Abstract

This study investigates one of the unresolved research puzzles in corporate finance; why do companies pay dividends? In this context, a systematic literature review is carried out based on the previous research studies as the first approach. Despite years of theoretical and empirical evidences, the findings show that the dividend puzzle still remains as an unresolved research puzzle due to lack of unanimity among the researchers. The findings further revealed that, it is imperative for the researchers to focus on all empirical and theoretical explanations in a single study and test them simultaneously in a triangular approach for a single consensus on the puzzle. The second approach is conducted in three stages. The first stage is concerned with quantitative methodology through published data whereas the second stage is conducted surveying the same sample in order to identify the determinants of dividend policy, its effect on stock price movements and theoretical explanations on same phenomenon. Finally the findings of the first and second stages are triangulated in the third stage. This study is the first to employ a triangulation approach in investigating the dividend puzzle.

The findings of secondary data approach revealed that the size of the firm, industry impact, corporate governance, free cash flow, earnings, past dividends, profitability, investment opportunities, net-working capital, concentrated ownership structure, and investor preference as the universal set of determinants of dividend policy which was confirmed by the survey approach as well. Further, all of these variables show positive interactions with dividend policy except for investment opportunities. Moreover, the secondary data analysis revealed that, there is an inverse relationship between dividend policy and stock price volatility and it is supported and confirmed through the survey approach. Furthermore, the investigation of theoretical explanations revealed that, pecking order, signaling, free cash flow, catering, and outcome theories as the confirmed explanations through secondary and primary data analysis while the stakeholder and bird in the hand theories are strongly supported by the survey instruments.

Finally, it could be argued that, firms tend to pay dividends, since there is an inverse relationship between dividend policy and stock price volatility and influence of the explanatory factors (past dividends, profitability, investment opportunities, concentrated ownership, net-working capital, size of the firm, investor preference, earnings, free cash flow, corporate governance, and industry