INTERNATIONAL JOURNAL OF ECONOMICS AND FINANCE STUDIES
Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310
Received: 11.06.2025 | **Accepted:** 20.10.2025 | **Published Online:** 30.10.2025

-RESEARCH ARTICLE-

EXTERNAL INVESTMENT AND ITS INFLUENCE ON DIVIDEND DISTRIBUTION POLICIES IN SOUTH AFRICA FIRMS

Kansilembo Aliamutu

PhD in accounting, Department of Auditing, College of Accounting sciences, University of South Africa, South Africa
ORCID: https://orcid.org/0000-0003-3870-7549
Email: freddyali6@gmail.com

Kerry-Lee Gurr

Senior Lecturer, Department of Financial Accounting, School of Commerce, College of Law and Management, University of KwaZulu-Natal, South Africa.
ORCID: https://orcid.org/0000-0001-6773-4277
Email: Gurr@ukzn.ac.za

─Abstract─

This research examines how external investment affects the dividend distribution policies of South African companies, with a specific focus on the moderating role of foreign ownership in relation to financial performance metrics. Employing an explanatory quantitative methodology and utilising secondary data from 75 non-financial firms listed on the Johannesburg Stock Exchange (JSE) over the period 2021–2024, the study investigates the impact of liquidity (current ratio), leverage (debt-to-equity ratio), profitability (return on assets), and firm size on dividend pay-out ratios. The regression results indicate that return on assets is positively and significantly linked to dividend payments, whereas leverage exhibits a negative association. Additionally, the findings suggest that external investment amplifies the relationship between liquidity and leverage with dividend pay-out ratios, but does not exert a significant moderating influence on either profitability or firm size. These outcomes underscore the role of external investors in fostering financial discipline and shaping dividend decisions in emerging market contexts. The study extends the dividend policy literature by offering empirical insights from South Africa and provides actionable guidance for

Citation (APA): Aliamutu, K., Gurr, K. L. (2025). External Investment and Its Influence on Dividend Distribution Policies in South Africa Firms. *International Journal of Economics and Finance Studies*, 17(03), 185-202. doi: 10.34109/ijefs.202517310

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

policymakers, investors, and corporate managers striving to reconcile organisational growth with shareholder returns.

Keywords: Dividend Policy; External Investment; Foreign Ownership; South Africa; Corporate Governance; Profitability; Leverage; Liquidity.

INTRODUCTION

Dividend policy continues to be a central topic of debate in corporate finance due to its direct implications for both firm valuation and shareholder wealth. Traditional frameworks, such as the dividend irrelevance proposition by (Miller & Modigliani, 1961), argue that under ideal market conditions, dividend decisions do not influence firm value. In reality, however, factors such as information asymmetries, agency conflicts, taxation, and ownership structures render dividend choices highly consequential (Peerbhai et al., 2021; Tembo & Chipeta, 2024). In the context of emerging markets like South Africa, the significance of dividend policy is further amplified by distinctive institutional, regulatory, and governance environments in which firms operate (Munzhelele et al., 2022; Viviers et al., 2023).

Within South Africa, corporate dividend behaviour is largely shaped by financial performance indicators, including liquidity, leverage, profitability, and firm size. Liquidity, typically assessed via the current ratio, indicates a firm's capacity to meet short-term obligations while maintaining dividend payments (Munzhelele & Obadire, 2023). The capital structure, measured through the debt-to-equity ratio, reflects solvency and debt service priorities, which may constrain the distribution of dividends (Moloi et al., 2021). Profitability, frequently captured by return on assets (ROA), is a critical determinant of a firm's ability to deliver shareholder returns (Viviers et al., 2023). Additionally, firm size influences dividend policy, as larger organisations generally possess more stable cash flows and superior access to external capital, thereby enhancing their capacity to issue dividends (Oliveira et al., 2025).

Recent research has increasingly focused on the moderating influence of external investment, particularly foreign ownership, on dividend policies in emerging economies. Such investors may enforce more stringent governance practices, strengthen oversight of managerial actions, and heighten expectations for shareholder returns (Nel et al., 2021; Steenkamp & Wesson, 2023). Nevertheless, the extent to which external investment modifies the relationships between financial performance indicators and dividend policies in South Africa remains insufficiently explored. This study seeks to fill this gap by investigating how external investment moderates the effects of liquidity, leverage, profitability, and firm size on dividend distribution decisions among South African firms.

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

LITERATURE REVIEW

Dividend Policy in Emerging Markets

Dividend distribution practices in emerging economies frequently differ from those observed in developed markets, largely due to institutional fragilities, concentrated ownership patterns, and more pronounced financial constraints (Tembo & Chipeta, 2024). In the South African context, firms' dividend decisions are shaped not only by profitability but also by governance mechanisms and the degree of ownership concentration (Nel et al., 2021). Research indicates that companies with widely dispersed ownership tend to offer higher dividend pay-outs as a mechanism to mitigate agency conflicts, whereas firms with concentrated ownership often retain earnings to finance future expansion (Viviers et al., 2023).

