



ROLE OF DIVIDEND POLICY IN CAPITAL MARKET

Sherkuzieva Nasiba Abrorovna

PhD, Associate Professor of “Corporate Finance and Securities”

Department, Tashkent State University of Economics, Uzbekistan

E-mail: n.sherkuziyeva@tsue.uz

ABSTRACT

This article studies role of dividend policy in capital market. Moreover, effects of dividend policy in capital market, dividend payout statistics for companies listed on the New York Stock Exchange (NYSE) are analyzed in detail. Scientific conclusions and recommendations are presented on the basis of analyses.

KEYWORDS

Dividend, dividend payout, dividend policy, stock, capital, capital market, securities.

Introduction

The role of dividend policy in capital markets holds a pivotal position in shaping investor confidence, influencing stock prices, and guiding long-term investment strategies. Firstly, dividend policy serves as a critical indicator of a company's financial health, as consistent dividend payments reflect management's commitment to shareholder value. Furthermore, stable or growing dividends signal corporate profitability, which is crucial for attracting long-term investors seeking reliable income streams. Dividend announcements also impact market sentiment, as positive dividend news often leads to stock price appreciation, while dividend cuts may trigger negative reactions. Moreover, dividend policy plays a significant role in the allocation of corporate earnings, balancing between reinvestment for growth and distribution to shareholders. In mature markets, dividend-paying companies tend to exhibit lower volatility, contributing to overall market stability. Additionally, in emerging markets, a well-defined dividend policy can enhance transparency, reduce agency conflicts, and improve corporate governance practices. The signaling theory of dividends suggests that firms use dividend changes to convey information about future prospects, thereby influencing market expectations. Tax considerations also interact with dividend policy, as investors' preferences for dividends versus capital gains affect their portfolio decisions. For institutional investors, dividend policies can serve as benchmarks for evaluating corporate performance, shaping investment portfolios accordingly. Furthermore, dividend policies influence capital structure decisions, as retained earnings contribute to financing future projects without excessive reliance on external funding. Overall, a sound dividend policy fosters investor trust, strengthens market efficiency, and enhances the attractiveness of capital markets by offering a predictable and steady return mechanism. Therefore, dividend policy is not merely a distribution decision but a strategic tool for signaling stability, managing expectations, and sustaining market confidence.

Literature Review

Foreign scholars S. Seo and J. Lee have emphasized that internal factors influence a company's dividend policy. "Paying dividends is a decision based on the company's expected cash flow and efficiency. Changes in corporate governance, management, or ownership structure affect dividend payments" [1]. When making dividend payments in a company, it is certainly important to take into account both internal and external factors.

The dividend policy of commercial banks is currently one of the issues that is widely paid attention to by economists in the field of corporate finance. In particular, "the lower the tax rates on dividends, the higher the dividend payments in companies" [2]. In this case, we can see that tax rates and the amount of dividend payments in commercial banks are inversely related.

The team of authors led by Z. Sun stated that "free cash flow theory suggests that dividend payments help reduce agency costs of free cash flow and prevent managers from overinvesting. In stakeholder theory, dividend payments reflect the tension between shareholders and stakeholders" [3]. Effective organization of dividend payments in a company serves to reduce tensions in conflicts of interest.

"Commercial banks, as issuers, increase the possibility of effective placement of additional shares through regular dividend payments to shareholders, thereby increasing the capitalization of banks. Therefore, commercial banks should pay special attention to dividend policy" [4]. An increase in market capitalization, in turn, helps commercial banks to strengthen their position in the market and effectively implement their activities. According to S. Elmirzaev and S. Omonov, "the financial relationship between the enterprise and the owners regarding the distribution of profits, which is reflected in the dividend policy, is complex and multifaceted. The funds invested by the investor in the capital of the enterprise in the form of shares, shares, and shares actually give him the right to own the enterprise and, in turn, the right to participate in the distribution of profits received. This increases the importance of dividend policy. Therefore, it is necessary to consider its components, starting from the economic essence of dividends and the nature of their occurrence" [5]. In order to effectively formulate a dividend policy in a company, it is necessary to fully understand the essence and importance of dividends.

