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# Impact of Dividend Policy on Firm Performance: Evidence from Non-Financial Firms of Pakistan

Muhammad Zulqarnain Jatoi[1], Abdul Rasheed[2], Khalil-Ur-Rehman Wahla[3]

[1] Khwaja Fareed University of Engineering & Information Technology, Rahim Yar Khan, Pakistan.
Email: mzulqarnainjatoi@gmail.com
[2] Khwaja Fareed University of Engineering & Information Technology, Rahim Yar Khan, Pakistan.
[3] Khwaja Fareed University of Engineering & Information Technology, Rahim Yar Khan, Pakistan.

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**ABSTRACT**

This study has aim to evaluate whether the policies of divided affects the performance of non-financial firms that are publically traded in Pakistan. Data was collected between 2010 and 2021 from the State Bank of Pakistan's website and through financial statement analysis of non-financial businesses. Certainly! According to the SPSS results, there is a noteworthy positive correlation between Return on Equity (ROE) and Dividend Policy. This implies that as Financial Leverage (FL), Dividend per Share (DPS), Earning per Share (EPS), and Dividend Pay-out Ratio (DPOR) increase, and the ROE also rises for all of the non-financial firms included in the study. Additionally, a significant positive connection between Dividend Policy (which includes all of the variables FL, EPS, DPS, and DPOR) and Return on Assets (ROA) was found. I can rephrase that for you! Therefore, this research provides evidence that Dividend Policies have significant influence on Firms/Companies Performance.

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Corresponding Author's Email: mzulqarnainjatoi@gmail.com

## 1. Introduction

The study's goal is to examine how dividend policy (DP) influences the success of companies traded on the Pakistan Stock Exchange (PSX). In the business world, dividend policy becomes a significant subject. Many issues are being dragged on by a Pakistani company's dividend policy (DP) on the stock market. Many economists have analyzed the DP in recent years. According to Black (1976), "The more we examine the whole study, its looks like such a piece with parts which don't suitable properly." Yet, dividend strategy also impacts the business's success. The announcement of payment of dividend to a shareholder is known as a DP. The distribution of profits to owners is referred to as a dividend. A shareholder benefits from the dividend as compensation for their risk. The management chooses how much return on investment the shareholder will receive. Performance of the company is mostly influenced by variables other than DP. The choice of dividend distribution is one of the four components that is most crucial in finance. Prudence and globalization, when done correctly and quickly, empower firms in Pakistan with the knowledge they need to succeed. Companies need DPs to succeed. Dividends strengthen the framework's advancement. The dividend could cut agency expenses. Counsel or surplus are dividends.

The administration believed a DP would significantly impact share value. The best policy minimized pricey items and advised shareholder estate reduction. Modigliani and Miller have sermonized dividend's impact on business quality. This invalidated a company's scope of vision and undermined its policies. Stockholders resist dividends and other market benefits. Jonson and Mackling's proposed agency theory (1976). As long as there is no accompanying structure of applicability issue and objective discrepancy, the conductor may not be adequate to increase shareholder wealth. Jenson argues that by approving managers' insufficient free capital gains, a full allocation of profits that compensates dividends has the potential to enhance the reputation of a company. As long as the dividend is well-known to be advantageous for corporate compliance

and long-term situational analysis, it suggests association appointment. For evaluating how DP affects company performance, we employ a variety of variables. As independent variables, DPOR, EPS, PER, and FL are used; ROA and ROE are used as dependent variables. The firm performance is measured by ROA and ROE. This research paper contains five parts:

### 1.1. The Objective of this Study

The primary objective of this study is to analyze the potential impacts that DP could have on publicly traded non-financial companies on the Pakistan stock exchange. Additionally, this research seeks to determine the relationship between dividend policy and ROA, as well as the relationship between dividend policy and EPS. Research Questions are (i) How do dividend policies and business performance relate to one another? (ii) How do dividend policy and ROA relate to one another? (iii) How do dividend policy and ROE relate to one another?

