

Revisiting the Dividend Puzzle: Integrating Classical, Information, Agency, and Behavioural Perspectives on Corporate Dividend Policy

Lamin Dampha

[ldampha@utg.edu.gm](mailto:ldampha@utg.edu.gm)

School of Business and Public Administration, University of the Gambia, Kanifing, The Gambia

Talat Afza

Lahore Business School, University of Lahore, Lahore, Pakistan

Muhammad Akram Naseem

Lahore Business School, University of Lahore, Lahore, Pakistan

Corresponding Author: Lamin Dampha [ldampha@utg.edu.gm](mailto:ldampha@utg.edu.gm)

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ABSTRACT

*This study revisits the long-standing dividend puzzle by integrating classical, information-based, agency, and behavioral perspectives into a unified analytical framework. While dividend policy has been extensively studied, existing literature remains fragmented, with competing theories offering partial and often inconsistent explanations of corporate payout behavior. This study argues that the persistence of the dividend puzzle reflects not a failure of theory, but the inherently multidimensional nature of dividend policy. Building on a comprehensive review of recent literature, the paper develops an integrative framework that conceptualizes dividend policy as the outcome of interacting financial, informational, governance, and behavioral forces. The classical irrelevance perspective provides the benchmark for understanding dividend neutrality under ideal conditions, while signaling theory explains the informational role of dividends in the presence of asymmetric information. Agency theory highlights the governance function of dividend payments in mitigating managerial opportunism, and behavioral approaches emphasize the role of investor demand and market sentiment in shaping payout decisions. The analysis demonstrates that dividend policy is context-dependent, with the relative importance of each theoretical dimension varying across firms, institutional environments, and market conditions. By synthesizing these perspectives, the study reconciles inconsistencies in the literature and advances a more comprehensive understanding of corporate payout behavior. The study contributes to corporate finance by moving beyond fragmented theoretical approaches and proposing a unified framework that captures the complexity of dividend policy in modern financial markets. The findings have important implications for researchers, corporate managers, and policymakers, highlighting the need for integrated approaches to analyzing and designing dividend strategies.*

**Keywords:** Dividend Policy; Dividend Puzzle; Signalling Theory; Agency Theory; Behavioural Finance; Corporate Governance; Investor Demand; Payout Policy

INTRODUCTION

Dividend policy remains one of the most enduring and unresolved issues in corporate finance. Despite decades of theoretical development and empirical investigation, there is still no consensus on why firms distribute dividends, how investors value them, or whether dividend decisions affect firm value. This persistent lack of agreement has sustained what is widely referred to as the dividend puzzle, a phenomenon that continues to attract substantial scholarly attention in modern finance. Recent studies and reviews

confirm that dividend policy remains a fragmented field characterized by competing theoretical perspectives and mixed empirical evidence (Baker et al., 2020; Yarram & Dollery, 2021).

At its core, dividend policy concerns the allocation of corporate earnings between distribution to shareholders and retention for reinvestment. This decision is central to firm valuation and reflects a range of financial and strategic considerations, including investment opportunities, liquidity constraints, corporate governance structures, and investor expectations. Contemporary research emphasizes that dividend policy is not merely a payout decision but a multidimensional strategic instrument that influences firm performance, market perception, and long-term sustainability (Al-Najjar & Belghitar, 2021; Bhattacharya et al., 2022). However, the complexity of these interactions has made it difficult for researchers to converge on a unified theoretical explanation.

The classical foundation of dividend theory is rooted in the irrelevance proposition, which argues that dividend policy does not affect firm value under idealized conditions of perfect capital markets. While this framework provides a useful benchmark, its assumptions such as the absence of taxes, transaction costs, and information asymmetry are rarely satisfied in practice. Consequently, a wide range of alternative theories have emerged to explain dividend behavior under more realistic conditions. These include information-based theories such as signaling, governance-based perspectives such as agency theory, investor preference explanations such as clientele theory, and behavioral approaches such as catering theory (Baker & Wurgler, 2020; Dong et al., 2021; Ferris et al., 2020).

