

Institutional determinants of dividend policy of African listed firms

Margret Tembo and Chimwemwe Chipeta

University of the Witwatersrand, School of Economics and Finance, Johannesburg, South Africa

ABSTRACT

This paper examines the institutional determinants shaping the dividend policy of 357 non-financial firms listed across 13 African markets. Utilising panel data estimation techniques, our findings indicate that weaker investor protection, increased financial development, high GDP growth, and greater press freedom are linked to higher dividend payouts, while corruption and property rights protection show no significant effects. Notably, financial market development positively impacts dividend policy, whereas the development of financial institutions does not. Policymakers should prioritise several key areas: strengthening investor protection to encourage diverse value creation and improve governance; enhancing financial market development to increase capital access and market efficiency; supporting press freedom to promote transparency and accountability; and fostering GDP growth to improve firm performance and boost dividend distributions. A balanced approach integrating financial development, press freedom, and economic growth is essential for optimising dividend policies and advancing sustainable economic development in Africa.

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1. Introduction

Dividend policy is crucial in corporate finance, yet its underlying reasons remain unclear, especially in diverse institutional contexts (Syed et al., 2018). Traditional theories, such as agency, signalling, and life cycle theories, assume well-developed markets with strong legal frameworks and stability – assumptions often unmet in emerging markets (Benavides et al., 2016). In these markets, weaker institutions, limited investor protection, and poor property rights enforcement reduce dividends' effectiveness in addressing agency conflicts (La Porta et al., 2000). Moreover, high information asymmetry, limited financial disclosures, and political and economic instability further undermine dividends' signalling role. Additionally, restricted capital access and volatile market conditions challenge the assumptions of stable dividend policies (Glen et al., 1995). Thus, the unique conditions of emerging markets suggest that traditional dividend theories may not fully apply, highlighting the need for research tailored to these contexts.

While extensive research on dividend policy exists for developed markets, the dynamics within African listed firms, which operate under unique institutional and governance conditions, remain underexplored. In line with this observation, Athari et al. (2016), Athari (2021), and Yensu and

CONTACT Chimwemwe Chipeta  Chimwemwe.chipeta@wits.ac.za

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Adesui (2016), mainly focus on individual factors like investor protection or corruption in specific countries or regions. However, they often overlook how multiple institutional factors such as investor protection, property rights, press freedom, corruption, and financial development interact to influence dividend policy. This paper addresses this gap by employing institutional, agency, information asymmetry, and free cash flow theories to explore these interactions. Although press freedom is known to affect governance (Almaskati et al., 2020) and economic performance (Maniou, 2023), its impact on dividend policy is not well-studied. Similarly, financial development may uniquely affect African markets with underdeveloped financial systems and low liquidity (Otchere et al., 2016). Corruption, prevalent across many African countries with poor corruption perceptions index scores and weak institutions (Ofoeda et al., 2024) adds further complexity. Despite progress in improving investor protection, reducing corruption, and securing property rights (World Bank, 2020), inconsistencies in how these factors influence dividend policy in African markets remain. Addressing these gaps will enhance our understanding of dividend policy determinants in African-listed firms and provide insights into the region's evolving financial landscape.

We further contend that institutional factors play a crucial role in emerging markets by affecting agency costs, access to external financing, and cash flow distribution, which in turn influences firms' dividend distribution capacity. The extant literature has yielded mixed results on the relationship between institutional settings and dividend policy. For instance, some studies highlight a positive association between investor protection and higher dividends (Goyal & Muckley, 2013; La Porta et al., 2000), whereas others observe a negative correlation (Burn et al., 2015). Similarly, while financial market development is generally linked to improved dividend policies (La Porta et al., 2000; Abor & Fiador, 2013), suggesting that better capital access boosts dividends, other research indicates a negative relationship (Nowak et al., 2021), proposing that alternative financing options might lower dividends. Despite these insights, a comprehensive exploration is needed to fully understand how broader institutional contexts influence dividend policy in emerging markets characterised by high information asymmetry, agency costs, and limited institutional development.

We contribute to the dividend policy literature in several ways. Firstly, we expand on the work of Athari et al. (2016), Athari (2021), and Yensu and Adusei (2016) by exploring a wider range of institutional factors such as financial development, press freedom, property rights, investor protection, and corruption within African markets. These markets face unique challenges, including weak investor protection (D'Agostino et al., 2016), underdeveloped financial systems, pervasive corruption and limited press freedom (Ofoeda et al., 2024). We hypothesise that weak investor protection may drive higher dividends as firms seek to attract investment, while low financial development could limit information flow, worsen information asymmetry and increase capital costs (Beck & Levine, 2004), potentially reducing dividends. Furthermore, we contend that corruption might increase uncertainty and agency issues, prompting firms to raise dividends as a signal against misappropriation (La Porta et al., 2000). Conversely, press freedom can enhance governance (Almaskati et al., 2020) and reduce corruption (Dutta & Roy, 2016), potentially raising dividends. However, limited press freedom might restrict information flow and market transparency, leading to lower dividends. Additionally, strong property rights are expected to positively impact dividends by boosting firm performance and reducing corruption (Hanousek & Kochanova, 2016).

Secondly, in contrast to the literature that examines the impact of financial development on dividend policy (see, La Porta et al., 2000; Nowak et al., 2021), we utilise a new financial development index and further decompose financial development into two distinct proxies: financial institution development and financial market development. We hypothesise that financial institution development, which includes banks and other financial intermediaries, directly affects firms' access to credit and external financing, enabling them to rely less on internal funds and potentially increase dividend payouts. Conversely, financial market development, which encompasses the growth of equity and debt markets, enhances market-based financing options and investor participation, potentially pressuring firms to increase dividends.

Using a sample of 357 non-financial firms from 13 African stock markets, we derive several key insights. Firstly, stronger investor protection is linked to lower dividends, consistent with the substitute model, which posits that well-governed firms with robust protections do not need high dividends to attract investors. Conversely, firms with weaker protections use higher dividends to build trust and reduce financing costs. Secondly, increased press freedom correlates with higher dividends, as it enhances market transparency and accountability. Thirdly, corruption and property rights do not significantly impact dividends, likely due to variations in control mechanisms or delayed effects. Specifically, differences in the enforcement of anti-corruption measures and the time required for changes in property rights to influence corporate behaviour may explain this lack of significant impact. Lastly, financial development positively affects dividends by improving capital access and governance, with financial market development showing a positive effect, while financial institution development does not yet demonstrate a clear impact. Moreover, GDP growth positively influences dividend policy by boosting firm performance.