"When organizing roadshows for potential investors, it is also necessary to take into account the level of taxation in the country where potential investors operate, because if a potential investor pays high taxes on the expected dividend in the future, his interest in receiving income through shares will be low" [6]. The established directions in the tax policy of a country reflect the influence of external and internal factors on dividend policy.

Analysis and Results

The essence of dividend policy in capital markets lies in its multifaceted role as a strategic financial tool that profoundly influences investor behavior, corporate governance standards, and overall market efficiency, with each of these dimensions being interconnected and mutually reinforcing. A well-formulated dividend policy, on the one hand, serves as a crucial mechanism for distributing corporate earnings to shareholders, while on the other, it functions as a strategic signal of a firm's financial stability, long-term growth prospects, and management's confidence in future performance, thereby affecting investor sentiment and stock valuations. The significance of dividend policy becomes even more pronounced in capital markets, where information asymmetry between management and investors can create uncertainty, making dividend declarations a powerful communication channel that

bridges this gap and enhances transparency. Moreover, dividend policy influences the allocation of corporate resources, as decisions to retain earnings or distribute them as dividends directly impact a company's capital structure, investment capacity, and debt-equity balance, which in turn shapes its risk profile and creditworthiness in the eyes of market participants. This complex relationship highlights how dividend policy serves as a balancing act between satisfying short-term shareholder expectations for income and ensuring long-term reinvestment for sustainable growth, especially in capital-intensive industries.

Furthermore, dividend policy acts as a governance tool that disciplines management by limiting the free cash flow available for discretionary spending, thereby reducing the likelihood of agency problems and misallocation of resources. In the context of emerging markets, where capital markets are often characterized by lower levels of investor protection and transparency, a stable and predictable dividend policy can enhance corporate reputation, attract foreign investment, and promote market confidence by demonstrating adherence to international best practices. Additionally, tax considerations play an integral role in shaping dividend policy, as differences in taxation on dividends and capital gains can influence investor preferences and, by extension, the capital allocation decisions of firms seeking to optimize shareholder value. It is also essential to recognize that dividend policy is not a static construct but a dynamic element that evolves in response to macroeconomic conditions, industry trends, and regulatory frameworks, necessitating continuous adjustment to remain aligned with both market expectations and corporate objectives. In highly developed capital markets, the consistency and growth of dividends are often viewed as indicators of a firm's commitment to shareholder value maximization, while dividend cuts or omissions may be interpreted as red flags signaling potential financial distress or strategic realignment.

The impact of dividend policy extends beyond the firm level, as aggregate dividend trends can shape the broader investment climate by influencing the flow of funds across asset classes and market segments. Moreover, dividend policy decisions interact with capital market liquidity, as regular dividend distributions can incentivize long-term holding behavior among investors, thereby reducing speculative trading and fostering market stability. This intricate interplay between dividend policy and capital market dynamics underscores its pivotal role in shaping not only corporate valuation metrics such as price-to-earnings and dividend yield ratios but also in reinforcing investor confidence and contributing to the efficient functioning of capital markets. Ultimately, the essence of dividend policy lies in its capacity to align the interests of diverse stakeholders—shareholders, management, regulators, and the broader market ecosystem—by providing a structured framework for distributing profits, signaling corporate strength, and facilitating informed investment decisions that drive capital market development and resilience in an increasingly complex global financial landscape.

The role of dividend policy in capital markets is a subject of profound significance, as it embodies a complex interplay of financial strategy, investor expectations, corporate governance practices, and macroeconomic influences, each of which contributes to shaping the overall stability, efficiency, and attractiveness of the market. At its core, dividend policy serves as a key indicator of a firm's financial health, signaling to investors the company's ability to generate sustainable earnings and maintain consistent cash flows, which in turn influences stock valuation and market perception. When a company adopts a stable dividend policy, it demonstrates a long-term commitment to shareholder value, reinforcing confidence among investors who seek predictable returns as part of their investment strategy. This sense of reliability is particularly important in volatile markets, where uncertainty and

information asymmetry can lead to short-term speculation and undermine market stability. By distributing a portion of profits as dividends, firms not only reward shareholders for their investment but also provide an implicit signal about the firm's profitability, operational efficiency, and management's strategic vision.

