

Elucidation of Dividend Payout Determinants on Manufacturing Companies: A Systematic Review

Idris Ali Yimer, Dhiraj Sharma



Abstract: Controversy issues in dividend policy have not been solved so far in modern corporate finance. Dividend payout is a puzzle in the contemporary financing system, as it was a traditional puzzle. Besides, conflict of interest between shareholders and managers of the corporation leads to a dramatic approach in the recent business environment. The main objective of this review was to identify and elucidate dividend payout determinants in manufacturing companies. Manufacturing is an industry that often uses manual labour or machinery to create goods from raw materials. Manufacturing industries include metal, automotive, electronics, textile, chemical, food and beverage, and so on sectors. This review carried out from 2004 to 2022 published studies in indexed journals. The review has assessed 62 journals with different databases through a vigilant review process concretely. The journals have been selected and systematically elucidated as relevant to the subject matter. The review depicts that dividend payout determinants differ from company to company. This shows that the dividend issue is still a puzzle in contemporary corporate finance.

Keywords: Dividend Payout, Determinants, Manufacturing, Firm-Specific, Macro-Economics

I. INTRODUCTION

The term “corporate finance” describes the processes and exchanges involved in obtaining funds to establish, grow, and acquire a company. It has a direct bearing on business decisions that affect finances. It may be viewed as an intermediary between the organization and the capital market. Maximizing shareholder value through short- and long-term financial planning and strategy implementation is another common topic in corporate finance [15]. Tax considerations and capital investments are examples of corporate finance activity. Many theories and models have been proposed to investigate various aspects of dividend research. Lintner conducted the first empirical investigation of dividend policy (1956). Lintner found that companies focus more on fluctuations in dividends than on absolute dividend amounts and have long-term goal dividend payout ratios. Additionally, he discovered that management is reluctant to make dividend adjustments that could need to be undone in the future and that dividend modifications reflect changes in long-run sustainability.

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Additionally, managers work to prevent dividend reductions and sustain payouts. The influence of investment opportunities on dividend decisions has been confirmed [1][2], who also discovered a substantial negative correlation between dividends and enterprises’ investment prospects. Financial leverage (risk) influences a company’s decision to pay out dividends. Even though numerous scholars have examined these various dividend policy theories, they have not produced definitive findings. As a result, it is still unclear which explanations of dividend policy are the most accurate. [10][12] stated that dividend policy describes dividends and dividend-associated things in firms. The policy designates the dividend distribution mechanisms for the shareholders. [14] defined a dividend as a tool to share a portion of the company’s profit to the stockholders based on their contribution. Corporate finance has two fundamental theories: dividend relevance theory and irrelevance theory. The former is advocated by Professor Walter, and the latter is advocated by the Miller and Modigliani-MM model (1961). When firms have more earnings, dividend payments become higher. It helps to attract new investors for the share companies. The new investment opportunity will create the best alternatives for the firm and the company’s shareholders. Scholars who have argued on the theories raise their assumptions to overcome other thoughts. The dividend relevance advocacy supporters believe that dividend policy is relevant. They argued that the policy can affect the value of a particular company. Investors interested in investing in any company should consider the dividend policy [4]. If they cannot consider the dividend policy of the investee company, they will fail to get a high return from their invested money. The advocates of this theory state that a firm should have a well-structured dividend policy. Hence, having a well-structured and soulful dividend policy helps to have a positive influence on the modern financial environment. Because firms that pay high dividend amounts are preferable to low dividend amount payers, investors can also invest willingly in firms with attractive dividend policyholders and higher-dividend financiers. The concept of dividends is still a puzzle for the business world. Scholars have different perspectives from the previous time. Even if the dividend is debatable over the centuries, the theories have been interrelated with modern business. The reality seen in the practice of the business world also differs from company to company. These theorems have been debatable issues for more than half a century. All researchers’ arguments have different colours in perception and applicability.

II. EMPIRICAL LITERATURE INSIGHT

[6] investigated the novel understanding based on the assumption of agency.



