Does Dividend Payout and Retained Earnings Influence Firm Value? An Integrated Review

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ABSTRACT

This study provides an integrated review of empirical literature examining the influence of dividend payout and retained earnings (RE) on firm value (FV). Dividend policy (DP) remains one of the most debated topics in corporate finance, with contrasting theoretical arguments regarding its relevance to firm valuation. Drawing on empirical prior studies and key financial theoriesincluding Bird-in-the-Hand Theory, Signaling Theory, Agency Theory, Tax Preference Theory, and Pecking Order Theory, this review synthesizes competing perspectives on whether distributing profits as dividends or retaining earnings for reinvestment enhances FV. The findings reveal that dividend payout can positively influence FV by reducing information asymmetry, signaling financial strength, and mitigating agency conflicts. Conversely, high dividend payouts may reduce firm value when they limit internal financing capacity or create tax disadvantages. Similarly, RE contribute positively to FV when efficiently invested in profitable growth opportunities, but excessive retention may encourage managerial overinvestment and value erosion. Empirical evidence across developed and emerging markets generally supports a conditional relationship, suggesting that the effect of DP on FV depends on firm-specific characteristics such as growth opportunities, governance quality, financial constraints, and market conditions. Overall, the review concludes that neither dividend payout nor RE independently determine FV; rather, optimal value maximization depends on achieving a strategic balance between distribution and reinvestment decisions. The study contributes to the DP debate by integrating diverse empirical and theoretical perspectives and identifying contextual factors that shape the dividend–firm value nexus. Thus, the study recommends that firms should strategically maintain dividend payout ratios at levels that preserve sufficient RE for operational needs and future expansion.

Keywords: Dividend Policy; Dividend Payout; Retained Earnings; Firm Value; Financial Performance.

1. INTRODUCTION

Firm value (FV) represents the market's perception of a company's worth and serves as a critical indicator of its overall financial health, investor confidence, and growth potential. It is typically measured through market-based metrics such as share price, market capitalization, and valuation ratios like Tobin's Q andPrice-to-Book Ratio (P/B Ratio). A company with a high market valuation is often regarded as financially sound, stable, and profitable, while a company with a low valuation may signal underlying inefficiencies or weak market perception. According to Brigham and Houston (2022), FV not only captures the present performance of a firm but also reflects market expectations about the firm's ability to sustain future earnings and generate returns for shareholders.

In corporate finance, maximizing FV is considered one of the fundamental goals of financial management. Firms that are successful in increasing their value are better positioned to attract investors, raise capital at lower costs, and maintain a competitive edge. This makes FV a subject of continued interest among researchers, practitioners, and regulators. Thus, Nigerian insurance industry, as part of the broader financial services sector, plays a vital role in capital formation, economic stability, and risk mitigation. However, despite regulatory reforms and renewed efforts toward financial inclusion, many listed insurance firms in Nigeria remain undervalued on the capital market. Share prices of several firms are persistently low, and investor confidence in the sector has not fully recovered from past periods of underperformance and governance challenges (Yusuf et al., 2022; Lawal, Alhaji, & Abubakar, 2024).

One of the internal financial decisions that potentially influences FV is dividend payout. Dividend policy (DP) refers to the strategy a firm adopts in distributing a portion of its earnings to shareholders in the form of dividends. It is not only a means of rewarding investors but also serves as a communication tool regarding the firm's financial outlook. A consistent dividend payout is often viewed as a sign of stability and sound management, reassuring investors that the firm is profitable and able to meet its obligations. Conversely, reductions or omissions of dividends may be interpreted as distress signals that can trigger market skepticism and lower share valuations (Abalaka et al., 2025).After the dividend, the remaining profit, or retained earnings (RE), will be put toward future investments. Retained earnings are part of net profits a business reinvests or spends for operations instead of paying dividends, which can improve a company's long-term profitability and market value. Thus, managing DP effectively is crucial, as decisions about the balance between dividend payment and RE can significantly affect financial health, influence the cost of capital and potentially improve FV. These challenges underscore the importance of evaluating internal factors within firms' control that could help mitigate or take advantage of these circumstances.

In the modern corporate world, the debate on how firms should distribute their profits has remained both relevant and contentious. Business organizations are continuously faced with the decision of whether to reinvest their earnings to strengthen financial stability or to distribute a portion to shareholders in the form of dividends. This decision reflects not only management's philosophy but also investors' expectations, which often differ based on their investment objectives and time horizons. As global markets evolve and competition becomes more intense, shareholders have become increasingly vocal in demanding immediate returns on their investments (Akinsola, 2025). The notion of maximizing shareholder value has therefore taken a central position in corporate governance discussions, compelling many firms to adopt generous DP as a means of maintaining investor confidence (Elom et al., 2025; Anaike et al., 2024). However, while the payment of dividends can serve as an indication of financial strength and stability, it also presents a trade-off. The funds distributed to shareholders are those that could have been reinvested to finance growth, improve operational capacity, or enhance long-term profitability (Dewasiri et al., 2022). Furthermore, excessive dividend payments can lead to dependence on external financing, which increases financial risk and vulnerability to market fluctuations. The persistent conflict between satisfying shareholders today and maintaining profitability tomorrow continues to pose a serious challenge for managers, investors, and policymakers alike. This dilemma has shaped a long-standing discussion in financial management literature, where the question remains whether DP contribute to or detract from a firm's overall value and sustainability. Overall, this lacuna complicates decision-making for stakeholders, investors, managers, and policymakers, who are left questioning whether higher dividends positively impact financial health or whether retaining earnings is more beneficial.

Consequently, it is against this backdrop that this study aims to conceptually evaluate the influence of dividend payout and RE on FV. Thus, this research is driven by the need to identify the key factors of DP (such as dividend payout and RE) influencing FV within Nigeria's insurance industry, where elements such as regulatory shifts, economic instability and changing investor behavior significantly impact firm valuation. Through this investigation, the study aims to offer meaningful contributions to corporate finance and investment management literature, with a particular focus on the dynamics of emerging markets like Nigeria.

1.2 Statement of the Problem

Globally, the value of companies has recently faced significant challenges due to various factors impacting their operations and profitability. Accordingly, Price-to-Book Value (PBV) is considered as one of the key measures of FVthat is used as a financial metric to compare a company's market value to its book value because it provides insight into how effectively a company is expected to deploy its assets to generate returns. Thus, a relatively high P/B ratio often signals favorable growth expectations by investors, while a low ratio may suggest market doubt or potential financial weaknesses (Inuwa, 2025; Duke & Nneji, 2015). It is especially useful for evaluating insurance companies due to their asset-heavy and regulated nature.