Conversely, decisions to reduce or suspend dividends may raise concerns among market participants, as they can be interpreted as early warnings of financial distress or internal challenges that could affect future performance. The signaling effect of dividend policy thus plays a crucial role in reducing information asymmetry and aligning market expectations with corporate realities, which is particularly vital in capital markets where timely, accurate, and transparent information is paramount for informed decision-making. Furthermore, dividend policy impacts the flow of funds within the market, as companies that consistently pay dividends tend to attract long-term investors who value income stability, thereby fostering a base of committed shareholders and enhancing overall market liquidity. The tax implications of dividend distributions also influence investor behavior, as varying tax treatments across jurisdictions can shape preferences for dividend income versus capital gains, highlighting the importance of aligning dividend policy with broader fiscal and regulatory frameworks. In addition, dividend policy serves as a mechanism for financial discipline, as it limits the free cash flow available to management, reducing the risk of inefficient capital allocation, overexpansion, or engagement in value-destructive projects. This discipline contributes to stronger corporate governance practices, as it fosters accountability and transparency in the utilization of corporate resources, ensuring that management remains focused on generating shareholder value rather than pursuing personal interests or short-term gains. From a macroeconomic perspective, aggregate dividend distributions can act as a barometer of corporate sector health, with rising dividends reflecting broader economic growth and declining dividends signaling potential contraction or risk aversion within the market.

Table 1 Role of Dividend Policy in Capital Market

Aspect	Role of Dividend Policy	Impact on Capital Market
Investor Confidence	Provides a signal of financial health and stability	Increases trust, attracts long-term investors, and reduces speculative trading
Signaling Effect	Conveys information about future earnings and performance	Reduces information asymmetry, aligns expectations, stabilizes stock prices
Corporate Governance	Promotes transparency, limits free cash flow, prevents agency problems	Enhances corporate accountability, aligns management with shareholder interests
Market Liquidity	Regular dividends incentivize long-term holding behavior	Increases liquidity, encourages stable trading volumes, supports market resilience
Capital Structure Decisions	Balances retained earnings and distributed profits	Influences leverage, cost of capital, and risk profile
Tax Considerations	Dividends versus capital gains affect investor preferences	Shapes demand for dividend-paying stocks, affects capital allocation
Macroeconomic Indicator	Aggregate dividend trends reflect corporate sector health	Rising dividends indicate growth, falling dividends may signal downturns
Attracting Institutional Investors	Predictable dividends appeal to pension funds, mutual funds, and insurance companies	Supports capital market development, enhances stability, encourages foreign investment

Investment Decision-Making	Dividend yields inform portfolio construction	Helps investors balance income needs and growth expectations
Stock Price Volatility	Stable dividend payers tend to show lower price fluctuations	Reduces market volatility, fosters predictable market behavior
Corporate Lifecycle	Mature firms often pay dividends, while growth firms reinvest profits	Reflects strategic priorities, informs investor expectations
Economic Uncertainty Resilience	Maintaining dividends during crises signals strength	Supports market confidence, attracts conservative investors
Long-Term Market Development	Bridges corporate and investor interests, supports market participation	Facilitates capital mobilization, sustains market growth
Capital Allocation Efficiency	Distributes profits effectively to maximize shareholder value	Ensures efficient use of capital, supports broader economic development
Global Competitiveness	Adherence to international dividend practices aligns with global market standards	Attracts foreign investors, enhances integration into global capital markets

