



# Dividend policy: A comprehensive analysis of classical, neoclassical, and modern theories in corporate finance

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**Abstract** This paper provides an in-depth review of dividend policy theories, offering a nuanced understanding of the motivations behind dividend distributions and the factors influencing corporate payout decisions. It examines classical and modern frameworks, from the Dividend Irrelevance Theory, which posits that dividends do not affect firm value under perfect market conditions, to contemporary perspectives such as Agency Theory, which highlights dividends as a mechanism to reduce conflicts between managers and shareholders. The Signaling Theory suggests that dividend changes convey private information about a firm's future prospects, while the Life Cycle Theory explains how payout policies evolve as firms mature. Behavioral Finance further explores psychological and behavioral factors influencing investor preferences. Beyond these theoretical perspectives, this study emphasizes the dynamic nature of dividend policy, shaped by financial constraints, managerial incentives, corporate governance structures, and investor expectations. Given the complexity of payout decisions, a multi-theoretical approach is essential to fully grasp their determinants. Furthermore, considering diverse market environments and regulatory frameworks, additional empirical research is needed to refine existing models and enhance their applicability across different corporate and institutional contexts.

**Keywords:** financial policies, dividend payout, dividend puzzle, traditional theories

## 1. Introduction

Dividend policy, which concerns the decision-making process regarding the portion of earnings to be reinvested or distributed to shareholders (Barros et al., 2020), is a foundational concept in modern finance and financial economics. As a result, determining dividend payouts is considered one of the most important and challenging decisions that managers face (Baker & Weigand, 2015), contributing to the unresolved nature of the "dividend puzzle" in empirical research. Black (1976) famously observed, "The harder we look at the dividends picture, the more it seems like a puzzle, with pieces that just do not fit together." Despite substantial attention in the literature, the underlying motives driving dividend policies are still not fully understood (Goyal, 2019; Franc-Dobrowska & Mądra-Sawicka, 2020). Recently, dividend payout policies have once again become a focal point of interest and debate within financial theory (Michaely & Moin, 2022). Furthermore, contemporary empirical studies have produced diverse and sometimes conflicting results regarding the factors that influence dividend policies and their effects (Ali & Hegazy, 2022).

In this context, studying any phenomenon requires grounding it in the appropriate theoretical framework. A theory helps to define, describe, interpret, and explain a particular phenomenon, as well as to predict its behavior and the relationships it entails, following the validation of specific hypotheses. Furthermore, a theory plays a crucial role in generating new research questions, organizing observations, offering assessments of reality, and, in some cases, informing decisions that shape the course of everyday events (Oubahou & El Ouafa, 2024).

While the theoretical foundations of dividend policy have evolved over time, they continue to reflect broader questions about corporate governance, investor behavior, and the efficient allocation of capital. Theories ranging from the classical Dividend Irrelevance Theory to more contemporary approaches such as the Agency Theory, Behavioral Finance, and the Life Cycle Theory provide different lenses through which to view this crucial corporate decision (Verdick et al., 2019). The classical theories of dividend policy, particularly those proposed by Miller and Modigliani (1961), argue that in perfect capital markets, dividend decisions should have no impact on the value of a firm. This "irrelevance" proposition suggests that whether a



company pays out dividends or retains earnings does not affect shareholders' wealth in the absence of taxes and market frictions. However, the real-world applicability of this theory has been widely debated. In practice, firms operate in imperfect markets where factors such as agency conflicts, asymmetric information, investor psychology, and external market conditions influence dividend decisions. As such, contemporary theories challenge the assumptions of perfect markets and rationality, offering a more dynamic understanding of how dividend policies are shaped.

This paper seeks to provide a critical review of the diverse theories surrounding dividend policy, examining the underlying motivations for dividend payouts and the factors that drive their adoption. By synthesizing perspectives from both classical and contemporary financial theories, the paper aims to offer a comprehensive analysis of dividend policy as a multifaceted decision-making process that integrates financial, strategic, behavioral, and governance considerations. In doing so, the paper will highlight the intricate relationships between corporate decision-making, investor expectations, and market dynamics, ultimately enhancing our understanding of the role dividend policy plays in shaping corporate strategies and influencing financial performance.

