



The Impact of Dividend Policy on Large Private Algerian Firms' Performance

أثر سياسة توزيع الأرباح على أداء الشركات الخاصة الكبرى في الجزائر

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ABSTRACT

This study investigates how dividend policy affects the performance of major private companies in Algeria. The analysis uses panel data covering 61 firms over the period 2019–2023, resulting in a total of 305 firm-year observations. To examine the link between dividend policy and firm performance, a linear regression model for panel data is applied, allowing the combination of cross-sectional and time-series information. Firm performance is assessed using the Return on Assets (ROA), while dividend policy is proxied by the dividend payout ratio (DPR). Several control variables are included to evaluate their effects on performance. The results indicate that dividend policy positively influences firm performance, implying that companies distributing dividends tend to perform better. Furthermore, liquidity and firm size are positively associated with performance, whereas asset tangibility and leverage show a negative relationship.

Key words : Dividend policy, Firm performance, Panel data, Large private Algerian firms.

JEL Classification: G35, L25, C23.

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الملخص

تدرس هذه الدراسة تأثير سياسة توزيع الأرباح على أداء الشركات الخاصة الكبرى في الجزائر. يستخدم التحليل بيانات لوحية تشمل 61 شركة خلال الفترة من 2019 إلى 2023، مما ينتج عنه ما مجموعه 305 ملاحظات سنوية للشركات. لفحص العلاقة بين سياسة توزيع الأرباح وأداء الشركة، تم تطبيق نموذج الانحدار الخطي للبيانات اللوحية، مما يسمح بدمج المعلومات المقطعية والزمنية. يتم تقييم أداء الشركة باستخدام معدل العائد على الأصول (ROA)، بينما تمثل سياسة توزيع الأرباح من خلال نسبة توزيع الأرباح (DPR). كما تم تضمين عدة متغيرات ضابطة لتقييم تأثيرها على الأداء. تشير النتائج إلى أن سياسة توزيع الأرباح تؤثر إيجابياً على أداء الشركة، مما يعني أن الشركات التي توزع أرباحاً تميل إلى تحقيق أداء أفضل. علاوة على ذلك، يرتبط كل من السيولة وحجم الشركة بشكل إيجابي بالأداء، في حين يظهر كل من ملموسية الأصول والرفع المالي علاقة سلبية.

الكلمات المفتاحية: سياسة توزيع الأرباح، أداء الشركات، بيانات بانل، الشركات الخاصة الكبرى في الجزائر.

تصنيفات JEL: C23، L25، G35

1. Introduction

Dividend distribution is recognized as one of the three fundamental decisions in corporate finance, alongside investment and financing choices, due to its direct impact on both shareholder wealth and the firm's financial strategy. Dividend policy refers to the strategic decisions a company makes regarding the allocation of profits between distributed dividends and retained earnings. Dividends, representing a portion of a company's profits returned to shareholders, not only provide a return on investment but also serve as a signaling mechanism because managers often possess more information about the firm's financial condition than shareholders.

Firm performance reflects the overall financial health of a company and indicates how effectively it meets its objectives and satisfies stakeholders' expectations. The relationship between dividend policy and firm performance has been widely debated in both academic research and professional practice, yet no consensus has been reached. Three main theories offer contrasting perspectives: the Bird-in-Hand Theory, which argues that higher dividend payments enhance firm value; the Tax-Effect Hypothesis, suggesting that high dividends may reduce firm value; and the

Modigliani-Miller Hypothesis (1961), which posits that dividend policy is irrelevant in a perfect capital market.

Several empirical studies have explored this relationship in different contexts. For instance, Boubaker (2023) analyzed 83 Tunisian firms from 2010 to 2015; Njoku & Lee (2024) investigated 5478 observations in the Korean market; Nurmadi & Novietta (2022) examined 289 publicly listed Sri Lankan companies from 2017 to 2022; and Khan et al. (2019) studied 40 cement companies in Pakistan. Across these studies, evidence consistently shows that dividend distributions have a notable effect on firm performance.