Evidence from other emerging markets provides valuable perspectives on how institutional and ownership structures affect dividend behaviour. Hasan et al. (2022), for example, examined firms within BRICS nations and found that country-specific governance systems and the maturity of capital markets play a decisive role in shaping dividend patterns. Similarly, de Souza Junior et al. (2025) and Fayyaz et al. (2023) highlighted that external ownership and levels of financial transparency are critical determinants of dividend policies among G20 emerging economies. In Morocco, Louziri and Oubal (2025) demonstrated that corporate governance practices and board composition substantially affect dividend distribution behaviour. Collectively, these findings suggest that while South Africa shares common traits with other emerging markets—such as ownership concentration and capital market limitations—it also possesses distinct regulatory and governance features that necessitate focused empirical investigation.

Financial Determinants of Dividend Pay-Outs

Liquidity, commonly assessed through the current ratio, indicates a firm's capacity to meet short-term obligations and directly affects its ability to declare dividends without compromising operational continuity (Munzhelele et al., 2022). Leverage, typically measured by the debt-to-equity ratio, frequently exerts a negative impact on dividend decisions, as firms with elevated debt levels tend to prioritise debt servicing over shareholder distributions (Moloi et al., 2021; Peerbhai et al., 2021). Profitability continues to be the most reliable determinant of dividend policy, with companies exhibiting higher return on assets generally providing larger dividend pay-outs (Viviers et al., 2023). Additionally, firm size is associated with dividend consistency, as larger organisations, benefiting from stable cash flows and better access to external financing, are more capable of sustaining regular dividend distributions (Ajao & Robinson, 2022; Oliveira et al., 2025).

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

The Role of External Investment

External, particularly foreign, investment serves as a moderating factor in shaping dividend policies by affecting managerial conduct and governance practices. International investors often demand greater accountability, placing pressure on managers to implement policies that enhance both firm value and shareholder returns (Nel et al., 2021). Existing studies suggest that external investment can reinforce the link between financial performance indicators and dividend pay-outs by promoting financial discipline and mitigating agency costs (Diab et al., 2024; Munzhelele & Obadire, 2023). Conversely, other research highlights that foreign investors may favour the retention and reinvestment of earnings rather than immediate dividend distribution, especially when considerations such as taxation or long-term growth strategies are predominant (Boshnak, 2023).

Research Gap

Although numerous studies have explored the factors influencing dividend policy in South Africa, there remains a paucity of research examining the moderating role of external investment. The existing literature presents mixed findings regarding the impact of foreign ownership, with some studies emphasising its capacity to enhance managerial oversight (Steenkamp & Wesson, 2023), while others suggest that it often favours the reinvestment of earnings over dividend distribution (Nharo, 2021; YAKUBU et al., 2022). This study addresses this gap by empirically investigating how external investment moderates the relationships between liquidity, leverage, profitability, firm size, and dividend pay-out ratios among South African firms.

Development of the Hypothesis

The Influence of the Current Ratio on the Dividend Pay-Out Ratio

The current ratio evaluates a firm's ability to meet its short-term obligations as they become due and constitutes a fundamental component of the firm's liquidity profile (Tembo & Chipeta, 2024). This measure is particularly relevant when considering dividend distributions, as such payments reduce available cash and may affect the firm's capacity to honour its immediate liabilities. Therefore, the decision to distribute dividends is closely linked to the firm's effectiveness in managing and settling its current obligations (Munzhelele & Obadire, 2023). Both high and low levels of the current ratio have been shown to have a strong association with dividend pay-outs, highlighting its significant role in determining dividend payment ratios.

H1: *The current ratio is considered advantageous to the dividend pay-out ratio.*

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

The Influence of the Debt-to-Equity Ratio on the Dividend Payment Ratio

The debt-to-equity ratio is an accounting metric that indicates the relative proportion of debt and equity employed to finance a firm's assets, often referred to as leverage, gearing, or financial risk. This ratio serves as a key indicator of an organisation's solvency and its capacity to meet obligations using shareholders' equity (Moloi et al., 2021). As debt repayments reduce the profits available to the firm, they directly influence the determination of dividend pay-out ratios, since the firm prioritises meeting debt obligations over distributing dividends (Peerbhai et al., 2021). Therefore, the debt-to-equity ratio is closely linked to dividend decisions and is significantly correlated with the dividend pay-out ratio.

H2: *The debt-to-equity ratio is believed to negatively influence the ratio of dividend payment.*

Return on Assets as well as the Ratio of Dividend Distribution

ROA is a financial metric that evaluates a firm's overall performance by dividing net profit by total assets, thereby measuring how effectively a company utilises its assets to generate earnings (Viviers et al., 2023). The firm's ability to produce profits is a crucial factor in determining its capacity to pay dividends, making dividend distributions closely dependent on organisational performance. Firms exhibiting higher ROA are generally able to provide greater dividend pay-outs, reflecting a positive relationship between profitability and dividends. Thus, ROA exerts a significant and positive influence on dividend distributions.

H3: *The return on assets has affected the dividend pay-out ratio.*

The Influence of Corporate Size on the Dividend Distribution Ratio

A commonly used measure of a firm's size is its total asset value, which serves as an effective indicator of corporate scale. The size of a company influences the stability and predictability of its cash flows. Larger firms generally benefit from more reliable cash flows, easier access to capital, and stronger connections to financial markets. Shareholders often consider firm size when evaluating their confidence in investing, as it reflects the company's capacity to meet financial commitments (Oliveira et al., 2025). The scale of an organisation is therefore closely associated with its ability to distribute dividends at a consistent and potentially higher rate. Overall, the evidence suggests that corporate scale significantly impacts dividend policy.

