Corporate Diversification and Dividend Policy: Evidence from Pakistan Stock Exchange

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ABSTRACT

Firms are adopting a strategy of diversity in order to increase their chances of success. Companies that seek to diversify their revenue streams need to set aside more cash and keep tabs on the cost of capital, among other things. The aim of this study is to analyse how business diversification influences dividend strategy. The sample of the study is 7 different non-financial sector and select 161 companies in Pakistan, with the sample from 2012 to 2021. The present study is carried out based on secondary data. OLS regression analysis is used for the analysis. Overall analysis reveal that industrial diversified firms have significant impact on dividend payout ratio. The results show that companies in diversified industries have more stable and varied income streams, allowing them to routinely distribute a bigger amount of their earnings as dividends to shareholders. In contrast geographical diversified firms show significant impact on dividend yield. It indicates that enterprises with a diverse customer base and lower risk exposure have more stable cash flows and greater dividend yields. The fact is geographic diversification gives operational flexibility, risk reduction, and a competitive advantage, allowing enterprises to make consistent dividend payments. The study's findings are useful for Pakistani businesses, investors, and politicians. They emphasize the impact of dividend policy on diversification and sector-specific dynamics. These findings can be used to drive strategic decisions and policy activities targeted at improving dividend attractiveness, managing investor relations, and fostering long-term financial practices in Pakistan's business environment. This study contributes to our understanding of the impact of diversification types on firm-level dividend policy.

Keywords: *Corporate diversification, dividend policy, family or non-family firms, sectoral difference, agency problem, resource-based view*

INTRODUCTION

Despite decades of research and the seminal discoveries of Miller and Modigliani (1961), the intricacy of dividend policy continues to be a central issue in corporate finance. In light of the lax laws in nations such as Pakistan, this research explores the complex and institutional character of dividend decisions (Khan et al., 2019). Dividend policy still has a puzzle-like element, as (Black, 1976) pointed out, with corporations having to decide whether to pay out dividends or save their revenues for debt repayment or reinvestment. Shareholders with diversified investment portfolios find high-risk, high-return strategies and less diversity appealing. But unlike shareholders,

managers'wealth is less well-diversified, thus they are more dependent on the success of the company. As a result, managers favor low-risk techniques to stay away from organizations that are experiencing financial difficulties. Managers prioritize minimizing employment risk through corporate diversification (Amihud & Lev, 1981). The goals of a company's diversification efforts can have an impact on the strategies it employs to achieve those goals, including the industries and locations in which it operates (Lee et al. 2012; Park and Jang 2013). There is still some theoretical uncertainty abouthow diversification in an organization's structure affects its valuation, but there is a growing consensus that firms with a high degree of diversification have a lower average value and perform less well. Previous studies corroborate these assertions. One is that increasing the number of a company'slines of business tends to lower its overall worth (Shin and Stulz, 1998, Rajan et al., 2000, Lamont, 1997). Despite the fact that corporate diversificationhas to utilize a great deal of resources, cash dividend payments will be decreased as a direct result of the rising usage of resources (Guillén 2000; Katila and Shane 2005). Therefore, by examining the connection between diversification and dividend, it will be possible to comprehend the numerous roles that the company plays in earning a return, relying on outside capital, assuring corporate growth, and protecting shareholders' wealth through diversification (Subramaniam, 2019). Dividends' significance as a replacement for governing structures. They influence managers' decisions that are motivated by self-interest and affect free cash flow in some way, which helps reduce agency costs. Highdividends also make financial markets more crucial for financing new projects, which has the effect of adding another tool for governance oversight (Jiraporn and Kim, 2011). The relationship between dividend policy and diversification, highlighting the various functions that businesses do to ensure growth, produce profits, and protect shareholder capital (Subramaniam, 2019). The study recognises that theoretical viewpoints have dominated company diversification research and that this tactic is still relevant despite changing market conditions (Goold and Luchs, 1993; Hitt et al., 1994).