## 2. Literature Review

Ali (2022) examined how dividend policy affects business performance in high- and low-debt scenarios for all Karachi stock market non-financial sector enterprises. The study used balance sheet data from 2006 to 2011 from Pakistan's state financial institution to analyze 122 non-financial entities. Panel data models examined how dividend policies affect business performance under high or low leverage. The study used performance indicators like Tobin's Q and Return on Equity as structural variables, the company's lifespan as the control variable, and debt as the moderating variable. Further it is found that ROA and Tobin’s Q is positively correlated and influenced by the dividend payout ratio when corporations had both low and high levels of liability. Performance and dividend payout ratio were positively correlated for all KSE non-financial enterprises without liabilities.

Rahman (2018) looked into whether Pakistan's cement industry's dividend policy affected overall firm performance. Information acquired from secondary sources, including annual reports of firms and the website of the Pakistan Stock Exchange, which were available between 2012 and 2016, was used to compile this study. The OLS findings show that there is a weak but significant relationship between ROE and D.P.S., suggesting that increasing the price of dividends per share will increase return on equity for the chosen firms. Moreover, an important link between R.O.E. and EPS was found. A substantial correlation between ROE and financial leverage and company overall performance was established in the case of firm length, supporting the relevant dividend coverage assumptions.

According to research conducted by Hafeez, Shahbaz, Iftikhar, and Butt (2018), there is a connection between share coverage and firm performance. Design/Methodology: The sample covered fifteen developed companies from 2014 to 2017. On the basis of the financial statements of the selected manufacturing companies, time collection data were computed. Although DPOR, EPS, and price earnings ratio had been modelled as independent factors, ROE and ROA were employed as dependent variables. Techniques for evaluating records have been utilized with multiple regression, including correlation and descriptive. Results demonstrate that every independent variable has a strong link with every structured variable. Return on investment is unquestionably influenced by dividend payout ratio, earnings as a percentage, and charge earnings ratio. The difficulty of our investigation is that we only look at 15 manufacturing companies, while various researchers employ a sizable sample, and various industry firms presume make.

Farrukh, Irshad, Shams Khakwani, Ishaque, and Ansari (2017) within the framework of corporate finance, it is still unclear if dividend policy impacts shareholder wealth. This review paper's goal was to determine how profit inclusion affected investor abundance and business performance generally in Pakistan. Application of dividend policy had been one of the prominent contentious topics belongs to corporate finance. We still lacked a compelling explanation for how dividend coverage behaved despite several studies that sought to show problems with the dividend policy. Research included variables were dividend coverage, firma performance and shareholder wealth. Dividend yield and dividend per percentage are two indicators of dividend policy. Proportional profits and share fees are employed as stand-ins for shareholder wealth. The performance of an organization is assessed using fairness. According to the regression results, dividend policy significantly affects shareholder wealth and firm success. In that, the consumers-impact theory, the supported dividend relevance concept, the signaling effect principle, and the chicken-in-hand idea are all examined. The study applauds the company's financial managers for

putting in place a reliable, potent, controlled, and goal-oriented dividend policy along with a robust supervision context ruled by investment market place controlling bodies to enhance the production of businesses and shareholder capital in Pakistan. To protect investors' capacity to make wise investment decisions in listed firms, sufficient company transparency about dividend distribution and dividend proportionate to percentage is also necessary.

Arif and Akbarshah (2013) investigated the factors affecting dividend coverage. The research was conducted in economically underdeveloped areas of Pakistan. The five most significant characteristics discovered in this analysis are profitability, length, tax, investment alternatives, and the stage of the company's life cycle. This study examined 174 non-financial Karachi stock market companies from 2005 to 2010. First, the non-financial sector as a whole was examined to determine the correlations between variables, and then specific non-economic sector subsectors. The entire zone study has been carried out using panel statistical analysis. Both a sectorial test and a region-smart regression evaluation have been performed. Profitability, tax, and regulatory considerations are the most important variables that affect dividend policy. Anton (2016) investigated the impact of dividend coverage on firm cost. Our sample consists of sixty-3 non-economic firms indexed at the Bucharest inventory change over the length 2001-2011. After adjusting for a number of factors that are specific to the company, we discovered that the dividend pay-out ratio has a positive influence on the firm's worth when we used a version of the data that was inflexible. Furthermore, leverage and company size were discovered to have a tremendous impact on company value.