Our findings offer valuable insights for investment, policy development, and corporate strategies. Policymakers should enhance investor protection to reduce firms' reliance on high dividends as a trust-building substitute, promoting more balanced financial strategies. Additionally, strengthening press freedom and financial markets will improve transparency and governance, leading to higher dividends. Focusing on economic growth will further enhance profitability, while addressing corruption and property rights could improve the business environment over time.

The rest of the paper is organised as follows. Section 2 presents the theoretical context and hypotheses; Section 3 outlines the data and methodology; Section 4 details the results; and Section 5 concludes with a discussion of policy implications.

2. Theoretical context and hypothesis development

The relevance of dividend policy has been debated since Lintner (1956) and Miller and Modigliani (1961). While the latter argued that dividend policy doesn't affect firm value in perfect markets, Lintner noted that firms use dividends conservatively to align with sustainable earnings. Subsequent research underscores the relevance of dividends through models like signalling theory (Bhattacharya, 1979), which views dividends as indicators of future earnings; agency theory (Jensen & Meckling, 1976), linking dividends to reduced agency conflicts; free cash flow theory (Jensen, 1986), suggesting that dividends prevent excessive cash accumulation; and life cycle theory (DeAngelo et al., 2006), which associates dividends with a firm's growth stage.

Institutional factors significantly shape dividend policy in line with these theories. Institutional theory (Scott, 2005) also highlights how investor protection, corruption, press freedom, property rights, and financial development influence corporate behaviour. Strong institutions enhance firm performance by translating growth prospects into success and reducing agency costs, thereby affecting dividend policies (La Porta et al., 2000). However, variations in institutional quality across countries result in differing payout practices.

2.1. Investor protection

Investor protection significantly influences dividend policy, particularly within the framework of agency cost theory. Jensen and Meckling (1976) argue that dividends help address conflicts arising from managers prioritising personal gains over shareholder wealth by reducing free cash flow and limiting opportunistic behaviour. La Porta et al. (2000) present two perspectives: the substitute model and the outcome model. The substitute model suggests that firms with weak investor protection pay higher dividends to build trust and reduce financing costs. Conversely, well-governed firms often offer lower dividends due to fewer financial constraints and reduced reliance on dividends to mitigate agency problems (Athari et al., 2016). Empirical studies (e.g., Athari et al., 2016; Burns et al., 2015; La Porta et al., 2000) support this, showing that firms with weaker investor protection tend to

pay out more earnings as dividends. Africa's diverse legal and regulatory environment provides a unique context for testing the substitute model. This paper aims to validate the hypothesis that in many African countries with developing investor protection and governance challenges, firms use higher dividend payouts as a substitute for stronger legal safeguards. Thus, we hypothesise that:

H1: Stronger investor protection negatively influences dividend policy, consistent with the substitute model.

2.2. Property rights

Secure property rights are essential for a stable institutional environment, allowing firms to invest and distribute profits confidently (Acemoglu et al., 2002). According to institutional theory (Scott, 2005), strong property rights support stable dividend policies by protecting assets and reducing agency costs, leading to higher payouts. In contrast, weak property rights, common in many African markets, create uncertainty and expropriation risks, resulting in conservative or irregular dividend policies. The free cash flow hypothesis (Jensen, 1986) also supports this, as weak property rights limit free cash flow and dividends. Furthermore, insecure property rights increase transaction costs and impair firm performance (Claessens & Laeven, 2003), further constraining dividends.

Empirical evidence supports this view. For instance, Claessens and Laeven (2003) found that strong property rights enhance resource allocation, leading to higher dividends. Likewise, La Porta et al. (2000) showed that robust property rights reduce agency costs and encourage dividends. Additionally, lower corruption, often linked to stronger property rights, correlates with better firm performance and higher profits (Hanousek & Kochanova, 2016), which can increase dividends. In Africa, where property rights enforcement varies, stronger property rights may boost investor confidence and dividends, while weaker rights may lead to reinvestment due to expropriation risks and reduced profitability. Therefore, we hypothesise that:

H2: Stronger property rights are positively associated with dividend payout policy.

2.3. Press freedom

Existing literature often overlooks the link between dividend policy and press freedom, with Guedhami et al. (2017) being a notable exception. Their study highlights how political freedom, including press freedom, influences dividend policy. This study hypothesises a positive correlation between press freedom and dividend payouts in African markets. Agency cost theory suggests that press freedom reduces agency costs by enhancing transparency and aligning management with shareholders (Dutta & Roy, 2016; Almaskati et al., 2020). In Africa, robust press freedom promotes accountability, supporting higher dividends. Signalling theory posits that dividends reflect financial health and management quality, with press freedom reducing information asymmetry. Strong media environments lead to better governance and consistent dividend policies. Press freedom also boosts investment and growth (Alam & Ali Shah, 2013), reduces corruption (Dutta & Roy, 2016), and improves capital market access, enabling higher dividends even with limited cash flow. Conversely, limited press freedom increases financing costs and worsens information access leading to reduced investment opportunities (Kalenborn & Lessmann, 2013) and lower dividends. Empirical evidence (e.g. La Porta et al., 2000) supports that strong institutions, including press freedom, lead to higher dividends. Thus, we propose:

H3: Press freedom is positively related to dividend policy

2.4. Corruption

Corruption, prevalent in developing economies with institutional flaws such as low public sector wages and frequent regulatory changes (Lopatta et al., 2017), can impact dividend policy. Agency

theory suggests that firms in corrupt environments, facing higher agency costs, may increase dividends to align managerial interests with shareholders (La Porta et al., 2000). Institutional theory also posits that firms in corrupt settings use dividends to maintain legitimacy despite weak protections. In Africa, corruption distorts legal frameworks, leading firms to raise dividends to signal financial health and offset poor governance. This aligns with La Porta's substitute model and the 'efficient grease thesis,' which argues that corruption can sometimes ease bureaucratic inefficiencies and foster growth (Kaufmann & Wei, 1999). Accordingly, Méon and Weill (2010) find that corruption can enhance efficiency in weaker institutional settings. Similarly, Williams and Kedir (2016) show that corruption can boost firm profitability. Furthermore, La Porta et al. (2000) support the view that firms in corrupt countries often raise dividends to address weak institutional frameworks. Thus, corruption is likely positively related to dividend policy in Africa. Thus, we hypothesise that:

H4: Corruption is positively related to dividend policy.