From a theoretical standpoint we build on resource-based view theory the premise and driving force behind corporate strategic decisions about theproduct or international diversification is the chance to use the company's surplus resources totap into new markets. Having more resources may increase a company's capacity and power, allowing it to charge higher rates in exchange for higher quality performance and a competitiveadvantage. The payout mechanism gives managers a reason to cutthe expenses associated with the principal/agent relationship. Increasing payouts is one strategyfor lowering agency expenses. Increased dividend payments cause the company to seek more external funding and limit the internal cash flow that is subject to management discretion. Although managers are supposedly logical, their attempts to act in their interests make it impossible to trust them to always behave in the owners' best interests.

(i) When businesses decide to diversify, they are concerned with the need for additional capital and, in the end, the administration of dividend policy. According to Weston (1970), resources could be used more effectively within a corporation as opposed to in capital markets, because of this, diversification methods are crucial in terms of resource utilization. Numerous studies have examined how different financial policies and corporate diversity affect the efficiency of different types of businesses (Hsu and Liu, 2007; Iqbal, Hameed, and Qadeer, 2012; and Ali, Hashmi, and Mehmood, 2016). Nonetheless, the authors of the present study (Nagarajan et al., 2022) analyse the economic impact of corporate diversity. Their evaluation seeks to assist business owners and managers in making decisions about structuring, organizational form, and diversification. It draws attention to potential hazards that diversification may expose investors to. Financial synergies, in general, lower the likelihood that a company would fail on its debt, improving its capacity to raise financing. Diversification can, however, also result in contaminated risk and the loss of benefits

from limited responsibility. Such arrangements, however, can also make it easier for the group as a whole to finance expansion potential Another relevant question to explore is whether the impact of diversification on the cost of capital varies across associate business groups and conglomerates. Additionally, business group members might not be covered by predictors of default used for independent businesses or conglomerates. This paper extent the majority of businesses in Pakistan are still in the early phase of development and must eventually contend with a highly competitive environment, this study helps determine when an issue has an appropriate solution that will simplify the market. Both successful and unsuccessful business situations are examined in the current study. Therefore, keeping in view the existing gaps in the literature, the current study fills this gap by conducting an in-depth analysis with the inclusion of detailed dividend policies, industrial diversification, and geographic diversification. It delves into the practice of diversificationin firms and their motives for doing so, but there needs to be a detailed study on the impactof corporate diversification and dividend policy focusing on Pakistan.

Previous studies corroborate these assertions. One is that increasing the number of a company's lines of business tends to lower its overall worth (Shin and Stulz, 1998, Rajan et al., 2000, Lamont, 1997). The fact that the diversification discount increases when corporate governance 7 declines further suggests that agency issues are to responsible for the undervaluation. The literature on this topic is extensive (Hubbard and Palia, 1999; Anderson et al., 2000; Jiraporn et al., 2008). Various authors have examined the internal capital market associated with diversification (Stein 1997; Stulz 1990) and the agency problem (Scharfstein and Stein 2000) asthe popularity of this strategy has grown. Despite the fact that corporate diversification has to utilise a great deal of resources, cash dividend payments will be decreased as a direct result of the rising usage of resources (Guillén 2000; Katila and Shane 2005). Diversification, on the one hand, is critical for the development of an internal capital market, which reduces the constraints on business financing. Because lowering an organization's exposure to risk is a primary goal of diversification (Stein 1997; Su 2005).

The study situates diversification within the larger discipline of strategic management (SM), highlighting its function in expanding into new geographic regions, introducing new product lines, and improving market reach (Hitt and Palia, 1982). The authors Su and Tsang (2015) state that a business with interests in multiple markets or sectors is practising diversification. According to Park and Jang (2012), a "diversification strategy" is a business that operates in multiple areas, some of which may be entirely new to the company. There are numerous forms of diversification that businesses can pursue. Diversification can serve a variety of purposes, such as effective resource management, risk mitigation, gaining market share, bolstering debt capacity, and general corporate growth (Afza, Salahudin & Nazir, 2008). The goal of the study is to determine why diversity is important and evaluate how it affects shareholder wealth and a company's dividend policy. The literature review transitions to the discussion of dividend policy, emphasizing its contested nature in corporate finance research. Diverse viewpoints on dividend policy's effect on shareholder value make it an important field of study (Black, 1976; Allen and Michaely, 2003). The study examines the signalling function of dividend adjustments in informing the market of crucial information, as well as Modigliani's (1961) claim that dividends are meaningless in perfect markets (Easterbrook, 1984). With an emphasis on the relationship between retained earnings and dividends, the study acknowledges the significance of dividend policy in dividing profits between the business and shareholders (William, 1988).