Despite this rich theoretical landscape, a key limitation persists: most studies treat dividend theories as competing rather than complementary explanations. This fragmented approach has contributed to inconsistent empirical findings and has hindered the development of a unified framework capable of resolving the dividend puzzle. Recent literature highlights that dividend research is often divided into distinct streams valuation, governance, taxation, and behavioral finance each offering partial insights but failing to provide a comprehensive explanation of payout behavior (Yarram & Dollery, 2021; Khan et al., 2022).

In response to this gap, there is growing recognition of the need for an integrative perspective that synthesizes these theoretical strands into a coherent analytical framework. Such an approach acknowledges that dividend decisions are influenced by multiple overlapping mechanisms rather than a single dominant factor. For instance, dividend payments may simultaneously serve as signals of firm quality, mechanisms for mitigating agency conflicts, responses to investor demand, and reflections of firm lifecycle dynamics. Empirical evidence increasingly supports this multidimensional view, showing that dividend policy is shaped by firm-specific, institutional, and behavioral factors (Baker et al., 2020; Bhattacharya et al., 2022).

Against this backdrop, this study revisits the dividend puzzle by integrating classical, information-based, agency, and behavioral perspectives into a unified framework. Rather than positioning these theories as mutually exclusive, the paper argues that they represent complementary dimensions of dividend policy, each capturing a distinct aspect of the payout decision process. By synthesizing these perspectives, the study provides a more comprehensive understanding of how dividend policy operates in modern financial environments.

The contribution of this article is threefold. First, it offers a structured and critical synthesis of the major dividend theories, highlighting their underlying assumptions, strengths, and limitations. Second, it bridges the gap between classical models and contemporary empirical evidence by situating traditional theories within modern financial contexts. Third, it advances the literature by proposing an integrated framework

that conceptualizes dividend policy as the outcome of interacting financial, informational, governance, and behavioral forces.

## **LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

### **Theoretical evolution of the dividend puzzle**

The modern literature on dividend policy continues to revolve around a central question: why do firms pay dividends when theory offers no single universally accepted explanation? Recent reviews show that dividend policy research remains one of the most active but conceptually fragmented areas in corporate finance, with multiple research streams coexisting around valuation, taxes, governance, market signaling, lifecycle effects, and investor demand. Ed-Dafali et al. (2023), in a bibliometric review of 270 studies, conclude that the dividend puzzle remains unresolved and that the field continues to expand across several partially connected theoretical traditions. This finding is important because it suggests that the persistence of the dividend puzzle is not due to a lack of research, but rather to the coexistence of several explanations that each illuminate only part of the payout decision.

This fragmented evolution has important implications for theory building. Rather than viewing dividend policy through a single lens, recent scholarship increasingly recognizes that payout decisions may simultaneously reflect financial fundamentals, governance concerns, information asymmetries, lifecycle considerations, and behavioral pressures. In that sense, the dividend puzzle has evolved from a narrow valuation debate into a broader inquiry about how firms communicate, govern, and allocate resources in imperfect markets. Recent empirical work supports this multidimensional interpretation by showing that dividend outcomes vary across institutional settings, ownership structures, and firm characteristics, making it difficult for any one theory to dominate across all contexts (Njoku et al., 2024; Ghose, 2025).

### **Classical Perspective: The Benchmark Of Dividend Irrelevance**

The starting point for most discussions of dividend theory remains the classical irrelevance argument. Although the original irrelevance proposition belongs to an earlier generation of finance theory, recent literature continues to treat it as the benchmark against which alternative explanations are developed. Contemporary studies do not reject the relevance of the irrelevance framework outright; instead, they use it as an analytical baseline that clarifies the conditions under which dividend policy should matter. In real markets, however, the assumptions underpinning irrelevance such as perfect information, no taxes, no agency problems, and frictionless trading rarely hold. As a result, researchers increasingly examine dividend policy by identifying which market imperfections make payout decisions relevant in practice (Ed-Dafali et al., 2023; Njoku et al., 2024).