## 2. The Main Classical Theories

### 2.1. *The 'bird in the hand' theory: A preference for certain profit*

According to the "Bird-in-Hand" theory (Lintner, 1956), dividend payments can increase the value of a firm. The theory suggests that this is due to investors' preference for "a bird in the hand," meaning the dividend payment of a stock, which is considered safer than "two in the bush," representing the more uncertain potential for capital gains. Lintner's (1956) work was further developed by Gordon (1959 & 1962), who argued that investors are not indifferent to their returns and prefer to receive dividends today, as future capital gains are more uncertain. The work of Lintner (1956) and Gordon (1959, 1962) was later supported by Baker and Haslem (1974). They emphasized that, due to investors' risk aversion, dividends are favored since they are perceived to be less risky than capital gains. They also explained that dividend changes may convey information, meaning that dividends can signal management's expectations about the company's future performance.

Baker and Powell (2002) found that the most important determinants of dividend policy are current income and expected future income, which aligns with Lintner's (1956) "Bird-in-Hand" theory. Furthermore, they highlighted the importance for firms to maintain and continue paying dividends. They concluded that managers believe dividend policy can influence stock prices and are concerned with the signals sent to investors through dividend changes. In this regard, Graham and Dodd (1934) argued that, on average, one dollar of dividends has four times the impact on stock prices as one dollar of undistributed earnings. According to them, dividends are of fundamental importance, to the extent that they stated the primary purpose of a firm is to pay dividends, and that companies distributing more generous dividends tend to see their stocks trade at higher prices.

### 2.2. *The partial adjustment model of lintner (1956): An attempt to explain firms' dividend policy*

Lintner's (1956) model highlights that companies' dividend decisions are not neutral; managers aim to maintain dividend stability by targeting a long-term payout ratio. The decision to adjust the dividend payout ratio is influenced by the firm's profitability and previously distributed dividends. Contrary to the notion that dividend policy is residual, Lintner argues that it is the financing decision that carries this characteristic. Furthermore, the market reacts either positively or negatively to the regularity or growth of dividends. As such, companies place more importance on the variation of dividends than on their absolute level, seeking to smooth dividend payments gradually rather than making abrupt changes. The model also emphasizes the desire of firms to maintain consistency in their dividend payments to avoid a negative reaction from shareholders (Al-Malkawi et al., 2014). Most companies adopt a long-term dividend policy and follow a partial adjustment model, even in the face of significant fluctuations in earnings. Regarding the long-term payout ratio, Lintner suggests that approximately two-thirds of firms aim for such a target, with an average ratio of 50%, ranging from 20% to 80%. Each year, dividend adjustments are made based on these objectives, gradually smoothed over time to reflect this policy. This progressive adjustment allows firms to maintain stable dividends even in the event of temporary declines in earnings, thus illustrating the flexibility of the dividend policy (Lee & Mauck, 2016)

## 3. Early Research on Dividend Irrelevance Theory

### 3.1. *The thesis of dividend policy irrelevance*

The dividend irrelevance hypothesis was developed by Miller and Modigliani (1961). Financial literature has generally favored dividend distribution over non-distribution, asserting that a dollar paid out as dividends will, on average, have four times the impact on stock prices compared to a dollar retained and not paid out (the "Bird in the Hand" thesis by Graham and Dodd, 1951). The dividend irrelevance hypothesis was introduced to challenge the view of Graham and Dodd. Miller and Modigliani's thesis is based on the following assumptions:

- Perfect capital markets: This means that information is freely available to all agents, there are no transaction costs, and there is no difference in taxation between capital gains and dividends.
- Rational investors: Investors are interested in the choice that offers the most wealth and are indifferent between capital gains and dividends.
- Certainty of the future: This assumption implies that future earnings and investment plans are known with certainty.