Empirical research on the influence of corporate diversification on the creation and implementation of firm’s dividend policy has benefited greatly from the insights provided by this

study. First, a cash dividend policy is associated with the diversification strategies ofthe companies as well as enterprise characteristics and the governance environment. Therefore,while determining dividend payments, public firms must make a strategic choice. It will help the investor to take a rational decision for their investment This research also highlights the effects of diversification on dividend policy, highlighting the agency problem, the coinsurance effect, the utilization of the internal capital market, and the transaction cost. Second, the study is beneficial to company managers who deal with difficulties in conductingbusiness in less developed nations like Pakistan. When deciding on a dividend policy, managersshould take into account the relative significance of the flaws or issues as well as their interconnections. In the context of emergingmarkets, which differ from mature markets in terms of their institutional framework, this study expanded the preexisting theoretical approach. So, from the point of view of this market, the connection between industry or geographic diversification and dividend policy may be different, and, as was indicated, may be strongly tied to the firm's purpose for engaging in these diversification activities. The present study improves on earlier research where some of these aspects weren't taken into account when calculating the corporate diversification of the firms. Since the majority of businesses in Pakistan are still in the early phase of development and must eventually contend with a highly competitive environment, this study helps determine when an issue has an appropriate solution that will simplify the market. Both successful and unsuccessful business situations are examined in the current study. Besides that, the study will also provide individual analysis of the sample firm, considering their unique indigenous features as well as a policy recommendation for each non-financial sector of the country in the sample.

Industrial Diversification

The concept of diversification was first introduced by Markowitz in 1952, who explained howrisk could be reduced by investing in different classes of securities (Odi and Ehiedu, 2020; Ugwuanyi, Ani, Ugwu & Ugwunta, 2012). The correlations of those securities that are either less risky or more profitable than a weighted average of its securities determine the level of risk in a diversified business group. Furthermore, an industrially diverse organization can only generate value if it has managerial competencies (Ghee et al., 2015). According to Nguyen et al. (2017), specialised enterprises maintain more precautionary cash than diversified firms. On the other hand, diversification makes a high-tech company's organisational structure more complicated, its financial information opaquer, the degree of information asymmetry greater, and ultimately the company's risk higher. Corporate diversification, according to Anderson et al. (2011), does not, on average, reduce business risk. High levels of information asymmetry have the potential to lower a firm's value by raising its cost of equity capital (Ghoul et al. 2013). Managers and shareholders have an agency cost when managers profit from industrial diversification through elevated status, financial rewards, or reduced personal exposure (Berger et a., 1995). Organization performanceand dividend policy may suffer from an overly diversified portfolio due to the aforementionedrisks (Ocasio, 1997). Dividend management is a critical part of any company's overall financialmanagement. Management often considers the dividend target distribution amount when making financial projections for the company (Bierman and Hass, 1983). The capital structureand dividend policy are selected in light of the company's internal cash generation capacity and possible investment opportunities to ensure that there are sufficient funds available to carry outall targeted investments without the need for additional equity (Rob, 2015). Looking more closely at the dividends picture as given by Black (1976) exposes discrepancies and contradictions. This shows how contentious the discussion of dividend policy is. The crux of the dividend problem is explaining to both companies and investors why dividends areimportant. All ideal investments can be made with only dividends, eliminating the need for anyadditional stock.

H1: It is expected that industrial diversification has a significant impact on the dividend policy of Pakistani firms.