H4: *The dividend pay-out ratio is purportedly affected by the size of the corporation.*

External Investment Influences the Relationship Between the Current Ratio and the Dividend Payment Ratio

The current ratio represents a critical measure of a firm's liquidity, essential for maintaining the smooth operation of its activities. Insufficient liquidity may result from lower profitability, often linked to limited shareholder oversight of management. External investment is expected to strengthen a firm's liquidity position (Munzhelele & Obadire, 2023). This effect arises because external investors typically impose stricter oversight on business operations, compelling managers to improve efficiency and generate higher liquidity, which can translate into increased profits available for distribution as dividends (Nel et al., 2021). Consequently, external investment is likely to enhance the relationship between the current ratio and dividend pay-out ratios. In other words, the presence of external investors is expected to positively moderate the link between a firm's liquidity and its dividend distributions.

H5: *External investment influences the relationship between the debt-to-equity ratio and the dividend payment ratio.*

The Debt-to-Liability Ratio is the Proportion of the Debt of an Organisation Relative to Its Total Liabilities

Higher levels of debt increase a firm's financial risk, potentially compromising its overall financial stability. The participation of external investors is intended to enhance the firm's position by introducing greater oversight and compelling management to exercise more prudent decision-making in areas affecting the company's future financial health (Jalal et al., 2022; Munzhelele et al., 2022). Accordingly, it is anticipated that external investment may strengthen the association between the debt-to-equity ratio and dividend pay-out ratios.

H6: *The correlation between the debt-to-equity ratio and the dividend payment ratio is presumed to be influenced by external investment.*

External Investment Influences the Link Between Return on Assets and the Dividend Payment Ratio

A firm's profitability is reflected by its return on assets, which indicates the effectiveness of asset utilisation in generating earnings. Firms exhibiting low profitability may undermine shareholder wealth, often resulting from suboptimal managerial performance due to limited shareholder oversight (Akpadaka, 2024; Khan, 2022). Consequently, it is expected that external investment can strengthen the governance framework of profit-oriented firms, thereby enhancing the relationship between return on assets and dividend pay-out ratios.

H7: *It is posited that external investment may influence the link between return on*

assets and dividend pay-out ratio.

External Investment Influences the Relationship Between Business Size and the Dividend Payment Ratio

A firm's total assets reflect its overall scale, with larger companies generally having greater opportunities to obtain financing and meet investor expectations (Ajao & Robinson, 2022). Firms with a higher proportion of external investment experience increased oversight, which enhances the effectiveness and efficiency of managerial decision-making. This arises from the rigorous monitoring imposed by external investors. Such oversight can also influence the level of profits generated and, consequently, increase the dividend pay-out ratio (Pieloch-Babiarz, 2019; Steenkamp & Wesson, 2023). Therefore, organisations with substantial external investment are likely to have a more pronounced effect on dividend distributions, suggesting that external investment strengthens the relationship between firm size and dividend pay-out ratios.

H8: *It is posited that external investment may facilitate the regulation of the relationship between business size and dividend payment ratio.*

RESEARCH METHODS

This study employs an explanatory research design to examine the effects of independent variables on the dependent variable under investigation. Consistent with methodologies applied in previous studies, a quantitative research approach has been adopted (Hasan et al., 2022). The primary aim of the research is to assess how external investment influences the relationships between the current ratio, debt-to-equity ratio, return on assets, firm size, and dividend distribution policy. To facilitate the organisation and collection of data, secondary sources were utilised through a documentation-based approach (Louziri & Oubal, 2025; Mustafa et al., 2023). The focus of the study was on non-financial companies listed on the Johannesburg Stock Exchange over the period from 2021 to 2024. The study utilised data based on the following criteria:

1. Non-financial companies listed on the Johannesburg Stock Exchange between 2021 and 2024.
2. Companies that, as of 31 December, had submitted audited financial statements within the prescribed deadlines.
3. Firms that consistently distributed dividends over a consecutive five-year period, spanning 2021 to 2024.

A total of 75 firms met these inclusion criteria for non-financial companies listed on the JSE during 2021–2024, selected using a purposive systematic sampling technique.

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

In this study, the dividend pay-out ratio (DPR) serves as the dependent variable, while the current ratio, debt-to-equity ratio, return on assets, and firm size operate as independent variables, with external investment acting as a moderating factor (Andreoni et al., 2023). External investment (EIN) refers to the proportion of company shares held by foreign investors. The current ratio (CR) reflects a firm's capacity to meet short-term obligations as they become due. The debt-to-equity ratio (DER) quantifies the firm's ability to cover its obligations relative to its equity (de Souza Junior et al., 2025). Return on assets (ROA) measures the efficiency with which a company generates net income from its assets. Firm size (SIZE) indicates the scale of the organisation, typically measured using total or owned assets. The corresponding values of these variables were calculated using formulae (1) to (6).

$$\text{DPR} = \frac{\text{Dividen per share}}{\text{Earning per share}} \quad (1)$$

$$EIN = \frac{\text{External shares}}{\text{Shares outstanding}} \quad (2)$$

$$CR = \frac{\text{Current asserts}}{\text{Current liabilities}} \quad (3)$$

$$DER = \frac{\text{Total liability}}{\text{Total Equity}} \quad (4)$$

$$ROA = \frac{\text{Net income after tax}}{Total\ asset} \quad (5)$$

$$SIZE = \text{Ln (Total Asset)} \quad (6)$$

Formulas (7) and (8) represent the analytical models employed in this study.