Likewise, equity performance, often measured through indicators such as return on equity (ROE), serves as a critical yardstick for evaluating a firm's efficiency in generating profits from shareholders' investments (Kaur & Kaur, 2024). Investors, analysts, and managers rely on ROE as a measure of how effectively a company utilizes its equity capital to produce earnings. Accordingly, the insurance sector occupies an important position within the financial services industry in both developed and emerging economies, contributing to economic development through improved resource allocation, liquidity enhancement, investment promotion, reduced transaction costs, and loss mitigation (Verboncu& Zamfir, 2017). However, through activities such as risk transfer, financial intermediation, and premium mobilization, insurance companies are inherently exposed to diverse risks that may adversely affect FV. Consequently, assessing market valuation in relation to FV within this sector becomes imperative.

The relationship between dividend payout and equity performance has long attracted attention from scholars and practitioners due to its complex and sometimes contradictory nature. When a company decides to pay a significant portion of its earnings as dividends, it reduces the pool of RE that could be used to finance future investments or innovation (Omotesho and Ogunkola, 2025). This reduction in reinvested capital can gradually affect the firm's ability to expand, reduce its competitiveness, and limit future profitability, which in turn can lead to a decline in ROE. High dividend payouts may please shareholders in the short run but can weaken the firm's capacity to sustain earnings growth, ultimately eroding the efficiency with which equity capital is employed (John-Akamelu, Amasiatu and Nworie, 2025). On the other hand, retaining too much profit without rewarding shareholders may signal poor corporate governance or a lack of profitable investment opportunities, which can drive investors away (Nworie, Oduche& Cyril-Nwuche, 2024). Therefore, firms often find themselves caught between the desire to satisfy shareholders and the need to preserve financial health. The challenge lies in finding a DP that does not compromise long-term equity performance. As dividend preferences and market expectations evolve, the debate continues over whether the pursuit of shareholder satisfaction through high payouts undermines firms' ability to generate sustainable returns on equity. This tension underscores the need to revisit the dividend–ROE trade-offs, especially in light of changing corporate dynamics and global financial realities.

Over the years, dividend payout policy and RE has been a topical issue that has generated controversies in corporate finance despite decades of scholarly inquiry, there remains no universal agreement. This ongoing debate in corporate finance is largely rooted in conflicting theoretical positions. The dividend irrelevance theory, proposed by Modigliani and Miller, posits that dividend decisions do not influence FV under perfect market conditions. In contrast, dividend relevance theories such as the signaling theory, agency theory, and residual theory argue that DP does matter, serving as a signal of firm quality, a mechanism to reduce agency costs, and a residual use of earnings after optimal investment (Uwuigbe, Jafaru, & Ajayi, 2012; Suzan & Ramadhani, 2023;Adeleye et al.,2025). In spite of numerous empirical studies grounded

in these theories, consensus remains elusive and inconclusive particularly in emerging markets and highly regulated and volatile sectors such as insurance firms.

The importance of exploring the relationship between dividend payout and FV has remained relevant for decades, yet recent changes in market dynamics, regulations, and investor expectations highlight the need for both conceptual and empirical research in this area. Although the literature includes numerous studies exploring the relationship between DPS, EPS, payout, and FV, a closer analysis reveals several gaps that call for further investigation, particularly concerning listed insurance companies in Nigeria. These gaps include both temporal and geographical aspects, emphasizing the need for a thorough and current study. A key temporal gap is found in the outdated nature of many existing studies. Several studies are years old and do not account for recent economic and regulatory shifts that are relevant to the hypothesized relationships. This time gap reduces the applicability and relevance of these studies to today's market conditions, thereby highlighting the importance of conducting up-to-date research. Examples of studies with time gaps include Olaoye and Olaniyan (2022), Umaru et al. (2022), Alfian and Ghozali (2024), and Ukpong and Ukpe (2023).

Geographical gaps are also evident, as many studies generalize findings from other countries and applying them to Nigeria's insurance sector may likely not be realistic considering the country's' unique contextual and environmental factors. Examples of such studies include Buti and Wiyarni (2023), Njoku and Lee (2024), Ayudia et al. (2024), Alfian and Ghozali (2024), Sari, Primasari and Farida (2023). Thus, given the unique economic, regulatory, and market conditions in Nigeria, applying findings from dissimilar countries may result in inaccurate or irrelevant conclusions. Hence, there is a clear need for research that specifically targets the Nigerian context, taking into account the distinct characteristics of the insurance sector and the broader economic landscape.

Further, this study is conducted in response to several calls for future studies that are predominantly explored within developed and emerging economies (Bishwas & Hossain, 2025; Said, 2024; Salihu, Barde & Adamu, 2024; Kian et al., 2024; Shakbar et al., 2023; Hafeez et al 2018). While empirical and conceptual research focusing on Nigeria, particularly its insurance sector remains scarce. This has resulted in a limited understanding of the insurance sector's distinct characteristics, including its regulatory framework, revenue generation model, and capital adequacy obligations. This underserved focus highlights a notable gap in the existing literature that this study aims to address. Also, most of the previous studies has gander on financial metrics such as ROA, ROE, Tobin's Q but the current study's firm value will be proxied by both ROE and price-to-book value because insurance companies have significant tangible assets and liabilities, making book value more reflective of underlying value than earnings. Additionally, utilizing the PBV for insurance companies is a regulatory requirement by National Insurance Commission (NAICOM) regulations on solvency and recapitalization.

Despite the extensive research on DP and FV in Nigeria, several gaps remain, especially in terms of the combine effect of dividend payout and RE on FV (proxied by ROE and PBV). Also, prior related studies have produced inconsistent conflicting mixed result (Abalaka et al., 2025;Nnah, 2024;Eseimieghan, Onuorah & Osuji, 2025: Odum &Asielue, 2024;Omotesho&Ogunkola, 2025; John-Akamelu, Amasiatu& Nworie, 2025; Inuwa, 2025; Ekerete & Inuwa, 2024;Dahunsi& Ogunniyi, 2024). These inconsistencies suggest that while DP may generally influence FV, the specific effect of dividend payout and RE on equity performance and PBV, especially in insurance firms in Nigeria, has not been adequately examined, thereby prompting the need to conceptually gander into this lacunar. Thus, by reviewing prior studies, the study aims to provide conceptual insights into how DP decisions affect financial health and shareholder value.

In response to these identified gaps and to provide clarity on this issue, the study aims tospecifically evaluate the combined influence of dividend payout and RE on FV (measured by PBV and ROE). Thus, understanding these relationships is crucial for investors, corporate executives, and policymakers seeking to enhance firm valuation and overall market efficiency. Consequently, this study aims to bridge this gap by conceptually examining the influence of dividend payout, RE on the FV.Hence, the remainder of this study is structured as thus: section two covers literature review, followed by section three which briefly outlines the research method used in the study. Section four highlights the discussion, followed by conclusion of the study, thereafter recommendationfor future study was offered based on the findings of the study, and lastly the limitation of the study.