This repositioning of the classical view is methodologically important. Rather than treating irrelevance as empirically realistic, contemporary research uses it to frame the transition from perfect-market logic to imperfect-market explanations. That is precisely why more recent studies focus on governance frictions, informational asymmetry, and investor demand as the real-world mechanisms that restore dividend relevance. In this sense, the irrelevance proposition remains foundational, but no longer sufficient as a standalone explanation of modern payout policy.

### **Information-Based Explanations: Signaling and Asymmetric Information**

One of the strongest contemporary perspectives on dividend policy comes from information-based theories. Under conditions of asymmetric information, managers possess private knowledge about firm prospects

that outside investors do not fully observe. Dividends can therefore function as signals that reduce uncertainty and help investors infer firm quality. Recent evidence continues to support the relevance of signaling mechanisms, although the strength and direction of the effect appear to vary across contexts. Venanzi (2026), for example, shows that asymmetric information remains central to explaining dividend policy and argues that signaling-based interpretations remain highly relevant in international settings. Similarly, Gosain (2025) finds that promoter-owned firms used dividends as signals of future prospects in normal periods, although this relationship shifted under crisis conditions.

These findings suggest that signaling theory remains powerful, but context-sensitive. Dividends are not always neutral payouts; in many cases they represent managerial communication tools that reflect confidence, stability, or future performance expectations. At the same time, recent evidence also shows that signaling motives may weaken or even reverse in periods of stress, where precautionary retention becomes more valuable than communicative payout. This helps explain why empirical studies often report mixed findings: the informational role of dividends depends on ownership structure, external shocks, and institutional setting rather than operating as a universal rule.

### **Agency Perspective: Dividends as A Governance Mechanism**

Agency theory remains one of the most influential explanations of dividend policy in recent literature. The core argument is that dividends reduce the free cash flow available to managers and thereby limit the scope for overinvestment, private benefit extraction, or inefficient retention. This governance logic continues to receive strong empirical support. Njoku et al. (2024) show that the effect of dividend policy on firm value and performance is closely related to alignment and entrenchment dynamics, particularly in ownership structures where agency conflicts are pronounced. Ghose (2025) similarly reports that higher free cash flow and liquidity strengthen the case for dividend payments, consistent with agency-based expectations that payout can discipline managerial discretion.

The contemporary relevance of agency theory lies in its flexibility. Unlike narrow valuation models, agency-based perspectives are highly adaptable to varying governance systems, ownership structures, and institutional environments. Recent work also shows that external governance mechanisms can shape dividend behavior. For example, Chintrakarn et al. (2025) report that firms more exposed to takeover pressure pay higher dividends, reinforcing the idea that payout decisions are linked to governance discipline rather than merely to residual profits. This broadens agency theory from an internal control argument into a wider governance framework in which dividends help align interests under both internal and external monitoring pressures.

### **Investor-Demand and Behavioral Perspectives**

Behavioral and investor-demand approaches have become increasingly important in modern dividend research. These perspectives challenge the view that dividend policy is driven only by firm-side financial optimization and instead argue that managers also respond to investor sentiment, demand for payout, and market-level preferences. Recent bibliometric evidence identifies “dividend disconnects and catering incentives” as one of the main contemporary research streams, indicating that behavioral explanations have become embedded in the mainstream dividend literature (Ed-Dafali et al., 2023).

The behavioral turn is significant because it brings investor psychology into the payout decision. Managers may “cater” to shareholder demand for dividends when dividend-paying firms command a premium, even if such payouts are not strictly necessary from a financing perspective. In this sense, dividend policy becomes partly demand-driven rather than exclusively fundamentals-driven. Recent studies also suggest

that investor preference is not constant; it varies with uncertainty, market cycles, and institutional context. This means that behavioral explanations do not replace classical or agency perspectives, but rather add a new layer to them by showing that dividend decisions may reflect the interaction between managerial incentives and investor sentiment.