By focusing on the specific context of the Algerian market, this research adds to the existing literature and offers valuable insights for shareholders seeking to make informed investment decisions. Private firms in Algeria may have greater discretion in dividend allocation compared to public or state-owned entities, allowing their dividend policies to reflect internal financial strategies more than external political pressures.

The primary objective of this study is to analyze the effect of dividend policy on the performance of large private firms in Algeria. To achieve this, a linear regression model for panel data is applied to a sample of 61 firms over the period 2019–2023, resulting in 305 firm-year observations.

The structure of this paper is as follows: it begins with a theoretical and empirical review of the literature on dividend policy and key determinants of firm performance; then, it presents the methodology employed; followed by descriptive statistics; and finally, the estimation results are discussed and interpreted, concluding with a summary of findings.

2. The Impact of Dividend Policy on Firm Performance - Theoretical and Empirical Literature review

Over the past decades, numerous theories of dividend policy have emerged to explain whether investors are sensitive or indifferent to a firm's dividend decisions.

2.1. Dividend Irrelevance Theory

This theory argues that, under a set of idealized market conditions, dividend policy does not affect a firm's value. Modigliani and Miller (1961, cited in Sathvik & Nirmala, 2017) contend that in a perfect capital market—characterized by rational investors and the absence of tax differences between dividends and capital gains—a company's dividend decisions do not influence its share price. Within this framework, dividend policy has no effect on either the firm's stock valuation or its cost of capital, implying that shareholder wealth remains unchanged regardless of how profits are distributed. Instead, investors' wealth depends solely on the firm's investment opportunities and the income they generate, rather than on the form in which that income is paid out.

Empirical evidence supporting the dividend irrelevance hypothesis can be found in the work of Kreidl (2020), who examined trading behavior around ex-dividend dates for German stocks benefiting from tax-exempt dividends. His results indicate that share prices typically decrease on the ex-dividend date by an amount approximately equal to the dividend distributed, suggesting that investors are indifferent between receiving dividends and realizing equivalent capital gains.

2.2. The Bird-in-the-Hand Theory

This theory posits that investors favor the certainty associated with cash dividends over the uncertainty surrounding future capital gains, a notion commonly illustrated by the saying, "a bird in the hand is worth two in the bush." From a financial perspective, this view suggests that investors are more likely to prefer shares that offer immediate dividend payments rather than those that retain earnings in anticipation of future returns (Tharsika & Thaneshan, 2023).

Empirical support for this argument is provided by Nissim and Ziv (2001), who investigated the link between dividend variations and subsequent profitability over a five-year horizon. Their results indicate a positive association between dividend increases and higher earnings in the two years

following the change. In the same vein, Endri and Fathony (2020) found a statistically significant positive relationship between dividend policy and firm value among financial sector firms listed on the stock exchange during the 2013–2017 period.

2.3. The Tax Preference Theory

The tax-effect hypothesis maintains that firm value is maximized when dividend distributions are kept relatively low, based on the premise that dividends are often subject to higher taxation than capital gains. Al-Malkawi et al. (2010, p. 179) argue that investors generally concentrate on after-tax returns, implying that taxation can influence dividend policies. As a result, managers may tailor payout decisions to match investors' tax preferences, thereby enhancing shareholder wealth through greater earnings retention. Empirical evidence supporting this view is provided by Elton and Gruber (1970), who demonstrate that investors in higher tax brackets tend to prefer capital gains to dividend income, while investors facing lower tax rates show a comparatively stronger preference for dividends.

2.4. The Clientele Effect

Studies show that some investors strongly favor cash dividends, while others are comfortable holding stocks of companies that pay no dividends. Given the diversity of investor preferences; over time, investors gravitate toward firms whose dividend policies align with their financial objectives. The phenomenon, where investors seek companies with dividend policies that suit their preferences, is known as "the clientele effect" (Damodaran, 2014, chap. 10, p. 39).

Factors such as investor age and income can influence investors' preferences, with "young accumulators" being more likely to prefer low or no-dividend stocks, while older or retired investors tend to seek high dividends to sustain their purchasing power (Miller & Modigliani, 1961, p. 431, as cited in Du Jardin & Séverin, 2011).

