy. There was a positive impact of catering dividends on free cash flow. Lestari (2018) analyzed 32 Indonesian stock exchange-listed manufacturing companies and found that free cash flow has a significant positive impact on dividend policy. There is evidence that free cash flow affects dividend yield in both positive and negative ways, so the following hypothesis is proposed:

H4: Free Cash flow has a significant impact on dividend yield.

Firm Size

According to agency cost theory, large ownership dispersions may hinder shareholders' ability to monitor management's activities, resulting in misallocation of resources and higher costs. Consequently, shareholder value can decrease due to lack of transparency (Dewasiri et al., 2019). One way shareholders can gain insight into the activities of management is through dividend policy. Lestari (2018) reports that larger organizations tend to have higher dividend payout ratios than smaller ones. Since larger organizations have more resources and a larger shareholder base, they can monitor management activities better. This means that larger companies are less likely to invest in projects that would increase their competitive advantage. In contrast, smaller organizations can take advantage of new opportunities faster. Due to higher transaction costs, smaller firms pay dividends less frequently, according to Holder et al (1998). Moreover, Redding (1995) finds that large firms have a greater chance of paying dividends since they are liquid, and institutional investors prefer stocks that pay dividends. It appears that a firm's size influences their dividend policy. Large firms are able to pay dividends more frequently and have more resources to invest in transactions. The larger the firm, the more likely it is to pay dividends. Several previous studies have confirmed this effect, including those by Dewasiri et al. (2019),

Nyere and Wesson (2019), Joseph (2019), Das (2017), Yusof and Ismail (2016), Al-Malkawi (2008), and Nizar Al-Malkawi (2007). As a result, the following hypothesis is proposed:

H5: The size of the firm has a positive and significant impact on dividend policy.

Leverage or debt Levels

Debt levels or financial leverage play a significant role in determining dividend policy. According to signaling theory and pecking order theory, firms with lower levels of debt are more likely to pay dividends as a signal of their financial strength. Evidence from empirical studies suggests a negative relationship between debt levels and dividend payouts (Dewasiri et al., 2019). Yet, there is evidence that high levels of debt can result in increased dividend payouts by reducing agency costs and aligning the interests of shareholders and managers. When a company uses leverage to finance investments, it takes advantage of external funding sources to maximize shareholder returns. It will therefore require the principal to pay more interest, have a smaller profit, and incur fewer monitoring expenses. It has been shown in several studies that financial leverage negatively impacts cash dividends. Fitriana (2021), Periyathampy and Navaratnaseel (2014), Asif, Rasool, and Kamal (2011), and Ahmed and Javid (2009) are among these studies. Hence, the following hypotheses:

H6: Leverage has a significant negative impact on dividend yield.

Growth Prospects (Life cycle theory and growth)

During growth and development, companies have different dividend policies (Bhattacharya, Chang, & Li, 2020), which is consistent with the life cycle theory of dividends. Reinvesting earnings rather than paying dividends is the best strategy for companies in their early stages. With maturity and limited growth opportunities, companies should begin paying dividends (Baker, 2009; Hasnawati,2020). A company's asset growth also influences dividends. Earnings can help increase asset growth. Higher profit retention means shareholders are less likely to receive their full share. As reported by Abor and Bokpin (2010), firms with a high growth rate are more likely to pursue low dividend payout ratios due to the possibility of dividends and growth utilizing resources. Growing companies generally pay fewer dividends to retain more earnings because of their greater financial burden to financial growth. The relationship between growth prospects and dividend policy has been found to be negative (Hasnawati, 2020; Rozeff, 1982; Miller & Modigliani, 1961).The growth theory suggests that firms with higher growth prospects must retain more earnings to finance expansion opportunities. Al-Kayed (2017), Dewasiri et al. (2019), and Basri (2019) also found that companies with higher growth prospects pay lower dividends. To test the relationship between dividend policy and growth prospects, the following hypothesis is proposed.

H:7 Growth prospects affect dividend policy negatively.

