



# Determinants Affecting Dividend Policy: A Study on A Sample of Companies Listed on the Iraq Stock Exchange

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**Abstract:** The study aimed to diagnose and examine the main determinants of the dividend policy, while providing an integrated comprehensive picture of the intellectual and theoretical frameworks that framed the mechanisms of direct and indirect influence that can be exercised by those determinants, which varied between financial, economic, political and institutional variables in the interpretation of dividend payments, complemented by an empirical quantitative analysis in which the Generalized Method of Moment (GMM) based on balanced double data was employed Panel Data Balance for a number of business companies listed on the financial markets of the Republic of Iraq, for the period (2010-2020). The study found the diversity of the determinants of dividend policies in terms of profitability, liquidity, growth, and leverage, as well as the variation of their impact from one model of dividend policy to another. On the other hand, the study confirmed the unification of the trend of impact in terms of being positive for the variable of profitability, liquidity and growth versus the negative impact of the leverage variable in dividend policies In the sample companies of the study.

**Keywords:** Profitability, Liquidity, Growth, Leverage, Dividends. Distribution.

## Introduction

Dividend decisions are one of the corners of the triangle of important financial decisions that can exert a positive impact on the value of companies, in which other angles of financing and investment decisions are shared (Nguyen, 2014). Dividends are not only a source of income for shareholders, but they also act as a financial indicator that can be used to evaluate a company's financial performance, as well as a financing and investment decision that contributes to the growth, expansion and sustainability of the company (Charbti, 2020). This research aims to study the role of artificial intelligence (AI) in enhancing the quality and efficiency of financial decisions within financial institutions and companies. The research focuses on how AI techniques can be used to analyze big data, predict risks, and support planning, investment, and decision-making processes. The importance of the research lies in the fact that the use of artificial intelligence techniques contributes significantly to improving the accuracy of financial forecasts, reducing the level of risk, and accelerating the decision-making process by analyzing large amounts of

data in a short time. Profits are a motivation and motivation for financial thought to research their forms, types, dimensions, contents, effects, effects and associations, and to work on building and formulating theoretical frameworks capable of providing logical explanations and analyses of their foundations, which at times approaching and at other times distancing among financial thinkers played an important role in their multiplicity and variation in content (García & Loranca, 2016). A research gap persists due to the limited number of studies comprehensively examining the impact of artificial intelligence (AI) technologies on strategic financial decision-making within organizations, particularly regarding the integration of intelligent analysis with the expertise of human decision-makers (Hartono & Matusin, 2020). Furthermore, many studies have focused on developed financial markets, while research on AI applications in developing economies and the challenges associated with its implementation in these contexts, such as inadequate technological infrastructure and reliable data, remains scarce. In addition to identifying them and studying the most important financial, economic, political and institutional factors that can contribute significantly and effectively to guiding and determining its directions, in a way that achieves its goals in maximizing the market value of the company while maintaining the integrity of its financial position (Mohanasundari, 2016). Dividend distribution policies according to theoretical frameworks and empirical studies have been subject to the influence of many variables and factors, some of which are related to the internal environment of the company such as (profitability, liquidity, growth, leverage, etc.), but the nature, size and direction of each of these factors may differ from other factors and the same factors in different economic environments.

### Research Methods

#### **First: The problem of the study.**

Dividend policies in companies are subject to a set of financial, economic, political, and institutional determinants that play an important role in drawing and defining their features, hence the study tries to answer the following questions:

1. What are the main determinants of a dividend policy?
2. What is the mechanism of influence that these determinants can exert in the dividend policy?

#### **Second: The importance of the study.**

Financial thought emphasizes the lack of complete agreement between the views of the decisions of dividend policies, which may be similar at times but may differ many other times, depending on the agreement and difference between the two sides of the investment process, including managers and shareholders. Internal Finance from managers' side, and a channel for investment by shareholders if it is fulfilled, while Bonus to shareholders if distributed to them. This pushes the decisions to retain them or distribute part or all of them are influenced by a number of internal and external factors that are key determinants that contribute to guiding them.

**Third: Objectives of the study.**

According to For the problem of the study Based on its hypotheses Lost The study sought to achieve the following objectives:

1. An integrated overview of the theoretical frameworks that have identified the financial, economic, political, and institutional variables affecting dividend policies.
2. Interpret and analyze the mechanism and channels of influence that the matrix of financial, economic, political, and institutional variables can exert in dividend policies.

**Fourth: Hypotheses of the study.**

Based on the questions that The problem of the study embodied its basic hypotheses to take the following forms:

1. The mechanism of the impact of financial, economic, political and institutional variables varies between positive and negative in the policy followed for the distribution of profits?
2. The nature, trend, and magnitude of the impact of financial, economic, political, and institutional variables on the dividend distribution policy of businesses listed on the stock markets in the Arab countries of the study sample (for the period (2010-2020)).