### **Lifecycle and Firm-Characteristics Perspectives**

Recent research also reaffirms the importance of lifecycle and firm-characteristic explanations. Dividend policy varies systematically with profitability, liquidity, maturity, cash holdings, and firm size. Ghose (2025) shows that cash holdings, liquidity, and maturity-related factors are positively associated with dividend payout, suggesting that firms at more advanced stages of development are better positioned to distribute cash. Similarly, emerging-market evidence indicates that dividend policy cannot be explained without considering ownership structures, governance architecture, and firm-specific financial conditions (de Souza Junior et al., 2025; Njoku et al., 2024).

This perspective is especially useful because it explains why some firms pay stable dividends while others do not. Lifecycle reasoning suggests that payout behavior evolves with firm maturity, investment opportunity sets, and internal financing needs. Thus, a young growth firm and a mature cash-generating firm may follow very different payout patterns even under similar market conditions. This again reinforces the idea that dividend policy is not governed by one universal law, but by a configuration of interacting firm-level and market-level forces.

### **Research Gap and Integrative Perspective**

Although the literature has expanded substantially, a major gap remains: contemporary research still tends to examine dividend theories in separate analytical silos. Information studies emphasize signaling, governance studies emphasize agency, behavioral studies emphasize investor demand, and lifecycle studies emphasize maturity and cash flow. What is still lacking is a coherent synthesis that explains how these perspectives interact rather than compete. Ed-Dafali et al. (2023) explicitly show that the field is organized into distinct clusters, but the coexistence of these clusters also implies the absence of a fully integrated framework.

This article addresses that gap by arguing that the dividend puzzle persists because dividend policy is inherently multidimensional. Classical theory explains the benchmark, information theory explains the communicative role of dividends, agency theory explains their governance function, and behavioral theory explains the demand-side pressures shaping payout decisions. Recent evidence from emerging and developed markets suggests that these perspectives are better understood as complementary rather than mutually exclusive (Ghose, 2025; Njoku et al., 2024; Venanzi, 2026).

## **CONCEPTUAL INTEGRATION AND ANALYTICAL FRAMEWORK**

### **Rethinking the Dividend Puzzle: From Fragmentation to Integration**

The preceding literature review demonstrates that dividend policy has been explained through multiple theoretical lenses, including classical irrelevance, signaling, agency, lifecycle, and behavioral perspectives. While each of these frameworks provides valuable insights, their coexistence has contributed to the persistence of the dividend puzzle. Rather than resolving the debate, the accumulation of theories has led to conceptual fragmentation, with each explanation capturing only a partial dimension of dividend behavior (Ed-Dafali et al., 2023; Yarram & Dollery, 2021).

This study argues that the persistence of the dividend puzzle is not due to the inadequacy of individual theories, but rather to the absence of an integrative analytical framework. Dividend policy is inherently multidimensional, shaped by overlapping financial, informational, governance, and behavioral forces. As such, no single theory can fully explain payout decisions across different firms, markets, and institutional contexts.

Recent empirical evidence supports this integrative perspective. Studies show that dividend policy is simultaneously influenced by profitability, governance structures, information asymmetry, and investor demand, suggesting that payout decisions reflect the interaction of multiple mechanisms rather than a single dominant driver (Baker et al., 2020; Bhattacharya et al., 2022; Ghose, 2025). This reinforces the need to move beyond isolated theoretical explanations toward a unified framework.