Investment Opportunities

A company's ability to retain and reinvest profits can be affected by investment opportunities when determining a dividend policy. Firms determine their dividend policies based on the availability of investment opportunities (Basri, 2019). A company with more investment opportunities will pay a lower dividend. In contrast, companies with fewer profitable investment opportunities may pay more in dividends. Paul and Huang (2017) argue that high dividend payouts should be reserved for firms with low investment opportunities. As a result, there is a negative correlation between dividend policy and investment opportunities. Studies have found that investment opportunities and dividend policies are negatively correlated, including Abor and Bopkin (2010), Dewasiri et al., (2019) and Al-Kayed (2017). In a study by Yousaf and Ismail (2016), however, a positive correlation has been found. Specifically, the following hypothesis has been proposed:

H8: investment opportunities negatively affect dividend policy.

Liquidity

A company's liquidity also affects its dividend policy. Liquidity makes dividends easy to pay for a company. It can also be an indicator of a company's financial strength to investors. It is capable of protecting against financial distress as well as generating dividends. Among the factors affecting dividend policy, Baker et al. (1985) claim that liquidity is the most important factor. Banerjee et al. (2007) proposed the liquidity hypothesis of dividends, which has recently been backed by Zhiqiang et al. (2015). Baker and Kapoor (2015)

also find strong support for the liquidity hypothesis in the case of Indian stock dividends. According to the liquidity hypothesis of dividends, liquidity and dividend policy are inversely related. Dividend payments tend to be higher for companies that have a high level of liquidity, while dividend payments tend to be lower for companies with a low level of liquidity. It is due to the fact that companies with higher liquidity can use those funds to finance investment opportunities rather than give out dividends to shareholders. As a result, they tend to distribute fewer dividends to shareholders as a result (Patra, Poshakwale, & Ow-Yong, 2012). This study proposes the following hypothesis regarding liquidity as a determinant of dividend policy:

H:9 There is a negative impact of liquidity on dividend policy.

3.   RESEARCH METHODS

The study utilized a quantitative research design based on secondary data. The data was collected from 69 companies operating in 16 sectors of the non-financial sector of Pakistan between 2016 and 2021. Missing values and outliers were removed from the sample of companies that have paid dividends regularly during the entire period. The data was collected from the official State Bank of Pakistan (SBP) website.

Variables

Dividend yield was the dependent variable, while profitability, current earnings, business risk, free cash flow, leverage, firm size, growth prospects, investment opportunities, and liquidity were the independent variables. A detailed list of variables is provided in Table 1, along with their computations, references, and expected signs of their relationship to dividend yield.

Table 1: Variables of the study with their computations, relevant studies, and their expected signs

Variable	Proxy	Computation	Relevant studies	Expected sign
Dependent variable				
Dividend Policy	Dividend Yield	Earnings per share ÷ Market price per share	Al-Malkawi (2007), Patra et al. (2012) and Al-Kayed (2017).	Nil
Independent Variables				
Profitability	Return on Equity (ROE)	Net income after taxes ÷ Shareholders Equity	Farooq et al. (2022), Basri (2019), Labhane and Mahakud (2016)	+ve
Current Earnings	Earnings per share	Net Income after taxes ÷ Number of common shares outstanding	Baker et al. (2019) Jabbouri and El Attar (2018) Yusof and Ismail (2016), Baker and Jabbouri (2016)	+ve
Business Risk	Year to year volatility of earnings	(Current year's earnings - Previous year's earnings) ÷ Previous year's earnings	Tahir and Mushtaq (2016), Al-Najjar and Hussainey (2009), Komrattanapanya and Suntraruk (2014), Patra, Poshakwale, and Ow-Yong (2012), and Bokpin (2011	-ve
Leverage	Financial Leverage	Total liabilities / Total Equity	Fitriana (2021), Periyathampy and Navaratnaseel (2014), Asif, Rasool, and Kamal (2011), Ahmed and Javid (2009)	-ve
Size	Log of total assets	Natural log of Total Assets	Dewasiri et al. (2019), Nyere and Wesson (2019), Joseph (2019),Das (2017), Yusof and Ismail (2016), Al-Malkawi (2008), and Nizar Al-Malkawi (2007)	+ve
Cash flow	Free Cash flow	(Income before Interest, taxes, depreciation) - (sum of interest, taxes, and dividends)	Kadioglu and Yilmaz (2017), Yeo (2018), Prša et al. (2022), Rochmah and Ardianto (2020), Lestari (2018)	+ve or -ve
Investment opportunities	Investment opportunities	Market price per share ÷ Book price per share	Huang and Paul (2017), Abor and Bopkin (2010), Dewasiri et al., (2019) and Al-Kayed (2017)	-ve
Growth prospect	Retained earnings to Total Assets	Retained earnings. ÷ Total Assets	Al-Kayed (2017); Dewasiri et al.(2019) Basri (2019) Hasnawati(2020)	-ve
Liquidity	Current ratio	Current assets ÷ current liabilities	Baker and Kapoor (2015), Zhiqiang et al. (2015), Banerjee et al. (2007)	-ve