2.5. Financial development

Financial development, encompassing the depth, efficiency, and accessibility of financial markets and institutions (Svirydzenka, 2016), positively influences dividend policy. Agency, free cash flow, signalling, and institutional theories support this. Enhanced financial development reduces capital costs, mitigates agency conflicts, and boosts investments (Bekaert and Harvey, 2003), leading to improved firm performance and higher dividends. Beck and Levine (2005) link financial development to better economic growth and capital access, which can increase profitability and dividends. Agency theory suggests that financial development enhances transparency and reduces agency costs (Jensen & Meckling, 1976), while free cash flow theory indicates it decreases reliance on internal funds by improving external financing access (Jensen, 1986), potentially raising dividends in emerging markets.

In Africa, where institutional settings vary, financial development is particularly influential. Strong financial systems can enhance regulatory frameworks and governance, thereby fostering higher dividends. For example, markets in South Africa, Kenya, and Ghana exhibit high dividend payouts linked to advanced financial development (Abor & Fiador, 2013). Furthermore, signalling theory suggests that developed financial systems enable firms to use dividends to signal financial health and attract investment (Bhattacharya, 1979). In addition, institutional theory connects financial development to stronger regulatory frameworks (Scott, 2005), which are essential for fostering favourable dividend policies in Africa. Evidence (Goyal and Muckley, 2013) indicates that financial development improves liquidity and dividend payouts. Thus, we hypothesise:

H5a: Financial development is positively related to dividend payout policy.

Financial development encompasses advancements in both financial institutions and financial markets. Financial institution development, encompassing improvements in depth, efficiency, and accessibility (Svirydzenka, 2016), is crucial in Africa where external funding is vital. Advanced financial institutions support business growth and economic performance, helping firms manage capital structures, reduce costs, and potentially increase dividends (Beck & Levine, 2004). Furthermore, agency theory suggests that well-developed institutions lower agency costs and promote higher dividends. In addition, free cash flow theory indicates that improved external financing reduces reliance on internal funds, leading to higher dividends. Signalling theory posits that firms use dividends to reflect financial health in developed systems. Institutional theory also underscores that stronger financial institutions enhance regulatory frameworks, supporting favourable dividend policies. In Africa, firms may increase dividends to enhance reputation and attract investors due to weaker institutional frameworks (Abor & Fiador,

2013). Aivazian et al. (2003) show that firms in countries with advanced financial institutions often have higher dividends due to better financing access and fewer constraints. Thus, we hypothesise that:

H5b: Financial institution development is positively associated with dividend policy.

We further hypothesise that financial market development positively influences dividend policy, especially in Africa. Efficient, deep, and accessible markets (Svirydzenka, 2016) enhance capital allocation, reducing costs (Beck & Levine, 2004) and enabling higher dividends. Agency theory supports that developed markets improve transparency and reduce agency costs, fostering higher dividends. In addition, free cash flow theory suggests that better external financing reduces reliance on internal funds, increasing dividends. Signalling theory posits that dividends in developed markets reflect financial health, while institutional theory links strong markets to improved regulatory frameworks that support favourable dividend policies. In Africa, advanced financial infrastructure reduces capital costs enhancing governance and transparency (Abor & Fiador, 2013) and thus boosts dividends (La Porta et al., 2000). Empirical evidence (Baker & Powell, 1999; Goyal & Muckley, 2013) indicates that developed markets with higher liquidity and better information lead to increased dividends. Thus, we hypothesise that:

H5c: Financial market development is positively associated with dividend policy.

3. Data and methodology

3.1. Data and variables

We collected data from Bloomberg, Freedom House, the World Bank, and the IMF. Bloomberg supplied firm-level data on dividend policy, total assets, firm age, cash ratio, debt ratio, and Tobin's Q. The World Bank provided data on investor protection and corruption, the IMF on financial development, the Fraser Institute on property rights, and Freedom House on press freedom.

Our dataset comprises 357 non-financial firms from 13 African stock markets, covering the period 2006 to 2020. Excluding regulated sectors and regional markets, as per Boțoc and Pirtea (2014), we have a balanced panel of 5 355 firm-year observations. To reduce selection bias, we included both dividend-paying and non-dividend-paying firms (Nnadi et al., 2013). Missing country-level governance data were interpolated using cubic spline (Benavides et al., 2016).

We measure dividend policy using the dividend payout ratio (DPR), with two indicators: Dividends to Assets (*DIVASSETS*) and Dividends to Total Sales (*DIVSALES*). *DIVASSETS* is chosen for its common use and effectiveness in addressing pricing and earnings volatility (Boțoc & Pirtea, 2014), while *DIVSALES* is used for robustness checks (Benavides et al., 2016).

For institutional proxies, we use the Investor Protection Index, which ranges from 0 to 100 and includes: (i) shareholders' ability to legally pursue misconduct by officers and directors (*SHIND*); (ii) director accountability for self-dealing (*DIRLIA*); and (iii) transparency of related-party transactions through disclosure (*DISIND*) (Goyal & Muckley, 2013; Athari et al., 2016; Athari, 2022). This index measures minority shareholder protection.

Property Rights are assessed using the Property Rights Index (*PR*) following Machokoto et al. (2021), based on the Fraser Institute's Economic Freedom of the World (EFW) report. Corruption is measured with the World Bank's Control of Corruption Index (*CCI*), which ranges from -2.5 (high corruption) to 2.5 (low corruption), reflecting public and private perceptions (Burns et al., 2021). The World Bank *CCI* is preferred over Transparency International data due to its broader coverage and fewer discrepancies (Brown et al., 2013).

Press freedom is evaluated using "Freedom House" reports, with the press freedom variable (*PF*) measuring media effectiveness and journalists' independence (Almaskati et al., 2020). Scores range from 0 to 100, where higher values indicate less press freedom. We standardise these scores between 0 and 100 (Dutta & Roy, 2016; Kalenborn & Lessmann, 2013), where higher values signify better

conditions. Each score is adjusted by subtracting it from 100 for clarity (Kalenborn & Lessmann, 2013).