It served as a standard by which other studies were measured. By definition, agency costs arise from the relationship between the principals, stockholders, agents, or management lines. The owners of the share firms appoint personnel to work in management lines. They ought to run the company as its manager. The agents can use their specific powers to increase the company's fortune—dividend payments lower conflict-dispersion costs for managers. According to recent, paying dividends to shareholders or investors may reduce the conflict of interest between managers and owners [9]. Investigated the determinants of dividends in the US. The study consisted of 234 manufacturing companies and 266 service companies. The researchers identified corporate tax, cash flow, profitability, sales growth, Debt-equity ratio (DER), and market to BV and DPR. The researchers used OLS. Based on the study, the findings indicated that tax and industry types are positively significant, while profitability and growth are negatively significant with DPR. Regarding the types of business, manufacturing companies have been impacted by profit, market to BV and tax. However, sales growth, profit and debt-equity (DER) have impacted service provider industries [11][17][18][19]. studied the determinants of dividends in Kuala Lumpur, Malaysian companies. The study was done on 30 listed companies in Bursa. The study covered the period from 2012 to 2016. The data were collected from each company's annual report for the same period. Regression analysis was used to investigate the variables (both firm-specific and macroeconomic). The researcher used the company's age, leverage, tax, inflation, ROE, ROA, GDP, and quick ratio as independent variables. The researcher applied ANOVA, multiple regression analysis with Pearson correlation; the result of the study identified that ROE, quick ratio and GDP have a positive correlation with dividend payout, although ownership structure has a positive correlation with dividend payout ratio. [16] studied the factors of dividend policy. In the study, 147 listed companies were included from Malaysia. The independent variables were cash flow, earnings, market capitalization proxy, leverage, investment, size, ownership, lagged dividend, and risk. Therefore, dividend policy is a dependent variable. The finding elucidates that firm size, earnings, and investment significantly impact dividend policy. However, ownership structure and leverage have a negative but significant impact on dividend policy. [7] studied the determinants of dividend policy. The study focused on the determinants of dividend policy in an emerging and developing market. A quantitative approach was employed in the study. The data was collected from 191 firms operating in Sri Lanka. A binary Logistic regression model was used. In addition to that, a Fixed effect panel regression model was used to evaluate the dividend payout determinants. The researcher found that investment opportunities, profitability, free cash flow, size, corporate governance, state ownership, and earnings were the prominent factors that influenced the decision to pay dividends. The finding aligns with signalling, catering, life cycle, and pecking order theories of dividends. The study was made on the determinants of dividend policy of 1,101 listed firms in Nigeria. The study used unbalanced panel data from the firm's annual report, market price, and financial books from 1984 to 2020. They researched the hypothetical

framework of the modified Litner model. Leverage, sales growth, total asset, firm size, Market to BV total distributable earnings, and profit after tax were independent variables in the regression model. The study found that size, growth, and profit after tax are significant variables. The study indicated that dividend payment is important in attracting investors and augmenting the firm's market value [12]. examined the cash dividend relationship with earning growth in the case of Tehran listed companies. The study covers 2007 to 2020. The researchers used a multiple regression model to analyze 131 firms. Their finding indicated a positive correlation between growth and cash dividends. Furthermore, return on equity and investment growth also influence cash dividends [15]. studied the determinants of dividends in 284 firms listed and operated in Malaysia. Growth opportunities, size, profitability, business risk, market to BV, and free cash flow were included as independent variables, and DPR as dependent variables. The study shows that dividends have a significant and positive relationship with free cash flow, market to BV, and growth opportunity [2]. examined the determinants of dividends in UAE companies. The study incorporated five years of data (2005 - 2009) from the annual financial statements. The dependent variable was DPR, whereas the independent variables were profitability (ROA, ROE, EPS), size, risk (PER), liquidity, and leverage. Based on the study's findings, profitability, size, and risk are statistically significant [3][20][21]. studied the dividend determinants in Pakistan. The study took 174 companies and incorporated five years of data from 2005 to 2010. Tax, size, profitability, and investment opportunity were independent variables, and the dividend payout ratio was used as the dependent variable. As per the researchers' findings, tax, size, profitability, and investment opportunities showed significant effects on the dividend policy of firms [8]. was studied on 11 Ghana companies from 2005 to 2009. Panel data regression was employed for the study analysis. Leverage, liquidity, tangibility, maturity, and growth were from chosen independents. There were positive and negative impacts of tangibility and profitability on dividends. Meanwhile, liquidity was negatively significant in the fixed effect model [5]. studied dividend policy causes from listed firms in Poland. The study was based on panel data derived from the Thompson Reuters-TR database during the 2000 – 2012 financial periods. The study's outcome indicated that leverage and profitability have a significant and negative correlation with the dividend payout of the listed firms. Chetty and Saez's (2010) study revealed that tax significantly affects dividend payment. Based on the study, omissions and avoidances of tax will increase dividend payments. The study indicated variations in tax will affect dividends. The review paper attempted to elucidate different articles published about the dividend payout from 2004 to 2022. The review encompassed numerous determinants addressed by previous researchers from different countries. Each country has contributed abundant scientific research on dividend payout. The authors have revealed various results from their scientific studies. The main content of this study was to identify and elucidate the basic determinants of the dividend payout.