**Fifth: Limitations of the study.**

1. **Spatial Limitations:** The study dealt with a sample of Arab countries, namely (Iraq), as the companies listed in the study sample countries provide sufficient information that suits all beneficiary parties, and they also have a leading group of companies in the field of adopting appropriate financial policies for the company's management, shareholders and investors, especially with regard to their adoption of dividend distribution policies, and the study also sought to include a group of listed companies that adopt an irregular financial policy and companies that are in trouble in some years This makes it an opportunity to learn about the impact of specific factors in dividend policies in these financial markets.
2. **Time Limits:** The study period extends to the period (2010-2020) due to the availability of sufficient financial information in the lists of companies during the period, as well as the fact that it has witnessed financial and economic developments at the international and local levels, and it is considered a sufficient period to know and study the specific factors and their impact on the policy followed for the distribution of profits

**Conceptual and Theoretical Foundations of Dividend Policy**

Dividend decisions constitute one of the three corners of the triangle of financial decisions of economic units Finance, with which it shares in completing its other sides, both financing decisions and investment decisions, which work in their entirety, and perhaps often simultaneously to reach Company to achieve its multiple objectives that revolve around its main goal of maximizing its value,

and thus it represents an important part of the decisions of the Economic and Financial Unit that seeks to implement Objectives. A dividend decision based on its policy, through its direct connection to shareholders and its ability to influence financial indicators Company, in addition to its importance in achieving efficient and effective financial management that reaches the company's desired and required goals and is consistent with the goals of its owners. In light of the above, we will discuss the concept of dividend policy, its importance, types, and the theories explaining it.

### **First: The concept of dividend policy.**

The difference in financial thought in its formulation of the concept of dividend distribution policy as a result of the different strategies for disposing of profits, as it differed from one company to another and even in the same company during its successive cycles, this was reflected in the different views of researchers in their expression of the concept of dividend distribution. Gordon (1959) Dividend distribution is a form of segmented payment that investors expect to receive based on the profits a company makes. While he knew it Gitman (2007) As a source of cash flow for shareholders. In addition to providing information on the company's performance, which is the main variable in determining the value of its shares. But Okafor et al (2011) Dividends are defined as cash received from the company as part of the profit towards the contribution to the company.

From the above, the concept of dividend distribution can be defined (Dividend) is a cash payment or other form of distribution paid by companies to their shareholders as part of the profits obtained in the financial year and as a natural source of reward for the capital invested in the company.

As for the dividend policy (Dividend Policy)) can be defined as the actions, practices and decisions taken by the company's management related to the pattern and volume of cash or non-cash flows that are agreed to be paid to shareholders as part of the profits achieved during the financial year in exchange for the retained portion of them to meet the financing and investment requirements of the company.

### **Second: The importance of the dividend policy.**

The dividend policy is an effective tool that affects the company's future prospects, as it is part of the capital budget activities and the design of the capital structure, as well as the wisdom and know-how of its financial management, and therefore it is of great importance, the paragraphs of which can be listed as follows:

1. **Stock valuation criteria:** Dividend policy is usually one of the criteria adopted by investors, along with other criteria in determining the value of shares, as it is an important indicator of organizational growth and management efficiency in a company (Al-Masum, 2014, 9-21).
2. **Supporting Shareholders' Confidence:** Adopting appropriate, fixed, and continuous net profit ratios is a supporting reason to increase shareholders' confidence in their

investment decisions, which reflects positively on the company's competitive investment position vis-à-vis other companies (Charbti, 2020, 51).

3. **Source of Information:** Dividend announcements are an indicator that reflects information about a company's future earnings, making it easier for shareholders to make decisions about the future of their investments (García, 2003, 31).
4. **Future Prospects:** The company's adequacy is planned through the procedures, practices, and decisions related to the dividend policy adopted by the company's management to implement projects, exploit investment opportunities, and avoid liquidity risks (García & Loranca, 2016, 258-275).
5. **Stability of Stock Market Capitalization:** According to Charbti (2020), a proper and stable dividend policy, and its positive impact on individuals' desire to retain their equity in the long term, is one of the reasons why a company moves away from undesirable fluctuations in its market capitalization and its direction towards its target and desired growth rates.
6. **Supporting the Company's position in the stock market and preferred bonds:** When a clear and desirable dividend policy is adopted, it supports the company's steps in its quest to borrow money by issuing preferential shares and bonds in the market, along with equity shares (Nguyen, 2014, 274-284).
7. **Tax advantage:** Some dividend policies achieve desirable goals towards obtaining certain tax advantages that reduce the deductions imposed on capital gains (Mohanasundari, 2016, 59-69).

### Third: Forms and Types of Dividends

Companies vary in adopting the appropriate policy in distributing their dividends, and this policy varies from time to time, according to the economic (profits) and financial (cash availability) status of the company, as well as according to its financial structure, which is crucial in deciding whether or not to approve and implement this policy (Leite et al, 2017, 205-221). The first is to provide sufficient financial resources to cover profits, while the second is to maximize the wealth of the shareholders in the company, and between the achievement of the first and second goals, dividends take several forms that can be explained as follows:

1. **Cash Dividends:** In accordance with this policy and in accordance with its view that there are no good reasons why they do not continue to pay annual returns to shareholders except for periods of low liquidity, companies resort to distributing cash flows directly to shareholders (Juma'h & Pacheco, 2007, 54-75), and these cash distributions are usually determined based on a percentage of the nominal value of the share or a specific amount per share (Jatmiko, Companies may sometimes set a deadline for the payment of cash dividends to shareholders, on which interest is paid when their payment is deferred due to insufficient liquidity to pay (Kato et al., 2002, 443-473).