We gauge financial development (FD) using Svirydzhenka's (2016) index, overcoming the limitations of single indicators. The Financial Development Index combines the Financial Institutions Index (FII) and the Financial Markets Index (FMI), offering a comparative ranking for economies based on access, depth, and efficiency. This index is valuable for assessing financial development (De Vita et al., 2022; Machokoto et al., 2021; Svirydzhenka, 2016) and covers a wide range of country-year observations. Refer to Table 1 for variable definitions and data origins.

3.2. Estimation models

We use a dynamic panel data model to analyse dividend policy determinants, capturing persistence from past decisions (Lintner, 1956). To handle within-country correlation, we include country and time fixed effects for unobserved heterogeneity. System GMM (Blundell & Bond, 1998) manages endogeneity and dynamic effects, correcting biases from lagged and endogenous variables while addressing heteroscedasticity and autocorrelation (Athari, 2022). We apply winsorisation by trimming the top and bottom 5% of extreme values annually to reduce outliers (Athari, 2022). We use valid instruments with orthogonal and collapse options in two-step estimation to enhance accuracy and address endogeneity (Boțoc & Pirtea, 2014). Thus, we estimate the following dynamic model:

$$\begin{aligned} DPR_{ijt} = & \alpha + \beta_1 DPR_{ijt-1} + \beta_2 InvPro_{jt} + \beta_3 PR_{jt} + \beta_4 PF_{jt} + \beta_5 CCI_{jt} \\ & + \beta_6 FD_{jt} + \beta_7 GDPgrowth_{jt} + \beta_{7-10} Controls_{ijt} + \varepsilon_{ijt} \end{aligned} \quad (1)$$

Where DPR_{ijt} is the dividend payout ratio for firm i , in country j , at time t . DPR_{ijt-1} is the dividend payout ratio for firm i , in country j , at time $t-1$, $InvPro_{jt}$ represents investor protection in country j , at time t . PR_{jt} represents property rights index in country j , at time t . PF_{jt} is the press freedom index in country j , at time t . CCI_{jt} represents World Bank Control of Corruption Index in country j , at time t . ; FD_{jt} represents financial development in country j , at time t , and $GDPgrowth_{jt}$ is the annual GDP growth in country j , at time t . The variable $Controls_{ijt}$ represents control variables for firm i , in country j , at time t . ε_{ijt} is the error term. These variables are defined in Table 1.

The study examines dividend payout policies using firm-specific and country-specific control variables, informed by agency cost, free cash flow, lifecycle, and signalling theories. *CASHRATIO* (cash and cash equivalents divided by total assets) assesses agency costs, with higher ratios often leading to larger dividends as firms distribute excess cash to manage these costs (Boțoc & Pirtea, 2014). *SIZE*, the log of total assets, addresses information asymmetry and agency costs, with larger firms generally paying higher dividends due to increased agency costs and stable cash flows (Abor & Fiador, 2013; Syed et al., 2018). Tobin's Q (*TOBINSQ*), the market value of debt and equity relative to total assets, measures growth opportunities, influencing dividends based on stability or growth priorities (Burns et al., 2015). *DEBTRATIO*, the total debt to total assets ratio, evaluates agency costs, as high debt often limits dividend payments (Boțoc & Pirtea, 2014). *AGE*, the natural logarithm of years since establishment, reflects lifecycle theory, with older firms likely paying higher dividends due to accumulated free cash flow (Al-Najjar & Kilincarslan, 2017). Lastly, GDP growth controls for economic conditions impacting dividend policy (Aivazian et al., 2003; Machokoto et al., 2021).

4. Results

4.1. Descriptive statistics

4.1.1. Summary statistics for the entire sample

Table 2 presents the sample's descriptive statistics. The average Dividend Payout Ratio (DPR) is 3.399% with *DIVASSETS* and 4.488% with *DIVSALES*, similar to emerging market ratios (Boțoc

Table 1. Variable measurement and data sources.

Variables	Variable definition	References
Dividend to assets (<i>DivAssets</i>)	Dividend paid divided by total assets x 100	(Boțoc & Pirtea, 2014; Burns et al., 2015)
Dividend to Sales (<i>DivSales</i>)	Dividend paid divided by sales x 100	(Benavides et al., 2016)
Firm size (<i>size</i>)	Natural logarithm of total assets	(Athari, 2021; Burn et al., 2015)
FirmAge(<i>age</i>)	Log of number of years since incorporation	(Al-Najjar & Kilincarslan, 2017)
Cash Ratio(<i>cashratio</i>)	Cash and cash equivalents divided by total assets x 100	(Burns et al., 2015; Boțoc & Pirtea, 2014)
Debt Ratio (<i>debratio</i>)	The sum of short-term and long-term debt as a percentage of the total assets	(Burns et al., 2015; Boțoc & Pirtea, 2014)
Tobin's Q estimation (<i>tobinsQ</i>)	The sum of the book value of debt and market value of equity divided by the book value of total assets	(Burns et al., 2015)
GDPgrowth (<i>GDPgrowth</i>)	The growth in gross domestic product. https://prosperitydata360.worldbank.org/en/indicator/WB±WDI±NY±GDP±MKTP±KD±ZG	(Aivazian et al., 2003; Machokoto et al., 2021)
Shareholder suits index (<i>ShInd</i>)	The shareholders' index reflects the ability of shareholders to sue officers and directors for misconduct Strength of index (0 = weak to 100 = strong)	(Athari, 2022; Goyal & Muckley, 2013; Hasan et al., 2022)
Directors' liability index (<i>DirLia</i>)	The director's liability index, with higher values, indicates the greater liability of directors. Strength of index (0 = weak to 100 = strong).	(Athari, 2022; Goyal & Muckley, 2013; Hasan et al., 2022)
Disclosure index (<i>DisInd</i>)	Measures the extent to which investors are protected through the disclosure of ownership and financial information. Strength of index (0 = weak to 100 = strong)	(Athari, 2022; Goyal & Muckley, 2013; Hasan et al., 2022)
Investor Protection (<i>InvPro</i>)	The average of the ease of shareholder suits index (<i>ShInd</i>), director's liability index (<i>DirLia</i>), and disclosure index (<i>DisInd</i>), ranges from 0 to 100. Strength of index (0 = weak to 100 = strong). Source: https://archive.doingbusiness.org/en/data http://www.doingbusiness.org/ TCdata360 (worldbank.org) https://prosperitydata360.worldbank.org/	(Athari, 2022; Goyal & Muckley, 2013; Hasan et al., 2022)
Financial Markets Index (<i>FMI</i>)	The Financial Markets Index (FMI) is a combination of the Financial Markets Depth (FMD) index, the Financial Markets Efficiency (FME) index, and the Financial Markets Access (FMA) index. Source: https://data.imf.org	(De Vita et al., 2022; Machokoto et al., 2021; Svirydzenka, 2016)
Financial Institutions Index (<i>FII</i>)	Combination of Financial Institutions Depth index (FID), Financial Institutions Efficiency index (FIE), and Financial Institutions Access index (FIA). Source: https://data.imf.org	(De Vita et al., 2022; Machokoto et al., 2021; Svirydzenka, 2016)
Financial Development (<i>FD</i>)	The average of the Financial Markets Index (FMI) and the Financial Institutions Index (FII)	(De Vita et al., 2022; Machokoto et al., 2021; Svirydzenka, 2016)
Corruption of Corruption Index (<i>CCI</i>)	The control of corruption variable ranges from approximately – 2.5 (weak control meaning high corruption) to 2.5 (strong control meaning low corruption). https://prosperitydata360.worldbank.org/en/indicator/WB±WWGI±CC±EST	(Burns et al., 2021)
Press Freedom (<i>PF</i>)	The index gauges media monitoring strength and journalist independence in a country, ranging from 0-100. Higher scores signify greater press freedom, while zero indicates minimal press freedom. https://public.knoema.com/sqezrgd/world-press-freedom-index	(Almaskati et al., 2020; Dutta & Roy, 2016; Kalenborn & Lessmann, 2013).
Property Rights (<i>PR</i>)	Property rights indicate the level of economic freedom concerning the legal system and property rights security. Source: https://www.fraserinstitute.org	(Machokoto et al., 2021)