Econometric Model

This study employed the following econometric model:

$DY_{it} = \beta_0 + \beta_1 (PF_{it}) + \beta_2 (CE_{it}) + \beta_3 (BR_{it}) + \beta_4 (Lev_{it}) + \beta_5 (SZ_{it}) + \beta_6 (CF_{it}) + \beta_7 (IO_{it}) + \beta_8 (GP_{it}) + \beta_9 (LQ_{it}) + \varepsilon_{it}$ ....(1)

The dividend yield is represented by DY, while profitability, current earnings, business risk, leverage, size, cash flow, investment opportunities, growth prospects, and liquidity are represented by Pf, CE, BR, Lev, SZ, CF, IO, GP, and LQ. ε indicates an error term. Companies (each cross section) and times are represented by the subscripts i and t respectively.

4. RESULTS

An analysis of panel data was conducted on 69 firms from 16 sectors in Pakistan's non-financial sector from 2016 to 2021. The analysis was performed using "Gretl" software version 2023a. An analysis of the data was conducted by running two models, one with fixed effects and another with random effects. Table 2 shows the results of both models.

Table 2: Fixed-effects and Random effects estimates: Dependent variable: Dividend Yield

Variables	Fixed Effect Model	Random Effect Model
Constant	-0.01745	-0.02008
	(0.02394)	(0.02197)
PF	0.1426***	0.1271***
	(0.01886)	(0.01606)
CE	-1.104e-05	-1.148e-06
	(3.005e-05)	(2.774e-05)
BR	-0.0002054	-0.0003209
	(0.0002642)	(0.0002497)
Lev	0.001258	0.001751
	(0.001670)	(0.001597)
SZ	0.003874**	0.004033***
	(0.001503)	(0.001390)
CF	-0.1271***	-0.1257***
	(0.01750)	(0.01605)
IO	-0.0006570***	-0.0007144***
	(0.0001540)	(0.0001445)
GP	0.0004182	0.0008540
	(0.01380)	(0.01222)
LQ	-0.003088*	-0.002525
	(0.001670)	(0.001557)
N	414	414
Adj. R^2	0.2196	
lnL	830.4	776.0

Standard errors in parentheses. *, **, and *** indicates 10, 5 and 1 percent level of significance

Source: Author's own calculations

A fixed effect model assumes that each independent variable has its own intercept, which is not correlated with any of the independent variables. By controlling the fixed effect of each independent variable, the model estimates the effect of each independent variable on the dependent variable. In the Random Effects Model, intercepts are assumed to be random variables that are correlated with the independent variables. While controlling for the random effect of each individual entity, the model estimates each independent variable's effect on the dependent variable. The Hausman test was used to determine whether a fixed effect or random effect model was adequate. This test tests the null hypothesis that random effect models are appropriate. A fixed effect model is appropriate if we fail to reject the null hypothesis; otherwise, a random effect model is appropriate. In Table 3, Hausman test results indicate that a chi-squared statistic with 9 degrees of freedom with a p-value greater than 5% is insignificant. Therefore, a random effect is superior to a fixed effect model since the null hypothesis cannot be rejected.