### **An Integrated Framework of Dividend Policy**

Building on this argument, the study proposes a four-pillar analytical framework that integrates the major theoretical perspectives into a coherent structure. The framework conceptualizes dividend policy as the outcome of interactions among four key dimensions:

#### **Financial–Valuation Dimension (Classical Perspective)**

This dimension captures the traditional role of dividend policy in firm valuation. Under ideal conditions, dividend decisions are irrelevant to firm value; however, in real-world settings, market imperfections such as taxes, transaction costs, and capital constraints make payout decisions relevant. This dimension establishes the baseline logic of dividend policy and defines the conditions under which deviations from irrelevance arise (Baker et al., 2020).

#### **Information Dimension (Signaling Theory)**

The second dimension reflects the role of dividends as signals of firm quality. In the presence of information asymmetry, managers use dividend payments to convey private information about future earnings and financial stability. Dividends therefore act as communication devices that reduce uncertainty and influence investor expectations (Dong et al., 2021; Venanzi, 2026).

#### **Governance Dimension (Agency Theory)**

The third dimension captures the governance role of dividends in mitigating agency conflicts. By distributing excess cash, dividends reduce managerial discretion and limit the potential for inefficient investment or opportunistic behavior. This perspective emphasizes the role of dividends as a control mechanism that aligns the interests of managers and shareholders (Njoku et al., 2024; Chintrakarn et al., 2025).

#### **Behavioral and Demand Dimension (Catering Theory)**

The fourth dimension incorporates investor behavior and market sentiment into dividend policy. Firms may adjust payout decisions in response to investor demand for dividends, particularly when dividend-paying firms are valued at a premium. This dimension recognizes that dividend policy is not purely driven by fundamentals, but also by market perception and behavioral biases (Ed-Dafali et al., 2023; Baker & Wurgler, 2020).

### **Interactions Among the Four Dimensions**

A key contribution of this framework is that it does not treat these dimensions as independent. Instead, dividend policy is conceptualized as the result of interacting forces, where each dimension reinforces or moderates the others.

- Financial capacity influences the ability to signal through dividends
- Information asymmetry strengthens the signaling role of payouts
- Agency conflicts increase the need for dividend discipline
- Investor demand shapes how managers implement payout decisions

For example, a firm with strong cash flows (financial dimension) may use dividends to signal stability (information dimension), reduce agency concerns (governance dimension), and respond to investor expectations (behavioral dimension). Conversely, in firms with high growth opportunities, the financial dimension may dominate, leading to lower payouts despite signaling or demand considerations.

This interaction-based perspective explains why empirical findings often appear inconsistent. Dividend policy is not determined by a single mechanism, but by the relative strength of multiple forces, which vary across firms and contexts (Yarram & Dollery, 2021; Ghose, 2025).

### **Conceptual Model**

Based on the integrated framework, dividend policy can be expressed as a function of interacting theoretical components:

$$\text{Dividend Policy}_i = f(\text{Financial}_i, \text{Information}_i, \text{Governance}_i, \text{Behavioral}_i)$$

Where:

- **Financial** = profitability, cash flow, investment opportunities
- **Information** = signaling and information asymmetry
- **Governance** = agency conflicts and monitoring mechanisms
- **Behavioral** = investor demand and market sentiment

This formulation emphasizes that dividend policy is not a single-variable decision but a systemic outcome of multiple interacting determinants.

### **Implications for Theory**

The proposed framework contributes to the literature in three important ways.

First, it reconciles competing theories by positioning them as complementary rather than mutually exclusive. This helps resolve the apparent contradictions in empirical findings by showing that different theories dominate under different conditions.

Second, it advances dividend theory from a static perspective to a dynamic and context-dependent framework, where the relevance of each dimension depends on firm characteristics, institutional settings, and market conditions.

Third, it provides a foundation for future empirical research by identifying key dimensions that can be jointly tested rather than examined in isolation. This opens new avenues for developing multi-theoretic empirical models of dividend policy.

### **Transition to Empirical and Applied Implications**

The integrated framework developed in this section provides a comprehensive basis for understanding dividend policy as a multidimensional decision. It also explains why the dividend puzzle persists: dividend policy is not governed by a single theory, but by a combination of interacting forces that vary across contexts.

