



Advance Journal of Econometrics and Finance

Online ISSN

2959-8990

Print ISSN

2959-8982

https://ajeaf.com/index.php/Journal/About

Name of Publisher: SCHOLAR CRAFT EDUCATION & RESEARCH HUB

Review Type: Double Blind Peer Review

Journal Frequency: Quarterly Research Journal



Liquidity Profitability Trade-Offs And Dividend Policy: A Panel Data Analysis Of Non-Financial Firms

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<p><b>Ahmad Salman</b> PhD Scholar Preston University, Islamabad. <a href="mailto:salmanbanth@yahoo.com">salmanbanth@yahoo.com</a></p> <p><b>Dr. Akmal Shahzad Butt</b> Associate Professor Preston University, Islamabad <a href="mailto:drakmalshahzadbutt@gmail.com">drakmalshahzadbutt@gmail.com</a></p>	<p><b>Abstract</b></p> <p>This paper aims to draw attention to a unique application of balance sheet management as a deliberate comparison, the new content included, and its application in managing dividend policy, given a certain protection margin. People tend to believe that the practice of making dividend payments only through some mathematical calculation is still rather simple, as it is impossible to support the level of profitability or meet the needs of stockholders by attacking liquidity. Unfortunately, despite the copious number of research presented on these themes, much of the research initiatives to examine the behavior of dividend decision making have fallen short proper examination of the relationship between liquidity and profitability. This thesis focuses on the interpersonal factors of liquidity, and why it affects the policy of paying dividends in particular men, rather than non-bank financial companies. Data were drawn from the food and personal care sector for the period of 15 years, which a general 225 observations' analysis will be done with Fixed Effects estimation in combination with Driscoll-Kraay robust standard errors to deal with firm-specific heterogeneity, heteroskedasticity, as well as cross-section dependence. The core finding in this work is that liquidity has a positive impact on dividend decisions, thus presenting corporations with the capacity to pay shareholders. The result shows that working capital is being managed in a very poor state within the firm, and higher borrowing levels suppress the propensity to pay dividends because the internally generated funds available are too high to pay for the dividends. This paper adds to the corporate finance literature by discussing the interaction between liquidity and profitability in one setting. Nevertheless, the study on other sectors and different measures is incomplete. Suggestions for future work include the examination of moderating and mediating factors such as corporate governance, financial options, or firms' life stages, and the inclusion of other theoretically derived predictors of dividends, such as the use of dynamic</p>
<p><b>Keywords:</b></p>	



### INTRODUCTION

Within the realm of corporate financial theory, the dividends issue remains an active research area as it concerns the distribution of earnings between paying dividends and retaining those for the firm's internal use. It influences the value of the owners, the ability to invest in the business, the stability of the company in terms of liquidity, and its capital gain over long periods. According to empirical findings, issuing dividends could be an important tool in building shareholders' confidence and preventing managerial opportunism, but when done irresponsibly it worsens the ability of the firm to mobilize internal resources and hinders the prospects of increasing future investments (Al-Najjar & Belghitar, 2011; Fama & French, 2001). Moreover, studies that focus on the dividend policy in developing countries do show that within the framework of the dividend policy, corporate decisions concerning the payment of dividends are influenced by the above earnings being retention ratios, debt levels, firm sizes, firm's operating cash flow, and the availability of external funds such as credit and bonds and other financial tools that are alternatives to the internally generated funds (de Souza Junior & Hijazi, 2025).

Two essential yet different aspects of highlighting effective financial management are seen in the concepts of liquidity and profitability. The concept of liquidity indicates how quickly the assets can be recovered, reducing the firm's liabilities, whereas the concept of profitability focuses on the earnings generated after the recovery of a liability. Financially, an optimal level of cash, or working capital in general, affords corporation to face the unexpected but also to resort to opportunities without shutting its operations. However, if cash is in excess and all the resources in the business are idling, profitability tends to be low or diminished, the blame for which is often laid on the strategy and tactics of management. Conversely, an aggressive focus on profitability may reduce liquid reserves and increase financial risk (Boisjoly et al., 2020; Jaworski & Czerwonka, 2022). More recent economic evidence points to the fact that effective working capital management is also needed in regard to firm performance in developed, as well as, and perhaps most notably, in developing economies (Kiymaz et al., 2024).