In their thesis, Miller and Modigliani confirmed that a firm's value is not dependent on the amount paid to shareholders, as any dividend policy adopted has no effect on the stock price or shareholder profitability. Investors are indifferent between receiving their compensation in the form of capital gains or dividends. Furthermore, they assert that the value of the firm and shareholder wealth is determined solely by the firm's earning capacity, which is a result of its investments. Empirically, several studies have attempted to test the hypotheses put forward by Miller and Modigliani. Among these studies, we can mention:

The study conducted by Black and Scholes in 1978 aimed to examine the relationship between dividend yield and rate of return using the Capital Asset Pricing Model (Azekkar et al., 2023). They constructed 25 portfolios of common stocks listed on the New York Stock Exchange over the period 1926-1966 to assess the impact of dividend policy on stock prices. The results of the Black and Scholes study confirmed the assumptions of Miller and Modigliani's dividend irrelevance theory, supporting the idea that, regardless of the dividend policy adopted by a company, it has no impact on the firm's overall value. In other words, the study's findings reinforced the notion that dividend distribution does not affect the valuation of the firm, aligning with the dividend irrelevance theory. This highlights the consistency of the results obtained by Black and Scholes with the hypotheses of Miller and Modigliani, emphasizing the idea that investors are indifferent to how they receive their compensation: whether in the form of dividends or capital gains, the firm's value remains unchanged. These results thus strengthen the argument in favor of the dividend irrelevance theory, which asserts that dividend distribution decisions do not affect the firm's value in a perfect and efficient financial market. Similarly, other studies have supported the dividend irrelevance thesis, notably those by Scholes and Miller (1978) and Hess (1981).

### 3.2. Reassessment of the dividend irrelevance logic: Miller and modigliani (1963)

*« Dividend has no relation with a firm's capital structure, profitability or value »*

In 1963, Miller and Modigliani argued that the first assumption in the dividend irrelevance theory (i.e., perfect markets) is not always verifiable in the real market due to the presence of taxation, which can influence a company's dividend policy and, consequently, its value (Touili & Riad, 2017). They posited that markets are characterized by differences in the taxation treatment of capital gains and dividends. For this reason, rational shareholders will focus on the option that offers the highest after-tax return. Moreover, Brennan (1970) demonstrated, for example, that if capital gains are taxed less than dividends, firms should refrain from paying dividends. Instead, other forms of distribution, such as share buybacks, may be used to maximize shareholder value for investors.

In practice, the correction to the dividend irrelevance theory has been the subject of several empirical studies aimed at verifying its validity. The study by Lintzenberg & Ramaswamy (1979) is considered one of the most influential in this regard. Using a sample of 600 U.S. firms over the period from 1952 to 1977, the two researchers demonstrated that Miller and Modigliani's correction is accurate, as taxation significantly influences the rate of return on equities. Specifically, an increase in dividend yield leads to an increase in profitability to offset the relative disadvantage of taxation on dividend payments. Furthermore, another pioneering study by Kalay (1982) confirmed these findings, showing a similar impact of taxation. However, other research has concluded through practical studies that the introduction of taxation does not affect shareholder wealth, notably the work of Black and Scholes (1974), which tested Brennan's (1970) model. In the same empirical study referenced earlier regarding the dividend irrelevance thesis, the authors hypothesized that taxation does not affect shareholder value. Consequently, their results showed that the coefficient related to the dividend yield rate was not significantly different from zero. From this observation, they concluded that the expected return for high-yield stocks is no different from that for low-yield stocks, both before and after the necessary tax deductions.