The next section builds on this framework by examining the implications for corporate financial decision-making and empirical research, with a focus on how firms balance financial, informational, governance, and behavioral considerations in practice.

## **DISCUSSION**

### **Interpreting the Dividend Puzzle through an Integrated Lens**

The integrated framework developed in this study provides a more comprehensive explanation of the dividend puzzle by demonstrating that dividend policy is not driven by a single theoretical mechanism, but rather by the interaction of financial, informational, governance, and behavioral forces. This perspective offers an important departure from traditional approaches that treat dividend theories as competing explanations. Instead, the findings suggest that these theories are complementary components of a broader decision-making process, each capturing a distinct but interrelated dimension of corporate payout policy.

From a theoretical standpoint, the persistence of the dividend puzzle can be interpreted as a reflection of contextual heterogeneity rather than theoretical failure. Different firms operate under varying levels of information asymmetry, agency conflict, financial constraints, and investor pressure. As a result, the relative importance of each theoretical dimension shifts across firms and environments. Recent empirical studies support this view, showing that dividend behavior varies significantly across institutional settings, ownership structures, and stages of firm development (Yarram & Dollery, 2021; Ghose, 2025). This suggests that inconsistent empirical findings in the literature are not contradictory, but rather indicative of the multi-theoretic nature of dividend policy.

### **Financial Capacity and the Conditional Relevance of Dividends**

The financial dimension of the framework highlights that dividend policy remains fundamentally tied to firm-level characteristics such as profitability, liquidity, and investment opportunities. Firms with strong cash flows and limited growth prospects are more likely to distribute dividends, consistent with lifecycle theory and residual dividend models. However, the integrated framework shows that financial capacity

alone does not fully determine payout decisions. Instead, financial strength provides the foundation upon which other mechanisms such as signaling and governance operate.

This helps explain why some financially strong firms still choose to retain earnings rather than distribute dividends. In such cases, factors such as growth opportunities, investor expectations, or strategic considerations may outweigh the financial capacity to pay dividends. Conversely, firms with moderate financial resources may still pay dividends if signaling or governance incentives are sufficiently strong. This conditional relationship reinforces the idea that the financial dimension interacts dynamically with other theoretical components rather than acting independently (Baker et al., 2020; Bhattacharya et al., 2022).

### **Dividends as Information Signals in Imperfect Markets**

The discussion also reinforces the continued relevance of signaling theory in modern financial environments. In the presence of information asymmetry, dividend payments serve as credible signals of firm quality and future prospects. However, the integrated framework highlights that the signaling role of dividends is context-dependent. Its effectiveness varies with ownership structure, market transparency, and macroeconomic conditions.

Recent studies indicate that signaling effects are stronger in environments characterized by weak disclosure systems or high uncertainty, where dividends act as substitutes for formal information channels (Venanzi, 2026; Dong et al., 2021). At the same time, the signaling role may weaken in highly transparent markets or during periods of financial distress, where dividend cuts may reflect precautionary behavior rather than negative signals. This nuanced interpretation explains why empirical evidence on signaling is often mixed and reinforces the importance of incorporating contextual factors into dividend analysis.

### **Governance Role of Dividends and Agency Discipline**

The governance dimension of the framework underscores the importance of dividends as a mechanism for mitigating agency conflicts. By reducing free cash flow, dividend payments limit managerial discretion and decrease the likelihood of inefficient investment or resource misallocation. This aligns with contemporary findings that link dividend policy to corporate governance quality and ownership structure (Njoku et al., 2024; Chintrakarn et al., 2025).

Importantly, the integrated framework expands the scope of agency theory by situating it within a broader system of interacting forces. Dividends are not only tools for internal discipline but also signals to external stakeholders regarding governance quality. In this sense, dividend policy can enhance firm credibility in capital markets by demonstrating commitment to shareholder value. However, the governance role of dividends may diminish in firms with strong internal controls or concentrated ownership, where alternative monitoring mechanisms are already in place. This again highlights the conditional nature of dividend policy and its dependence on firm-specific governance structures.