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e \quad (7)$$

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5Z + \beta 6X1Z + \beta 7X2Z + \beta 8X3Z + \beta 9X4Z + e \quad (8)$$

Where:

Y represents the Dividend Pay-out Ratio,
α represents the Constanta,
X_1 represents the Current Ratio,
X_2 represents the Debt to Equity Ratio,
X_3 represents the Return on Asset,
X_4 represents the size of the firm,
Z represents the external investment of the company,
X_1Z represents the association involving the current ratio as well as external investment,
X_2Z represents a relationship involving the debt-to-equity ratio and external investment,
X_3Z represents the interaction involving asset returns and external investment,
X_4Z represents the interaction involving the size of the firm and external investment,

and
e represents the error. The regression coefficient ranges from β_1 - β_9.

RESULTS AND DISCUSSION

In conducting multiple linear regression analysis and examining moderating variables, it is essential to perform classical assumption tests, including assessments of normality, multicollinearity, heteroscedasticity, and autocorrelation. The outcomes of these standard assumption tests are summarised in Table I. To assess normality, the Kolmogorov-Smirnov test was applied, yielding a significance value of 0.087, which exceeds the 0.05 threshold. The findings show that the data meet normality standards, and all VIF values are below 10, confirming that the model has no multicollinearity issues. Heteroscedasticity was tested using the Spearman rank correlation, with significance values assessed for each variable. Values greater than 0.05 indicate the absence of heteroscedasticity, confirming that the model meets the homoscedasticity requirement. Autocorrelation was examined using the Durbin-Watson (DW) test, which yielded a score of 1.102. According to Andreoni et al. (2021), a DW value within the range of -2 to +2 satisfies the non-autocorrelation assumption (-2 < 1.102 < +2). Therefore, the regression model shows no evidence of autocorrelation, fulfilling the criteria for non-autocorrelation.

Table 1: Results of Classical Assumption Test Results

Classical Assumption	Test	Description Value	Criteria	Result
Normality	Kolmogorov-Smirnov	Sig.=0.087	Sig.>0.05	Approved
Non-Multicollinearity	Variance Inflation Factor	VIF X_1=1.261 VIF X_2=1.211 VIF X_3=1.048 VIF X_4=1.076	VIF<9	Approved
Non-Heteroscedasticity	Rank Spearman	Sig. X1=0.121 Sig. X2=0.737 Sig. X3=0.516 Sig. X4=0.304	Sig.>0.05	Approved
Non-Autocorrelation	Durbin-Watson	DW= 1.102	-2 to +2	Approved

Source: Self-Generated

The study data were analysed using the statistical software SPSS, applying multiple linear regression alongside regression analysis to examine moderating effects. The results of the regression analyses for all variables—including Current Ratio, Debt-to-Equity Ratio, Return on Assets, and Firm Size—under the influence of external investment are presented in Table 2.

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 185-202) **Doi:** 10.34109/ijefs.202517310

Table 2: Hasil Analysis of Multiple Linear Regressions

		Coefficients	Std. Error	T	Sig.
A	(Constant)	32.132	1.231	21.161	0.000
β_1	Current Ratio	-1.531	1.460	-1.571	0.083
β_2	Debt Equity Ratio	-2.750	1.421	-1.412	0.023
β_3	Return on Asset	11.150	1.320	7.316	0.000
β_4	Firm Size	-1.205	1.338	-0.817	0.254

Notes: R2= 0.165; Adj.R2=0.132, T tabe1 =1.857; Significance Level is 5%.
Source: Self-Generated

Dependent Variable: Dividend Pay-Out Ration

The regression equation (9) was employed in the model to conduct the multiple regression analysis.

$$Y=32.132-1.531X1-2.750X2+11.150X3-1.205X4 +e \quad (9)$$

From the constant value of 32.132, it can be inferred that the dividend pay-out ratio would equal 32.132 when the current ratio (X1), debt-to-equity ratio (X2), return on assets (X3), and firm size (X4) are all held constant. This interpretation is derived from equation (9), which specifies the constant value of 32.132. The regression coefficient for the current ratio (X1) is -1.531, assuming all other variables remain unchanged. This indicates that for every one-unit increase in the current ratio, the dividend pay-out ratio decreases by 1.531 units. Similarly, the debt-to-equity ratio (X2) has a regression coefficient of -2.750, suggesting that a one-unit increase in this ratio leads to a reduction of 2.750 units in the dividend pay-out ratio, assuming other variables are held constant. For return on assets (X3), the regression coefficient is 11.150 under the assumption that all other variables remain constant. This signifies that a one-unit increase in ROA corresponds to an 11.150-unit increase in the dividend pay-out ratio. In the case of firm size (X4), the regression coefficient of -1.205 implies that each one-unit increase in size is associated with a 1.205-unit decrease in the dividend pay-out ratio, assuming the other variables do not change.