## 4. Contemporary Theories of the Firm: In-Depth Explanations of Dividend Behavior

### 4.1. The role of dividends as signals for investors and the financial market: Contributions of signaling theory (Spence, 1973)

The communicative importance of dividends between the firm and the market is emphasized. Based on the premise of information asymmetry between insiders, who are better informed, and external investors, who are less informed, signaling theory suggests that dividends serve as a means to convey information about the financial health of the firm. Thus, any increase or decrease in dividends is perceived as a signal reflecting the company's prospects for improvement or deterioration (Taleb, 2019). This transmission of signals leads to market reactions. For example, an increase in dividends signals to the market confidence in the firm's future performance. Similarly, if the company's earnings decrease while maintaining stable dividends, it suggests to the market that the decline is temporary and that results will improve in the future (Farssi et al., 2011). Several models have been developed to explain the role of dividends as indicators, including the models by Kalay (1980), Bhattacharya

(1979), and Miller and Rock (1985). Kalay's model demonstrated, using a sample of 100 randomly selected firms, that managers face direct consequences on their compensation when they issue misleading signals regarding dividend prospects. Bhattacharya's model confirms these results, specifying that the consequences mainly result in a decline in stock prices, thus leading to a loss of value. It also supports the idea that an increase in dividends is perceived positively by investors, as it is considered a credible signal. Finally, the Miller and Rock model argues that managers use dividends to communicate information to the market about the company's current earnings (Riad & Touili, 2017).

From a practical standpoint, these extensive studies underscore the critical role of dividends as significant signals for investors and the broader financial market. Pettit's (1972) analysis, based on a large sample of companies listed on the New York Stock Exchange, revealed that changes in dividend payouts were perceived by investors as crucial indicators of a company's financial well-being. An increase in dividends was interpreted positively, suggesting heightened confidence in the company's future prospects, while a reduction in dividends was viewed negatively, signaling potential concerns about the company's financial stability.

Similarly, the thorough investigation by Asquith and Mullins (1983) reinforced these findings, establishing a strong positive correlation between dividend changes and stock price movements. This correlation indicates that the market responds significantly to alterations in a company's dividend policy, reflecting the information embedded in these adjustments regarding the company's financial health and outlook.

#### 4.2. *The agency theory of dividend strategy: Exploring the impact of conflicts of interest (Jensen & Meckling, 1976)*

*« Paying dividend facilitates the alliance of interests between managers and investors »*

Agency theory sheds light on the potential conflicts of interest between the two key actors in a company: managers and shareholders. While shareholders, as principals, seek to maximize the value of their investments, managers, as agents, may be inclined to prioritize their personal interests over the shareholders' objectives. Such conflicts can manifest in decisions that allow managers to secure non-financial benefits or receive excessive compensation, thereby diminishing the value perceived by shareholders. This appropriation of value is in direct conflict with the interests of investors, making it necessary to implement oversight mechanisms to monitor and control managerial behavior. These mechanisms—such as shareholder surveillance, financial incentives aligned with shareholder interests, and transparent financial reporting—are essential in mitigating agency conflicts and ensuring that management acts in the best interests of the shareholders.

In this context, agency theory significantly enhances our understanding of dividend distribution policies, particularly in family-owned businesses (Charlier & Bois, 2011). The theory suggests that, in addition to traditional governance mechanisms, dividends serve as a crucial tool for disciplining agency conflicts between principals and agents. According to Jensen (1986), paying shareholders in the form of dividends reduces the liquidity available to managers, thereby decreasing the risk of expropriation of minority shareholders and the potential misuse of funds in unprofitable projects. Moreover, this approach helps mitigate Type II agency conflicts between majority and minority shareholders, even though, as noted by Jensen & Meckling (1976), Type I conflicts (between shareholders and managers) are generally considered more pronounced than Type II conflicts.

Numerous empirical studies have been conducted in this regard. In fact, the majority of these studies have emphasized the role of dividends as a mechanism to resolve agency conflicts within the firm (Touili & Riad, 2017). In this vein, Rozeff's (1982) Study argued that dividends play a crucial role in alleviating agency conflicts, as they serve as mechanisms for aligning the interests of both managers and shareholders. The study was conducted on a sample of 1,000 companies over the period from 1974 to 1980.