Source: Researcher, 2024

& Pirtea, 2014). *INVPRO* and *PR* average 62.370 and 5.933, respectively. The Property Rights (*PF*) score is high at 71.256, while the Corruption Control Index (*CCI*) is low at –0.274, reflecting limited corruption control in Africa. Financial Development (*FD*) averages 0.393, indicating low financial development. Control variables show *SIZE* at 1154.108 USD and *TOBINSQ* at 1.57, with

Table 2. Summary statistics.

Variable	Obs	Mean	Median	Std. Dev.	Min	Max
DivAssets	5355	3.399	1.542	4.436	0	15.714
DivSales	5355	4.488	1.865	6.063	0	21.594
InvPro	5355	62.370	60	16.944	33.333	80
DirLia	5355	58.904	70	23.562	20	100
DisInd	5355	63.897	70	19.605	0	100
ShInd	5355	64.275	70	22.739	10	100
PR	5355	5.933	5.560	1.295	4.040	8.110
PF	5355	71.256	75.440	15.016	43.530	92
CCI	5355	−0.274	−0.116	0.475	−1.097	0.452
FD	5355	0.393	0.350	0.168	0.150	0.630
FII	5355	0.453	0.410	0.212	0.130	0.730
FMI	5355	0.315	0.300	0.154	0	0.58
tobinsQ	5256	1.569	1.243	0.878	0.642	3.899
Size	5355	1154.108	205.399	2130.865	10.455	8099.027
Cashratio	5350	10	6.704	9.573	0.346	34.953
Debtratio	5331	18.153	13.968	17.446	0	56.527
GDPgrowth	5355	1.452	1.608	2.481	−4.168	5.228
Age	5355	44.695	41	25.035	10	98

Note: The table summarises firm-specific and institutional data for 13 African countries from 2006 to 2020.

CASHRATIO at 10% and *DEBTRATIO* at 18.153%. The average *AGE* is 44.695 years, and GDP growth is 1.452%, showing modest economic expansion in Africa.

4.1.2. Summary statistics across countries

Table 3 shows country-specific statistics. South Africa has the highest firm representation (36.97%), and Botswana has the lowest (1.4%). Dividend payout ratios range from 1.995% in Mauritius to 9.835% in Botswana. Investor protection is lowest in Egypt (mean 40) and highest in South Africa (mean 80). Mauritius leads in Property Rights (mean 7.079), while Nigeria is lowest (mean 4.137). Press Freedom varies from 52.737 in Egypt to 86.409 in Namibia. Financial development is lowest in Uganda and Tanzania (mean 0.15) and highest in South Africa (mean 0.587). Corruption is highest in Nigeria (CCI −1.063) and lowest in Botswana (CCI 0.452). GDP growth is highest in Mauritius (mean 3.267) and lowest in South Africa (mean 0.353). Botswana has the lowest debt ratio (mean 7.308), and Mauritius has the lowest cash ratio (mean 3.717). These variations highlight the need for cross-country analysis.

Table 4 displays Pearson's correlation outcomes and Variance Inflation Factors (VIF). Notable relationships show a moderate correlation. VIF values below 10 and tolerance values above 0.1 suggest no significant multicollinearity among independent variables, enhancing the reliability of the analysis (Al-Najjar & Kilincarslan, 2017).

4.2. Regression results

Table 5 presents results from fixed effects (Model 1), Tobit (Model 2), and system GMM (Model 3) estimations, with a focus on system GMM due to its advantages. Consistent across all models, current and lagged *DPR* show a positive relationship, indicating dividend stickiness, which aligns with strategies to avoid negative market signals (Boțoc & Pirtea, 2014).

The analysis supports Hypothesis H1, showing a significant negative effect of investor protection (*INVPRO*) on dividend payout (*DPR*), consistent with the substitute model (La Porta et al., 2000) and prior research (Athari et al., 2016). In countries with weaker protection, firms pay higher dividends to signal earnings quality and reduce financing costs, aligning with agency cost theory, which posits that dividends mitigate manager-shareholder conflicts by limiting free cash flow.

Our analysis supports Hypothesis H5a, showing a significant positive relationship between Financial Development (*FD*) and *DPR*. Consistent with prior research (Beck & Levine, 2004;

Table 3. Summary statistics across countries.