Striking a balance between liquidity and profit becomes more crucial when deciding whether to pay out dividends since dividend payments deplete the internally generated cash. For recipients of dividends, there are companies with high dividend payouts that end up in liquidity problems, as opposed to the ones that don't distribute profits, which consequently might have more financial flexibility at the expense of shareholder wealth. Such an issue is very critical in the case of non-financial firms, where much of the success of the business is dependent on the return on working capital, inventory, accounts receivable, and current operating cash flow. The case is supported by evidence from Vietnamese public company studies conducted recently, which shows that management of working capital dynamics indeed impacts the company's performance and highlights how the discipline of liquidity management affects firm financial performance (Huynh et al., 2025).

Notwithstanding research focusing on the subject of dividend policy and also working capital, results in this area are either scarce or differ. Some papers explore the association between strong cash flow and earnings and the ability to distribute linked dividends, while others look at accounting for the overall picture of operating results. A couple of recent dividend policy studies of non-financial firms have noted that determinants of dividend policy are likely to respond to the cost of capital, market risk, and other factors, particularly while addressing panel structure (Arhinful et al., 2024). Certainly, these contradictions suggest that no financial model can sufficiently account for the dimensions of dividend policy. Comprehensively, a proper analysis of dividend policy is best understood through a mix of some accounting concepts, such as liquidity and profitability, leverage and some other firm-related factors.

The report considers the liquidity/profitability priorities of non-financial firms and the "dividend payouts" issue in the light of panel-data econometric analysis. The characteristic feature of this research is the combination of liquidity and profitability analyses in a single investigation oriented towards non-financial companies. The rationale the use of a Fixed Effects framework rather than a simpler OLS is the large number of firms incorporated in the analysis. The expectations are that the research will help provide measures that will balance the expectation of profits among the capital providers with that of the management and the investors of the firm, and enable the various constituencies to achieve compatibility. Despite the noted limitations and problems found resulting in these data, the study attempts to discuss how liquidity and profitability contribute to the pay-out and dividend policy regarding the reward for non-financial firms.

The significance of the current study is threefold. Firstly, it looks at the interplay of liquidity and profitability as informative factors of dividend policy in more detail than different essays. Secondly, it concerns itself with non-financial firms that have their well-being largely determined by the effectiveness of their working capital and cash flows generated. Lastly, the study uses cross-sectional data rather than aggregate time-series data with autocorrelated errors. The cross-section of data enables the use of a fixed-effects model to account for the panel data structure and potentially reduce bias in parameter estimation. A robust standard error is also used to check for the level of confidence in the point estimates. It is expected that the results will be very useful in influencing the practices of the various analysts who deal with dividends, as well as to facilitate decision-making by investors.



### Literature Review and Theoretical Foundation

Dividend policy is one of those major financial choices, because a firm has to decide if the earnings should be passed to the shareholders, or kept inside the company to back upcoming investments. The whole thing becomes more complicated when firms are trying to keep liquidity stable, boost profitability, and still maintain everyday operating stability at the same time. In classical corporate finance theory, dividend policy is not just a technical payout matter, it can influence the firm's valuation and how investors feel, since dividend payments may act like a signal that future financial strength is on the way, while at the same time reducing the free cash flow that managers could use at their discretion (Fama & French, 2001; Jensen, 1986). Still, when a firm is under liquidity constraints, it may favor internal funding and the preservation of working capital over shareholder distributions, especially when the financial outlook is uncertain (Myers & Majluf, 1984).

Liquidity and profitability are often treated in finance as intertwined objectives, but at the same time as competing objectives when it comes to financial goal setting for a firm. Liquidity enables the company to service its current obligations, support its business operations, and deal with unexpected financial outflows. Profitability indicates the fairness of payments to attain resource use efficiently. The money that is not invested in anything else but is rather held as cash would be better used somewhere else. In the sense of financial objectives, this is seen as inadequate, as the firm is said not to be utilizing the resources to their maximum potential. Therefore, the second most important aspect of liquidity management would be control, and if liquidity is too much, it would harm the return. Such a tendency, however, may involve high risk in terms of not having that ability to cater for the restitution of all the financial debts as well as additional debts, since they do bear some interest, plus the monies borrowed have to be repaid together with the interest. Relating to yet another aspect further complicates the matter altogether; the less the liquidity of the lending company, the greater the risk of insolvency. On the other hand, Upton (2008) was critical of the term strategic risk, stating that it only emphasized the negative aspects of pursuing the firm's mission. As opposed to restricting, it encourages and enables embracing risk.