2. LITERATURE REVIEW

2.1. Firm Value (FV)

Oladele (2013), described value as the qualities that make something desirable, beneficial, or worth pursuing. It can also be referred to as the monetary worth assigned to an item or the actions necessary to obtain it. In the context of a business, value can be seen as the sum total of its financial entitlements. Chowdhury and Chowdhury (2010) explain that a company's value is primarily determined by its ability to generate future cash flows, discounted to present value using the firm's weighted average cost of capital, under the assumption that it remains a going concern.

Firm value is the perception of the investor to the success of a company. It is reflected in the share price of the company. The increase of the share price shows the trust of the investors to the company. They are willing to pay more with aiming for a higher return. Firm value represents the reputation of a business entity obtained through its operational activities over a specific period. The primary objective of companies is to maximize profits, which is reflected in stock prices in the capital market. Firm value acts as an indicator influencing investor perceptions of a company, making it a critical focus for various stakeholders as it provides a factual overview of the company's condition (Intan et al., 2021). It is one of the most important resources of the business; it not only helps enterprises in building reputation, attracting capital but also in

contributing to a nation's strong economy and sustainable development. According Nguyen et.al, (2021) FV is the tangible value or potential value that an enterprise may create in the future, calculated with different valuation models or methods, so it is possible to arrive at different results.

There are two perspectives that can be used to measure FV: accounting measures and stock market dimension. The accounting perspective of measuring FV involve profitability proxies like returns that firms generate on assets (ROA) and equities (ROE) as well as Tobin's Q, (Kowthar, 2021). From the market perspective, FV can be proxied by the price of shares in the exchange market. The other measures of FV are the intrinsic value of all shares outstanding in the firm. This study measured firm value using ROE, a measure that directly reflects the equity portion from the shareholders. While PBV is used in this study as complimentary since it is a regulatory requirement by NAICOM for insurance firms.

2.2 Concept of Dividend Policies (DP)

Dividends are portions of net profits distributed to shareholders, as explained by Pandey (2016), while Oladipupo (2017) and Musyoka (2015) note that DP governs how much and when profits are shared or retained. Priya and Nimalathasan (2013) see it as a means to share profits rather than reinvest. The policy includes dividend yield (DY), payout ratio and price-to-earnings ratio as key variables. The relevance of DP lies in its impact on shareholder value and firm growth potential, necessitating a balance between payouts and reinvestment. Financial managers must consider investor preferences for dividends versus capital gains when deciding payout ratios. There are several measures of DP such as dividend payout, DY, DPS, EPS, RE etc., however, this study will focus on two of these DP measures (i.e., dividend payout and RE).

2.3 Concept of Dividend Payout

Dividend Payout refers to the portion of a company's earnings that is distributed to shareholders as dividends (Udoka, John & Orok, 2022). The Dividend Payout represents the percentage of a company's net income that is paid out to shareholders as dividends. It is typically expressed as a percentage of the company's net income and reflects the company's approach to balancing profit retention for growth and distributing profits to shareholders. Azende and Apebo (2021) define dividend payout as the amount of money a company pays its shareholders in dividends relative to its total earnings. This metric is important for investors as it signals the company's dedication to sharing profits with shareholders and offers insight into its financial strategy and stability. Similarly, according to Udoka, John and Orok, 2022 (2022) the ratio helps investors to evaluate the sustainability of a company's dividend payments and understand how much of its earnings are reinvested into the business versus distributed to shareholders.

2.4 Concept of Retained Earnings (RE)

Retained earnings refer to that part of corporate's net profit after tax which is not distributed to the shareholders as dividend but is reinvested in the business. Retained earnings therefore, are

the sum of a company's profits after dividend payments, since the company's inception. They are also called earned surplus, earning retention, retention ratio, retained capital or accumulated earnings. Retained earnings are an important source of internal or self-financing by a company. The savings generated internally by a company in the form of RE are ploughed back into the company for diversification of its business. Retention of earnings by companies reduces their dependence on funds from external sources in order to finance their regular business needs (Masood, 2017). According to Fernando (2024), RE can be a valuable source of internal funding for enterprises that lack access to external capital.

2.5 Empirical Review

2.5.1 Dividend Payout and Firm Value

Bagiana et al (2025) examined the impact of Dividend Payout Ratio (DPR) on firm performance, measured by Return on Assets (ROA), in Indonesian banking companies, with Non-Performing Loans (NPL) as a moderating variable. Using secondary data from the financial statements of 11 banks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, this research employs Moderating Regression Analysis (MRA) to test three hypotheses. The results indicate that DPR has a significant positive effect on ROA, supporting the hypothesis that higher dividend payouts enhance firm performance by attracting and retaining investors and signaling financial health.

Also, Eseimieghan, Onuorah and Osuji (2025) examined the effect of DP optimality on performance of Nigerian listed oil and gas firms from 2014 to 2023. The study decomposed into DPR, dividend stability ratio (DSR), DIY, and dividend retention ratio (DRR) while FP was measured using ROE. Data were sourced from the annual financial reports of seven (7) sampled oil and gas firms from 2014 to 2023. The robust regression analysis served as the main estimation technique. The study confirmed that DPRand DRR have positive significant effect on FP. However, DSR has negative insignificant effect on FP. Hence, the study concludes that DPR and DRR contributes meaningfully to higher FP.

Likewise, Ngozi, Segun and Ifeanyi (2025) investigated the effect of DP on market price of ordinary shares of quoted manufacturing companies in Nigeria. The research focused on three specific policy variables namely: dividend payout ratio, dividend yield, and retained earnings. Ex-post facto research design and panel regression analysis were utilized to explore the relationships. Consistent with traditional right views, the study found significant relationship between the dividend variables and market price, indicating that higher payouts positively influence share prices.

In the same vein, Njoku and Lee (2024) examined the effect of dividend policy on firm performance and value in the Korean market, using a sample of 100 listed firms from 2010 to 2019. The authors use dividend payout ratio and dividend yield as proxies for dividend policy, and return on assets, return on equity, and Tobin's Q as proxies for firm performance and value. The study employs secondary data from the Korea Exchange and the Korea Information Service. The authors use panel data regression analysis and Granger causality test for analysis. The main

findings of the study are that dividend policy has a positive and significant impact on firm performance and value, and that there is a bidirectional causal relationship between dividend policy and firm performance and value.

In a related study, Cahya, Ahmad, and Dalimunthe (2023) investigated the impact of Good Corporate Governance (GCG), firm size, and DP on FV across 100 non-financial companies in Asia, selected from Forbes' list of the World's Biggest Public Companies between 2017 and 2020. The study used firm size (measured by total assets) and dividend policy (measured by the dividend payout ratio) as independent variables, while FV was measured using Tobin's Q as the dependent variable. The research relied on secondary data obtained from annual reports and financial statements during the study period and applied purposive sampling to select the sample. Data analysis was conducted using the Random Effects Model (REM). The findings revealed that DP has a positive influence on FV, supporting the agency theory, which suggests that managers are expected to make decisions that maximize shareholder wealth.