Pettit (1977, as cited in Al-Malkawi et al., 2010) offered empirical support for the existence of a clientele effect by analyzing the portfolio holdings of 914 individual investors. His findings indicated that as investors' age increases,

the dividend yield of their portfolios also rises.

2.5. The Signaling Theory

Empirical evidence suggests that investor attitudes toward dividends vary considerably, with some investors displaying a strong preference for cash dividend payments, while others are willing to invest in firms that do not distribute dividends. Given this heterogeneity in preferences, investors tend over time to allocate their capital to firms whose dividend policies best match their financial goals. This tendency, whereby investors sort themselves into firms with compatible dividend payout policies, is commonly referred to as the clientele effect (Damodaran, 2014, chap. 10, p. 39).

Investor characteristics, such as age and income level, play an important role in shaping these preferences. For example, younger investors focused on wealth accumulation are more likely to favor firms with low or zero dividend payouts, whereas older or retired investors generally prefer higher dividends to support their income and maintain purchasing power (Miller & Modigliani, 1961, p. 431, as cited in Du Jardin & Séverin, 2011).

Empirical support for the clientele effect is provided by Pettit (1977, cited in Al-Malkawi et al., 2010), who examined the portfolio compositions of 914 individual investors. His analysis revealed that dividend yields within investor portfolios tend to increase with investor age, reinforcing the notion that dividend preferences evolve over the life cycle.

2.6. Agency Costs and Free Cash Flow Hypothesis

Jensen and Meckling (2019, p. 308) argue that "if both parties (agent and principal) to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal." The separation of ownership and control in firms thus creates a potential conflict of interest between managers and shareholders.

Managers, acting as imperfect agents, may pursue objectives that do not fully align with shareholder interests. This misalignment can result in managerial decisions that prioritize personal benefits over firm value, such as investing in projects that serve managerial goals rather than maximizing shareholder wealth (Al-Malkawi et al., 2010).

Easterbrook (1984, cited in Al-Malkawi et al., 2010) suggested that dividend distributions can function as a tool to limit the free cash flow accessible to managers, thereby reducing opportunities for self-serving behavior and encouraging more efficient use of corporate resources. Supporting this view, Bøhren et al. (2012) provide robust empirical evidence showing that dividend payments can mitigate agency conflicts between managers and stakeholders.

2.7.The Residual Theory

According to the residual dividend theory, dividend payments are treated as a residual decision, made only after all profitable investment opportunities have been financed. Consequently, the dividend payout ratio can range from 0% to 100%, depending on the availability of investment projects.

Miller and Modigliani (1961, cited in Smith, 2009) argue that firms should distribute dividends only from the cash flow remaining after funding all projects that create value, that is, projects with positive net present values (NPVs).

Empirical findings on this theory have been mixed. For example, Ahmed and Javid (2008), analyzing 320 non-financial firms listed on the Karachi Stock Exchange between 2001 and 2006, found that dividend payouts are influenced by the firm's investment opportunities, providing partial support for the residual dividend hypothesis.

H₁: Dividend policy has a positive impact on firm performance.

3. The Impact of Other Factors on Firm Performance

Beyond dividend policy, a variety of other factors can have a substantial impact on a firm's performance. Analyzing these determinants is crucial for obtaining a more complete understanding of the elements that drive profitability and sustainable long-term success.

3.1. Liquidity

Liquidity represents a firm's ability to quickly convert its assets into cash without significant loss of value. Essentially, it reflects the company's capacity to manage its current assets and liabilities to ensure sufficient cash flow for meeting short-term obligations (Hongli et al., 2019).

Theoretical and empirical research generally indicates that higher liquidity can enhance firm profitability. For instance, Lyroudi and Lazaridis (2000) investigated the relationship between liquidity, measured by the cash conversion cycle (CCC), and the profitability of firms in the Greek food industry, using return on equity and net profit margin as performance indicators. Their findings reveal a positive correlation between the length of the cash conversion cycle and the profitability measures.