Cash distributions are usually made in one of the following ways:

A. **Fixed Cash Dividend Policy:** Under the umbrella of this policy, the Company pays specific cash flows to its shareholders without considering its annual profit levels, relying on its extraordinary profits in some years to cover the years that suffer from low profit rates, thus providing shareholders with clear and positive signals about the future of the company, and reducing their uncertainty. 2004,1125-) (1165), but it is more successful and effective in application in companies characterized by stable earnings and stable flows. Most CFOs (Egbeonu et al., 2016, 17-24), and Alayemi (2015) point out its positive effects on the company and its shareholders, agree that withholding distributions is an undesirable measure as it is interpreted as an indicator of expected financial hardship. In addition to having several advantages, including:

- The instability of distributions is usually associated with the high uncertainty of the investor and consequently the reluctance to trade the company's shares, which causes a decrease in the value of the stock (Palenzuela & López, 2007, 95-125).
- Shareholders' desire for consistent cash flows that can be used to cover their ongoing and increasing expenses (Hartono & Matusin, 2020, 139-156).
- A stable dividend distribution gives the company greater credibility and a relatively better commercial reputation with different sources of funding, thus enhancing its ability to obtain appropriate financing without having to retain a percentage of profits as a source of funding (Chacín et al., 2018, 1867-1901).

B. **Fixed Rate Dividend Policy:** Within this policy, the company adopts a fixed proportional rate of dividends to be paid to shareholders in each distribution period (Levy et al., 2016, 363-375), and thus it may suffer from instability as a result of the company's profits during its successive cycles being subjected to variation, and may reach the limits of non-existence during the years when the profits reach its zero or negative value (Tsay, 2002, 443-473).

C. **Low and fixed dividend policy with additional dividends:** This policy is usually adopted by companies that face periodic fluctuations in their profits, as the company pays low ordinary dividends followed by extraordinary additional dividends known as special dividends in the event that the company achieves profits that exceed normal limits (Brigham & Ehrhardt, 2013, 43), thus giving its shareholders the necessary and stable income that helps to build confidence in their future. Added to it are additional distributions of the company's profits in good times (Jeon & Moffett, 2011, 344-375) Although under this policy the company avoids giving false hopes to shareholders, few companies follow suit. Zhou & Ruland, 2006, 58-69)

2. **Dividends in the form of shares:** Since companies want to retain cash flows for investment purposes or to increase their capital by converting a portion of reserves and profits into capital that enhances the company's ability to request loans, companies usually resort to giving the investor a number of shares as an alternative to cash returns (Floyd et al., 2015, 1-39), by assigning a share to each investor and in accordance with the shares he owns in the company. Abu Khalaf (2012) points out. The Company may expect some

undesirable consequences, such as the possibility of a decline and collapse in the market value of the share, as well as the unwillingness of the number of investors to buy its shares, and therefore the Company may stay away from following this policy except when the market value of the stock rises significantly.

**3. Ownership distributions (in kind):** These distributions come in the form of assets distributed to shareholders other than cash flows, such as commodities, investments, and real estate (Baker & Wurgler, 2004, 1125-1165), and due to the difficulty of dividing and segmenting in-kind assets, companies usually resort to exchanging or converting them into ownership distributions in the form of securities of other companies that the distributed company acquired as an investment (García & Loranca, 2016,258-275), and this form of dividend can be followed in the event that the company encounters unusual circumstances (Goel, 2016, 111-121).

**4. Deferred Dividends:** Companies sometimes suffer from a lack of cash that prevents them from distributing dividends in the near future, which forces the company to resort to paying them at a later date on the condition that certificates or authorizations are issued to shareholders (Antill & Grenadier, 2019, 198-) (224, may or may not involve interest and may or may not have a specific maturity date (Levy, 2016,363-375).

**5. Gross Profit Distribution Policy:** Some studies, including a study (Al-Masum, 2014, 9-21), have suggested that based on the principle of shareholders' preference to get the largest possible profits, it is necessary to distribute gross profits, but in practice, companies cannot follow this policy due to taxation and the uneven desire of investors to receive their share of dividends (Antill & Grenadier),2019,198-224)

**6. Surplus (Residual) Distribution Policy:** Within this policy, the Company resorts to distributing the surplus profits after deducting the investment financing requirements, as preference is given to investment in projects with current and positive net worth (Morni et al, 2019, 67-72), provided that this is done with the support of the majority of investors according to the company's ability and commitment to achieve ROI rates commensurate with the size of the retained profits added to the company's assets and in a way that compensates the shareholders for their refrain from investing those profits self-detained (Juma'h & Pacheco, 2007, 54-75).

**7. Zero dividends:** Companies may decide not to pay any dividends, which is especially common in newly established companies that need capital to execute their projects, and who hold all of their profits to expand their business (Leite et al, 2017, 205-221), or when the company is in need of financing and unable to borrow or to avoid high borrowing costs, and the company may have followed investors' preferences for capital gains over periodic dividends (Lazonick, This policy is preferred by investors who prefer capital gains over dividends, and is easy to implement and avoids costs related to dividend payments and taxes (Egbeonu et al., 2016, 17-24).