Also, Chettri and Kharkongor (2022) investigated how dividend payout policy affects FV, specifically examining whether firm age and size moderate this relationship. Using a panel regression technique, the authors analyzed data from 657 companies over a seven-year period, yielding 4,599 firm-year observations. The findings reveal that dividend payout has a positive and significant effect on the value of Indian firms overall. However, when the analysis was disaggregated by firm age and size, the results showed no statistically significant association between dividend payout and FV among younger and smaller firms. These findings lend support to the maturity hypothesis, which posits that younger and smaller firms may need to adopt alternative strategies to enhance their market value, whereas older and larger firms, with greater experience and resource capacity, are better positioned to increase FV through dividend distributions. The study therefore underscores the necessity of accounting for firm age and size when examining the dividend payout–firm value nexus.

Akin, Agung et al (2021) examined the effect of investment decision, financing decision, DP on FV. Using purposive sampling method, 22 firms in the food and beverage industry listed in Indonesia Stock Exchange for the period 2016- 2018 were selected as samples. Data were analyzed using multiple linear regression. It is concluded that dividend policy (DPR) has a positive and significant effect on firm value, supported by the Signaling Theory which states that good quality firms will deliberately give signals to the market.

In a related study, Mutisya (2019) assessed the effect of dividend payout on FP for all 61 firms listed on the Nairobi Securities Exchange between 2012 and 2019. The analysis relied on financial statements and reports available from the Capital Markets Authority (CMA) and employed multiple regression models. Results indicated a significant positive relationship between return on assets and dividend payout. The study also observed that larger firms tend to have higher payout ratios due to their easier access to capital markets and lower costs of raising funds.

Congruently, in Pakistan, Farrukh et al. (2017) conducted an empirical study to determine the influence of dividend policy on firm performance and shareholder wealth. Using a quantitative research design, they applied panel data regression analysis to a sample of non-financial firms listed on the Pakistan Stock Exchange. Key financial indicators such as dividend per share (DPS), dividend yield (DY), earnings per share (EPS), and return on equity (ROE) were used as explanatory variables. The results revealed a strong positive association between the dividend policy and both firm performance and shareholder value. These findings lend support to classical dividend theories including the signaling theory, bird-in-hand theory, and the clientele effect, all of which suggest that dividend decisions play a vital role in shaping investor perceptions and firm valuation. More so, studies such as Oghenekume and Obi (2025), Adeleye et al. (2025), Ojogbo, Oke and Mustapha (2022), Oketah and Ekweronu. (2020), Okeke and Okeke (2018), Ebire, Mukhtar, and Onmonya (2018), Rahman (2018), Akani, and Sweneme (2016) reported similar results.

Conversely, Aderobaki and Ndife (2025) investigated how corporate dividend policy influences the FV of listed agricultural companies in Nigeria. The study used DPS, DPR, and retention ratio (RR) as indicators of DP, while market price per share (MPPS) was used as a measure of FV. An ex-post facto research design was adopted, focusing on five listed agricultural firms that consistently released audited annual financial statements from 2015 to 2024. Data analysis was conducted using the OLS multiple regression method with the aid of Stata Version 14. The results showed that DPR and RR had no significant effect. The study concluded that dividends may act as a signal to investors, influencing their perceptions and shaping shareholders' expectations.

Also, David and Astuti (2025) analyzed the Brazilian market to determine if stock returns around dividend events align with theories like the bird-in-hand or clientele effect. By examining companies on the Ibovespa index, the study reviewed stock price behavior from 1 to 90 days following dividend announcements. While trying to validate or challenge theories such as Modigliani and Miller's, the research acknowledged earlier views like those of Litzenberger and Ramaswamy (1979), which claimed that high dividend payouts could negatively affect share prices due to tax implications.

Likewise, Odusina and Okunuga (2024) explored the relationship between DP and FV, focusing specifically on the effects of EPS, DPS, and DPR. The research employed an ex-post facto design and targeted a population of 28 consumer goods companies listed on NGX. Using a convenience sampling method, the researchers selected 10 leading firms for the study. Data were analyzed using correlation analysis and panel regression techniques. The correlation results indicated that EPS, DPS, and DPR had no significant relationship with FV. Based on these findings, the study concluded that DP did not have a significant impact on FV during the study period.

Congruently, Ukpong and Ukpe (2023) examined the effect of DP on FP in Nigeria for the period 2015 to 2019. The DV of the study was FP, measured by ROA. The IVs were DP indicators, measured by form of dividend payment (FDP), timing of dividend payment (TDP), and EPS. The study used secondary data obtained from the annual financial reports of consumer product and service firms listed on the NGX. The study found that there was no significant positive effect of the FDP, TDP, and EPS on performance. The study concluded that DP did not have a significant impact on FP in Nigeria.

Similarly, Sari, Primasari and Farida (2023) analyzed the effect of capital structure, profitability, and DP on FV for companies listed on the LQ45 index of the Indonesia Stock Exchange in 2017–2021. The study used panel data regression techniques to test their hypotheses. The variables used were debt to equity ratio (DER), return on equity (ROE), dividend payout ratio (DPR), and price to book value (PBV). The study found that DP had no significant effect on FV. The study used a relatively short and outdated time period, which may limit the generalizability and robustness of the results.

Additionally, Nworie, Oduche and Cyril-Nwuche (2024) focused on consumer goods manufacturing firms in Indonesia to examine the joint effect of DP (measured by DPR) and profitability (ROE) on FV (measured by PBV). Analyzing 101 firms between 2017 and 2021 using multiple regression, the study found that DPR negatively impacted firm value, while ROE had a significant positive influence.

In the same vein, Foong and Malek (2022) explored the relationship between DP and FP among publicly listed companies in Malaysia. The study analyzed data over an eight-year period from 2011 to 2018, focusing on a specific subsector within the consumer products and services sector listed on Bursa Malaysia, with a total of 200 observations. ROE and ROA were used as indicators of FP, while EPS, DPR, and price-to-earnings ratio represented the measures of DP. The results indicated that DPR was not significantly related to either ROE or ROA.

Akin, in Malaysia's plantation industry, Sari and Aris (2023) analyzed the connection between DP and FV. Using data from 44 listed companies between 2016 and 2019, the study found that DPR and price-to-earnings ratio had a negative relationship with FV. This implies that dividend decisions in this sector may not be a primary driver of market valuation. Furthermore, the following studies also produce similar results Nandalena and Irawati (2023),Abeysinghe and Kariyawasam (2023), Putri (2023), Alfianita and Santosa (2022) and Akinleye and Ademiloye (2018).

However, there are studies that produce neutral results. For example, Sam et al. (2025) investigated how DP shapes the valuation of Nigerian manufacturing companies, while also examining how financial leverage interacts with DP to influence FV. The study covered 20 companies listed on the NGX between 2010 and 2018, selected based on data availability. Analytical tools included pooled OLS, fixed effect regression (validated via the Hausman test),

and the System Generalized Method of Moments (GMM) for robustness. The findings from both OLS and fixed effect models showed that DPR significantly increased FV, implying that Nigerian manufacturers may prioritize investor satisfaction through consistent dividends. However, the System GMM results indicated a negative relationship between payout ratio and price-to-book value, suggesting that short-term increase in dividends may sometimes undermine long-term valuation.