### 5. Dividend Policy: The Impact of Shareholder Behavior and the Evolution of Financing Needs

#### 5.1. *The pecking order theory: A preference for internal financing (Myers, 1984)*

The pecking order theory of capital structure, as proposed by Myers (1984), offers an alternative framework for explaining corporate behavior with respect to dividend policy. According to this theory, firms seeking to finance new investments prefer to follow a financing hierarchy: first utilizing internal funds, then issuing debt, and finally resorting to equity issuance. This "hierarchical order" suggests that companies prioritize financing their activities with internally generated profits in order to avoid the risks of underinvestment associated with excessive debt and informational asymmetries between managers and investors. When internal funds are insufficient to cover operational needs, firms are expected to issue debt to bridge the financing gap. External equity financing is considered a last resort, typically employed only in extreme circumstances. According to this hypothesis, higher-quality firms should exhibit lower leverage and lower short-term dividend payments, while also managing investment opportunities more effectively.

In previous studies, investment opportunities, corporate leverage, and firm size are commonly used to test the aforementioned dividend theory. Along similar lines, several studies support a negative relationship between investment opportunities and dividend decisions. The study conducted by Fama & French (2001), covering the period from 1978 to 1999,

on the effects of firm characteristics and their propensity to pay dividends on the disappearance of dividends in the U.S. market, revealed that this phenomenon is partly explained by the specific characteristics of the firms. Companies that have never paid dividends tend to have the best growth opportunities, with significantly higher asset growth rates and market-to-book value ratios.

Furthermore, the study by Denis & Osobov (2008) which examined the determinants of dividend policy with a sample of firms listed in the United States, Canada, the United Kingdom, Germany, France, and Japan over the period from 1994 to 2002, yielded convergent results regarding investment opportunities. Additionally, Thanatawee (2011) analyzed the impact of investment requirements on dividend policy in 416 non-financial firms in the Thai market between 2002 and 2008. This study highlighted that the market-to-book value ratio is negatively related to dividend policy, while total asset growth showed an insignificant correlation with the dividend policy.

### 5.2. *The contribution of behavioral finance*

Regarding dividend distribution to shareholders, behavioral finance is based on two key theories: behavioral theory and the "catering" theory. In terms of the behavioral theory of dividends (Shefrin & Statman, 1984), it confirms that investors may be willing to pay a premium to companies that pay cash dividends for specific reasons. The preference for dividends over other corporate decisions is primarily driven by behavioral preferences, which are typically overlooked by traditional theories. In this context, the dividend policy adopted by the company is aligned with shareholder preferences. In fact, this preference for dividends stems from three main reasons:

- Some shareholders establish a clear rule: "consumption should only be made through the income generated (dividends) from holding shares." This rule has a disciplinary role as it helps them avoid liquidating capital for immediate consumption, which is why it is referred to as self-control; protection from oneself. Therefore, to avoid liquidating capital, shareholders rely on dividend income to meet their daily consumption needs (Thaler & Shefrin, 1981).
- Regret aversion, which refers to the feeling experienced due to a decision deemed unfavorable. In fact, a shareholder who is regret-averse typically demands dividend distributions to avoid the situation where they sell their shares, only to later realize that the value of those shares has increased.
- Finally, the concept of mental accounting, which means that shareholders categorize income depending on its source, i.e., capital gains or dividends. Based on this reasoning, they assign an advantage to dividends, which are perceived as more predictable, in line with Graham and Dodd's (1951) principle: "A bird in the hand is worth two in the bush."

Empirical research has examined various aspects of behavioral finance theories, including the behavioral dividend theory and the "catering" theory. Notably, the study by Li and Lie (2006) stands out. Analyzing data from the Center for Research in Security Prices covering the period from 1963 to 2000, the researchers identified significant fluctuations in dividend payouts during this time. Specifically, they observed 1,815 instances of dividend cuts and 18,964 instances of dividend increases. Their findings support the "catering" theory, demonstrating a clear link between shareholder preferences, sentiments, and the decision to distribute dividends.