### Part Three: Theoretical Frameworks of the Main Determinants of Dividend Policy

1. **Previous Dividends: Dividends** for the previous year or years exert a significant influence on the dividend policy for the current year, based on the tendency of most companies to follow a fixed dividend policy, in which Al-Kayed (2017, 117-128) points out that the dividends distributed in the previous year are usually considered as an indicator of the prediction of dividends that will be distributed in the coming years, and Baker & Wurgler, 2004, 1125-1165) This means that companies often try to follow a fixed dividend policy while maintaining or increasing their dividend policy rather than decreasing.
2. **Profitability: Financial** thinking indicates that a company's profitability is one of the most important determinants of a positive impact on dividend policy, as dividend payments are usually distributed from annual profits, as companies with high profits tend to pay higher levels of profits (Maladjian, 2013, p38) which is consistent with signal theory or information content that emphasizes that companies with high profitability are likely to pay larger cash dividends in order to convey an image It is better than its financial performance and as a good (credible) signal to the market, especially when its counterparts from other less profitable companies cannot emulate it. In the field of experimental studies, most of their results have confirmed the positive effect of profitability levels in dividends , including the study of Ray (& Das 2010) (Eliasu et al, 2014), but some of these studies have contradicted this positive effect in their results (Hosain, 2016) pointed out that there is an inverse relationship between profitability and dividend policy, which he attributes to the factors of the external environment surrounding companies and not the nature of the theoretical relationship that links profitability to dividends, as (Kumar, 2006) stated that profits have three directions that follow them according to the surrounding conditions, their impact on dividends can be explained through the following:
  - **Earnings fluctuation trend: The higher the rate of volatility** of the company's earnings, the lower the dividend ratio, i.e., the relationship between the dividend fluctuation rate and the dividend ratio is inverse, which makes the company's sources of funding limited due to the high degree of uncertainty in earnings (Nguyen et al.). (2020,67-78
  - **Trend of rising profits:** The higher the rate of increase in the company's profits, the higher the dividend ratio, i.e., the relationship between the rate of increase in profits and the dividend ratio is positive, which makes the sources of funding large for the company due to the high earnings (DeAngelo et al, 2004, 425-456).
  - **Earnings Stability Trend:** Stabilization of earnings in a company increases management's confidence in the availability of profits and thus increases its ability to distribute a relatively larger portion of these profits to shareholders (Kumar, 2006, 43).

**3. Liquidity:** Liquidity is one of the most important factors in maintaining a company's financial maneuverability, and it is also very important in determining its dividend policy within the framework of the capital balancing process (Devanadhen & Karthik, 2015), as companies with more liquidity (or in other words, companies with higher liquidity) are likely to pay higher profitability ratios compared to their counterparts suffering from liquidity crisis Gupta & Banga, 2010, (63-77) Thus, this positive relationship between liquidity and dividend distribution is consistent with signal theory, since highly liquid firms transmit reliable signals to the market that a firm is able to easily repay its obligations and therefore carries a lower risk of default (Mehta, 2012).

**4. Financial Leverage:** It means the use of third parties' funds at fixed costs, represented in loans, preferred stocks, and bonds, all of which have a fixed cost and the company must commit to paying them, that is, the leverage is linked to the company's financing structure, the more the company relies on external sources of funding, the higher the degree of leverage (Rizqia & Sumiati, 2013, 120-130). It becomes more effective if the company can invest the borrowed money correctly and at a rate of return that exceeds its cost rate, and if the company does not succeed in investing the borrowed money, it will be exposed to greater risk and losses if it does not use leverage (Brigham & Ehrhardt, 2013) (Tahir & Rahman, 2020) (181 argues). High leverage increases transaction costs and corporate risk. Companies with high leverage ratios typically have high fixed payments for the use of external financing. Therefore, the higher the leverage, the less chance of dividends being distributed as leverage is negatively correlated with dividends. This finding is supported by the agency's cost theory of dividend policy.

### **Third: Determinants in terms of the economic aspect.**

**1. Tax Considerations:** Shareholders' demand for dividends is often influenced by differential tax considerations between dividend tax and capital gains tax, as most investors or shareholders are interested in the after-tax return on their investments, which may affect or distract the directors' decision regarding the distribution of dividends, but most directors respond to the tax preference of shareholders in order to make the most of the shareholders' wealth (Pattenden & Twite, Furthermore, most countries tax dividends at a relatively higher tax rate than capital gains, which puts investors with a capital gains tax advantage to choose companies that reinvest their profits rather than pay them as dividends (Al-Malkawi et al, 2010). As a result, depending on the different investor situations, taxes and transaction costs may attract investors to companies that follow dividend policies that There are clear incentives for tax-exempt institutions to claim high levels of profits, and in empirical studies, Grinstein & Michaely, 2005, 1389-1426) have emphasized that there are conflicting outcomes of how institutional investors influence dividend policy as a result of large differences in the outcomes of tax systems, for example, the U.S. tax system Largely neutral in terms of dividend policy, while the UK's tax system provides clear incentives for tax-exempt institutions to claim dividends. In contrast, Mori & Ikeda (2015, 1-10) emphasized that there is a positive correlation between dividend policy and corporate ownership in Britain, due to the fact that tax-

exempt shareholders such as pension funds are the most influential investors in many British companies. Benjamin & Zain (2015) also found that dividends are positively correlated with institutional ownership, thus supporting the tax-based hypothesis, suggesting a particular type of client who does not prefer dividends over stocks but rather tends to reinvest them.