Complimentarily, Mourad (2023) examined the factors that influence dividend distribution among 49 companies listed on Egypt's EGX 70 index from 2009 to 2021. Using advanced panel data techniques including system GMM and the Sargan–Hansen test, the study revealed that higher ROE and larger firm size are associated with increased dividends, signaling financial health and attracting investors. On the other hand, high financial leverage and heavy reliance on debt were linked to lower dividend payouts, as firms prioritized managing liabilities over distributing profits.Likewise, Adeiza, Sabo and Abiola (2024) results showed that DP, when combined with leverage, significantly enhances FV. The study supports the view that dividends and leverage can work together as complementary mechanisms to curb managerial opportunism, particularly in mature firms with limited growth prospects.

Similarly, Pratiwi et al. (2022) examined the moderating role of capital structure in the relationship between DP and FV among Indonesian manufacturing companies. The study employed a moderated regression analysis using secondary data obtained from the financial reports of manufacturing firms listed on the Indonesia Stock Exchange between 2016 and 2020. Their results showed that while DP typically exert a positive influence on FV, this effect diminishes in the presence of a high debt-to-equity ratio. The study suggests that investors may interpret dividend payments less favorably in firms with heavy financial leverage, possibly due to concerns about financial risk and sustainability.

In the same vein, Olaoye and Olaniyan (2022) examinedthe effect of DP on FP of listed consumer goods companies in NGX. DP was proxied by dividend payout while firm performance was measured using ROA, retained earnings (RE) and debt on equity. Secondary sources of information were employed to extract useful information from the Audited Annual Reports of the eight (8) consumer goods firms sampled for the investigation for the periods 2010-2020. Panel data least square multiple regression was used to test the hypothesis. Findings reveal that dividend payout have positive and significant relationship with ROA, required RE and dividend payout has a negative and statistically significant effect on debt on equity.

Congruently, in Vietnam, Nguyen et al. (2021) studied 450 listed companies over a period of 11 years (2008–2019) to understand how DP influence FP. Using ROA, ROE, and Tobin's Q as performance metrics, they found that while dividend payments tended to lower accounting-based measures like ROA and ROE, they positively affected market-based valuations such as Tobin's Q. Additionally, firms with low DPR performed better in terms of accounting metrics but were less attractive in the eyes of market participants.

More so, Said (2024) conducted an extensive qualitative review aimed at unpacking the complex relationship between corporate DP and FP. Acknowledging the ongoing scholarly debate, the study synthesized various theoretical perspectives, including the dividend irrelevance theory, bird-in-hand theory, signaling theory, and agency cost theory, alongside a wide range of empirical findings. The review reinforced the notion that DP can significantly influence FV, as companies that pay dividends often enjoy higher market valuations and reduced stock volatility. However, the author emphasized that this relationship is not straightforward, it depends heavily on company-specific, market-specific, and investor-specific factors. The review also highlighted the dual nature of DPR, suggesting they can serve as indicators of firm stability while also sparking academic disagreement regarding their actual impact on FV. However, this study defers from the current study in terms of the context and scope.

2.5.2 Retained Earnings and Firm Value

Eseimieghan, Onuorah and Osuji (2025) examined the effect of DP optimality on performance of Nigerian listed oil and gas firms from 2014 to 2023. The study decomposed into DPR, dividend stability ratio (DSR), DIY, and dividend retention ratio (DRR) while FP was measured using ROE. Data were sourced from the annual financial reports of seven (7) sampled oil and gas firms from 2014 to 2023. The robust regression analysis served as the main estimation technique. The study confirmed that DPR and DRR have positive significant effect on FP.

Agembe, Chesoli and Ngacho (2024) conducted a study among 42 non-financial firms listed on Nairobi Securities Exchange to explore the relationship between retained earnings (RE) and FP from an econometrics perspective. The study is anchored on the Pecking Order Theory, and employs the panel data research design founded in the positivist research paradigm, with data covering the time interval 2016 to 2022 inclusive. Data is sourced purposively from the annual reports of the non-financial sector, including agricultural firms, automobiles and accessories, commercial & services, construction & allied, energy & petroleum, insurance, investment, investment services, manufacturing & allied, telecommunication, and real estate investment trust. The research uses the fixed effects model under panel regression to show a positive and significant relationship between RE and FP.

Oganda, Museve and Mogwambo (2022) conducted a study on the analysis of RE financing on FP of listed manufacturing and allied firms in Kenya using a dynamic panel approach. Thus, the study applied Dynamic Unbalanced Panel analysis techniques using Secondary data for 10-year period (2010 - 2019) with the study population comprising of 9 listed firms. Quantitative secondary data was collected from the firms' financial statements by use of a document analysis guide. Focus was on RE financing moderated by economic growth rate and earnings volatility on performance which was proxied by Tobin's Q. Pearson correlation was used to show the strength and direction of association among the study variables. Retention ratio (RR) had a moderate positive correlation with Tobin Q and a strong positive correlation respectively.

Ojogbo, Oke and Mustapha (2022) examined the influence of DPR on share prices of quoted companies on the NGX between 2014 and 2020 across15 companies. panel least square estimation, through the use of Hausman's test, was used to analyze the data. In the econometric model, DV (proxy by the market share price) was regressed on the following explanatory variables of EPS, DY, ROI, DPR, and retention rate. This research discovered a joint significant relationship between EPS, DY, ROI, DPR, RR and MSP.

Furthermore, similar result were also reported by studies likeOghenekume and Obi (2025),Okeke and Okeke (2018), Ebire, Mukhtar, and Onmonya (2018) and Akani, and Sweneme (2016).

Conversely, Ngozi, Segun and Ifeanyi (2025) investigated the effect of DP on market price of ordinary shares of quoted manufacturing companies in Nigeria. The research focused on three specific policy variables namely: DPR, DY and RE. Ex-post facto research design and panel regression analysis were utilized to explore the relationships. The analysis of the result did not find evidence that RE have a significant effect on share prices.

Likewise, Aderobaki and Ndife (2025) investigated how corporate DP influences the FV of listed agricultural companies in Nigeria. The study used DPS, DPR and retention ratio (RR) as indicators of DP, while market price per share (MPPS) was used as a measure of FV. An ex-post facto research design was adopted, focusing on five listed agricultural firms that consistently released audited annual financial statements from 2015 to 2024. Data analysis was conducted using the OLS multiple regression method with the aid of Stata Version 14. The results showed that RR had no significant effect.