### 5.3. *The life cycle theory: Understanding dividend policy through corporate growth stages (DeAngelo et al., 2006)*

DeAngelo et al. (2006) extended Jensen's (1986) free cash flow theory, observing that mature firms tend to distribute dividends according to their life cycle stage. Specifically, young, high-growth companies face more significant investment opportunities, while mature companies are more likely to pay dividends due to their stable profitability and fewer attractive investment opportunities. This observation is further supported by DeAngelo and DeAngelo (2006), who explain that the dividend life cycle is driven by a balance between the benefits and costs of dividend distribution. Start-up and high-growth companies prioritize growth and investment opportunities, which leads them to pay fewer dividends. Over time, as investment opportunities decline and companies experience more stable earnings, the balance shifts, prompting them to distribute more dividends. Similar results were found by Grullon et al. (2002) and French (2001), further supporting the life cycle theory.

Empirically, Fama & French (2001) examined the determinants of dividend distribution in the U.S. market and discovered an interesting phenomenon: firms with high current profitability and low growth are more likely to pay dividends, whereas firms with low profitability and high growth tend to retain more earnings. Subsequently, Grullon et al. (2002) studied 7,642 dividend change announcements in the U.S. stock market between 1967 and 1993 and found two noteworthy results. First, following an increase in dividends, there is a decline, rather than an increase, in the company's profitability. This finding challenges the signaling theory argument.

To sum, current research indicates that it is not possible to arrive at a definitive conclusion regarding a singular, conclusive theory of dividend policy. This lack of consensus is due to the complex and multifaceted nature of dividend decisions, which are influenced by a variety of factors including firm-specific characteristics, market conditions, and investor behavior. Over time, several theories have been proposed to explain dividend policies, each offering distinct insights into the motivations and determinants of dividend payouts. However, no single theory has emerged as universally applicable or conclusive. The

table below (Table 1) provides a summary of the diverse theoretical perspectives that surround this financial strategy, highlighting the varying schools of thought on how firms determine their dividend policies.

**Table 1** Summary of theories.

Contribution	(Author, Year)	Main ideas
		Main Classical and Neoclassical Financial Theories
"Bird in the Hand" Theory	Graham & Dodd (1934)	Shareholders' preference for immediate compensation, in the form of dividends, plays a significant role in shaping corporate dividend policies. Moreover, this preference is positively correlated with the company's stock price, as the distribution of dividends is often perceived as a signal of financial stability and value creation, leading to favorable market reactions.
Partial Adjustment Model	Linter (1956)	This contribution recognized relationship between dividends and long-term profitability, as companies typically adopt a "target" dividend payout ratio. Furthermore, executives place considerable emphasis on the fluctuations in dividends relative to the previous fiscal year, reflecting the importance of maintaining stable and predictable dividend policies that align with the firm's overall financial performance and profitability.
Dividend Policy Neutrality	Miller & Modigliani (1961)	Under the assumptions of efficient financial markets, dividend distribution is preferred over non-distribution, as the adage "a bird in the hand is worth two in the bush" suggests. Furthermore, the dividend policy adopted by a firm does not affect shareholder wealth or the overall value of the company, implying a neutral effect on firm value.
Non-Neutrality of Dividend policy	Miller & Modigliani (1963)	The first theory is adjusted due to the unfeasibility of verifying the market perfection hypothesis in practice. Among the factors that disrupt this perfection is taxation. Investors are more likely to focus on the option that provides the highest after-tax return, given that tax considerations play a significant role in their decision-making process.
		Main Modern Financial Theories
The Signaling Theory	Spence (1973)	Dividends serve as a signal between the company and the market, where any decrease or increase reflects the company's deteriorating or improving prospects, respectively.
Agency Theory	Jensen & Meckling (1976)	Dividends also play a disciplinary governance role in addressing agency conflicts by reducing available liquidity. This, in turn, helps mitigate the risk of expropriation and prevents the misuse of funds in non-profitable projects (projects with negative NPV).
Pecking Order Theory	Myers (1984)	The preference for internal financing is prioritized, followed by the option of utilizing bank debt. Finally, if necessary, firms turn to the stock market through the issuance of new equity, which often results in a lower dividend distribution.
Behavioral Finance (The Behavioral Dividend Theory & the Catering Theory)	Baker & Wurgler (2004)	The Behavioral Dividend Theory suggests that investors may be willing to pay a premium for companies that distribute cash dividends. The second theory, however, argues that the preference for dividends is not constant over time, but rather transient, varying according to investors' short-term sentiment.
Life Cycle Theory	DeAngelo et al. (2006)	Dividend payouts primarily increase as a company matures. The more established the company, the more generous its dividend policy tends to be.