### **Behavioral Influences and Investor Demand for Dividends**

A key contribution of this study is the explicit incorporation of behavioral and demand-side factors into the analysis of dividend policy. Traditional finance models assume rational investors and efficient markets; however, recent evidence suggests that investor sentiment, preferences, and psychological biases play a significant role in shaping payout decisions. Firms may adjust their dividend policies to cater to investor

demand, particularly when dividend-paying stocks are valued at a premium (Baker & Wurgler, 2020; Ed-Dafali et al., 2023).

This behavioral dimension provides an important explanation for variations in dividend policy that cannot be fully accounted for by financial fundamentals or governance considerations. For example, firms may maintain stable dividend payouts to meet investor expectations even when internal conditions suggest that retention would be more efficient. Similarly, dividend initiations or omissions may be influenced by market sentiment rather than purely by profitability or cash flow considerations. This underscores the role of market perception as a driver of corporate financial decisions.

### **Reconciling Theory and Practice**

One of the most important implications of the integrated framework is its ability to reconcile the gap between theory and practice. Traditional models often assume that firms optimize dividend policy based on a single objective, such as value maximization. In reality, managers operate in complex environments where multiple objectives coexist, including maintaining investor confidence, managing agency conflicts, signaling firm performance, and responding to market expectations.

The integrated framework suggests that dividend policy should be understood as a multi-objective decision-making process, where managers balance competing considerations rather than strictly adhering to a single theoretical principle. This perspective aligns with recent empirical findings showing that dividend decisions are influenced by a combination of financial constraints, governance factors, and investor preferences (Ghose, 2025; Yarram & Dollery, 2021).

### **Contribution to the Dividend Literature**

This study contributes to the dividend literature in three key ways. First, it advances theoretical understanding by integrating multiple perspectives into a unified analytical framework, thereby addressing the long-standing fragmentation in dividend research. Second, it provides a clearer explanation for inconsistent empirical findings by demonstrating that dividend policy is inherently context-dependent and influenced by interacting mechanisms. Third, it extends the scope of dividend theory by incorporating behavioral factors alongside traditional financial and governance considerations.

By moving beyond isolated theoretical explanations, the study offers a more comprehensive and realistic account of dividend policy, thereby contributing to the ongoing effort to better understand the dividend puzzle in modern corporate finance.

### **CONCLUSION**

This study revisited the long-standing dividend puzzle by integrating classical, information-based, agency, and behavioral perspectives into a unified analytical framework. Rather than treating dividend theories as competing explanations, the paper argued that dividend policy is inherently multidimensional, shaped by the interaction of financial capacity, information asymmetry, governance structures, and investor demand.

The analysis demonstrates that the persistence of the dividend puzzle does not reflect a failure of theory, but rather the complex and context-dependent nature of payout decisions. Classical irrelevance theory provides the benchmark for understanding dividend neutrality under ideal conditions, while signaling theory explains the communicative role of dividends in imperfect information environments. Agency theory

highlights the governance function of payout policy, and behavioral approaches introduce investor sentiment and demand-side dynamics into the decision-making process.

By integrating these perspectives, the study shows that dividend policy is not governed by a single dominant mechanism but by a configuration of interacting forces whose relative importance varies across firms, markets, and institutional contexts. This insight helps reconcile inconsistent empirical findings in the literature and provides a more comprehensive understanding of corporate payout behavior.

Overall, the study contributes to corporate finance by reframing the dividend puzzle as a multi-theoretic and context-driven phenomenon, thereby advancing both theoretical and practical understanding of dividend policy in modern financial environments.

### **POLICY AND MANAGERIAL IMPLICATIONS**

The findings of this study have important implications for corporate managers, investors, and policymakers.