Source: Done by the author

Table 1 highlights the critical role of dividend policy in capital markets, emphasizing how it influences various interconnected aspects of financial stability, investor behavior, and corporate governance. A sound dividend policy not only serves as a signal of a firm's financial health and stability but also contributes to building investor trust, thereby attracting long-term investors and discouraging speculative trading. Furthermore, the signaling effect embedded in dividend announcements conveys crucial information about a company's future earnings and performance, thereby reducing information asymmetry and aligning market expectations, which in turn stabilizes stock prices. Dividend policy also plays an essential role in corporate governance by promoting transparency, limiting excessive free cash flow, and mitigating agency problems, thereby enhancing corporate accountability and aligning management's decisions with shareholder interests. Regular dividend payments incentivize long-term holding behavior among investors, which increases market liquidity, encourages stable trading volumes, and supports overall market resilience. Moreover, dividend policy interacts with a company's capital structure decisions, as it influences the balance between retained earnings and distributed profits, which subsequently impacts leverage, cost of capital, and risk profile. Tax considerations further shape dividend policy, as differences in tax treatment between dividends and capital gains affect investor preferences and, in turn, influence demand for dividend-paying stocks and capital allocation strategies. From a macroeconomic perspective, aggregate dividend trends serve as an important indicator of corporate sector health, where rising dividends signal economic growth and falling dividends may indicate potential downturns. Predictable dividend payments are particularly attractive to institutional investors such as pension funds, mutual funds, and insurance companies, thereby supporting capital market development, enhancing stability, and encouraging foreign investment inflows.

Table 2 Effects of Dividend Policy in Capital Market

Area of Impact	Effect of Dividend Policy	Capital Market Consequences
Stock Valuation	Signals company stability and future cash flows	Influences stock prices and market capitalization
Investor Behavior	Attracts income-seeking investors, especially those preferring steady dividends	Encourages long-term holdings, reduces speculative trading
Market Liquidity	Regular payouts foster trust and holding behavior	Enhances liquidity, stabilizes trading volumes
Risk Perception	Dividend cuts can signal distress, while stable payouts suggest resilience	Affects risk assessment, increases/decreases volatility
Capital Allocation	Determines portion of profits distributed vs. reinvested	Affects corporate investment capacity and market's capital formation
Agency Conflicts	Limits free cash flows, reduces managerial discretion	Strengthens corporate governance, aligns management and shareholder interests
Tax Efficiency	Dividend taxation impacts investor preference for dividends vs. capital gains	Shapes demand patterns, influences portfolio allocation strategies
Corporate Reputation	Consistent dividend policy signals management discipline	Builds trust, improves market image, attracts institutional investors
Market Stability	Predictable dividends reduce uncertainty and market shocks	Contributes to orderly markets, supports long-term growth
Foreign Investment	Transparent dividend practices enhance attractiveness for global investors	Increases cross-border capital flows, supports market integration
Capital Structure Management	Affects retained earnings and reliance on external financing	Influences cost of capital, financial flexibility
Portfolio Strategy	Dividend yields provide benchmarks for investor decision-making	Helps in risk-return balancing, supports diversified investment approaches
Signaling Effect	Dividend announcements provide insights into future earnings expectations	Reduces information asymmetry, aligns market sentiment
Economic Cycle Sensitivity	Dividend trends reflect broader economic health	Rising dividends may indicate growth, while cuts may signal economic slowdown
Market Depth	Dividend-paying stocks attract diverse investors	Enhances market depth, improves resilience against shocks

Source: Done by the author

Table 2 effectively demonstrates how dividend policy exerts a multifaceted influence on capital markets by shaping stock valuation, investor behavior, market liquidity, and risk perceptions, with each aspect being interconnected and contributing to overall market stability. The consistent signaling of company stability and future cash flows through dividend payments influences stock prices and market capitalization, while also attracting income-seeking investors who prefer predictable returns, ultimately encouraging long-term holdings and reducing speculative trading that could otherwise destabilize markets. Regular dividend payouts foster trust among investors, strengthening market liquidity by stabilizing trading volumes and creating an environment conducive to orderly price discovery. Furthermore, dividend policy directly affects risk perception in the market, as dividend cuts often signal distress and elevate volatility, while stable or increasing payouts suggest resilience and financial strength. Corporate capital allocation decisions are also deeply intertwined with dividend policy, as the choice to distribute profits versus reinvest them impacts a firm's investment capacity and the broader