Variables	Total	Botswana	Egypt	Kenya	Ghana	Mauritius	Morocco	South Africa	Tanzania	Tunisia	Namibia	Nigeria	Uganda	Zambia
DivAssets	3.399	9.835	4.738	4.177	2.236	1.995	3.576	2.511	7.951	2.905	2.403	3.114	6.642	4.519
DivSales	4.488	8.570	6.652	5.495	1.765	3.046	4.564	3.670	8.452	4.878	3.311	3.457	7.1680	4.997
InvPro	62.37	56.667	40.000	55.111	63.333	79.333	45.556	80.000	52.889	50.000	53.333	59.778	48.222	56.667
DirLia	58.904	68.000	30.000	34.667	50.000	80.000	20.000	80.000	60.000	62.667	50.000	70.000	50.000	60.000
DisInd	63.897	72.000	60.000	43.333	70.000	70.000	64.667	80.000	20.000	32.000	50.000	50.000	30.000	40.000
ShInd	64.275	30.000	30.000	94.000	70.000	93.333	44.667	80.000	78.667	55.333	60.000	59.333	64.667	70.000
PR	5.933	6.705	5.597	4.67	5.318	7.079	5.596	6.829	4.801	6.291	6.239	4.137	4.884	4.985
PF	71.256	80.643	52.737	72.307	85.663	79.285	61.262	82.271	76.039	58.918	86.409	60.061	66.647	69.419
CCI	-0.274	0.452	-0.657	-0.953	-0.093	0.353	-0.300	0.085	-0.516	-0.132	0.327	-1.063	-0.975	-0.462
FD	0.393	0.339	0.313	0.169	0.157	0.411	0.330	0.587	0.150	0.213	0.473	0.221	0.150	0.187
FII	0.453	0.436	0.269	0.263	0.178	0.503	0.397	0.692	0.179	0.354	0.657	0.209	0.167	0.180
FMI	0.315	0.231	0.344	0.066	0.107	0.305	0.248	0.463	0.013	0.067	0.272	0.221	0	0.187
TobinsQ	1.569	2.477	1.363	1.581	1.694	1.088	1.687	1.510	2.315	1.499	1.945	1.654	2.291	2.051
Size	1154.108	62.702	603.224	372.428	875.549	264.720	288.785	2112.475	62.805	57.237	2458.635	511.212	132.813	1216.467
Cashratio	10.000	17.077	13.667	8.592	7.572	3.717	5.165	10.468	11.784	5.259	12.995	9.402	9.917	8.728
Debratio	18.153	7.308	15.848	13.312	20.693	21.133	21.264	18.411	17.936	21.734	16.469	18.831	26.311	18.258
GDPgrowth	1.452	2.191	2.394	1.823	3.104	3.267	2.141	0.353	2.894	1.245	1.112	1.442	2.384	2.141
Age	44.695	34.8.000	41.070	53.581	38.350	54.840	47.423	42.103	53.167	37.723	44.089	51.564	64.200	42.167
# of firms	357	5(1.4%)	62(17.37%)	18(5.04%)	12(3.36%)	15(4.2%)	29(8.12%)	132(36.97%)	6(1.68%)	13(3.64%)	15(4.20%)	39(10.92%)	5(1.4%)	6(1.68%)
# of Observations	5355.000	75.000	930.000	270.000	180.000	225.000	435.000	1980.000	90.000	195.000	225.000	585.000	75.000	90.000

Note: This table summarises key statistics for 13 African countries from 2006 to 2020.

Table 4. Pairwise correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	VIF	1/VIF
(1) TobinsQ	1.000													1.34	0.744
(2) Size	−0.025*	1.000												1.32	0.758
(3) Cashratio	0.202*	−0.095*	1.000											1.24	0.807
(4) DebtRatio	−0.132*	0.076*	−0.348*	1.000										1.23	0.899
(5) Age	0.050*	0.067*	−0.036*	−0.068*	1.000									1.11	0.899
(6) GDPgrowth	0.160*	−0.210*	−0.003	−0.073*	−0.063*	1.000								1.37	0.728
(7) InvPro	−0.074*	0.286*	−0.051*	0.045*	0.019	−0.371*	1.000							2.83	0.353
(8) PR	0.009	0.139*	0.024*	−0.016	−0.111*	0.046*	0.472*	1.000						2.18	0.458
(9) PF	0.045*	0.205*	0.000	−0.015	−0.054*	−0.170*	0.640*	0.372*	1.000					2.32	0.431
(10) CCI	−0.006	0.232*	−0.021	0.015	−0.105*	−0.120*	0.589*	0.687*	0.651*	1.000				3.56	0.281
(11) FD	−0.080*	0.360*	0.048*	0.020	−0.076*	−0.328*	0.685*	0.572*	0.480*	0.704*	1.000			3.22	0.310
(12) DivAssets	0.517*	−0.061*	0.273*	−0.307*	0.072*	0.138*	−0.207*	−0.070*	−0.089*	−0.118*	−0.162*	1.000			
(13) DivSales	0.314*	0.022	0.202*	−0.230*	−0.002	0.087*	−0.175*	−0.032*	−0.097*	−0.092*	−0.095*	0.782*	1.000		
Mean VIF														1.93	

Note: * is statistically significant at 1%.

Table 5. Regression results.

VARIABLES	FE (1)	Tobit (2)	GMM (3)
DPR_{t-1}	0.465*** (0.012)	0.624*** (0.016)	0.877*** (0.127)
InvPro	-0.022** (0.009)	-0.025** (0.011)	-0.023** (0.010)
FD	2.498** (1.105)	2.448* (1.437)	2.323** (1.045)
CCI	0.806* (0.430)	1.263** (0.553)	0.333 (0.456)
PF	0.015*** (0.005)	0.012* (0.006)	0.009* (0.005)
PR	-0.011 (0.046)	-0.036 (0.060)	0.020 (0.045)
TobinsQ	0.818*** (0.064)	0.879*** (0.075)	0.321 (0.291)
Size	0.110 (0.088)	0.375*** (0.052)	0.034 (0.036)
Cashratio	0.030*** (0.005)	0.041*** (0.006)	0.018*** (0.007)
DebtRatio	-0.026*** (0.003)	-0.036*** (0.004)	-0.010 (0.007)
Age	1.038** (0.439)	0.293** (0.148)	-0.058 (0.042)
GDPgrowth	0.034 (0.022)	0.050* (0.028)	0.040* (0.024)
Constant	-4.053** (1.862)	-2.119 (1.347)	-0.910 (1.058)
Observations	4 936	4 936	4 936
R-squared	0.359		
# of firms	357	357	357
# of instruments			41
Country Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
AR (2)			0.807
Hansen (P value)			0.692
Hausman test (922.52)	0.000		

Notes: The table presents regression coefficients obtained through Fixed Effects(FE), Tobit and System GMM estimation tests. Z-statistics are in parentheses, and significance levels are ***, **, and * for 1%, 5%, and 10% significance, respectively.