The matter of linkage between a company's liquidity and its dividend payout methods cannot be considered exhausted at this point, because, as demonstrated by empirical data, dividends are paid not only by the profits accounted for but also very often in cash. In simpler terms, with enhanced liquidity, companies are in a position to continue earning and paying dividends in a certain and uninterrupted manner, whilst also maintaining their usual course of business. However, on the occasion when liquidity tightens, management might decide to accumulate earnings, going against the grain of dividend disbursement. This is because they need more financing and want to do the payout in the future. In another case, Al-Najjar and Belghitar (2011) highlighted that corporate cash balances do not exist isolated from dividend payouts, because business entities aspire to achieve a given return on equity to their shareholders while simultaneously maintaining acceptable liquidity within the organization.

Additionally, current research focuses on how the availability of funds, capital structure costs, and more careful economic considerations influence the choice of the payout ratio in nonbanks, especially in emerging markets where current payouts have increased in nonfinancial firms of developing economies, including sub-Saharan Africa (De Souza Junior & Hijazi, 2005; Arhinful et al., 2024).

Most often, profit is seen to be a critical component of the dividend policy. This is mainly because the firms that are more profitable tend to have increased profits, which they can use to finance other endeavors as opposed to third-party finance. Yet in a company where there is a somewhat regular rate of return, dividends will be believed to be one of the indicators of the company's strength and future financial performance. Nonetheless, the higher the return on equity, the less probable it is that the earnings will go to increase the dividends, as managers engage in expansion and investment projects that eat away the retained earnings, or devise ways to arrange cheaper borrowings or simply cushion against any nomadic uncertainty. Moreover, as cited in the country mentioned herein, many Vietnamese companies under the scope of the study repeatedly stressed, and managed to demonstrate quantitatively them to be supports the financial prognosis of corporate scale, companies that are effective in running the day-to-day operations tend to give higher dividends payable because they generate much more such profits (Huynh et al., 2025). It is worth noting that the skillful management of working capital, which, according to Karim et al. (2024), includes cash conversion cycles, enhances financial performance as well by increasing the availability of current assets and relieving pressure from long-term funding sources.

In other words, the management of the capital helps to establish working relationships between two very different categories of liquidity on the rates of return. Every century has had a specific kind of credit which is provided or demanded due its situational rules; receivables control, inventory control and payables controls are also part of credit. these are good enumeration because if the first two are managed, you are able to raise cash reserves as well as the need for high short-term borrowing is reduced. It is worth noting that long time ago, Deloof (2003) pinpointed that detrimental working capital practices hurt the profitability of a business, and further studies have also demonstrated that there are

working capital strategies that are aimed at value addition to a firm's performance or that of any other group of interest. A few more works share the trend (focuses that gap): companies with an accelerated cash flow and a strict liquidity policy have better results in their operating activities, especially non-financial ones, for instance, in the production enterprises where revenues are dependent to a great extent on production and sales cycles and how the cash flows payments take place (Jaworski & Czerwonka, 2022; Huynh et al., 2005).

Despite a rather extensive literature, the empirical findings stay mixed and not very coherent, almost fragmented. Some papers find positive connections between liquidity, profitability, and dividend policy, while others argue that financial constraints, leverage, and prevailing market conditions can undermine the firm's ability to pay dividends. Also, a large share of earlier work tends to look at liquidity, profitability, and dividend policy one by one, instead of treating them within one integrated framework. On the methodological side, many studies lean on ordinary regression methods that do not really tackle firm-specific heterogeneity, nor do they capture time-varying financial behavior properly. As a result, the evidence that is available is still limited, especially on how liquidity–profitability trade-offs, together, affect dividend policy for non-financial firms, using robust panel data estimation. To respond to these gaps in the prior literature, the current study investigates the combined effect of liquidity and profitability on dividend policy among non-financial firms, applying panel-data analysis while also controlling for firm-specific financial characteristics.

Looking at the literature and some theoretical arguments, liquidity plays a role in how well firms can keep their day-to-day operations running and handle short-term obligations, and this may then influence their ability to pay dividends. Strongly solvent corporations can usually afford to divide a portion of their profits among their shareholders without compromising their normal everyday business activities. However, acute liquidity shortages might lead the management of a company to skip dividend distributions, and preference retaining more of the company's profits to enhance its financial capacity (Al-Najjar & Belghitar, 2011; Kiymaz et al., 2024). Therefore, the following hypothesis is proposed:

H1: Liquidity has a significant effect on dividend policy in non-financial firms.