Ouma (2012) discussed that there exist several theories on the significance, or lack thereof, of dividend policy, and various authors continue to present diverse findings from research on the related to dividend policy. The impact of dividends on the value of NSE-traded companies is the subject of this research. After conducting a regression analysis to determine whether or not dividends have an effect on a company's performance, researchers concluded that dividend payments due, in fact, improve a company's bottom line. Therefore, it can be determined that an appropriate dividend policy developed is essential for managers to enhance firm performance and ultimately increase shareholder value.

Kulathunga and Azeez (2016) examined the relationship between possession arrangement sorts along with dividend coverage of indexed groups within the Colombo inventory alternate. A panel information is obtained from the once a year reports of 77 groups over the length 2006-2014. The regression effects imply that possession identification count in defining the dividends. The company size, cash flow, destiny increase occasion variables also are be counted for dividend coverage. The FL is not a critical variable in defining dividend policy. Buyers may use the data to predict dividend distributions and evaluate equities, while regulators can use it to plan for the future of the Colombo stock exchange.

Dividend policy and proportional stock market price changes were among the topics Hussainey, Mgbame, and Chijoke-Mgbame (2011) researched. Multiple regression analysis is used to investigate the link between dividend yield, dividend payout ratio, and percentage charge adjustments. Dividend yield and stock fee changes have a positive correlation; however, the dividend payout ratio has a negative correlation with these modifications. Similarly, it's far proven that a company’s growth price, debt level, size and income give an explanation for stock fee adjustments. This study demonstrates how dividend policy can be used to compute percentage fee changes for a selection of companies that trade on the London Stock Exchange. To the authors' satisfaction, this work is the first to show that stock rate fluctuations in the UK are predominantly influenced by company dividend policy.

In order to better understand how company variety and financial stability affect a firm's overall economic success, Jamil (2022); Mehmood, Hunjra, and Chani (2019) undertook a study. Information for the study came from 520 production companies in Pakistan, India, Sri Lanka, and Bangladesh. Researchers used panel data covering the years 2004–2017 to examine the findings. A two-stage dynamic panel methodology was used to evaluate the assumptions. The financial profitability of a corporation is significantly impacted by both product and regional diversification. The study also showed that a company's capital structure and dividend policy had a big impact on its financial performance.

Murtaza, Noor-Ud-Din, Aguir, and Batool (2020) calculated how Pakistani chemical zone enterprises' financial performance will be impacted by ownership concentration and dividend policy. Secondary data for the study were collected via annual company evaluations between 2012 and 2017. The Generalized Least Squares variant was used in this analysis. According to the results, there is a direct link between egocentrism and business achievement. It is a prevalent misconception that a high number of shareholders can resolve disputes between shareholders and managers. Dividend coverage is likewise a good sized advantageous effect on company overall enactment. FL and tangibility negatively impact firms' performance overall. Those consequences potentially can be applicable for policymakers and educational studies in addition to additionally useful for managers and policymakers.

Earnings per share (EPS) has a significant influence on share market value, according to study by (M. Z. Jatoi, Shabir, Hamad, Iqbal, & Muhammad, 2014). Researchers Mule, Mukras, and Nzioka (2015) discovered that a company's size has no bearing on its value. For a sample of 63 non-financial companies listed on the Bucharest Stock Exchange between 2001 and 2011, Anton (2016) investigated the effect of dividend policy on corporate value. The dividend payout ratio was found to positively impact the company's value when other important business factors were held constant. Business size and financial leverage both positively correlate with company value. According to the study, dividend policy significantly affects a company's market value, particularly when it starts paying out greater dividends. However, for companies that do not pay dividends or pay them at a low rate, dividend policy has little impact on corporate value. According to M. Z. Jatoi, Yousif, M., & Jatoi, M. Y. (2022), the market value of a share is greatly impacted by the book value per share (BVPS).

The literature reviews from both the national and international levels have been covered in this part. The goal of KANAKRIYAH (2020) was to investigate the relationships between company financial success in emerging nations and dividend policy. The research, which made use of panel data and multiple regression analysis, discovered a significant connection between dividend yield, firm size, and financial performance. Leverage was found to have a detrimental effect on financial outcomes, according to the study. Financial performance and firm value were studied by Semaun (2019), who looked at how corporate governance, company size, and dividend policy all had a role. The study showed that business size has a favorable and significant impact on firm performance, but it also showed that corporate governance and dividend policy have a detrimental impact on financial success.