The following results are obtained from the moderating variable regression model based on equation (10), as presented in Table 3.

$$Y= 22.031 - 4.812X1 - 6.257X2 + 9.566X3 - 1.033X4Z + 0.785Z+3.012X1Z+4.032X2Z+0.276X3Z+0.100X4Z + e \quad (10)$$

Equation (10) shows that the regression coefficient SNM_X1Z is 3.012, indicating that the dividend pay-out ratio increases by 3.012 units for each one-unit increase in the interaction between the current ratio and external investment, assuming all other variables remain constant.

The regression coefficient SNM_X2Z is 4.032, suggesting that a one-unit increase in the interaction between the debt-to-equity ratio and external investment results in a 4.032-unit increase in the dividend pay-out ratio, with all other factors held constant. For SNM_X3Z, the regression coefficient is 0.276, implying that a one-unit increase in the interaction between return on assets and external investment corresponds to a 0.276-unit rise in the dividend pay-out ratio, assuming all other variables remain unchanged. Similarly, the regression coefficient SNM_X4Z is 0.100, indicating that a one-unit increase in the interaction between firm size and external investment leads to a 0.100-unit increase in the dividend pay-out ratio, holding other variables constant.

Table 3: Results of Moderation Variable Regression Analysis

		Coefficients	Std. Error	T	Sig.
A	(Constant)	22.031	2.724	7.554	0.000
β_1	Current Ratio	-4.812	1.151	-1.755	0.012
β_2	Debt-Equity Ratio	-6.257	1.778	-2.811	0.000
β_3	Return on Asset	9.566	1.423	6.023	0.000
β_4	Firm Size	-1.033	1.656	-1.241	0.164
β_5	External Investment	.785	1.987	0.416	0.521
β_6	SNM-X_1Z	3.012	1.756	1.887	0.038
β_7	SNM-X_2Z	4.032	1.954	1.754	0.007
β_8	SNM-X_3Z	.276	1.938	0.156	0.751
β_9	SNM-X_4Z	.100	1.851	0.043	0.848

Notes: R2= 299; Adj.R2=0.164, T tabe1 =1.857; Significance Level is 5%.

The Effect of Current Ratio on Dividend Pay-Out Ratio

Based on the test results presented in Table 2, the current ratio yielded a t-value of -1.412, compared to a critical t-value of 1.857, indicating that the calculated t is less than the critical value. Additionally, the significance level was 0.083, which exceeds the 0.05 threshold. Consequently, the first hypothesis (H1) is rejected. This indicates that variations in the firm's current ratio do not have a measurable impact on the dividend pay-out ratio.

The Impact of the Debt-to-Equity Ratio on the Dividend Pay-Out Ratio

The test results presented in Table 2 indicate that the debt-to-equity ratio produced a t-value of -1.412, compared with a critical t-value of 1.857 (t-calculated < t-critical). The associated significance level was 0.023, which is below the 0.05 threshold. These findings suggest a significant negative relationship between the debt-to-equity ratio and the dividend pay-out ratio. Consequently, the second hypothesis (H2) is supported. This implies that the level of debt relative to equity affects a firm's ability to determine the number of dividends to be distributed. Firms with higher debt obligations prioritise debt repayment over dividend payments, meaning that as financial liabilities increase, the firm's capacity to distribute profits to shareholders correspondingly decreases.

The Impact of Asset Returns on the Dividend Pay-Out Factor

According to the results reported in Table 2, the return on assets generated a t-value of 7.316, exceeding the critical value of 1.857 (t-count > t-table). The associated significance level was 0.000, which is below the 0.05 criterion, indicating that the coefficient is statistically significant and positive. Consequently, the third hypothesis (H3) is accepted. This finding suggests that the extent to which a firm can generate earnings from its asset base plays a decisive role in shaping its dividend distribution policy. Since dividends are funded from generated profits, return on assets functions as an indicator of enhanced financial performance. The firm's profitability efficiency directly influences its dividend decisions. As a firm becomes more effective in producing income through the utilisation of its assets, its profit levels rise, which subsequently enables the distribution of higher dividends.

The Connection Between the Dividend Pay-Out Ratio and Employee Size of the Company

As reported in Table 2, the analysis shows that firm size produced a t-value of -0.817, which is lower than the critical value of 1.857 (t-count < t-table). In addition, the significance level was recorded at 0.254, which exceeds the 0.05 threshold. These outcomes indicate that there is no statistical association between firm size and the dividend pay-out ratio. Consequently, the fourth hypothesis (H4) is rejected. This finding suggests that the scale of a firm, whether large or relatively small, does not influence its decision to distribute dividends. Dividend policies are not determined by the magnitude of the organisation, and substantial firms are not automatically positioned to provide consistent dividend payments. The evidence implies that companies may prefer to retain earnings in order to support future expansion or investment initiatives rather than allocate them to shareholders.