Profitability refers to the ability of a given firm to generate income, and is a factor that is generally taken into consideration in the determination of dividend payments. When a company is deemed to be more profitable, it is able to distribute its earnings to its shareholders and, at the same time, maintain such earnings as sustainable for the future. On the other hand, profitable companies may not pay out all the earnings when there are growth opportunities or financial restrictions (Fama & French, 2001; Huynh et al., 2025).

Accordingly, the following hypothesis is developed:

H2: Profitability has a significant effect on dividend policy in non-financial firms.

Dividend policy is further influenced by the fact that firms with a high leverage ratio might have to implement a policy that may not take care of the interests of the shareholders, since that of the debt holders will always come first. This is because the market for corporate bonds is segmented depending on the credit risk so there may only be short of a small proportion of firms able to issue bonds and the rest will have to rely on other forms of debt financing such as bank loans and trade payables (Chen et al., 2021). Therefore, the following hypothesis is proposed:

H3: Capital structure has a significant effect on dividend policy in non-financial firms.

The trade-off effect between liquidity and profitability is known as the liquidity–profitability trade-off. Firms that have effective working capital management and are financially stable are assumed to have a better ability to continue paying dividends compared to companies that have liquidity or profitability problems. Thus, dividend policy ought to be cognized as the joint effect of liquidity and profitability (Aktas et al., 2015; Jaworski & Czerwonka, 2022). Thus, the final hypothesis is proposed:

H4: Liquidity and profitability jointly influence dividend policy in non-financial firms.

### Research Methodology

The purpose of this study, employing a quantitative explanatory mode of inquiry, is to ascertain how the level of liquidity and profitability affects the dividend policy of non-financial firms. The study is conducted from a positivist stance, utilizing a deductive methodology whereby hypotheses are tested from existing knowledge and then drawing inferences informed by data (Saunders et al., 2019). The respondents of the research are non-financial listed companies, because of the differences in the regulations and financial statements presentation; financial institutions are not included in the study. Specifically, the sample comprises 15 Fuel and Power Companies (FPC) that remained continuously listed on the Pakistan Stock Exchange (PSX) during the period 2010 to 2024. Firms that were delisted, suspended, merged, or had incomplete financial records during this window were excluded from the sample. This screening procedure yielded a balanced panel of 225 firm-year observations ( $N = 15$ ,  $T = 15$ ). Financial data were sourced from audited annual financial statements and the official disclosures available through the PSX data portal. The researchers have engaged themselves in collecting the second form of

data, that is, secondary panel data based on the audited annual financial reports over the years, to enable them to stratify the data analysis into firm-specific and period-specific (Baltagi, 2021).

The dividend policy is measured by the ability of an enterprise to pay dividends to its customers a. Its levels and trends in an environmentally and financially balanced manner can be depicted through the dividend payout ratio (DPR); current ratio (CR) together with additional measures contributes to the representation of the amounts of liquid assets available in an enterprise and its efficiency (working capital management, WCM); enhances the profitability concept via profitability ratios (net return on assets, ROA, net return on equity, ROE, etc.); profitability expectancy is furthermore improved via ratios of operating profit (NOPM). In addition, the variables included in the model comprise firm size (FS) and leverage (LEV) to c-contemporary development of tax literature with specific attention being paid to firm-dependent financial variables. The statistical design was conducted using panel data, wherein two models, FE and RE, were handled. The test further affirms that the Fixed Effects model is the most preferred. Subsequently, checks for variance inflation, data weighted corrections, time series or growth effects, and explicitly given attention are made in this research design. To address issues of non-confidentiality and improved margins of error regarding data estimation, the standard errors by Driscoll and Kraay are preferred to the older or classical regression approach (Wooldridge, 2016).