And then contribute values for decision-making concerned bodies. The article tried to present the previous research works in an easy approach.

III. METHODOLOGY AND ANALYSIS

In this review, the reviewer used a systematic review approach. Systematic review helps to investigate the previous kinds of literature based on the topic and relevancies. The reviewer weighed previous research on the same topic. The aim of assessing previous pieces of literature is to add value to the professional research work. It also contributes to doing

A. Geographical Coverage of The Articles

an evidence-based literature review. Accordingly, a comprehensive review of the previous works of literature has been done. The reviewer surveyed 62 pieces of literature to elucidate the determinates of a manufacturing firm's dividend payout. This review included both developing and developed country's manufacturing companies. Literature has been identified and explained from numerous scientific research databases. To simplify the work, the reviewer presented it in table format. All identified/relevant study findings/results have been included in the table beside the empirical literature review part as a summary.

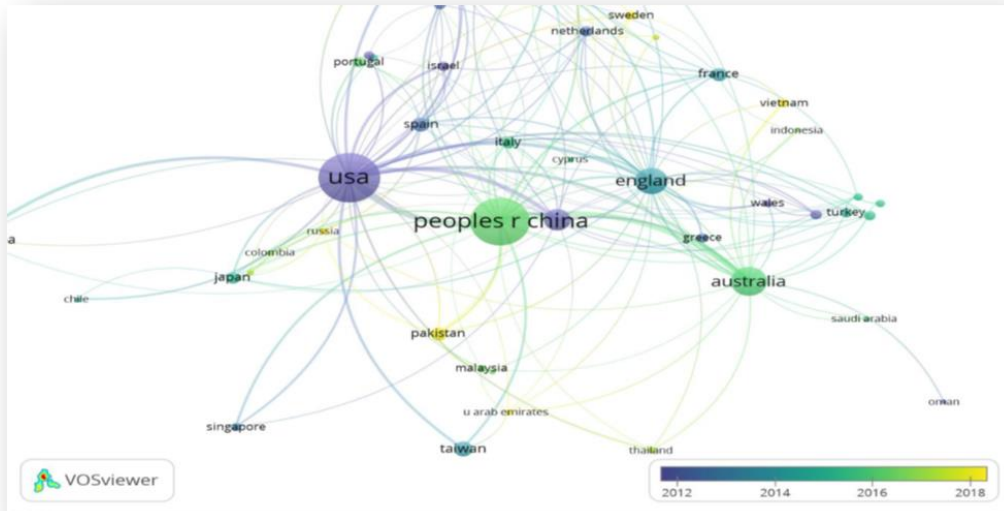


Fig. 3.1 Geographical Coverage

Source: VOSviewer [13]

The regional distribution of articles on dividend payout policy is displayed in Figure 3.1. The size of the circle indicates the degree of publication concentration in that particular geographic location. According to the affiliation statistics analysis, the United States and the United Kingdom have the largest number of publications, except for one from the Netherlands and another from Hong Kong, Türkiye,

Nigeria, Bangladesh, India, Malaysia, and China, which have made a lot of contributions. Since 2004, there have been more publications, which suggests that researchers are becoming more interested in this area. According to [13], the US and the UK have the most publications, respectively. However, most of the top contributing organizations come from the United States.