Similarly, Dahmash et al (2023) examined the effect of the retention per share compared to the DPS by modeling the firm's market value as a function of the retention per share and the DPS for all firms in the Jordanian context using unbalanced panel data analysis for a sample of 2281 firm years covering the period from 2010 to 2021. The results show that retention per share has negative significant effect on the firm's market value.

Also, Olaoye and Olaniyan (2022) examinedthe effect of DP on FP of listed consumer goods companies in NGX. DP was proxied by dividend payout while FP was measured using ROA, retained earnings (RE) and debt on equity. Secondary sources of information were employed to extract useful information from the Audited Annual Reports of the 8 consumer goods firms sampled for the investigation for the periods 2010-2020. Panel data least square multiple regression was used to test the hypothesis. Findings reveal that RE and dividend payout has a negative and statistically significant effect on debt on equity.

Congruently, Oketah and Ekweronu. (2020) examined the determinants of RE of quoted manufacturing firms in Nigeria. The study is anchored on Pecking Order Theory while an ex-post facto research design was adopted wherein secondary data sourced from financial statements of selected firms in Nigeria covering a period of 10 years (2009 to 2018) were used

for analysis. The result of the panel data regression analysis revealed that earnings retention ratio (ERR) has an inverse and insignificant effect on ROA.

However, there are studies that produce a neutral result. For example, Udo et al (2024) examined the intricate capital structure and FP nexus, focusing on retained earnings (RE) in the Nigerian oil and gas industry. The study used a sample of 8 oil and gas firms and the pooled mean group autoregressive distributed lag model. The results revealed a positive long run nexus among capital structure, RE, market value, and performance from 2001 to 2022. The results showed that firms in the oil and gas trust on short-term debts for their operational and business activities. The nexus between RE and the capital structure mix indicates that the higher a firm's earnings retention is, the faster its growth chances. Thus, in the short term, an inverse nexus was observed between long-term debts, RE, market value, and performance. Generally, the findings of this study support the MM 1963 capital structure relevant proposition and are consistent with the trade-off theory and the pecking order theory.

2.6 Theoretical Review

Theoretically, dividend payout policy and RE has been a topical issue that has generated controversies in corporate finance as it describes the way the firm chooses between alternative uses of free cash flows. The earliest scholars who wrote on this topical issue were Miller and Modigliani (1961). The duo were the pioneers behind the popular dividend irrelevance theory. In disagreement with irrelevance theory, a number of dividend relevance theories such as; a bird-in-the hand, signaling, Gordon's model, Walter's model, agency costs, clientele effects were developed. The earlier work of Modigliani and Miller (1958) was among the first studies that did not find a link between dividend policy and firm share price valuation for corporations. However, a subsequent work of Walter (1963) documented that dividend policy and corporate valuation are positively linked. Similarly, proponents of dividend relevance theories, such as signaling theory, agency theory, and the residual theory argued that dividends can convey important information about a firm's prospects, help reduce agency costs, and reflect the residual earnings after profitable investment opportunities (Suzan & Ramadhani, 2023; Uwuigbe, Jafaru & Ajayi, 2012). Despite numerous empirical studies grounded in these theories, findings remain inconclusive.

These theories are adopted to provide a comprehensive framework for explaining the conflicting views on how dividend payout and retained earnings influence firm value. The dividend irrelevance theory offers a neutral baseline by suggesting that financing decisions do not affect firm valuation, while dividend relevance theories (such as bird-in-the-hand, signaling, agency, and residual theories) present mechanisms through which dividend policy and retained earnings can impact investor perception, reduce information asymmetry, and enhance firm value. Integrating these perspectives aligns with the study's objective by capturing both sides of the debate and helping to explain the inconsistent empirical findings on the relationship between dividend policy, retained earnings, and firm value.

3. METHODOLOGY

Since the research question seeks to examine the influence ofDP (proxied by DPR and RR) on FV in the academic literature, an integrative literature review is conducted. An integrative literature review is defined as "a form of research that reviews, critiques, and synthesizes representative literature on a topic such that new frameworks and perspectives on the topic are generated" (Torraco, 2005, p. 356). It is also as a "literature survey" or "document analysis" aimed at identifying variables and relationships. The goal of an integrative review is to summarize and present what is currently known about the relationship being explored, provide a critique of that knowledge and suggest a broad direction for future research as well as specific research questions (Whait et al., 2018; Torraco, 2005). The approach, which has been used in a number of disciplines, is said to be particularly relevant where "contradictory evidence appears, when there is a change in a trend or direction of a phenomenon and how it is reported, and when research emerges in different fields" (Martinez et al., 2017; Torraco, 2005, p. 358) as is the case with the subject of the study.

Literature for inclusion in the review was collected during the period October to December 2025 and was sourced from the following main, competing, online databases: Science Direct, Scopus, EBSCO Host, Emerald Insight, JSTOR, ProQuest, SpringerLink, Taylor and Francis Online, Wiley Online Library and Google Scholar. A simple search protocol was developed for use by the authors (Martinez et al., 2017). The identified articles were screened using the content-centric analysis technique so as to align with the objective of the study by searching for suitable keywords in line with the theme of the study. Thus, the study was carried out systematically through an article search engine using keywords. Keywords employed in searches included: "Dividend Policy", "Dividend payout", "Retained earnings" and "Retention earnings". These items were combined in various forms with the following specific search terms: "Firm value", "Firm performance" "Financial performance" and proxies such as "PBV", "ROE" "ROA", "ROI", Tobins Q. Thus, about 70 published articles (comprising journal papers, conference papers, thesis and dissertation) were gathered from these databases, out of which 47 were sampled for the study because they were considered relevant to the study.

The study applied qualitative text data analysis approach which intends "to provide knowledge and understanding of a definite phenomenon" (DowneWamboldt, 1992, p. 314). The approach examines documents and systematically interprets the information to allow the researcher to draw inference about a certain situation (Corbin & Straus, 2008). Thus, the analysis and coding of data was undertaken via a qualitative, thematic method. Braun and Clarke (2006) describe thematic analysis as a flexible technique that can be used on almost any type of data, the purpose being to identify patterned meaning within the dataset. The process used here was inductive, meaning that the authors did not approach the analysis with any apriori expectations as to what the data would reveal. Instead, the analysis was data driven. Hence, this research method is viewed as rigorous, effective and enables exhaustive analysis of the intended (single) phenomenon (Stake, 1995), such as the one covered in the present study.

4. DISCUSSION OF FINDINGS

The study explored the influence ofDP on FV. Specifically, this study examined whether DP (proxied by dividend payout and RE) influence FV through an integrated review of prior empirical and theoretical literature and to ascertain which of the predictor variable has more influence on FV. Thus, analysis "searching for synthesis and sense from a swathe of literature" (Burritt, 2012) is based on prior seminal work related to dividend payout, RE and FV.