**2. Market Considerations:** One of the important market considerations is informational content, as shareholders view dividend payments as an indication of the company's future success, while fluctuating and volatile dividend payments are viewed as negative signals for the company's future financial health, leading to a decline in the market value of its shares, and shareholders view dividend payments in periods of losses that companies are going through as an indication that these losses are temporary (Booth & Zhou, 2017, 1-15), and Al-Yahyaee et al. (2011, 606-612) found that financial markets take into account the information content of the dividend policy, as they give signals to shareholders about the future performance of the company, and these signals can be divided into two types:

- **Positive Signal:** It means that the dividend policy is stable and stable, due to the strength of the company's financial position, and thus the company's share price in the stock market.

- **Negative Signal:** It means that the dividend policy is volatile and unstable between no dividend distribution or low distribution percentage, which gives an indication of a decrease in the company's future profits, due to the decline in the company's share price in the financial markets (Tao et al, 2016, 297-318), hence the importance of the company adopting a dividend policy and being announced in the financial market, and therefore each shareholder determines his position on the company in light of the convergence of the dividend policy with his wishes and interests.

**3. Transaction Cost:** It is the cost of transactions for administrative expenses, registration fees, and other legal liabilities that may be provided to buyers to encourage them to buy securities, and these costs are one of the main reasons that encourage a company to retain profits to finance its investment projects (Ng et al., 2008, 661-696), and a shareholder who wishes to increase his share in the company prefers to keep his share of the profit instead of The reason is that the shareholder wants to avoid transaction costs (Leiblein, 2003, 937-961).

**4. Inflation:** Inflation exerts its effect on dividend policies by reducing the real value of realized profits and thus weakening their ability to replace expired fixed assets, which pushes towards holding more profits, which may take into account the reserves of rising asset prices, in order to maintain institutional productive capacity (Yanti & Aprilyanti, 2020,4). What applies to investments in fixed assets also applies to equity investments. In the face of inflation, the volume of investment in assets is expected to increase, and the proportion of retained profits will increase accordingly (Elly & Hellen, 2013, 1-8), but in a case where the inflation rate is low and management does not expect this rate to rise in the future, it can distribute the bulk of its profits in exchange for keeping the lower portion as retained earnings (Mehta, 2012, 18-31).

**5. Industry type:** The type of sectors in which the company operates is one of the factors influencing dividend policies, as government policies may force some industries to compete and engage in a risky environment, which forces companies within a single industry to pay dividends to shareholders (Manos, 2003, 275-300), and this is consistent with what the study of (Baker & Powell, 2003) confirmed. 2000,29-40) which showed that the type of industry is an important factor in the decision to pay dividends.

**6. Market Value To Book Value Ratio:** The effect of this factor on the distribution of dividends is due to the main objective of the management, which is to maximize the wealth of the shareholders, which is done by maximizing this ratio (Kadim et al, 2020, 859-870). A measure of the shareholders' view of the company's situation, if the percentage is greater than one, it indicates the shareholders' confidence and preference for this company and considers it to be a good financial performance and successful in its investment decisions (Husain & Sunardi, 2020, 13-26).

**7. Risks: From** the perspective of transaction cost theory, transaction costs are directly related to the company's risk, which increases the likelihood of bankruptcy of the company, and thus its chances of paying or distributing dividends. The higher the operational and financial leverage of the company and equally the company's dependence on external financing due to the fluctuations in its profits. Both financial and operational leverage can be translated into high overall risk for equity returns, and thus will have a negative impact on dividend payments A number of studies such as Taksar (2000), Manos (2003, Tao et al (2016) have confirmed the negative relationship between business risk and dividend policy in favor of the idea of riskier firms. And greater risk, compared to developed markets. Anggoro & Yulianto (2019, 379-387) shows that the relationship between risks represented by annual changes in total profits achieved and the dividend policy in these companies takes the opposite character, and this is explained that the high risk facing the organization leads to the distribution of few profits to shareholders, as the fluctuations that occur in the profits achieved limit the possibility of distributing profits to shareholders or lead a company to distribute Low Earnings Brigham & Ehrhardt, 2013).

#### **Part Four: The Reality of Profit Distribution Policy in the Companies: The Study Sample and Its General Trends**

The information provided by financial and accounting indicators, especially dividend policy indicators, is one of the vital important aspects that help investors and shareholders to achieve the rationality of the selection and trading of securities based on the information of these indices, which represent a basic pillar in making the right investment decision at the right time (selling, buying, holding shares) (Wanke et al., 2019, 52-68). The annual financial reports of companies contain various items of information and data that reflect the varying levels of the nature of their performance, which in turn are determined by the changes that occur in the economic variables that make up them, and are affected in large part by the economic and financial policies adopted by each company in accordance with the requirements of the growth and stability of its financial activity.