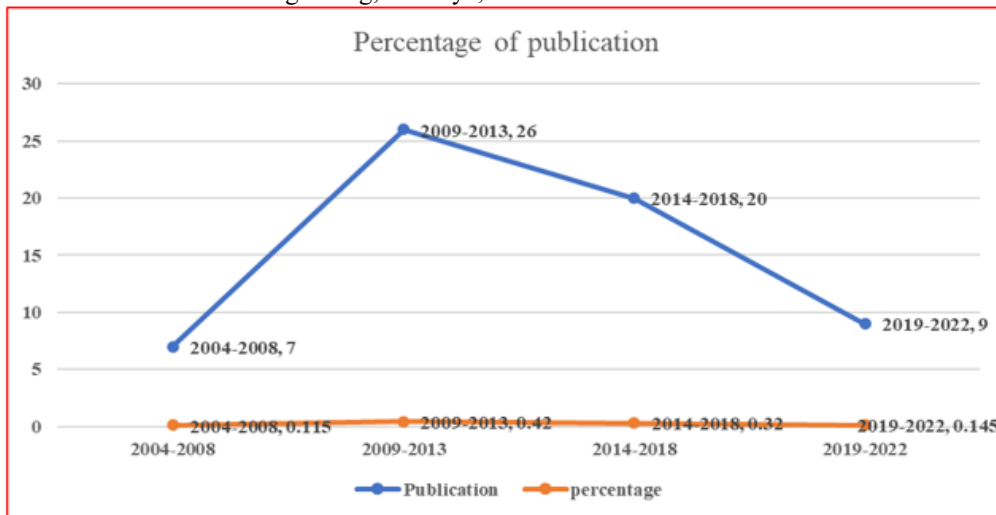


Fig 3.2 Percentage of Publication

Source: own computation, 2024

Figure 3.2 indicates that articles on dividend payout were published from 2004 to 2022. The scope of this review was demarked within 18 years of publication duration. As the figure shows, there was better progress in the year range from 2009 to 2013. The percentage scored in the periods was 26%—the next range from 2014 to 2018 shows 20% of publications on the same topic. The lowest score published based on the selected scope was from 2004 to 2008, which was 7 %.

IV. AN OVERVIEW AND CONCLUSION

Manufacturing companies have a great role in every country's economic development. Manufacturing businesses give out large dividends and important factors that must be identified and understood by dividend decision-makers (board of directors). Identifying potential dividend payout determinants is a difficult task for decision-makers. When dividend-related issues arise, various portfolios must be considered to get the best alternatives. This study aims to enrich the knowledge and sympatheticity of different determinants affecting dividend payouts in manufacturing industries to address and evaluate previously accomplished research works. This review elucidated the determinants of dividend payout of contemporary manufacturing firms. Like other sectors, the manufacturing sector worries about determining dividend amounts paid/distributed to the shareholders. In this regard, authors have investigated different factors affecting dividend payout. This review has presented the identified variables in line with their research findings. The modern financial environment is leading companies to identify the prominent determinants of dividend payout for decisions. Decision makers must have accurate and reliable figures that help them make decisions correctly. The reviewed studies have reached all significance for decision-makers. Profitability, size, and growth have dominated in number from the dividend payout determinants. Most manufacturing firms' dividend payout policies have an unignorable relationship with size, profitability growth, and other determinants directly. The review showed that dividend payout variables such as liquidity, profitability, size leverage, and growth have higher positive and significant positions than risk, volatility, depreciation, and growth. The determinants of manufacturing companies are varied based on the companies' financial activities. Managers and owners of the company have grievances concerning the dividend policy applicability. Conflict of interest emanates from wealth maximization and profit maximization edges. These two edges are also seen as conflicts in real business. Such issues are raised because the dividend is a sensitive part.

DECLARATION STATEMENT

After aggregating input from all authors, I must verify the accuracy of the following information as the article's author.

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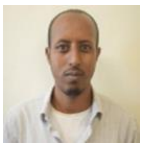
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