Nathani and Gangil (2019) focused on the pharmaceutical and automotive industries as they investigated the factors influencing India's dividend policy. Applying panel regressions, the study found that dividend determinants in the automotive and pharmaceutical industries were respectively profitability, debt-equity ratio, sales growth, and retained earnings, while dividend determinants in the automobile sector were liquidity, investment opportunities, and dividend distributions. The association between dividend determinants and financial success was investigated by Bhuto et al. in 2020. The results showed that the dividend policy acts as a mediator between the firm's financial success and the factors that contribute to it. Hunjra (2018) looked at how dividend policy acted as a mediator between financial performance, uncertainty, CSR, and stakeholder interests.

Dividend policy mediated CSR, stakeholder interest, and financial performance. The pandemic has hurt the company's finances. Regarding the same, numerous researchers have also conducted studies concentrating on the financial performance of the companies as well as the dividend behavior during the pandemic period. Ali (2022) focused on the G-12 nations as he investigated the effects of the pandemic on corporate dividend policy. The study's use of logistic regressions found that during the pandemic, earning prospectus, profitability, leverage, and size were crucial factors in dividend decisions. Krieger, Mauck, and Pruitt (2021) investigated how a pandemic would affect dividend payments made by American publicly traded companies.

The effects of the pandemic on the operating results and cash balances of Chinese agri-food firms were studied by Xu and Jin in 2022. The analysis showed that highly leveraged enterprises are more negatively impacted by cash holdings than are less leveraged companies. Alsamhi and Fuad (2022) sought to analyze how the pandemic affected specific industries of Indian businesses in terms of financial performance. The study's findings showed the variances focused on the various sectors. According to the study's overall analysis, a company's net income

is the primary factor influencing its financial performance. El Ammari (2021) looked at the moderating impact of the crisis period on dividend distribution policy while taking into account the implications of CEO duality and ownership concentrations.

## 3. Theoretical Framework

Theoretical framework derived after literature.