4.1 Dividend Payoutand Firm Value

The review showed that several studies agreed that DP proxied by dividend payout has significant positive influence on FV which aligns with the classical dividend theoretical views including the signaling theory, bird-in-hand theory, agency theory, free cash flow theory and the clientele effect, all of which suggest that dividend decisions play a vital role in shaping investor perceptions and firm valuation (Oghenekume& Obi, 2025;Adeleye et al., 2025;Ojogbo, Oke & Mustapha, 2022;Chettri &Kharkongor 2022;Oketah& Ekweronu, 2020; Okeke & Okeke, 2018;Ebire, Mukhtar, and Onmonya, 2018; Rahman, 2018; Akani&Sweneme, 2016;Bagiana et al., 2025;Eseimieghan, Onuorah & Osuji, 2025; Njoku & Lee, 2024; Cahya, Ahmad &Dalimunthe, 2023).

On the other hand, there are studies that contradict prior studies and the classical dividend theories as regard the positive relationship between DP and FV (Aderobaki&Ndife, 2025;David & Astuti, 2025; Odusina&Okunuga, 2024;Nworie, Oduche& Cyril-Nwuche, 2024; Sari, Primasari& Farida, 2023; Ukpong &Ukpe, 2023;Nandalena& Irawati, 2023;Abeysinghe & Kariyawasam, 2023; Alfianita &Santosa, 2022; Akinleye &Ademiloye, 2018). Thus, these findings were based on the claim that dividend decisions in some sector may not be a primary driver of market valuation and that high dividend payouts could negatively affect share prices due to tax implications.

4.2 Retained Earnings and Firm Value

The review showed that most of the studies reported positive significant relationship between RE and FV suggesting that any decrease in RE will result to an increase in FV (Eseimieghan, Onuorah & Osuji, 2025;Oghenekume& Obi, 2025;Agembe, Chesoli &Ngacho, 2024;Ojogbo, Oke &Mustapha, 2022;Oganda, Museve&Mogwambo, 2022; Okeke & Okeke, 2018; Akani &Sweneme, 2016). However, other studies contested this view by reporting a negative and insignificant relationship between RE and FV (Ngozi, Segun & Ifeanyi, 2025; Dahmash et al., 2023; Olaoye & Olaniyan, 2022;Oketah& Ekweronu, 2020). In other words, their findings suggest that when RE increases, FV tend to decrease, which aligns with dividend theoretical views such as Dividend Irrelevance Theory, Pecking Order Theory, Tax preference theory among others.

On the other hand, studies like Udo et al. (2024) agrees with the above divergent views of both positive and negative relationship. However, according to this study, in the long run RE has positive relationship FV (market value) while in the short run an inverse nexus was observed

between RE and market value, which suggest that the higher a firm's earnings retention is, the faster its growth chances, thereby leading to increase in FV.

4.3 Dividend Policy (Dividend Payout and Retained Earnings) and Firm Value

Taken together, in a nutshell, it can be inferred from the review that the findings produced conflicting inconsistent mixed results. However, majority of the studies supported the view that DP proxied by dividend payout and RE has significant influence on FV which aligns with some theoretical views. More so, the review also revealed some findings that had an indifferent view of neither positive or negative results and some even produced both negative and positive results. Thus, the reasons associated with these divergent views could be subsumed into differences in the methodologies (data sources, instrument of data collection, time-frame covered, unit of analyses, data analyses tool, and method of data analysis employed) used in the studies, the type of variable measurement used, peculiarity of environmental contextual factors, the system of corporate governance being practiced in the country.

Further, several finance theories support a positive relationship between DP (dividend payout and RE) and FV. Specifically, the Bird-in-the-Hand Theory, advanced by Myron Gordon and John Lintner, argues that investors prefer certain dividends today over uncertain future capital gains. The basis of their core argument is that dividends reduce uncertainty, investors discount RE more heavily because future profits are uncertain. Therefore, firms that pay higher dividends are valued more highly. This implies that a higher dividend payout increases FV because investors perceive current dividends as less risky than future earnings. Similarly, Signaling Theory suggests that dividend payments convey private information about a firm's future prospects. They claimed that managers have better information about future earnings, and that increasing dividends signals strong future cash flows. Also, that reducing dividends signals financial weakness. In other words, this implies that a stable or increasing dividend payout enhances FV because it signals financial strength and confidence in future performance.

Additionally, according to agency theory propounded by Michael C. Jensen and William H. Meckling, dividends is described as a mechanism to reduce agency conflicts. The core of their argument was based on the fact that managers may misuse RE for personal benefits and that paying dividends reduces free cash flow available for wasteful spending as a result of dividends discipline management. This simply implies that higher dividend payout can increase FV by reducing agency costs and improving governance efficiency. More so, as regards to Free Cash Flow Theory developed by Michael C. Jensen (1986), this theory argues that excess RE may encourage inefficient investment. And that distributing dividends limits managerial overinvestment. This implies that an optimal DP increases FV by preventing value-destroying projects. Further, the Residual Dividend Theory suggest that dividends are paid after funding all positive NPV projects. This theory lays it claims on the premise that RE finance profitable investments. And that dividends are distributed only when no profitable opportunities exist. Implying that FV increases when RE are invested in positive-return projects, while excess funds are distributed as dividends. Finally, the Clientele Effect Theory posit that different investors

prefer different DP. The theory core argument is based on the fact that some investors prefer high dividends (income-oriented investors) while others prefer low dividends (tax-sensitive investors). This implies that a DP aligned with investor preference enhances FV by attracting the right investor clientele.

In sum, the strongest theories supporting a positive relationship between dividend payout and FV are: Bird-in-the-Hand Theory, Signaling Theory, Agency Theory and Free Cash Flow Theory. While for RE and FV, the most supportive theories are: Residual Dividend Theory, Life-Cycle Theory, and Agency Theory (when earnings are invested efficiently)

Conversely, several financial theories provide arguments supporting a negative relationship between DP (dividend payout and RE) and FV. These theories suggest that either high dividend payout or excessive RE may reduce FV under certain conditions. For example, Dividend Irrelevance Theory (Miller & Modigliani, 1961) argues that DP does not affect FV in a perfect capital market. Their claim is premise on the fact that paying dividends reduces internal funds available for investment even though firms may have to raise costly external financing. And that transaction costs and flotation costs reduce FV. Also, the dividend irrelevance theory assumes the absence of distorting taxes, which is not the case in real life and has been contested by the "Tax Preference theory and Transaction Cost Argument," which advocates that a low or no dividend increases FV because both dividend and capital gains are not taxed at the same footings. Hence, the significance of taxes cannot be undermined because shareholders are concerned with the post-tax dividend and/or capital gain. This also implies that higher dividend payouts may reduce FV because investors prefer earnings retention that leads to capital gains rather than taxable dividends.