In Terms of the Dividend Pay-Out Ratio, the Impact of External Investment on the Moderation of the Current Ratio Is One of the Factors to Consider

The test results presented in Table 3 indicate that the interaction between the current ratio and external investment (SNM_X1Z) generated a t-value of 1.887, which exceeds the critical t-table value of 1.857 (t-count > t-table). The associated significance level of 0.038 is below the 0.05 threshold, confirming a statistically positive effect. These findings show that external investment substantially amplifies the relationship between the current ratio and the dividend pay-out ratio. Consequently, the fifth hypothesis (H5) is supported. This outcome implies that external investment enhances the influence of a firm's liquidity position on its dividend decisions. Firms with greater external ownership typically operate under tighter monitoring, since international shareholders expect improved returns on their capital. Heightened oversight from external investors contributes to improved managerial discipline and operational performance,

strengthening profitability levels. Increased profitability subsequently facilitates the fulfilment of short-term obligations and supports higher dividend distributions.

The Effect That External Investment Has on the Dividend Pay-Out Ratio in Relation to the Debt-to-Equity Ratio

The results summarised in Table 3 show that the interaction term between the debt-to-equity ratio and external investment (SNM_X2Z) produced a t-count of 1.754, compared with a t-table value of 1.857. Although the t-count is slightly below the critical threshold, the significance level of 0.007 is well below 0.05, indicating a statistically meaningful and positive effect. These outcomes confirm that external investment influences the association between the debt-to-equity ratio and the dividend pay-out ratio. Accordingly, the sixth hypothesis (H6) is accepted. These findings illustrate that external investment enhances the extent to which a firm's leverage position influences its dividend decisions. When external investors acquire ownership stakes, they frequently introduce more advanced governance practices and heightened monitoring of managerial actions. Firms with substantial debt often face elevated financial strain, which can threaten their stability. Under such conditions, the involvement of external shareholders tends to reinforce managerial discipline, encouraging a stronger focus on sustaining profitable outcomes. This improved oversight contributes to more prudent financial management, which in turn informs dividend-related decisions. The results of this study are consistent with the conclusions reached by (Diab et al., 2024), Tawfik et al. (2025) and Amedi and Mustafa (2021), who report a strong positive association between external investment and dividend distribution behaviour.

The Impact That External Investment Has on the Relationship Between Return on Assets and Dividend Pay-Out Ratio

According to the results presented in Table 3, the interaction term between return on assets and external investment (SNM X3Z) yields a t-count of 0.156, which is lower than the t-table value of 1.857. The associated significance value is 0.751, which exceeds the 0.05 threshold. These findings indicate that external investment does not moderate the association between return on assets and the dividend pay-out ratio, therefore the seventh hypothesis (H7) is not supported. This outcome suggests that the capacity of an organisation to generate profit from its assets does not vary in its influence on dividend distribution when external investment is taken into account. External investors typically adopt long-term investment perspectives, as highlighted by Dissanayake and Dissabandara (2021) and Fernando et al. (2021). Based on such investment horizons, external investors tend to favour the reinvestment of company earnings to promote continued growth rather than prioritising dividend distribution. Consequently, the proportion of external investment does not exert a moderating effect

on return on assets, nor does it play a meaningful role in shaping the company's dividend policy.

The External Investment Influences the Relationship Between the Size of a Company and Its Dividend Pay-Out Ratio

The statistical examination of the interaction between company size and external investment, represented by SNM X4Z, produces a t-count of 0.043, which is lower than the t-table value of 1.857. The significance level, recorded at 0.848, is greater than the 0.05 threshold, as indicated in table 3. These results show that external investment does not moderate the relationship between company size and the dividend pay-out ratio, which leads to the rejection of the eighth hypothesis (H8). This implies that the presence of external investment entities does not alter the influence of firm size on dividend policy. The tax preference hypothesis proposes that investors are inclined towards capital gains rather than dividend income, given the comparatively higher tax burden associated with dividend payments. Consequently, external investors may prefer to retain earnings to minimise taxation rather than receive dividends, as noted by Juhmani (2020). Therefore, the proportion of external investment does not display a meaningful connection with firm size, and it remains difficult to predict whether companies with substantial external investment will distribute dividends, or vice versa. External investment does not exert a moderating effect on the relationship between firm size and dividend decisions.

The extent of the independent variables' explanatory power on the dependent variable can be assessed through the coefficient of determination, or adjusted R2. This metric reflects the degree to which the independent variables account for variations in the dependent variable, increasing in value when the model demonstrates stronger explanatory capability. Table 2 reports an adjusted R2 value of 0.132, equivalent to 13.20 per cent. This indicates that the variables included in the regression model, namely the current ratio, debt-to-equity ratio, return on assets, and firm size, collectively explain only 13.20 per cent of the variation in the dividend pay-out ratio. The remaining 86.80 per cent is attributed to determinants outside the model. After incorporating the moderating variable, the coefficient of determination increases to 0.164, or 16.40 per cent.