H_{2a}: Liquidity has a positive influence on firm performance.

3.2. Leverage

To raise the necessary capital, firms generally rely on two primary sources: internal financing, generated from within the company, and external financing, obtained from outside sources either through borrowing or by attracting new investors (Chechet & Olayiwola, 2014).

Numerous studies have explored the effect of leverage on firm performance in developing markets. For example, Majumdar and Chhibber (1999) reported a negative relationship between leverage and profitability in India. In contrast, Abor (2005) found that short-term debt relative to total assets was positively associated with return on equity (ROE), whereas long-term debt showed a negative relationship with ROE among Ghanaian firms during the 1998–2002 period.

H_{2b}: Leverage has a negative impact on firm performance.

3.3. Asset Tangibility

Asset tangibility refers to the extent to which a company's assets are physical and measurable.

A substantial body of empirical research has explored the relationship between tangible assets and firm financial performance. For instance, İltaş and Demirgüneş (2020) examined the effect of asset tangibility on the

financial performance of firms in the Turkish manufacturing sector, covering 18 main sectors and 30 sub-sectors. Their results indicate that asset tangibility had a positive impact on financial performance up to a certain threshold (2002), after which the effect became negative.

H_{2c}: Asset tangibility has a positive impact on firm performance.

3.4. Firm Size

Firm size is widely regarded as an important determinant of corporate performance, primarily due to the advantages associated with economies of scale.

Empirical research generally indicates a positive relationship between firm size and profitability. For example, Opeyemi (2019) examined the impact of firm size on performance among selected companies in Nigeria's construction sector, using data from 2004 to 2017. The study found that total sales served as a significant predictor of return on assets (ROA), demonstrating a positive effect on firm performance.

H₃: Firm size has a positive effect on firm performance.

4. Research methodology

4.1. Simple Presentation and Data Collection

For this study, we use a sample of panel data comprising 61 large private Algerian firms, tracked over a five-year period from 2019 to 2023.

Data were collected via the Sidjilcom platform, an official online service operated by the National Center of the Commercial Register (CNRC). This platform provided access to relevant corporate and financial information, with the fiscal balance sheets and income statements serving as the main sources for the analysis.

4.2. Presentation of Variables

Prior to introducing our model, we first describe the dependent variable and the selected independent variables, while also reviewing previous studies that have employed these same measures.

4.2.1. The Dependent Variable

Firm performance serves as the dependent variable in this study and is

measured using Return on Assets (ROA), which reflects how efficiently a firm utilizes its assets to generate net income. ROA is calculated using the following formula:

$$ROA = \frac{\text{Net income}}{\text{Total assets}}$$

This ratio has been widely employed in empirical research, including studies by Opeyemi (2019), Yameen et al. (2019), Boubaker (2023), Njoku and Lee (2024), and Tharsika and Thaneshan (2023).

4.2.2. The independent variables

This ratio has been widely employed in empirical research, including studies by Opeyemi (2019), Yameen et al. (2019), Boubaker (2023), Njoku and Lee (2024), and Tharsika and Thaneshan (2023).

Table 1: List of explanatory variables

Variables	Abbreviations	Measurement	Expected Sign	Source
Dividends	DIV	$\frac{\text{Dividend}_t}{\text{Net Income}_{t-1} + \text{Retained Earnings}_{t-1}}$	$H_1: +$	Allal & Benilles, (2020)
Liquidity	LIQ	$\frac{\text{Cash and Cash Equivalents}}{\text{Total Assets}}$	$H_{2a}: +$	Lartey et al., (2013), Belkacemi, (2019)
Financial Leverage	FL	$\frac{\text{Total Debt}}{\text{Total Assets}}$	$H_{2b}: -$	Bousbaa, (2021), Saleem & Alifiah, (2017)
Asset Tangibility	TANG	$\frac{\text{Fixed Assets}}{\text{Total Assets}}$	$H_{2c}: +$	Eloundou & CHI, (2024), Irungu et al., (2018)
Firm Size	SIZE	Log (Total Assets)	$H_3: +$	Wirama et al., (2024), Paviththira, (2015)