## 6. Conclusion

In conclusion, the exploration of dividend policies through diverse theoretical frameworks offers a comprehensive understanding of the intricate relationships between corporate decision-making, investor behavior, and broader market dynamics. Classical theories, such as the Dividend Irrelevance Theory proposed by Miller and Modigliani, provide foundational insights into the notion that in perfect markets, dividend decisions should not affect the valuation of a firm. However, more contemporary approaches, including Agency Theory, Behavioral Finance, and the Life Cycle Theory, shed light on the nuanced mechanisms that shape dividend policies in the real world, where market imperfections, information asymmetry, and psychological biases often play a significant role. These modern theories emphasize how dividend decisions can be influenced by a combination of managerial motivations, investor preferences, and the evolving economic conditions in which firms operate.

While traditional finance theories generally assume the existence of efficient markets and rational behavior, contemporary theories recognize the influence of behavioral factors and the inherent imperfections present in real-world markets. The Agency Theory, for example, emphasizes how dividend payouts can serve as mechanisms to mitigate conflicts between managers and shareholders, while Behavioral Finance acknowledges that investor psychology can lead to fluctuations in dividend preferences, which in turn affect corporate policies. Furthermore, the Life Cycle Theory provides a dynamic perspective, suggesting that dividend policies evolve over the course of a company's development, with younger, high-growth firms retaining earnings for reinvestment, and mature firms returning excess capital to shareholders as part of a stable dividend payout strategy.

It is evident that dividend policies cannot be fully understood through any single theoretical lens. Rather, they must be seen as dynamic strategies shaped by a complex set of internal and external factors. Internally, corporate factors such as profitability, investment opportunities, managerial discretion, and the firm's financial structure all influence dividend decisions. Externally, market conditions, investor sentiment, and even regulatory environments can significantly impact how firms choose to distribute profits. Moreover, as companies progress through different stages of their life cycle, their dividend strategies are likely to adapt, balancing the need for reinvestment in growth opportunities with the goal of satisfying shareholder expectations for regular income.

As the body of research in this area continues to expand, it is clear that further empirical investigations are necessary to test and refine these theories in varied market environments and industries. Future research should explore how different sectors, geographical regions, and corporate governance structures influence the application of these dividend policies. Additionally, integrating both traditional and modern financial theories will be crucial in developing a more holistic and accurate understanding of dividend behavior. Ultimately, a comprehensive approach to dividend policy, one that considers both the financial and behavioral dimensions, will enhance our understanding of how firms manage shareholder expectations, optimize capital allocation, and navigate the complexities of corporate governance.

This evolving framework will contribute to more informed decision-making by practitioners and policymakers, offering valuable insights into the role of dividends in shaping corporate strategy, investor relations, and capital structure decisions. In turn, this can help build a more nuanced understanding of the ways in which dividend policies function within contemporary business practices and financial markets.

### Acknowledgment

We extend our deepest gratitude to all individuals who have contributed, directly or indirectly, to the successful completion of this work. We also express our sincere appreciation to our universities for their invaluable support and to our research laboratories for their dedicated guidance and continuous supervision throughout our research endeavors.

### Ethical Considerations

Not applicable.

### Conflict of Interest

The authors declare no conflicts of interest

### Funding

This research did not receive any financial support.

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