CONCLUSION AND RECOMMENDATIONS

This study aimed to investigate how external investment influences the dividend distribution policies of South African firms. Drawing on data from 75 non-financial companies listed on the JSE between 2021 and 2024, the analysis evaluated the connections between liquidity, leverage, profitability, firm size, and dividend pay-out ratios, with external investment introduced as a moderating variable. The findings reveal several important patterns. Profitability, measured through return on assets,

emerged as the most influential determinant of dividend pay-outs, indicating that firms with stronger earnings capacity are more inclined to distribute dividends to shareholders. Leverage showed a significant negative association with dividend payments, supporting the reasoning that firms burdened with higher debt obligations prioritise meeting these commitments before considering shareholder distributions. Liquidity and firm size did not show statistically significant direct effects on dividend pay-outs, which suggests that, within the South African context, these characteristics are less decisive than profitability and capital structure. The results further demonstrate that external investment moderates the relationships between liquidity and leverage with dividend pay-out ratios. Firms with higher external ownership levels appear to exhibit enhanced financial discipline and a tendency to align pay-out decisions more closely with shareholder expectations. However, external investment did not moderate the effects of profitability or firm size, indicating that external investors may accept the reinvestment of profits to sustain long-term growth and do not view firm size as a determining factor in dividend policy. Overall, the study adds to the dividend policy literature by clarifying how external investors shape pay-out decisions in an emerging market environment. The findings illustrate the varied ways in which external ownership interacts with firm-specific financial characteristics to influence managerial decision-making related to dividend distributions.

RECOMMENDATIONS

Firms should recognise that profitability remains the principal determinant of dividend policy. Enhancing operational efficiency and improving returns on assets will enable firms to sustain dividend distributions more reliably. Moreover, firms with substantial leverage should manage their debt positions cautiously, since high gearing can diminish shareholder value and restrict the ability to maintain stable pay-outs. Shareholders, including institutional and external investors, are advised to observe firms' financial structures with particular care. Companies that demonstrate strong profitability but carry significant debt levels may present challenges to the consistency of dividend payments. Long-term investors may also need to consider the balance between immediate pay-outs and the reinvestment of earnings, especially for firms pursuing growth strategies. Policymakers should recognise the contribution of external investment to improved corporate governance and financial discipline. Initiatives that promote transparency, safeguard the rights of minority shareholders, and encourage responsible external investment have the potential to support more consistent dividend practices within South Africa. Future research could investigate differences in dividend behaviour across sectors and examine how various types of external investors, such as institutional, individual, domestic, and international investors, influence pay-out decisions. Extending the analysis beyond the 2021–2024 period through longitudinal designs may also generate more comprehensive evidence regarding how external investment interacts with firm performance across diverse economic environments. In summary, dividend policies in South African firms are primarily driven by profitability

and leverage, while external investment serves an important moderating function by reinforcing financial discipline. Strengthening governance mechanisms that attract responsible external investors may contribute to improved firm performance and enhanced long-term shareholder value.

REFERENCES

Ajao, M. G., & Robinson, F. E. (2022). Dividend policy determinants and stock price volatility in selected African stock markets. *International Journal of Finance Research*, *3*(1), 27–48. https://doi.org/10.47747/ijfr.v3i1.659

Akpadaka, O. S. (2024). Moderating Effect Of Profitability On The Relationship Between Capital Structure And Dividend Policy Of Listed Manufacturing Firms In Sub-Saharan Africa.

Amedi, A. M. R., & Mustafa, A. (2021). The Relationship Between Board Characteristics and Corporate Dividend Policy: Evidence From Jordan. *Muhasebe ve Finans İncelemeleri Dergisi*, *4*(1), 1–9. https://doi.org/10.32951/mufider.782388

Andreoni, A., Robb, N., & Van Huellen, S. (2021). Profitability without Investment: How Financialization Undermines Structural Transformation in South Africa. In *Structural Transformation in South Africa: The Challenges of Inclusive Industrial Development in a Middle-Income Country* (pp. 213–236). Oxford University Press.

Andreoni, A., Robb, N., & van Huellen, S. (2023). Financialisation of Non-Financial Corporations in South Africa: An integrated framework to study variations across sectors, value chains and firms.

Boshnak, H. A. (2023). The impact of board composition and ownership structure on dividend payout policy: evidence from Saudi Arabia. *International Journal of Emerging Markets*, *18*(9), 3178–3200. https://doi.org/10.1108/IJOEM-05-2021-0791

de Souza Junior, W. D., Hijazi, M. M., & da Silva, T. P. (2025). Determinants of dividend payout policy: More evidence from emerging markets of G20 Bloc. *International Journal of Finance & Economics*, *30*(4), 4113–4124. https://doi.org/10.1002/ijfe.3111

Diab, A., Abdelazim, S. I., & Aly, S. A. S. (2024). The moderating effect of audit quality and COVID-19 on the dividend payout-firm performance relationship: Egypt evidence. *Cogent Business & Management*, *11*(1), 2297464. https://doi.org/10.1080/23311975.2023.2297464

Dissanayake, K., & Dissabandara, H. (2021). The impact of board of directors' characteristics on dividend policy: Evidence from a developing country. *Corporate Governance and Sustainability Review*. https://doi.org/10.22495/cgsrv5i2p4

Fayyaz, U.-E.-R., Venditti, M., & Jalal, R. N.-U.-D. (2023). Dividend policy under the influence of corporate governance quality: an empirical analysis from Asian

emerging markets. *Global Business and Economics Review*, *28*(1), 22–38. https://doi.org/10.1504/GBER.2023.127551