Table 3: Hausman Test for Fixed and Random Effect

Test	Chi Square	Degree of freedom	p-value
Hausman test	12.4246	9	0.1904

Source: Author's own calculations

A total of nine hypotheses were tested following the estimation of regression coefficients. According to the first hypothesis, profitability influences dividend yields positively and significantly. According to Table 2, the coefficient of profitability (PF) is positive and statistically significant since the p-value is less than 1%. It is evident that there is a strong relationship between dividend yield and profitability. The positive coefficient indicates that higher profitability leads to higher dividends. Statistical significance at the 1% level indicates that this link is not random and provides trustworthy evidence. Thus, hypothesis H1 is supported. The same positive relationship between profitability and dividend yield was found by Dewasiri et al. (2019). The results obtained in this study are further validated by their findings, adding to the growing literature. Across different studies, consistent findings suggest the relationship between profitability and dividend yield is robust and reliable. Investors and financial analysts who use dividend yield to gauge a company's financial health and potential returns will be affected.

According to the second hypothesis (H2), "Current earnings (CE) have a positive and significant effect on dividend policy". At the 5% level of significance, the coefficient of CE was negative and statistically insignificant, which means that the relationship between current earnings and dividend yield is not strong enough to be considered statistically significant. Thus, there is not enough evidence to support the hypothesis that current earnings are positively correlated with dividend yields. As a result, hypothesis H2 is not supported. Grace et al. (2019) found a similar conclusion after examining the dividend policy of 36 industrial companies for 20 years (1997). Meanwhile, Baker et al. (2019) found contrasting results. The authors found a strong positive relationship between current earnings and dividend yield, indicating that higher earnings mean higher dividends. In order to fully understand the relationship between current earnings and dividend yield, further research is needed. It appears that the relationship between current earnings and dividend yield varies across contexts or time periods.

Third hypothesis: business risk negatively impacts dividend policy. Table 2 shows that BR has a negative coefficient, indicating a negative relationship. It is, however, statistically insignificant. Dividend yield is unlikely to be affected significantly by business risk, despite their negative relationship. Komrattanapanya and Suntraruk (2014) found a statistically significant negative correlation between business risk and dividend yield. We did not find statistical significance in our study, but that does not necessarily mean there is no relationship.

Fourth hypothesis: Free cash flow (CF) affects dividend yield significantly. Results showed CF had a significant negative impact on DY. It suggests that firms with higher free cash flow are less likely to distribute dividends. The findings of the study are consistent with those of Kadioglu and Yilmaz (2017), and Yeo (2018), while contradicting those of Pra et al. (2022), Rochmah and Ardianto (2020), and Lestari (2018). The conflicting findings highlight the complexity of the dividend yield/cash flow relationship.

Fifth hypothesis: " The size (SZ) of the firm has a positive and significant impact on dividend yield". Results showed a positive correlation between firm size and dividend policy. The dividend yields of larger companies were higher than those of smaller ones. It supports the notion that larger firms have more stability and resources, enabling them to pay out more dividends to shareholders. These findings confirm that larger firms tend to distribute more profits in the form of dividends, in addition to those found by Dewasiri et al. (2019), Nyere & Wesson (2019), and Joseph (2019). It is clear from these consistent findings across multiple studies that a firm's size affects its ability to generate dividends and distribute them to shareholders.

The sixth hypothesis was that " Leverage (LEV) has a significant negative impact on dividend yield ". However, the results were positive and insignificant. As a result, this hypothesis was not accepted by the study. It appears that using debt in the capital structure does not have a significant impact on dividend yield based on the positive and insignificant results found in this study. A study by Fitriana (2021) found that debt had a significant negative impact on dividend yield, indicating that leverage does affect dividend payments. There is a need for further research in this area as a result of these contrasting findings. Leverage may affect dividend yield differently in different industries or companies. There is also a possibility that the methodologies used in these studies contributed to the differences in results. A more comprehensive understanding of dividend payments and leverage could be gained by examining these factors in future studies.

According to the seventh hypothesis, "Growth prospects (GP) affect dividend yield (DY) negatively". It was found that GP impacts DY positively, but statistically insignificantly. Therefore, if growth prospects

improve, dividend yields may decline slightly, although the relationship is not statistically significant. Based on these findings, companies with high growth prospects may still choose to distribute dividends to shareholders, although the dividend amount may be slightly lower than for companies with lower growth prospects. Investors who rely on dividend income should carefully consider the investment opportunities of the company before investing. The results contradict those of Al-Kayed (2017), Dewasiri et al. (2019), Basri (2019), and Hasnawati (2020), who found GP to be negatively correlated with DY. It's important to note that these previous findings may not be applicable to all companies and industries since the relationship between growth prospects and dividend yield varies. Besides the company's financial health, cash flow, and investment strategy, other factors are also important to consider. Consequently, investors should conduct thorough research before concluding whether a company's growth prospects affect its dividend yield.