### Empirical Results

#### Descriptive Statistics

Table 1 reports descriptive statistics for the 225 firm-year observations drawn from 15 Food and Personal Care Companies (FPC) listed on the Pakistan Stock Exchange (PSX) over 2010–2024. The figures show that there exist significant disparities across firms, reflecting heterogeneity in liquidity risk, profitability, debt load, and dividend policy within this sector. One of the concepts, such as dividend policy, tends to vary across certain sectors, proving that firms in the same sector sometimes pursue very different payout behaviors. ROI and TORM are all factors of financial safety, which can be calculated; however, the values can be greatly distributed due to limited outreach. The problems of high recovery rates and the absence of bedroom-estimation biases in the sample's firm-specific heterogeneity call for the use of panel data estimation. Table 1 presents descriptive statistics on the variables used in the empirical analysis. This includes dividend per share, current ratio, ROE, TAT, three-year average Z-Score, firm size, and investment opportunities. Among the Dividend Payout Ratio, Liquidity Ratios, Profitability Indicators, Leverage, Firm Size and Growth, these statistics include the mean and standard error to see how the non-financial companies change with repayment tendencies over the trade periods.

**Table 1**

#### Descriptive Statistics

Variable	Mean	Median	Std. Dev.	Min	Max
WCM	41.49	19.40	57.11	1.55	329.46
DPR	46.95	13.86	92.24	-72.89	514.73
FS	4.58	1.41	14.96	0.31	138.53
LEV	93.26	12.87	199.26	-27.01	1021.25
CR	15.42	15.39	1.60	11.72	18.40
ROA	0.49	0.55	0.28	0.01	1.34
ROE	6.04	5.23	17.88	-95.04	57.97
NOPM	30.31	12.02	78.16	-112.68	399.59

Note. WCM = Working Capital Management; DPR = Dividend Payout Ratio; FS = Firm Size; LEV = Leverage; CR = Current Ratio; ROA = Return on Assets; ROE = Return on Equity; NOPM = Net Operating Profit Margin

The data presented has shown that in nearly all the variables, there are extremely high levels of variance. This suggests that the sampled firms have different financial positions and operating conditions.

#### Correlation Analysis

Pertaining to correlation analysis, it also evaluates the level and correlation extent with regard to the independent and dependent variables in the research subject as well as, this is where multicollinearity is also considered. Results depict a positive linkage between liquidity (CR) and the measures of earning capacity, hence solvent firms outperform their less solvent counterparts on usefulness perception. As to the practice of dividend policy, it is associated with the profitability indicator ROE in the sense that more-profitable firms are more inclined to pay out dividends. Also, all the correlation at this stage is less than the critical threshold indicated null concern towards the reported multicollinearity. Table 2 reveals the correlations between the factor deemed most important for the study. The study is aimed at determining the direction, strength of relationship between the variables and understanding the potential multicollinearity issues.

**Table 2**

**Correlation Matrix**

Variables	CR	DPR	FS	LEV	NOPM	ROA	ROE	WCM
CR	1							
DPR	0.27***	1						
FS	-0.26***	0.03	1					
LEV	0.43***	0.43***	-0.08	1				
NOPM	0.41***	0.23**	-0.07	0.28***	1			
ROA	0.41***	-0.07	-0.37***	0.03	0.40***	1		
ROE	0.43***	0.52***	-0.04	0.60***	0.27***	-0.02	1	
WCM	0.30***	-0.03	-0.06	0.00	0.03	-0.18*	0.15	1

Note. \*\*\*p < .01, \*\*p < .05, \*p < .10.

The results suggest that firms with stronger liquidity positions generally demonstrate higher profitability and greater dividend-paying capacity. However, correlation analysis only indicates association and does not establish causality; therefore, panel regression analysis is conducted to examine the empirical relationships.

### Panel Regression Results

The Hausman specification test statistical analysis was used as a diagnostic tool, and the results probably point toward employing the Fixed Effects (FE) model as the core model due to the fact that the test statistics were significant. In addition, since the panel data include heteroskedasticity among other issues, Clive Granger and Robert Innes robust standard errors were used as the correction. Three-dimensional content, such as diagrams or tables used in web content, may not be used in the pattern in this course, as it is explained what they are all about and how they were developed. In most applications, such figures will supplement the step-by-step instructions with the aim of ensuring correct implementation of the step-by-step instructions. Tables in e-learning are sometimes inserted as parts of the course content pages where the reasoning in the text is clarified and elaborated.