Source: Elaborated by the author

4.3. Model Specification

The objective of this study is to examine the effect of the selected independent variables on firm performance. To achieve this, we apply a

panel data regression approach using a dataset comprising 350 firm-year observations. The model to be estimated is specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 DIV_{it} + \beta_2 LIQ_{it} + \beta_3 FL_{it} + \beta_4 TANG_{it} + \beta_5 SIZE_{it} + \varepsilon_{it}$$

Where: $i = 1...61$ is the index of firms, $t = 1..5$ is the index of periods, β_0 is the intercept, β_k where $k = 1..5$ are the coefficients of the explanatory variables and ε_{it} is the error term.

5. Descriptive Analysis

Before presenting the estimation results, it is important to provide descriptive statistics for the variables included in the analysis, as well as to examine the correlations and potential multicollinearity among them.

5.1.Descriptive statistics

The table below provides descriptive statistics for all variables included in the model.

Table 2: Descriptive statistics of the model's variables

Variable	Obs	Mean	Std. Dev	Min	Max
ROA	305	0.074394	0.090035	-0.28815	0.778841
DIV	305	0.244462	0.457621	0	3.492063
LIQ	305	0.156066	0.184174	0.000497	0.91261
FL	305	0.478754	0.279356	0.015693	0.984427
TANG	305	0.212284	0.220411	0	0.840522
SIZE	305	9.50974	0.681686	7.892768	11.45866

Source: Output of the STATA 13.0 software

The table above indicates that each variable has 305 observations, confirming a complete panel dataset.

The standard deviation of ROA (0.090035) suggests that most values are

relatively close to the mean (0.074394). Nevertheless, some firms report negative ROA, reflecting losses, while others exhibit high ROA values up to 0.778841, indicating strong profitability and efficient asset utilization.

The mean dividend payout ratio is 24.4462%, implying that, on average, firms distributed approximately 24.45% of the previous period's net income and retained earnings as dividends. Values exceeding 1 indicate that some firms paid dividends greater than the sum of prior net income and retained earnings. The high standard deviation (0.457621) and the wide range from 0 to 3.492063 highlight substantial differences in dividend policies across firms.

Liquidity shows a standard deviation of 0.184174, indicating that values are generally close to the mean, with a range from 0.000497 to 0.91261, reflecting variations from very low to relatively high liquidity. Financial leverage displays notable dispersion, ranging from very low levels in some firms to high leverage in others. Asset tangibility exhibits moderate variability, with values spanning from 0 to 0.840522, indicating that while some firms hold no tangible assets, others maintain a substantial proportion.

Finally, firm size has a mean of 9.50974 with a standard deviation of 0.681686, suggesting a moderate spread among the sample firms.

5.2. Correlation Matrix

Analyzing the correlations among variables is crucial for understanding their potential relationships and identifying any signs of multicollinearity. The table below displays the correlations between the dependent variable (ROA) and the independent variables, as well as the intercorrelations among the explanatory variables themselves.

Table 3: Correlation matrix between model variables

Variable	ROA	DIV	LIQ	FL	TANG	SIZE
ROA	1					
DIV	0.2264*	1				
LIQ	0.2475*	0.069	1			
FL	-0.3705*	-0.1199*	-0.0809	1		
TANG	-0.1107	0.0148	-0.2962*	-0.0096	1	
SIZE	-0.0473	0.1579*	-0.1807*	0.2528*	0.2632*	1

Source: Output of the STATA 13.0 software

The dependent variable, ROA, exhibits a significant positive correlation with both dividends (0.2264) and liquidity (0.2475), suggesting that higher dividend distributions and greater liquidity are generally associated with improved firm performance. Conversely, ROA is negatively correlated with leverage (-0.3705) and asset tangibility (-0.1107), indicating that higher levels of debt and more tangible assets may be linked to lower performance. The weak negative correlation with firm size (-0.0473) appears to be statistically insignificant.

Dividend policy is positively and significantly associated with firm size (0.1579), implying that larger firms tend to distribute higher dividends, while it is negatively correlated with leverage (-0.1199), suggesting that higher debt levels may constrain dividend payments.