Geographical Diversification

When a company diversifies its operations, it loses a lot of money. Managers pursue corporate diversification to reduce the risk of their human capital, according to (Amihud and Lev, 1981),even if doing so reduces shareholder value. According to Lewellen (1971), because diverse businesses are less risky than single-line businesses, they can borrow more money and benefitfrom debt tax shelters. Geographic diversification refers to operations in several countries. Bygrowing their activities in sectors or nations where they currently conduct little business, corporations can reduce their risk exposure and take advantage of the inverse relationship between diversity and risk. The fact that a company's systemic risks are mitigated by diversitylends credence to this point of view (Hann et al., 2013). The most typical methods of company diversification are the introduction of a new product to the market, the expansion into new markets, and the addition of new services to existing ones. Businesses can expand their marketshare internationally or diversify their operations in their home country's local market. This isthe geographical diversification strategy. An industry's globalization offers chances for increased sales and profits, but it also poses serious risks because businesses must compete with other global competitors on a worldwide scale. s. Given the wide range of corporate aimsand conditions, it is feasible to establish dividend policies that are specific to enterprises, industries, marketplaces, and even geographical areas. The decision of what to do with a company's profits must be made once it has generated a profit. Once a corporation has used itsprofit after tax, there are two options: either distribute the profit to the shareholders or reinvestthe same by keeping it with the business. Additionally, Brav et al. (2005) discovered that corporations occasionally pay a price for dividend smoothing since managers frequently pass up advantageous investment opportunities to avoid dividend cuts. One significant learning from asymmetric information models is the significance of dividends as a precommitment instrument to reduce agency costs and a signal of management's expectations for future earnings (Aivazian et al., 2002). A company's dividend policy plays a crucial role in determining how much cash will be given to shareholders and reinvested or kept by the business (Hoang et al., 2020; Nam, 2019). Retained earnings will be lower if the corporation decides to pay out dividends, which will lower total internal or internal funding sources.

H2: It is expected that geographical diversification has a significant impact on the dividend policy of Pakistani firms.

Family or Non-Family Firms

(Ward, 1987) defines “family business is a business in which owners intend to pass ownershipto one or more other family members”. When members of the same family manage and own the majority of a company, we call it a "family business." The firm could have been founded by a family member or bought by the family. There is a unique collection of qualities and features that characterise each business niche. (Holderness and Sheehan, 1988) found that many familyfirms suffer from traits that lower their worth. Control within the family is often valued in family businesses. Family members can influence critical choices, such as dividend payments, thanks to concentrated ownership. This power dynamic can lead to conservative dividend policies that prioritise the family's interests and the company's long-term prospects over immediate shareholder returns. While a non-family-owned businesses frequently priorities maximizing shareholder value in the short term. Shareholders, including institutional investors, may investin the hope of obtaining regular dividend payments. As a result, in order to meet investor expectations and attract capital,

these companies are more likely to transfer a bigger share of their earnings as dividends. Although it is obvious that working for one's family can have someadvantages, such as a higher chance of getting hired and managers who genuinely care about their employees' comfort, the family business literature is controlled by examples of the disadvantages of working for a family-owned business. More dividend payments reduce free cash flow and, in a scenario where ownership and control are separated, reduce the likelihood of management extorting cash from the company's owners (Jensen 1986). In public family enterprises, the free cash flow issue can develop when minority shareholders demand dividends under conditions that would normally favour wealth expropriation by the dominating family shareholders (Setia-Atmaja 2009). Although family businesses can retain control and pass down their legacy, they may have restricted access to external finance for growth and expansion. Their dividend policies indicate a long-term commitment to sustainability. Businesses frequentlyemploy an iterative method to put their dividend policy into action. Target dividend-to-earnings ratios are established by management, and are only adjusted if the management is confident that future earnings growth will be sustainable.

H3: Family owns firms have significant differences between corporate diversification and dividend in comparison to non-family firms.