### **First: The Reality and Direction of the Profit Distribution Policy in Iraqi Business Companies: The Study Sample**

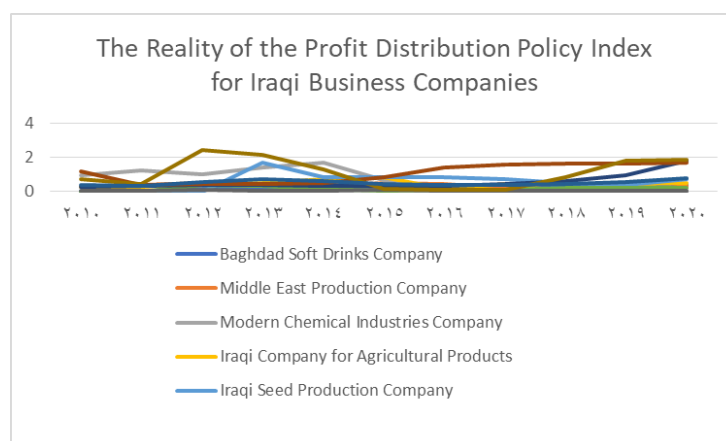
The analysis of dividend policy indicators as a dependent variable, which represents one of the most important indicators that is relied on to determine the level of financial performance of shareholding companies, includes clarifying the reality of profits and their general trends in Iraqi business companies in the study sample for the period (2010-2020), whose data were included in Table (1), which shows through its review that the indicators of the dividend policy in Iraq have witnessed fluctuations and fluctuations throughout the study period. However, it has taken an upward trend in its entirety, due to the impact of the factors determining the dividend policy in companies, as well as the decline in the average per capita income and the resort to savings to face this decline, which led to the withdrawal of many small investors from the market, and the decrease in the number of foreign investors and the lack of connection of the market to the global markets is due to the lack of a successful policy that encourages investment in Iraq, on the other hand, the political, economic and financial conditions that the country is witnessing and what causes it The instability of the situation in general has greatly affected the Iraqi Stock Exchange and all its indicators (Alwan et al., 2013, 254-270), and from the review of the index, it is clear that Asiacell Telecom was the best company in terms of the dividend policy index compared to the companies listed in the study sample , as the average dividend policy index in it was (1.080) and the highest dividend value in 2012 was (2.450) The lowest value in 2016 was (0.095), it is the second largest mobile operator in Iraq, with the largest number of subscribers and the most widespread in terms of its market share of revenues and its good financial solvency (Fakhry, 2021,) (138-150), with a positive cash flow, which led to a higher dividend policy index compared to In the listed companies in the study sample, while Al-Mansour Pharmaceutical Industries Company was the lowest company in terms of the dividend policy index compared to the companies listed in the study sample, as the average dividend policy index in it was (0.045) and its highest value in 2012 The lowest value was (0.1) in 2018 when it reached (0.012), due to the decrease in the sector's sales as a result of the sharp competition in the market and the pressure on profit margins caused by the depreciation of currencies in the markets in which the company operates against the Iraqi Dinar, and the year 2020 was the best in terms of the dividend policy index compared to the years during the study period. The average index of the dividend policy in Iraq reached (0.7562), which is the highest rate, and this is due to the work on developing the economic environment in Iraq, especially after the issuance of the investment law, which aimed to attract and encourage foreign investment, grant advantages, guarantees and exemptions to investors, implement electronic trading activity, and activate the market database (Ali & Rouhi, 2020, 176-181). All these factors were reflected in the improvement of the indices in the Iraqi Stock Exchange, followed by (2013, 2014, 2019, 2012, 2015, 2018, 2017, 2010, and 2016) and 2011 came in the last order, with the average dividend policy index reaching (0.3131), which is the lowest rate in terms of the dividend policy index compared to the years of the study period (2010-2020), as a result of the distribution of Iraqi economic wealth. according to

certain policies after 2011, which in turn was reflected on the performance of companies and the Iraqi economy as a whole. The United States of America has deliberately liberalized the Iraqi economy and used free trade without any specific foundations and controls that can face the economies of neighboring countries and the world.

**Table 1.** The Reality of the Profit Distribution Policy Index for Iraqi Business Companies Study Sample for the Period (2010-2020)

Sunnah	Baghdad Soft Drinks Company	Middle East Production Company	Modern Chemical Industries Company	Iraqi Company for Agricultural Products	Iraqi Seed Production Company	National Company for Tourism Investments	Iraqi Carpet & Furnishings Company	Baghdad Iraq Transport Company	Al-Mansour Pharmaceutical Industries Company	Asia Cell Telecommunications Company	Average Year
2010	0.055	0.29	0.931	0.252	0	0	0.275	1.191	0.031	0.714	0.3739
2011	0.03	0.394	1.260	0.289	0	0	0.34	0.363	0.03	0.425	0.3131
2012	0.13	0.510	0.99	0.47	0	0.373	0.36	0.414	0.1	2.450	0.5797
2013	0.16	0.35	1.440	0.52	1.726	0.329	0.37	0.453	0.04	2.150	0.7538
2014	0.148	0.351	1.701	0.72	0.832	0.14	0.336	0.475	0.058	1.277	0.6038
2015	0.201	0.514	0.654	0.866	0.832	0.05	0.325	0.863	0.07	0.172	0.4538
2016	0.252	0.444	0	0.169	0.832	0.118	0.327	1.418	0.048	0.095	0.3694
2017	0.21	0.24	0	0.459	0.724	0.07	0.458	1.582	0.026	0.124	0.3893
2018	0.245	0.175	0	0	0.487	0.184	0.598	1.626	0.012	0.82	0.4147
2019	0.336	0	0	0.469	0.398	0.189	0.942	1.652	0.062	1.790	0.5838
2020	0.385	0.328	0	0.521	0.724	0.192	1.810	1.705	0.028	1.869	0.7562
Average	0.195	0.326	0.634	0.430	0.594	0.149	0.558	1.067	0.045	1.080	0.5083
Max	0.385	0.514	1.701	0.866	1.726	0.373	1.810	1.705	0.1	2.450	0.7562
Min	0.03	0	0	0	0	0	0	0.363	0.012	0.095	0.3131