Furthermore, Pecking Order Theory proposed by Stewart C. Myers and Nicolas Majluf, suggest that firms prefer internal financing over external financing. They put forward their argument based on the premise that RE are the cheapest source of finance and that high dividend payouts reduce RE, in addition to the fact that firms may resort to debt or equity issuance, increasing financing costs. This implies that a high dividend payout may negatively affect FV because it weakens internal financing capacity and increases financial risk. Another theory is that of Overinvestment/Free Cash Flow Misallocation which suggest that while dividends can reduce agency costs, excessive RE may encourage: managerial empire-building, investment in negative NPV projects and wasteful expenditures. This means that if RE are poorly invested, FV declines, implying that too much retention may lead to negative impact on FV and also poor dividend discipline may harm shareholders. Similarly, Growth Opportunity Theory posit that for high-growth firms: RE is critical for funding profitable projects and that paying high dividends may signal lack of growth opportunities which implies that for growth firms, high dividend payout can negatively affect FV because it limits investment in positive NPV projects. Congruently, Financial Constraint Theory suggest that firms operating in volatile or emerging markets may require RE as financial buffers. This means that high dividend payout reduces liquidity, and that

increased financial distress risk lowers FV. This is particularly relevant in developing economies with limited access to capital markets.

Consequently, from the foregoing, it means that high dividend payout leads to possible negative effects which reduces reinvestment capacity, increases external financing costs, creates tax disadvantages and weakens liquidity position. While, excessive RE leads to possible negative effects which encourages managerial opportunism, leads to inefficient investment and increases agency costs. In sum, these theories suggest that both excessive dividend payout and excessive earnings retention can reduce FV, depending on firm characteristics and market conditions.

Overall, this integrated review supports the proposition that both dividend payout and RE can influence FV, though the direction and magnitude of the influence depend on firm characteristics, market conditions, and investor preferences. Dividend payouts tend to enhance value when they signal strength and reduce agency risk, while RE enhance value when effectively deployed into profitable investment opportunities. Finally, from the review it was also discovered that there is dearth of studies that proxy FV with PBV and ROE. Also, there is paucity of studies that proxied DP with RE. Additionally, there is scarcity of studies that is conducted in the insurance sector. In other words, studies of this nature have been neglected in the insurance company despite the critical role played by this industry in the economy.

5. CONCLUSION

This integrated review examined whether dividend payout and RE influence FV by synthesizing relevant empirical findings and theoretical perspectives. The review demonstrates that DP remains a critical financial decision with significant implications for firm valuation, although its effects are not universally uniform.

Empirical evidence across developed and emerging markets generally affirms that both dividend payout and RE can positively influence FV; however, the magnitude and direction of this influence depend on firm-specific characteristics such as growth opportunities, financial constraints, governance quality, and market environment. Mature firms tend to derive greater value from stable dividend payouts, whereas growth-oriented firms benefit more from RE used for expansion and innovation.

Theoretical insights from Bird-in-the-Hand Theory, Signaling Theory, Agency Theory, and Free Cash Flow Theory largely support a positive association between dividend payout and FV, particularly where dividends reduce uncertainty and mitigate agency conflicts. Conversely, perspectives such as Tax Preference Theory and Pecking Order Theory highlight conditions under which high dividend payouts may weaken FV by increasing financing costs or limiting internal investment capacity. Similarly, RE are shown to enhance FV when efficiently invested in positive net present value projects, but excessive retention may reduce value if it leads to managerial overinvestment or inefficient capital allocation.

Overall, this review concludes that dividend policy is not inherently value-creating or value-destroying in isolation. Rather, its impact on FV is contingent upon how effectively firms balance dividend distribution and earnings retention in alignment with investment opportunities, financial structure, and shareholder expectations. An optimal DP, therefore, reflects strategic financial management aimed at maximizing long-term FV.

6. RECOMMENDATIONS FOR FUTURE RESEARCH

The study recommends that firms should strategically utilize DP tools to enhance shareholders' wealth. Additionally, firms are encouraged to review and possibly adjust their reliance on RE as a primary source of financing for operations. Overall, a firm's board of directors should maintain DPR at levels that preserve sufficient RE for operational needs and future expansion.

Although this integrated review provides important empirical and theoreticalinsights on the influence of dividend payout, RE onFV, several areas warrant further investigation.

First, future studies should explore context-specific determinants of DP outcomes, particularly in emerging and developing markets where institutional quality, investor protection, and capital market efficiency differ significantly from developed economies. Comparative cross-country analyses may provide deeper insights into how legal systems, taxation policies, and corporate governance frameworks moderate the dividend–firm value relationship.

Second, future research should incorporate moderating and mediating variables, such as firm size, growth opportunities, ownership structure, leverage, corporate governance quality, and financial constraints. Examining these factors may clarify why DP produces positive effects in some firms and neutral or negative effects in others. Similarly, future research should examine the interaction between DP and other financial decisions, such as capital structure, share repurchases, and investment policy, to develop a more integrated understanding of corporate financial strategy and firm valuation. Additionally, given evolving global financial environments, researchers are encouraged to investigate how macroeconomic instability, financial crises, digital transformation, and ESG (Environmental, Social, and Governance) considerations influence DP decisions and their valuation effects.

Finally, more studies should distinguish between short-term market reactions and long-term firm value effects. While many studies rely on stock price reactions or Tobin's Q as proxies for FV, longitudinal analyses may provide stronger evidence regarding the sustained impact of dividend payout and RE on corporate performance. Also, the review revealed that there is dearth of studies that have proxied PBV and ROE as FV as well as RE as DP. Additionally, most of the prior studies focused on other sectors such as banking, manufacturing, pharmaceutical, oil and gas and neglected the insurance company which is also a vital sector that plays a critical role in the economy. Hence, future research should consider this vacuum in existing literature.

7. LIMITATIONS OF THE STUDY

While this integrated review provides a comprehensive synthesis of empirical and theoretical literature on DP and FV, several limitations must be acknowledged.First, the study relies primarily on secondary sources, including published journal articles, books, and online databases. As such, the findings depend on the availability, quality, and scope of existing research, which may vary across countries, industries, and time periods. Consequently, the review may not capture all relevant studies, particularly those published in less accessible journals or in non-English languages.

Second, the review integrates evidence from both developed and emerging markets, which may limit the generalizability of conclusions to specific contexts. Market structures, institutional frameworks, taxation policies, and investor behavior differ widely across countries, potentially affecting the relationship between DP and FV.Third, the study focuses on dividend payout and RE as proxies for DP but does not include other mechanisms such as share repurchases, special dividends, or bonus issues, which could also influence FV. This focus may provide an incomplete view of the overall DP spectrum.Fourth, the review primarily synthesizes associational findings, and therefore cannot establish causality between DP and FV. Empirical studies often employ different methodological approaches, sample sizes, and timeframes, which may lead to variations in observed relationships.

Finally, this study does not empirically test the hypotheses in a single dataset. Future research is needed to empirically validate the empirical and theoretical insights across various industries, firm sizes, and geographic regions.Despite these limitations, the study provides a valuable foundation for understanding how DP components influence FV and offers guidance for future research directions.

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