Goyal & Muckley, 2013), improved financial development enhances capital access and profitability, leading to higher dividends. A one-unit increase in *FD* results in a 2.323-unit rise in *DPR*, supporting agency theory, free cash flow theory, signalling theory, and institutional theory.

For Hypothesis H4, our analysis reveals a positive but insignificant relationship between corruption and dividend payouts in Africa. While improved corruption control might be associated with higher dividends, the effect is not significant. Despite evidence suggesting that higher dividends could address governance issues in corrupt settings (Williams & Kedir, 2016) and reduce agency costs (La Porta et al., 2000), corruption's impact on dividend policy remains insignificant.

For Hypothesis H2, the analysis shows a positive but insignificant relationship between property rights protection (*PR*) and *DPR*, contrary to research suggesting stronger property rights boost dividends (Claessens & Laeven, 2003; La Porta et al., 2000). Investor protection and financial development may overshadow its effect. Inconsistent enforcement of property rights in African markets may cause firms with weaker protections to retain earnings rather than pay dividends (La Porta et al., 2000).

Our results support Hypothesis H3, showing a significant positive link between press freedom (*PF*) and *DPR*. Specifically, a one-unit increase in press freedom raises dividends by 0.008 units,

Table 6. Regression results using sub-indices of Investor protection and financial market development.

VARIABLES	INVESTOR PRO sub-indices			FD sub-indices		
	FE (1)	Tobit (2)	GMM (3)	FE (4)	Tobit (5)	GMM (6)
DPR_{t-1}	0.464*** (0.012)	0.62193*** (0.01603)	0.890*** (0.129)	0.467*** (0.012)	0.62621*** (0.01603)	0.893*** (0.126)
DirLia	0.010* (0.005)	0.01052 (0.00682)	0.006 (0.007)			
DisInd	-0.018*** (0.004)	-0.02119*** (0.00510)	-0.012*** (0.005)			
ShInd	0.008** (0.004)	0.01133** (0.00504)	-0.002 (0.005)			
FII				-0.758 (1.950)	-1.54304 (2.51273)	2.598 (2.160)
FMI				1.395** (0.575)	1.50381** (0.75525)	1.023** (0.465)
TobinsQ	0.821*** (0.064)	0.88751*** (0.07449)	0.295 (0.294)	0.805*** (0.064)	0.86806*** (0.07463)	0.282 (0.287)
Size	0.092 (0.088)	0.37013*** (0.05251)	0.030 (0.036)	0.108 (0.088)	0.37299*** (0.05236)	0.030 (0.035)
Cashratio	0.031*** (0.005)	0.04148*** (0.00627)	0.018*** (0.007)	0.030*** (0.005)	0.04107*** (0.00627)	0.017*** (0.007)
Debtratio	-0.026*** (0.003)	-0.03535*** (0.00377)	-0.009 (0.007)	-0.026*** (0.003)	-0.03558*** (0.00378)	-0.010 (0.007)
Age	1.074** (0.437)	0.30500** (0.14832)	-0.059 (0.041)	1.148*** (0.438)	0.30171** (0.14769)	-0.060 (0.041)
GDPgrowth	0.023 (0.021)	0.04174 (0.02644)	0.035 (0.022)	0.007 (0.021)	0.02340 (0.02639)	0.029 (0.024)
Constant	-3.624** (1.660)	-1.01490 (1.03802)	0.145 (0.800)	-3.949** (1.727)	-0.96029 (1.31939)	-2.942** (1.469)
Observations	4 936	4 936	4 936	4 936	4 936	4 936
R-squared	0.358			0.356		
# of firms	357	357	357	357	357	357
# of instruments			39			38
Country Dummies	Yes	Yes	Yes		Yes	Yes
Year Dummies	Yes	Yes	Yes		Yes	Yes
AR (2)			0.808			0.804
Hansen (P value)			0.679			0.638

Notes: The table outlines regression coefficients for investor protection and financial development indices. Z-statistics are in parentheses, and significance levels are ***, **, and * for 1%, 5%, and 10% significance, respectively.

enhancing transparency and reducing information asymmetry (Dutta & Roy, 2016; Kalenborn & Lessmann, 2013). Also, high press freedom lowers financing costs and boosts investment (Alam & Ali Shah, 2013). Therefore, in African markets, strong press freedom improves governance (Almaskati et al., 2020), leading to more transparent, shareholder-friendly dividend policies, consistent with La Porta et al. (2000).

The control variables mostly align with expectations. *CASHRATIO* positively correlates with *DPR*, indicating that higher cash reserves lead to more dividends (Burns et al. (2015). *SIZE* and *AGE* have insignificant effects on *DPR* (Benavides et al., 2016). *TOBINSQ* shows no significant impact (Burns et al., 2015), and *DEBTRATIO* has an insignificant negative effect (DeAngelo et al., 2006). *GDPGROWTH* positively affects *DPR*, suggesting economic growth boosts dividends (Aivazian et al., 2003). Overall, institutional factors are key in shaping Africa's dividend policy.

Table 6 evaluates the effects of *INVPRO* and *FD* indices on *DPR* using Fixed Effects, Tobit, and System GMM (models 1 to 3), showing consistent results. The Disclosure Index (*DISIND*) has a significant negative coefficient on *DPR*, supporting La Porta et al.'s (2000) substitute model. Strong investor protection and extensive disclosure reduce the need for dividends as a reputation tool, while weaker disclosure may lead to higher dividends to address transparency gaps.

Table 7. Regression using an alternative measure of dividend payout ratio.