This process led to the deterioration of the national industrial and agricultural sector, which is presented through the data contained in Table (1) regarding the values of the dividend policy indicators of the business companies listed on the Iraqi Stock Exchange The study sample, which was projected in the form of graphs included in Figure (1), and after processing the initial data of the indicators and relying on Single Exp Smoothing and in comparison with the different models of the types of equations through the (Mean Squared Deviation) scale (MSD) and selecting the best one to measure the statistical relationship between the indicators of the dividend policy and time to analyze the general trend of those indicators, showed the results of its estimates and its general trend As shown in Figure (2). It has varied between an uptrend in some companies and a downtrend in others during the period (2010-2020).



## Part Five: Measuring and Analyzing the Main Factors Determinants of the Dividend Policy

### First: Model Variables

#### A. Dependent Variable: Dividend policy.

It is measured by dividing the total cash dividends by the number of shares, as stated in the Most of the economic and financial studies, including Von & Megginson (2008), Al-Yahyaee et al (2011), Liu & Hu (2005), Su et all (2014).

#### B. Independent Variables including:

**1. Profitability:** It is measured by dividing net profit after interest and taxes by the number of shares, as stated in the study of kieso (2015), Ray & Das (2010), and Ramezani et al (2002) which found a positive relationship between the company's profitability and dividend policy.

**2. Liquidity:** Dividing the year-end cash balance by the number of shares is the indicator used in calculating liquidity, as indicated by the studies of Chapelle (2010), Burksaitien & Burksaitiene & Draugele (2018), Pattiruhu & Paais (2020).

**3. Growth:** Growth is usually calculated through the rate of change in total assets at the end of the year over total assets at the beginning of the year, which was adopted in the studies Mehta (2012), Palley (2017), Jahfer & Mulafara (2016) which emphasized that there is an inverse relationship between dividends and growth opportunities, i.e. the higher the growth opportunities, the higher the percentage of dividends retention and the lower the percentage of dividends in the company. Sari & Sudjarni (2015) showed a positive relationship.

**4. Financial leverage:** Leverage expresses the sum of short-term debt and long-term debt to total assets, and a number of studies, including the studies of Mokhtar et al. (2013), Al-Malkawi (2005) have shown a positive relationship between financial leverage and dividend policy, while the study of Aasia et al (2011), Yusof & Ismail (2016), Akhalumeh & Ogunkuade (2021) has shown There is a negative relationship between them.

**Table 2.**  
Study Variables

Dependent variable					
Variable		Indicator used		Symbol	
Dividend Policy		Total cash dividends to number of shares		DP	
Explanatory variables					
t	Variables	Indicator used		Symbol	Expected impact
1	Profitability	Net profit after interest and taxes to the number of shares		Pr	+
2	Liquidity	Year-end cash balance to number of shares		LI	-,+
3	Growth	Rate of Change in Total Assets to Total Assets at the beginning of the year		GR	-,+
4	Leverage	Total short-term and long-term debt to total assets		LE	-,+

## Result and Discussion

### First: Estimating and analyzing the main determinants of the Dividend Distribution (DP) policy in Iraq.

#### 1. Test the stability of the double data (Panel Data) for the study variables:

In order to obtain results and estimates of the impact of key determinants of the dividend policy in Iraq for the period (2010-2020), the GMM model is distracted from the possibility that the GMM model will fall under what is known as spurious regressions and the misleading results that result from the phenomenon of data instability. The study, at a significance level of 0.05, the results of which are included in Table (3), which showed the instability of most of the study variables at the level, represented by (LI, GR growth, and LE) leverage, as a result of the failure of the Prob test values. In descending the 0.05 barrier, with or without a fixed limit or time trend, it was able to achieve its stability at the first difference and in all three cases (with or without a fixed limit or time trend), with the exception of the LI fluidity variable, which were the Prob values. Higher than 0.05, therefore, the second difference test was adopted, which proved their stability, whether with or without a fixed limit or time trend, while the other variables represented in (DP Dividend, Profitability PR, Market Cap to Book Value MB, TA Tax Considerations, and Change in Government Policies) were able to prove their statistical significance at the level, whether or without a fixed limit or temporal trend, as explained by the values. Prob. which did not exceed the barrier of 0.05.