First, for corporate managers, the integrated framework suggests that dividend policy should not be approached as a purely mechanical or residual decision. Instead, managers should recognize that dividend decisions serve multiple functions simultaneously, including signaling firm quality, mitigating agency conflicts, and responding to investor expectations. Effective dividend policy therefore requires a strategic balancing of financial, informational, and behavioral considerations, rather than adherence to a single theoretical rule.

Second, the findings highlight the importance of context-specific dividend strategies. Firms operating in environments characterized by high information asymmetry may benefit from using dividends as signaling tools, while firms with significant agency conflicts may use dividends to strengthen governance discipline. Similarly, firms facing strong investor demand for stable payouts may adopt consistent dividend policies to maintain market confidence. This implies that optimal dividend policy is not universal but depends on firm characteristics, ownership structures, and market conditions.

Third, for investors, the study underscores the need to interpret dividend payments as multifaceted signals rather than simple indicators of firm performance. Dividend changes may reflect a combination of factors, including financial strength, governance considerations, and managerial expectations. Investors should therefore evaluate dividend policy within a broader analytical framework that accounts for these interacting dimensions.

Fourth, for policymakers and regulators, the findings suggest that improving market transparency and governance structures can influence dividend behavior. Strong disclosure systems may reduce the need for signaling through dividends, while effective corporate governance frameworks can shape payout decisions by aligning managerial and shareholder interests. This highlights the role of institutional quality in shaping corporate financial policies.

### **Implications for Theory**

From a theoretical perspective, this study contributes by moving beyond fragmented explanations of dividend policy and proposing a unified, integrative framework. The framework reconciles classical and contemporary theories by demonstrating that each captures a specific dimension of dividend behavior. This approach shifts the focus from identifying a single “correct” theory to understanding how multiple mechanisms interact in shaping payout decisions.

Furthermore, the study advances dividend theory by incorporating behavioral and demand-side factors alongside traditional financial and governance considerations. This reflects the growing recognition that corporate financial decisions are influenced not only by internal firm characteristics but also by external market dynamics and investor sentiment.

### **Limitations**

Despite its contributions, this study has several limitations.

First, the analysis is primarily conceptual and theoretical, relying on the synthesis of existing literature rather than original empirical testing. While this allows for a comprehensive integration of theories, future research could strengthen the framework by testing it empirically using cross-country or firm-level data.

Second, the integrative framework assumes that the four dimensions financial, informational, governance, and behavioral capture the main drivers of dividend policy. However, other factors such as taxation, macroeconomic conditions, and regulatory environments may also play important roles and could be incorporated into future extensions of the model.

Third, the relative importance of each dimension may vary significantly across different institutional settings, which limits the generalizability of the framework without empirical validation. This highlights the need for context-specific studies to examine how the framework operates in different environments.

### **DIRECTIONS FOR FUTURE RESEARCH**

This study opens several avenues for future research.

First, future studies should develop empirical models that jointly test multiple dividend theories, rather than examining them in isolation. This would allow researchers to quantify the relative contribution of each theoretical dimension and provide stronger evidence for the integrated framework proposed in this study.

Second, there is a need for cross-country comparative research to examine how institutional factors such as legal systems, governance quality, and financial market development influence the interaction between different dimensions of dividend policy. Such studies would enhance the external validity of the framework.

Third, future research could explore the role of behavioral finance in greater depth, particularly how investor sentiment, market cycles, and psychological biases influence corporate payout decisions. This is an emerging area with significant potential to expand the understanding of dividend policy.

Fourth, longitudinal studies using panel data could provide insights into the dynamic evolution of dividend policy, particularly how firms adjust payout decisions over time in response to changing financial conditions and market expectations.

Finally, integrating dividend policy with broader corporate finance decisions such as capital structure, investment policy, and corporate governance would provide a more holistic understanding of firm behavior and contribute to the development of a unified theory of corporate financial decision-making.

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