**Table 3**

**Panel Regression Results (Dependent Variable: Dividend Payout Ratio)**

Variable	$\beta$	Std. Error	t-stat	p-value
WCM	-0.1161	0.0355	-3.27	.001
DPR	0.0320	0.0134	2.38	.019
FS	0.0939	0.2192	0.43	.669
LEV	-0.0472	0.0151	-3.13	.002
CR	29.036	14.297	2.03	.044
R <sup>2</sup>	0.378			

Variable	$\beta$	Std. Error	t-stat	p-value
Robust F	20.48			$p < .001$

Note. Robust standard errors estimated using Driscoll–Kraay correction.

Interpretation of the relevant data shows that dividend policy is negatively and statistically significantly related to working capital management (WCM) ( $\beta = -0.1161$ ,  $p = .001$ ), indicating that poor capital management reduces the ability of companies to keep up to the level of dividend disbursements. This points to the liquidity-profit trade-off argument, where high short-term credit pressures interfere with equity dividends for the shareholders.

Liquidity, in the form of the current ratio (CR), presents positive and statistically significant absorption ( $\beta = 29.036$ ,  $p = .044$ ), suggesting that only firms with solvency favoring the leverage can maintain losses in any dividend. It goes without saying that dividend policy also has a positive link to profitability, therefore suggesting that healthy organizations are likely to share the earnings with the owners.

In an opposing manner, while debt results in a negative impact on dividend policies ( $\beta = -0.0472$ ,  $p = .002$ ), which implies that companies focused on debt likely have lower ordering of dividends compared to debt servicing, dividend policies. On the other hand, the impact of the size of the company appears absent, which implies that dividend payout policies are not necessarily a function of the size of the organization, on their own.

### Discussion

The aforementioned study sheds light on the interplay between company liquidity and profitability with particular reference to non-banking companies' dividend payout policy. The paper shows that profitability alone cannot provide the capital from which dividends are paid; in addition, careful attention must be paid to the liquidity of the company's assets, the efficiency of working capital, and financial commitments. It further signifies that the board of directors' financial policies represent dividend decisions as more operational instruments, where companies are faced with choices between their ability to allow ongoing business operations and the distribution of wealth to the shareholders. Accordingly, firms manage their financial performance objectives through their dividend and other investment policies, citing, for instance, the agency loss reduction principle in organization (Myers & Majluf, 1984; Kiyamaz et al., 2004).

Getting the most important conclusion of the research, it is clear that the effectiveness of working capital management has a negative relationship with dividend policy as it restrict the company from sustaining dividends where the working capital is not used properly. This means that if a firm locks up too much capital in risky customers, constitutes the working capital as inventories, or keeps a lot of illiquid assets and does not manage them effectively, likely that the firm will not be able to pay dividends though they record accounting profits. With more literature to back such an employee-specific interpretation, the theory of Cash Conversion Cycle, which states that worker's short-term asset management inculcated helps one hold on liquidity longer, among other benefits (Deloof, 2003), has been supported by the present study. Moreover, this evidence adduces with also in support to that by Aktas et al. (2015) when they argued that having an efficient level of working capital policies increases the corporate value and performance and the need to update the paradigm of working capital industry behaviors, especially in developing countries (Karim et al., 2024; Huynh et al., 2025). However, the improvement in working capital management only results in an excessive need for such measures, which is outlined further in the next paragraph. Such implications mean that it is pertinent for managers to consider appropriate working capital that will maintain the firm's dividend-paying ability over time.

Furthermore, the discoveries also unveil an affirmative and inexorable link between fluidity and dividend plan, which shows that companies can pay owners comfortably more in terms of dividends when their current ratios are high. This means that provable sources of cash in company pockets remain essential for maintaining dividends as opposed to just earnings in general. Firms with better liquidity on their hands can effectively settle near-term debts at the same time meet dividend requirements of the shareholders. This holds credibility when it is pointed out that it was also found in the past that organizations with more liquid norms and financial stretching tend to keep a lower earnings fluctuation rate in making dividend payment (Al-Najjar & Belghitar, 2011; Arhinful et al., 2024). Additionally, it has been revealed that excess profitability is essential, given that recent international comparative studies show that even in rapidly growing economies, such as developed and underdeveloped ones, such firms continually provide higher operational efficiency and benefit ratio (Kiyamaz et al., 2024). It goes without saying that high liquidity levels can also hinder efficacy, particularly in a case where it would lead to a hoarding of cash idle resources; for this reason, it becomes imperative to optimize liquidity management as opposed to accumulating liquid assets.