According to the eighth hypothesis of the current study, " Investment opportunities (IO) negatively affect dividend yield". Study results confirmed the negative impact of IO on DY, which was also statistically significant at the 1% level. By controlling other relevant factors, the study found that companies that have greater investment opportunities tend to have lower dividend yields. It would seem that management would prefer to reinvest profits into the business rather than distribute them to shareholders. It is consistent with Huang and Paul (2017), Abor and Bopkin (2010), Dewasiri et al., (2019) and Al-Kayed (2017). In addition, these studies found a negative correlation between investment opportunities and dividend yields, providing more evidence that companies with more growth prospects are less likely to pay dividends. The findings of this study add to the existing literature by providing evidence that investment opportunities impact dividend policy. Investing in companies with high investment opportunities can have significant implications for investors who rely on dividend income and for financial managers who may have to consider alternative methods of creating value.

According to the ninth and last hypothesis, " There is a negative impact of liquidity (LIQ) on dividend yield ". The current study confirms the hypothesis. Therefore, companies with higher liquidity may have lower dividend yields. Companies that have high liquidity are likely to reinvest their excess cash into growth opportunities rather than distribute it to shareholders as dividends. Therefore, when evaluating a company's dividend yield, investors should not only consider its growth prospects, but also its liquidity. This hypothesis may not hold true for all companies, as different factors determine each company's dividend policy. Several previous studies have found an impact of liquidity on dividend yields, including Baker and Kapoor (2015), Zhiqiang et al. (2015), and Banerjee et al. (2007).

5.   CONCLUSION

In this study, we aimed to identify factors or variables that may influence Pakistani non-financial firms' dividend policies. We selected 69 companies from various sectors of the Pakistani non-financial sector as a sample. A number of factors have been proposed to have a significant impact on dividend policy, including profitability, current earnings, business risk, firm size, financial leverage, free cash flows, growth prospects, and liquidity. The factors were identified based on agency cost theory, signaling theory, pecking order theory, dividend irrelevance theory, life cycle theory, and past academic literature. Panel data regression was used to assess the impact of these factors on dividend policy from 2016 to 2021. Based on the panel data regression, profitability and firm size had a positive and significant impact on dividend policy. Therefore, companies with higher profitability and larger firm sizes are likely to have higher dividend yields.

The dividend policy was negatively influenced by investment opportunities and cash flows. As a result, companies with higher cash flows and more investment opportunities may have lower dividend yields and reinvest their earnings rather than distribute them as dividends. Other factors, such as current earnings, business risk, financial leverage, growth prospects, and liquidity, did not significantly influence dividend policy. When it comes to determining dividend payouts, these factors do not have a significant influence on the decision-making process. Corporate governance or market conditions may play a more critical role in determining dividend policy than other factors.

In order to gain a deeper understanding of how these factors interact with dividend decisions, further research and analysis are needed. Even so, the current findings provide important insights into factors that have little effect on dividend policy. When making investment decisions, these factors should still be taken into account. The current earnings of a company indicate its ability to generate profits and pay dividends in the future. In order to maintain dividend payouts, a company must assess its level of uncertainty and volatility. Financial leverage reflects a company's debt levels, which may affect its ability to meet dividend obligations.

Growth prospects can indicate future profitability and potential for dividend increases.

Lastly, liquidity measures a company's ability to convert assets into cash to fulfil dividend payments. Although these factors may not have shown a significant relationship with dividend policy in this instance, they remain vital considerations for investors. It is important to assess a company's financial strength before investing in its stock. Additionally, investors should review a company's dividend policy on a regular basis. However, it is important to note that these findings may vary across different industries and countries. Additionally, it is crucial to consider the specific objectives and preferences of individual companies analysing their dividend policies. For some firms, prioritizing growth and expansion may take precedence over immediate shareholder payouts. Therefore, a comprehensive analysis that takes into account various factors and contexts is necessary to fully understand the determinants of dividend policy.

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