market’s capital formation, influencing overall economic growth. By limiting free cash flow available to management, dividend policy reduces agency conflicts, aligns managerial actions with shareholder interests, and enhances corporate governance practices, which in turn builds investor confidence and supports sustained market participation. Tax efficiency considerations further shape dividend policy, as varying tax treatments influence investor preferences and portfolio strategies, thereby affecting demand patterns across different market segments. A consistent and transparent dividend policy enhances corporate reputation, attracts institutional investors, and signals management discipline, contributing to a positive market image that encourages cross-border capital flows and supports global market integration. Ultimately, dividend policy helps reduce information asymmetry by providing clear signals about future earnings expectations, contributing to a more informed and rational investment environment, while also reinforcing market depth by attracting a diverse base of investors, thereby enhancing market resilience against external shocks and long-term uncertainties.

Dividend policy also interacts with capital structure decisions, as the retention of earnings for reinvestment versus distribution to shareholders influences the company’s leverage, risk profile, and cost of capital, thereby affecting its competitive position and ability to finance future projects. The impact of dividend policy extends to market sentiment, as consistent dividend payers are often viewed as more stable and less risky, attracting institutional investors such as pension funds, mutual funds, and insurance companies, who play a pivotal role in capital market development. Moreover, dividend policy can influence stock price volatility, as dividend-paying stocks tend to exhibit lower price fluctuations, contributing to a more stable and resilient market environment. In emerging markets, where investor confidence may be more fragile due to weaker regulatory frameworks and higher political or economic risks, the establishment of a sound and predictable dividend policy can serve as a critical factor in attracting foreign direct investment, supporting market liquidity, and promoting sustainable market growth. Dividend policy also reflects a company’s lifecycle stage, as mature firms often prioritize dividend payouts to reward shareholders, while growth-oriented firms may reinvest profits to fuel expansion, illustrating the strategic nature of dividend decisions. The interplay between dividend policy and investment attractiveness underscores its importance in shaping capital allocation decisions, as investors often evaluate dividend yields alongside growth potential, risk exposure, and market conditions when constructing their portfolios.

Table 3 Dividend payout statistics for companies listed on the New York Stock Exchange (NYSE)

Metric	2023	2024
Total Dividends Paid (S&P 500)	\$588 billion	\$630 billion
Annual Growth Rate (S&P 500)	4.1%	7.1%
Dividend Yield (S&P 500)	1.49%	1.27%
Dividend Payout Ratio (S&P 500)	37.28%	35.78%
Top Dividend-Paying Companies	Microsoft, Apple, ExxonMobil	Microsoft, Apple, ExxonMobil
Number of Dividend Increases (Q4)	707	635
Notable First-Time Payers	N/A	Meta, Alphabet, Alibaba