**Figure 1**

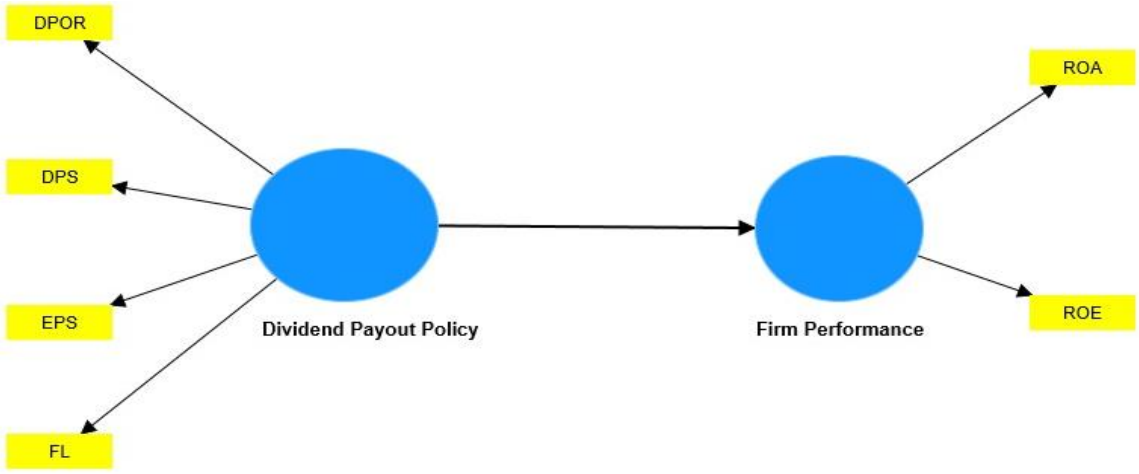


**Table 1: Explanation of the Metadata for the Theoretical Framework**

| Variable | Measurement | Sources |
|---|---|---|
| | **Dependent Variables** | |
| ROA | Return-on-Assets:<br>ROA is calculated by first dividing the income for a specific time period, after deducting interest and other expenses, by the total amount of assets.<br>$ROA$ = Net Income/ Total Assets | (Pouraghajan, Malekian, Emamgholipour, Lotfollahpour, & Bagheri, 2012) |
| ROE | Return-on-equity:<br>The return on equity (ROE) is determined by taking income before interest expense and dividing it by the total shareholder equity for a certain time period.<br>$ROE$ = Net Income/ Total Shareholder's Equity | (Pouraghajan et al., 2012) |
| | **Independent Variables** | |
| DPOR | Dividend Payout Ratio, or DPR for short, refers to the ratio of the amount of dividends paid to shareholders to the entire amount of net income generated by the company.<br>DPOR = Dividend per share/earning per share | (Khan, Naeem, Rizwan, & Salman, 2016) |
| DPS | The DPR, also known as Dividend Payout Ratio, represents the proportion of net income generated by a company that is distributed as dividends to shareholders.<br>DPS = EPS*DPOR | (Khan et al., 2016) |
| EPS | Earnings per share may be calculated net income after deduction of dividend divided by outstanding shares.<br>$EPS$ = (Net Income−Dividend on preferred stock) / Outstanding Shares | (Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998) |
| FL | Financial leverage may be derived as total debt divided by total equity.<br>Financial Leverage = Total Debt/Total Equity | (Amidu, 2007) |

## 4. Research Methodology

The material that was used for the study came from an examination of financial statements conducted by the State Bank of Pakistan to determine the effect that dividend policies have on the overall performance of firms. The research spans a total of twelve years, beginning in 2010 and ending in 2021. The data analysis methods used in the research included descriptive, correlation, and regression techniques.

### 4.1. Research Hypothesis

H1: Dividend policy and ROA have a considerable correlation (Return on Assets).
H2: Dividend policy and ROE have a considerable correlation (Return on Equity).
H3: The profitability of the firm and dividend policy are significantly correlated.

### 4.2. Model Specification

Multiple regression analysis techniques are utilized in order to determine the impact of dividend policies on the overall profitability of a business. Two ratios, ROA and ROE, were used to measure the firm's performance, and the dividend policy was represented by FL, EPS, DPS, and DPOR. FL, EPS, DPS, and DPOR were disclosed to be significant factors influencing firm performance. ROA and ROE, the two ratios used to measure firm performance, were chosen as the two models to evaluate the influence and significance of dividend policies on firm performance.

$$ROA = \alpha 1 + \beta 1\, FL + \beta 2EPS + \beta 3DPS + \beta 4DPOR + \varepsilon \quad (1)$$

$$ROE = \alpha 1 + \beta 1\, FL + \beta 2EPS + \beta 3DPS + \beta 4DPOR + \varepsilon \quad (2)$$

### 4.3. Analysis and Interpretation

The result of descriptive statistics is given in table 1 in which average (Mean), lowest value (Minimum) and highest value (Maximum) are given.

**Table 2: Descriptive Analysis**

| Variables | Minimum | Maximum | Mean |
|---|---|---|---|
| ROA | 3102.6793 | 10217.3244 | 6699.128142 |
| ROE | 8908.4137 | 29899.3594 | 18482.444716 |
| FL | .0000 | 2871.2003 | 1776.315046 |
| EPS | 3184.2012 | 6870.5623 | 4776.079420 |
| DPS | .0000 | 3071.2057 | 1713.295146 |
| DPOR | .0000 | 640.0700 | 383.516711 |

According to table 3 of the correlation study, there is a positive link between dividend policy and the overall performance of all of the non-financial companies that are listed on the Pakistan Stock Exchange (PSX). The results showed that there was a strong link between FL, EPS, DPS, and DPOR and ROA and ROE. Moreover, it was found that while ROA and ROE represent firm performance, the other variables represent dividend policies.