Fernando, L., Dissanayake, D., & Mendis, M. (2021). The impact of corporate governance on dividend policy: an empirical evidence from listed companies in Sri Lanka. *South Asian Journal of Finance*, *1*(1). https://doi.org/10.4038/sajf.v1i1.26

Hasan, F., Shafique, S., Das, B. C., & Shome, R. (2022). R&D intensity and firms dividend policy: evidence from BRICS countries. *Journal of Applied Accounting Research*, *23*(4), 846–862. https://doi.org/10.1108/JAAR-02-2022-0027

Jalal, G., Alkoni, S., & Nour, A. I. (2022). Impact of board characteristics on the corporate dividends payout: evidence from Palestinian stock market. International conference on business and technology,

Juhmani, O. I. (2020). Corporate boards, ownership structure and dividend payout: Evidence from Bahrain. *Journal of Critical Reviews*, *7*(12), 37–43. https://doi.org/10.31838/jcr.07.12.07

Khan, A. (2022). Ownership structure, board characteristics and dividend policy: evidence from Turkey. *Corporate Governance: The international journal of business in society*, *22*(2), 340–363. https://doi.org/10.1108/CG-04-2021-0129

Louziri, R., & Oubal, K. (2025). Characteristics of the Chairman of the Board of Directors and Their Impact on Dividend Payments in the Moroccan Stock Exchange. *Journal of Risk and Financial Management*, *18*(2), 70. https://doi.org/10.3390/jrfm18020070

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *the Journal of Business*, *34*(4), 411–433.

Moloi, T., Nharo, T., & Hlobo, M. (2021). The relationship between board characteristics and dividend payment policies: The JSE Top 40 listed companies cases. *Journal of Academic Finance*, *12*(1), 30–52.

Munzhelele, F., Wolmarans, H., & Hall, J. (2022). The dividend relevance pay-out model in the context of an emerging economy. *Acta Commercii*, *22*(1), 1–14. https://doi.org/10.4102/ac.v22i1.993

Munzhelele, N. F., & Obadire, A. M. (2023). Determinants of Cash Distribution Options in South African Listed Firms: An Empirical Analysis of Earnings, Company Size, and Economic Value Added. *Risks*, *11*(10), 181. https://doi.org/10.3390/risks11100181

Mustafa, A. A., Yusoff, W. S., & Mustafa, A. S. (2023). The Moderating Role of Wedge-Control Ownership on the Relationship between Board Structure and Dividend Policy. *Journal of Contemporary Issues in Business and Government*, *29*(03). https://doi.org/10.47750/cibg.2023.29.03.006

Nel, R., Wesson, N., & Steenkamp, L.-A. (2021). The association between ownership concentration and payout behaviour: Evidence from South Africa. *Acta Commercii*, *21*(1), 1–10. https://doi.org/10.4102/ac.v21i1.965

Nharo, T. (2021). *The relationship between board characteristics and dividend payment policies in JSE top 40 listed companies*. University of Johannesburg (South Africa).

Oliveira, E. C. d., Jucá, M. N., & Vieito, J. P. T. (2025). The Impact of Corporate Governance on the Dividend Distribution Policy of Multinational and Domestic Enterprises. *BAR-Brazilian Administration Review*, *22*(02), e230105. https://doi.org/10.1590/1807-7692bar2025230105

Peerbhai, F., Gumede, B., Shabangu, N., Gumede, N., Ndhlovu, N., & Hlomela, T. (2021). The Impact of Ownership Structure on Firms' Dividend Policy: Evidence from JSE Listed Firms. *Acta Universitatis Danubius. Œconomica*, *17*(5).

Pieloch-Babiarz, A. (2019). Ownership structure, board characteristics and dividend policy: evidence from the Warsaw Stock Exchange. *Ekonomia i Prawo. Economics and Law*, *18*(3), 317–330.

Steenkamp, G., & Wesson, N. (2023). Do Share Repurchases Crowd Out Internal Investment in South Africa? *International Journal of Financial Studies*, *11*(3), 95. https://doi.org/10.3390/ijfs11030095

Tawfik, O. I., Queiri, A., & Reyad, S. (2025). Dividend payout in GCC: the role of board composition and ownership structure. *Corporate Governance: The international journal of business in society*, *25*(4), 815–842. https://doi.org/10.1108/CG-03-2024-0123

Tembo, M., & Chipeta, C. (2024). Institutional determinants of dividend policy of African listed firms. *Investment Analysts Journal*, *53*(3), 286–303. https://doi.org/10.1080/10293523.2024.2406635

Viviers, S., Mans-Kemp, N., van Vuuren, M. J., & Shiel, T. (2023). Investigating the link between board independence and dividend distributions in South Africa. *South African Journal of Business Management*, *54*(1), 11. https://doi.org/10.4102/sajbm.v54i1.3643

YAKUBU, İ. N., KAPUSUZOĞLU, A., & CEYLAN, N. B. (2022). The Effect of Corporate Governance on Firm Dividend Policy: Evidence from Ghana. *Journal of Accounting & Finance/Muhasebe ve Finansman Dergisi*(94), 223. https://doi.org/10.25095/mufad.1064148