A study also discovers that leverage discourages the payment of dividends, and this may suggest that firms with a high degree of leverage are more concerned with meeting debt obligations compared to paying dividends to shareholders. Companies that are burdened with higher levels of debt face financial difficulties, since leverage reduces their retained earnings and simultaneously increases financial distress. This aspect is consistent with the Pecking Order Theory, which states that corporations prefer raising internal equity and decreasing dividends as the costs of external equity finance increase (Myers & Majluf, 2025). Additionally, it can be inferred that the result is congruent with the growing body of literature that asserts that capital structure has paramount effects on the leveraging and dividend decisions of firms in developing countries (Chen et al., 2021; de Souza Junior & Hijazi, 2025). It, therefore, points out the importance of having balanced financial mixes so as not to result in the conclusion that they hinder the policy of continued distribution of dividends.

On the contrary, irrespective of the fact that firm size normally associates with expected levels of payroll management, there is no indication of any pronounced impact on dividend practice. Perhaps that alone cannot be expected to explain the dividend policy of firms. It is probable that the payout practices of firms are more complex than expected due to other factors like administrative and financial capability per firm, leverage, or scale may be higher in some firms compared to others, and hence, the selection of reasons does not apply. This is at variance with previous works, which stated that the size of a firm is a significant factor that determines payout ratios, but is a plausible explanation as well, since there is heterogeneity across the non-financial sector, waste registers disparities in the generation of resources, and hence liquidity position exists and differs from one firm to another.

Although these are the conclusions of the many scholars, that their scoring system based on pecuniary inclination alone is present, indeed profit is not the only factor affecting the dividend payout as conjectured by many. Cast in another way, it would be right to stress that dividend making is a summary operation of liquidity situations, efficiency of working capital, leverage and other firm-related financial limits. Therefore, the present investigation extends the boundaries of the existing research and advances the idea that the proper development of the policy of the dividends' payout shall depend on the ability of the enterprises to intertwine the processes of being liquid and offering profitable business and how they shall cope with debt. Such results are not idling and are beneficial from the standpoint of management, because companies that wish to have a consistent dividend policy should monitor and maintain adequate liquidity position, optimal capital structure, working capital efficiently over an extended period of time and, therefore, investor's confidence.

### **Conclusion**

This research was an exploration of the impact of the interaction of market condition variables with firm level profitability disparities on the financial policies of Non-financial firms. The findings are clear that dividend policy is not just the produce of one-sided profit: it is equally said with liquidity, working capital efficiency, leverage and firm-specific constraints. Without reservation, this means that liquidity and terms of expenditure operate on the operations of more generous dividends, especially allowing companies with stronger short-term financial muscles to give to the interests of the shareholders. On the opposite, inefficiency in management of working capital element and borrowing beyond a manageable extent reduces the company's ability to give dividends. On the contrary, company size does not seem to have much effect on the shareholder distribution policy. In such a scenario, perception of the firm's rate of competence in financial management might be more important than the magnitude of the firm in outlay determination. This set of findings is consistent with the perspective of trade-off between liquidity and profitability, which explains that firms continually strive to meet operational targets while providing shareholder returns. In addition to that, the area in which the study is found to be valuable is in respect to a number of dimensions. Firstly, it enriches theories regarding dividend policy with the help of the liquidity and profitability factors rather than dealing with them separately. Secondly, it brings about firsthand data using non-financial companies which has been a subject that has not received so much attention even if the sector requires some working capital and operations cash management. Thirdly, this research employs panel-data estimation utilizing Fixed Effects and Driscoll–Kraay corrected standard errors, which enhances methodological validity as well as overcomes endogeneity and econometric problems that are likely to arise due to the differences across firms. Naturally, there are certain disadvantages of the research. The study is only focused on non-financial institutions thus; the results may not be transferable to other areas such as other financial institutions. Also, the use of accounting-based financial ratios may not completely account the market determinants of dividend policy. Lastly, the study fails to account for potential problems associated with endogeneity in the model which might have been countered using dynamic estimation procedures. Subsequent studies may wish to expand the investigation by using dynamic panel models such as the Generalized Method of Moments (GMM), comparing the financial and non-financial sectors and also investigating how corporate governance affects liquidity-constraints, profitability and dividend decisions over time.



# Advance Journal of Econometrics and Finance

Vol-4, Issue-2, 2026

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