Source: <https://www.spglobal.com/en>

Table 3 highlights the dividend payout statistics for companies listed on the New York Stock Exchange (NYSE), illustrating the evolving trends in dividend payments among major corporations, particularly those included in the S&P 500 index. In 2023, total dividends paid by S&P 500 companies reached an impressive \$588 billion, reflecting a steady 4.1% annual growth rate, which increased to \$630 billion in 2024 with a higher 7.1% growth rate, signaling a positive trajectory in corporate earnings distribution. Despite this increase in absolute dividend payments, the overall dividend yield for S&P 500 companies declined from 1.49% in 2023 to 1.27% in 2024, suggesting that stock price appreciation outpaced dividend growth, a trend often seen in bullish market conditions. The dividend payout ratio also slightly decreased from 37.28% in 2023 to 35.78% in 2024, indicating that a larger portion of earnings was retained for reinvestment rather than distributed to shareholders. Notably, the top dividend-paying companies across both years remained consistent, with Microsoft, Apple, and ExxonMobil maintaining leadership positions, demonstrating their financial strength and commitment to returning capital to shareholders. Interestingly, the number of dividend increases in Q4 declined from 707 in 2023 to 635 in 2024, highlighting a potential moderation in the pace of dividend growth, which could reflect cautious optimism among corporations amid changing macroeconomic conditions. A significant development in 2024 was the emergence of notable first-time dividend payers such as Meta, Alphabet, and Alibaba, signaling a shift among major technology firms toward more shareholder-friendly capital allocation strategies. This shift, particularly from traditionally growth-focused companies, underscores a maturing phase in their corporate lifecycle, balancing growth reinvestment with shareholder returns. The interplay of these dividend payout trends reflects broader market dynamics, where investor demand for income, corporate profitability, and market valuation collectively shape dividend strategies. Ultimately, the data presented in Table 3 provides a comprehensive snapshot of how dividend policies in NYSE-listed companies contribute to market stability, investor confidence, and the overall attractiveness of the U.S. capital market for both domestic and international investors.

Conclusions

The following conclusions are formed on the basis of above-mentioned analyses:

First, the stability and growth trajectory of dividend policies not only reflect the corporate approach to profit allocation but also play a pivotal role in reinforcing investor confidence, encouraging long-term financial commitments, and mitigating stock price volatility, thereby contributing significantly to the overall resilience and efficiency of the capital market.

Second, the fluctuation in dividend payments, whether increases or reductions, exerts a direct influence on stock prices and corporate valuation metrics, indicating that the continuity and predictability of dividend policies shape not only investor portfolio construction but also the broader flow and allocation of funds within the capital market.

Third, dividend policy, by serving as a stable source of income for investors, simultaneously demonstrates management's commitment to financial discipline and adherence to corporate governance principles, thereby enhancing market participants' trust and creating a more attractive environment for global investors seeking predictable returns.

References

1. Sung Won Seo, Jong Hwa Lee. Peer effect on dividends and return comovement. // The North American Journal of Economics and Finance, Volume 67, July 2023. <https://www.sciencedirect.com/science/article/pii/S1062940823000657>
2. K.Michael Casey, Ross N.Dickens. The effects of tax and regulatory changes on commercial bank dividend policy. // The Quarterly Review of Economics and Finance, Volume 40, Issue 2, Summer 2000, Pages 279-293
3. <https://www.sciencedirect.com/science/article/abs/pii/S1062976999000514>
4. Zeyu Sun, Xiaohui Li, Jing Xie, C.S. Cheng. How does dividend payout affect corporate social responsibility? A channel analysis. // Journal of Financial Stability, Volume 68, October 2023. <https://www.sciencedirect.com/science/article/pii/S1572308923000657>
5. S.O'rinov. O'zbekiston bank sektorini rivojlantirishda dividend siyosatining rolini oshirish masalalari. // Oriental Renaissance: Innovative, educational, natural and social sciences, Volume 1, Issue 3, April 2021. – P 11
6. Elmirzayev S., Omonov S. Rivojlangan mamlakatlarda dividend siyosati tahlili va Dividend Aristokratlari //Xalqaro moliya va hisob” ilmiy-elektron jurnali. – 2020. – T. 2.
7. Қурбонов Жавлонбек Жўрабекович, Омонов Сардор Ўлмасович, Нуралиева Дилдора Нурали Қизи ХАЛҚАРО ИРО АМАЛИЁТЛАРИ ТАҲЛИЛИ: ТАШКИЛИЙ ХУСУСИЯТЛАРИ ВА ИНСТИТУЦИОНАЛ ИНВЕСТИТОРЛАР ИШТИРОКИ // Экономика и финансы (Узбекистан). 2021. №1 (137). URL: <https://cyberleninka.ru/article/n/hal-aro-ipo-amaliyotlari-ta-lili-tashkiliy-hususiyatlari-va-institutsional-investorlar-ishtiroki> (дата обращения: 04.10.2023).
8. <https://www.spglobal.com/en>