Liquidity is positively and significantly correlated with ROA (0.2475) but exhibits a weak, non-significant correlation with dividends and a negative correlation with firm size. Financial leverage shows negative correlations with both ROA and dividends, reinforcing the view that higher leverage is associated with lower performance and reduced dividend distributions. Asset tangibility is negatively correlated with both performance and liquidity, indicating that firms with a higher proportion of tangible assets may experience lower profitability and liquidity.

Firm size is positively correlated with leverage and asset tangibility, but

negatively correlated with liquidity (-0.1807), suggesting that larger firms may maintain lower liquidity levels.

Overall, the interrelationships among the explanatory variables do not indicate multicollinearity issues, as no pair of variables exhibits a correlation exceeding 0.80.

VIF Test

The Variance Inflation Factor (VIF) is a commonly used diagnostic measure in regression analysis to detect multicollinearity, a situation in which independent variables are highly correlated with one another.

Table 4: Variance inflation factor (VIF) Results

Variable	VIF	1/VIF
Size	1.22	0.8212299
Tang	1.16	0.8588773
Liq	1.12	0.890738
Fl	1.11	0.901095
Div	1.07	0.938815
Mean VIF	1.14	

Source: Output of the STATA 13.0 software

As shown in the table above, all VIF values are well below the threshold of 10, indicating that multicollinearity is not a concern and that the selected variables are appropriate for the model.

6. Model Estimation and Results Interpretation

In this study, a panel data regression approach is employed, following a series of steps to construct and validate the model using STATA 13, along with relevant econometric tests.

First, the Fisher test is performed to distinguish between individual and pooled effects. The probability value (Prob > F = 0.0000) is below 5%,

indicating the presence of individual effects, either fixed or random. Once individual effects are confirmed, the Hausman test is applied to determine whether these effects are fixed or random. A test probability greater than 5% suggests the presence of random effects in the model. To further verify this, the Breusch-Pagan test is conducted. With a Chi-squared probability of 0.0000, the null hypothesis (H_0) is rejected, confirming the presence of random effects.

To examine autocorrelation in the error terms, the Wooldridge test is used. A p-value of 0.6715, exceeding the 5% threshold, indicates no evidence of autocorrelation. Subsequently, heteroscedasticity is assessed, yielding a highly significant p-value of 0.0000, which provides strong evidence of heteroscedasticity in the model.

To address the heteroscedasticity issue and improve the accuracy of the estimates, the Panel-Corrected Standard Errors (PCSE) method is employed. The regression results obtained using PCSE are presented in the table below:

Table 5: Regression results using the PCSE method

Variable	Expectation	Coefficient	P-value
DIV	+	0.0314353	0.001***
LIQ	+	0.0968601	0.000***
FL	-	-0.1142745	0.000***
TANG	+	-0.0314888	0.002***
SIZE	+	0.0096601	0.024**
cons		0.0211219	0.574
<i>Model Statistics</i>			
R-squared			0.2217
Wald chi2			178.65
Prob > chi2			0.0000***
Number of obs			305

Notes: Significance levels: *p<0.10, **p<0.05, ***p<0.01.

Source: Output of the STATA 13.0 software

The R-squared value of 0.2217 indicates that approximately 22.17% of the variation in ROA is explained by the selected independent variables in the model. Furthermore, the Wald χ^2 statistic of 178.65 with a Prob > χ^2 of 0.0000 is highly significant, confirming that the explanatory variables collectively have a meaningful effect on the dependent variable, demonstrating a reasonable level of model fit.

The results indicate a significant positive effect of dividend distribution on ROA, with a coefficient of 0.03 and a p-value of 0.001. This implies that a 1% increase in dividend payouts is associated with a 0.03 increase in firm performance. Consequently, hypothesis H1 is supported, suggesting that firms with higher dividend distributions tend to perform better. These findings align with the Bird-in-the-Hand Theory, which posits that investors prefer guaranteed dividends over uncertain future gains, as well as the signaling theory, which interprets dividends as indicators of financial health to less informed investors. Additionally, from an agency perspective, dividend payments can reduce the free cash flow available to managers, limiting opportunities for opportunistic behavior and thus enhancing shareholder value. Similar evidence has been reported in prior studies, including Enekwe et al. (2015), Jamaludin et al. (2023), and Suresh & Pooja (2020), all of which find a statistically significant effect of dividend payout ratio (DPR) on ROA.