**Table 3: Correlation Analysis**

| Variables | ROA | ROE | FL | EPS | DPS | DPOR |
|---|---|---|---|---|---|---|
| ROA | 1 | | | | | |
| ROE | .988** | 1 | | | | |
| FL | -.885** | -.921** | 1 | | | |
| EPS | .623* | .608* | -.313 | 1 | | |
| DPS | -.755** | -.818** | .961** | -.160 | 1 | |
| DPOR | -.868** | -.925** | .973** | -.417 | .948** | 1 |

### 4.4. Regression Results

A regression model was employed by the researcher in the analysis, and the R-squared value of 0.955 indicated significant findings.

**Table 4: Dependent Variable (ROA)**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 47997822.158 | 4 | 11999455.539 | 37.507 | .000[b] |
| Residual | 2239471.214 | 7 | 319924.459 | | |
| Total | 50237293.371 | 11 | | | |

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| | .977[a] | .955 | .930 | 565.6186516 |

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 5165.027 | 1589.707 | | 3.249 | .014 |
| FL | -2.837 | .656 | -1.749 | -4.323 | .003 |
| EPS | .771 | .298 | .389 | 2.584 | .036 |
| DPS | .720 | .745 | .438 | .967 | .366 |
| DPOR | 4.320 | 3.958 | .581 | 1.091 | .311 |

In table 4, it is revealed that FL is negatively affecting ROA and EPS, DPS and DPOR are positively influencing ROA but the coefficients of DPS and DPOR are statistically insignificant. The model showed that the variables were significant. Research model expressed for ROA using the following equation.

$$ROA = \alpha 1 - 0.1.749\,FL + 0.389EPS + 0.438DPS + 0.581DPOR + \varepsilon \quad (1)$$

**Table 5: Dependent Variable (ROE)**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| **Regression** | 459838472.950 | 4 | 114959618.238 | 52.948 | 0.000[b] |
| **Residual** | 15198373.456 | 7 | 2171196.208 | | |
| **Total** | 475036846.406 | 11 | | | |

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| | 0.984[a] | 0.968 | 0.950 | 1473.4979498 |

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| **(Constant)** | 16310.534 | 4141.359 | | 3.938 | 0.006 |
| **FL** | -5.805 | 1.710 | -1.164 | -3.395 | 0.012 |
| **EPS** | 1.966 | 0.777 | 0.322 | 2.530 | 0.039 |
| **DPS** | 1.377 | 1.940 | 0.272 | 0.710 | 0.501 |
| **DPOR** | 1.910 | 10.312 | 0.083 | 0.185 | 0.858 |

In table 5, researcher employed a regression model in the analysis, and the R-squared value of 0.968 indicated significant overall results. It is revealed that FL is negatively affecting ROE and EPS, DPS and DPOR are positively influencing ROE but the coefficients of DPS and DPOR are statistically insignificant. The models demonstrated that the variables were significant. Research model presented for ROE.

## 5. Conclusion, Policies and Limitations

This study examines how dividend policy affects non-financial companies listed on the Pakistan Stock Exchange (PSE). SBP financial accounts evaluated between 2010 and 2021 provided secondary data. The firms' performance was represented by ROA and ROE. The rest of the variables, namely FL, EPS, DPS, and DPOR, represent the dividend policies. The analysis and results indicate a significant association between ROA and FL, EPS, DPS, and DPOR. The investigation found a substantial link between ROE, FL, EPS, DPS, and DPOR. Based on factual facts, the dividend policy improves corporate performance. To improve return on equity and return on assets, companies should have a consistent dividend policy. Furthermore, it is advisable to coordinate with all financial backers to assess the feasibility of the profit plan before initiating any project.

The study's findings have a number of ramifications for decision-makers in policy, management, investing, and analysis, as well as for all other stakeholders. By compiling the data on the outcome, analysts and investors can make investment decisions. The company's managers can assess the firm's financial performance and take action to stabilize it while taking into account the current crisis. Policymakers at businesses can keep an eye on and investigate the problems that might draw in investors.

The study only applies to Pakistan Stock Exchange-listed companies and only examined a few parameters, which may distort the results. Additionally, the current study's breadth is constrained because financial firms aren't included. New variables and governance factors that affect organization success can expand future research. Examining financial and non-financial groups simultaneously expands future study. Novice researchers could use long-term data and explore various variables to gain more insights. Additionally, instead of relying solely on regression models, they could adopt multiple methods to conduct their research.

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