VARIABLES	FE (1)	Tobit (2)	GMM (3)
DPR_{t-1}	0.504*** (0.012)	0.68206*** (0.01648)	0.633*** (0.033)
InvPro	-0.031** (0.013)	-0.03674** (0.01645)	-0.035** (0.014)
FD	3.855** (1.636)	3.11484 (2.14465)	2.718* (1.562)
CCI	0.626 (0.636)	1.30637 (0.82519)	0.569 (0.643)
PF	0.024*** (0.007)	0.01869* (0.00956)	0.019** (0.008)
PR	0.078 (0.068)	0.04714 (0.09008)	0.057 (0.069)
TobinsQ	0.673*** (0.094)	0.64355*** (0.10754)	0.741*** (0.129)
Size	0.595*** (0.130)	0.64538*** (0.07880)	0.196*** (0.055)
Cashratio	0.041*** (0.008)	0.05207*** (0.00935)	0.031*** (0.009)
DebtRatio	-0.035*** (0.005)	-0.044*** (0.00559)	-0.028*** (0.006)
Age	0.517 (0.648)	0.04096 (0.21457)	-0.357** (0.140)
GDPgrowth	0.042 (0.033)	0.07833* (0.04238)	0.049 (0.037)
Constant	-5.152* (2.754)	-3.06218 (1.98999)	-0.399 (1.584)
Observations	4 936	4 936	4 936
R-squared	0.331		
# of firms	357	357	357
# of instruments			43
Country Dummies		Yes	Yes
Year Dummies		Yes	Yes
AR (2)			0.753
Hansen (P value)			0.413

Notes: The table displays regression coefficients using an alternative measure of dividend policy. Z-statistics are in parentheses, and significance levels are ***, **, and * for 1%, 5%, and 10% significance, respectively.

In Models 1 to 3, Director Liability (*DIRLIA*) has a positive but insignificant effect on *DPR*, suggesting increased liability might boost dividends (Athari et al., 2016). Conversely, the Shareholder Suits Index (*SHIND*) shows a negative and insignificant effect, aligning with La Porta et al. (2000). Among investor protection indices, the disclosure index is the most influential in explaining dividend policy for African firms

Models 4, 5, and 6 show that Financial Institution Development (*FII*) does not significantly affect dividend payout ratios (*DPR*), suggesting its impact may become apparent over time due to evolving financial needs in Africa. In contrast, financial market development (*FMI*) significantly boosts *DPR*, supporting our hypothesis that better markets enhance capital allocation and reduce financing costs, leading to higher dividends (Aivazian et al., 2003). Developed African markets improve capital access and governance, promoting higher dividends (Abor & Fiador, 2013), consistent with research on the benefits of developed markets for liquidity and investor protection (Baker & Powell, 1999).

4.3. Robustness checks

4.3.1. Estimations using alternative measures of *DPR*

Table 7 confirms the robustness of our results using the *DIVSALES*-normalised *DPR* measure. Findings align with Table 5: *INVPRO* has a significant negative effect, *FD* remains positively

Table 8. Regression results excluding South Africa.

VARIABLES	FE (1)	Tobit (2)	GMM (3)
DPR_{t-1}	0.481*** (0.016)	0.638*** (0.020)	0.750*** (0.137)
InvPro	−0.019** (0.009)	−0.018 (0.012)	−0.021** (0.010)
FD	1.627 (1.242)	1.198 (1.550)	1.661 (1.016)
CCI	0.363 (0.568)	0.850 (0.697)	0.495 (0.542)
PF	0.016*** (0.006)	0.013* (0.007)	0.011** (0.005)
PR	0.143* (0.082)	0.239** (0.102)	0.071 (0.081)
TobinsQ	0.709*** (0.083)	0.756*** (0.090)	0.580* (0.316)
Size	−0.075 (0.126)	0.412*** (0.065)	0.096* (0.057)
Cashratio	0.038*** (0.007)	0.048*** (0.008)	0.029*** (0.009)
DebtRatio	−0.030*** (0.004)	−0.043*** (0.005)	−0.021** (0.010)
Age	0.321 (0.677)	0.095 (0.195)	−0.074 (0.074)
GDPgrowth	0.023 (0.025)	0.029 (0.032)	0.022 (0.028)
Constant	−1.055 (2.686)	−3.171** (1.524)	−0.527 (0.986)
Observations	3 105	3 105	3 105
R-squared	0.373		
# of firms	225	225	225
# of instruments			40
Country Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
AR (2)			0.656
Hansen (P value)			0.303

Note: The table displays regression coefficients, excluding South Africa. Z-statistics in parentheses denote coefficient significance:

***, **, and * for 1%, 5%, and 10% levels, respectively.

significant, and PF continues to positively impact dividend policy. CCI and PR remain insignificant. This reinforces that investor protection, financial development, and press freedom are key determinants of dividend policy while addressing potential model specification issues.

4.3.2. Estimations excluding South Africa

We assess the impact of South Africa (SA), which constitutes 36.97% of our sample by excluding it from the analysis (Table 8). Results align with Table 5, confirming that investor protection (INVPRO) and press freedom (PF) are crucial for dividend policy. A link between property rights (PR) and DPR is observed, while financial development (FD) shows no significant effect on DPR. These variations may reflect SA's unique economic, legal, and regulatory environment, including advanced financial markets and dual-listed firms, influencing African dividend policies.

5. Conclusion and policy implications

This paper examines institutional factors affecting dividend policies across 13 African countries from 2006 to 2020. Key findings reveal that investor protection, financial development, and press freedom significantly influence dividend payouts. Strong investor protection aligns with La Porta's substitute model, indicating that robust regulations decrease the need for high dividends.

Conversely, weaker investor protection prompts firms to use higher dividends to build trust and reduce financing costs. Financial development and press freedom enhance dividends by improving capital access, governance, and transparency. Additionally, GDP growth boosts firm performance and positively impacts dividend policy.

The study validates several theories: Agency theory is supported, with financial development and press freedom reducing agency costs. Free cash flow theory is upheld, showing firms in developed markets distribute excess cash more readily. Signalling theory is confirmed, as press freedom enables firms to signal financial health through dividends. Institutional theory is relevant, with stronger institutions fostering better governance and favourable dividend policies.

Corruption and property rights protection had no significant effects, and the impact of financial institution development was inconclusive. Financial market development, however, positively influenced dividend policies. Policy recommendations include enhancing investor protection, improving market transparency, and supporting press freedom. Future research should explore mediating factors, conduct regional comparisons, and assess the effects of external shocks, such as economic crises or pandemics, on institutional determinants and dividend policies.

Disclosure statement

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