Liquidity also has a significant positive effect on firm performance, supporting sub-hypothesis H2a. Higher liquidity ratios are associated with improved profitability, as increased liquidity reduces the risk of cash shortages and enhances the firm's ability to meet short-term obligations. This result is consistent with the Pecking Order Theory, which suggests that firms prioritize internal financing, with higher liquidity reducing reliance on costly external funds. Similar findings are reported by Bourke (1989), Lartey et al. (2013), and Doğan (2013).

Financial leverage, measured as total debt over total assets, exhibits a significant negative relationship with ROA, confirming sub-hypothesis H2b.

Reliance on debt financing, particularly in environments with high real interest rates, can jeopardize a firm's financial stability. Profitable firms often prefer internal financing, explaining the observed negative correlation between leverage and performance (Rajan & Zingales, 1995). These results contradict the Free Cash Flow Theory, which posits that debt can enhance performance, but they are in line with the Pecking Order Theory, where profitable firms maintain lower debt levels. In Algeria, where financial markets are less efficient, the disciplinary role of debt is limited, reinforcing the negative association between leverage and ROA. Comparable findings are reported by Doğan (2013), Iavorskyi (2013), and Bousbaa (2021).

The analysis reveals a significant negative relationship between asset tangibility and ROA, contrary to sub-hypothesis H2c, which predicted a positive effect. The negative impact may be due to the characteristics of tangible assets: items such as land and buildings do not directly generate revenue, and other fixed assets are subject to depreciation, reducing long-term efficiency and value. These findings are consistent with Odusanya et al. (2018), Vätavu (2014), Lazăr (2016), and Pratheepan (2014).

Firm size significantly affects ROA, with a positive coefficient and a p-value of 0.024, confirming hypothesis H3. Larger firms benefit from economies of scale, including lower input costs and more efficient operations, which enhance profitability. Additionally, from a signaling perspective, larger firm size conveys stability and strength to the market (Sudrajat, Daud, et al., 2020). These results align with previous studies that report a positive relationship between firm size and profitability, such as Khan et al. (2019), Opeyemi (2019), and Stierwald (2009).

7. Conclusion

The main objective of this study, conducted on a sample of 61 large private Algerian firms over the period 2019–2023, was to investigate the effect of dividend policy on firm performance. The research aimed to provide a deeper understanding of how dividend distribution decisions can influence

a firm's financial outcomes. In addition, liquidity, leverage, asset tangibility, and firm size were included as control variables to better capture the key determinants of firm performance.

The results indicate that dividend distribution positively affects firm performance, suggesting that firms distributing higher dividends tend to achieve better financial outcomes. This finding is consistent with several theoretical frameworks, including the Bird-in-the-Hand Theory, agency cost theory, and signaling theory, and is supported by prior empirical studies emphasizing the importance of dividend policy in enhancing performance.

Moreover, liquidity was found to have a positive effect on firm performance, indicating that firms with higher liquidity are generally better positioned to achieve favorable financial results. In contrast, leverage and asset tangibility exhibited negative impacts on performance, implying that excessive reliance on debt and a high proportion of tangible assets may adversely affect profitability. Firm size was positively associated with performance, confirming that larger firms often operate more efficiently and achieve superior results.

This study contributes to a more comprehensive understanding of the theories explaining the relationship between dividend policy and firm performance, while also complementing previous empirical research in this area. The findings provide practical guidance for managers, particularly in large private Algerian firms, by offering evidence-based insights for aligning dividend decisions with financial health and growth objectives. Additionally, the study highlights how other factors—such as liquidity, leverage, asset tangibility, and firm size—can influence firm performance, thereby supporting more informed strategic decision-making.

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