**Table 3.** Results of the (2002) Levin-Lin-Chu Test for the Stability of Panel Data for Study Variables in Iraq

Variables	Level			First Difference			Second Difference		
	None	Inter.	Trend & Inter.	None	Inter.	Trend & Inter.	None	Inter.	Trend & Inter.
DP	-3.1506	-30661	-3.6988						
Prob.	0.0008	0.0011	0.0001						

Variables	Level			First Difference			Second Difference		
	None	Inter.	Trend & Inter.	None	Inter.	Trend & Inter.	None	Inter.	Trend & Inter.
PR	-2.1274	-2.5233	-5.1179						
Prob.	0.0167	0.0058	0.0000						
LI	-3.2110	-1.0057	-1.2068	-7.138	-0.027	-2.0477	-12.01	-7.2501	-15.430
Prob.	0.0007	0.1573	0.1137	0.0000	0.4892	0.0203	0.000	0.0000	0.0000
GR	-0.6390	-40.041	-24.436	-16.70	-10.94	-4.3121			
Prob.	0.2614	0.0000	0.0000	0.0000	0.0000	0.0000			
LE	1.4505	0.1524	-0.9948	-7.135	-1.793	-1.0055			
Prob.	0.9265	0.5606	0.1599	0.0000	0.0364	0.0173			

Source: Prepared by the researcher based on the results of the EViews 12 program

## 2. Model Estimation and Analysis of Results

By adopting the Generalized Momentum (GMM) model in estimating and analyzing the impact of explanatory variables in the policies followed in the distribution of profits (DP) in Iraq, and after excluding the insignificant variables that proved to have no effect on the dividend policy, the results listed in Table (4) were reached, which reflected the following:

**Table 4.**  
Results of the Estimation of the Main Determinants of Dividend Distribution (DP) in Iraq.

Method: Panel Generalized Method of Moments				
Sample (adjusted): 2010 – 2020				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
PR	2.484296	0.630669	3.939145	0.0002
LI	2.477229	0.492196	5.033010	0.0000
GR	1.495324	0.530389	2.819297	0.0013
LE	-2.232409	1.035401	-2.156081	0.0390
Cross-section fixed (first differences)				
Mean dependent var		3.270731	S.D. dependent var	802.8556
S.E. of regression		502.7721	Sum squared resid	22750184
J-statistic		81.57212	Instrument rank	11
Prob. (J-statistic)		0.000000		

Source: Prepared by the researcher based on the results of the EViews 12 program

- The Significance of the Impact of (Profitability PR, Liquidity, Growth GR, and Leverage LE) on the Dividend Policy Index Represented by Share of Cash Dividends (DP)
- The positive effect of the Profitability Index (PR) on the Dividend Policy Index (DP) was in line with economic logic and related empirical studies, as the results indicated that an increase in the Profitability Index by one correct percentage caused an increase in the Dividend Policy Index by a factor of 2.48.
- The Liquidity Index (LI) has generated a positive response to the Dividend Policy Index (DP) with a coefficient of (2.477), which is consistent with theoretical and empirical studies that have shown the relationship between them, as when the liquidity rate

increases by one correct amount, this will contribute to the increase in the Dividend Policy Index by (2.477).

- The response of the positive impact of the growth index (GR) in the Dividend Policy Index (DP) was contrary to economic logic, as it indicates that a rise in growth rates and expansion of companies by a correct amount will increase the dividend distribution by a factor of (1.495) in the same direction, and this may be explained within the scope of shareholders' feeling of insecurity and skepticism about the possibility of participating in the They will prefer to receive current profits by pressuring companies to pay dividends regardless of available growth opportunities (La Porta et al., 2000, 3-27), which supports the theory of a bird in the hand, and thus fast-growing companies resort to using debt to support their growth, rather than equity, as debt can be considered Financing is less expensive (i.e., the growth rate of a company's equity is greater than the cost of borrowing debt), and this finding is consistent with the findings of a study by Gharbi and Amira (2018).
- The response to the negative impact of the leverage index (LE) in the Dividend Policy Index (DP) is consistent with economic logic and most empirical studies, as a decrease in leverage by one correct amount will cause an increase in the Dividend Policy Index by a factor of (2.232).

## Conclusions

Profitability has proven to be a fundamental influence in dividend policy: the higher the profits of companies, the more distributable they are, while companies with low profits tend to reduce or postpone dividends, and Available liquidity is a critical factor as the results show that companies with strong and stable cash flows are able to commit to a fixed dividend, and Growth opportunities have shown an inverse relationship with distribution policy: companies with high growth rates tend to keep a larger portion of their profits to fund future investments rather than distribute them. Leverage has had a significant negative impact as companies with high debt levels reduce dividend ratios to allocate financial resources to meet their obligations. The results showed that the interaction between these four variables ultimately determines the nature of the distribution policy, so that the weakness of one of the factors may weaken the overall distribution policy.

The study recommends that companies should develop clear plans for managing profits to ensure stable distributions without harming future investment opportunities. and Companies need to boost their cash flow by improving cash flow management, so they can deliver on their promises to shareholders. Encourage companies with high growth rates to balance investment expansion and dividends, ensuring shareholder satisfaction and sustainable growth. Corporate managements need to reduce indebtedness levels and manage leverage with caution, to reduce pressures on profits and liquidity.

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