Sectoral Difference

The choice of the sectors is based on considerations of how these sectors might differ. Dividend policy varies from industry to industry based on factors such as firm profitability, size, productivity, tax, investment opportunities, and the stage of the firm's life cycle. A company's finance manager is responsible for maximising profits through strategic investment, new product development, and financing decisions (Afza & Mirza, 2011). When deciding on dividends, profitability is a major factor worldwide. High debt loads and a lack of investment opportunities can lead to a rise in dividend payments. Given the potential impact of debt and investment opportunities on dividend payments (Truong & Heaney, 2007). However, in other countries dividends are hurt since huge firms prefer to fund their investment demands internally rather than outside. As opposed to distributing profits, they retain investor money (Ahmed & Javed, 2009). Liquidity, leverage, and probability are three key factors that have been shown to influence dividend policy in some prior research (e.g., Ben-Zion & Shalit, 1975; Tahir et al., 2020; Jiang et al., 2017). These studies concur that these factors are crucial in influencing dividend policy, but they also point out that company size is another important factor that affects dividend policy. It is a truth that many businesses choose not to pay out dividends during the reporting period. Large shareholders can exert influence on a company to implement a dividend policy that restricts the discretionary spending of corporate management or they might impose a dividend policy that benefits themselves at the expense of lesser shareholders. Taxes cut into both individual wage earners and business profit. High dividend taxes reduce dividend investment demand. Dividend payout ratios will decrease if dividend income is taxed at a higher rate than capital gains (Casey & Dickens, 2000). The dividend payout ratio was selected because, by comparing the amount of earnings kept by the company with the amount dispersed as dividends to shareholders, it provides a more accurate indicator of opportunistic managerial behavior (Pattiruhu, 2020). According to Mitton (2004), in a nation where shareholders' rights are properly safeguarded, payments of dividends are strongly inversely related to future growth. Because they have the confidence that future profits from sound projects will be higher, well-protected investors permit their company to hold onto cash. Although managers are very hesitant to cut dividends, expanding businesses need more money to support their expansion requirements (Amidu & Abor, 2007).

H4: Significant sectoral differences exist between corporate diversification and dividend policy in Pakistani firms.

DATA AND VARIABLES

This study aims to look into how corporate diversification affects dividend policy in thecontext of family and non-family firms. The data is collected from annual reports. The nature of the study is quantitative. Statistical software and tool is used to conduct the analyses.‘‘A study's population refers to all of the data gathered for that study, while a study's sample refers to a subset of the population’’ (Badar & Saeed, 2013). Our sample consists of 161 companies from outside the banking sector that are traded on the Pakistan Stock Exchange. Inaddition, out of 161 sample firms in the study, 62 are industrial and geographic diversified firms whereas 99 are single geographical diversification firms. We take those selected non- financial firms as a sample.

The non-financial business sector in Pakistan is a key contributor to the country's economy andthe country's ability to maintain a strong, stable, and prosperous industrial base. Since this research is concerned with company diversity, such as industry and geographical diversification, it is based on the non-financial sector and excludes the financial sector. Enterprises are split into specialized and diverse firms in the study. The study's categorization of businesses into "specialized" and "diversified" categories is predicated on the assumption that companies that focus on only one country are less likely to face competition than those that operate in multiple countries. Based on the availability of data from 2012 to 2021 required from different secondaryresources, the researcher choose the sample of the non-financial sector of Pakistan. When compared to previous studies on the same topic, the sample size of the present investigation ismuch larger. For this study, we focused on 161 diversified firms of the more than 300 non- financial companies listed on the Pakistan Stock Exchange (PSX). Sectors are classified into seven different groups. This classification of the sector is in table 3.1. Overall sector includes Textile (Spinning, weaving, finishing of textile, Made-up textile articles, other textiles n.e.s), Sugar, Food, Chemicals, chemical products, Pharmaceuticals, Manufacturing, Cement, MotorVehicles, trailers and auto parts.

Table 3.1 List of companies in each sector

Sr. No	Sector	Total Companies	For geographic	For industrial
1	Textile (spinning, weaving, finishing of textile, Made-up textile articles, other textile)	119	62	28
2	Sugar	27	22	10
3	Food	20	10	4
4	Chemicals, chemical products, Pharmaceutical	44	22	8
5	Manufacturing	40	21	7
6	Cement	17	13	2
7	Motor Vehicle, trailers and auto parts	21	10	3
	Total	288	161	62

Measurement and Explanation of VariablesTable

Measurement of variables

Variable	Measurement	References	ES
Dividend Policy			
Dividend Yield	Cash dividend per share divided by market value per share	(Al Najjar et al., 2016, Bae et al., 2020, Karwowski et al., 2021)	
Dividend Payout ratio	Dividend per share divided by earning per share	(Al Najjar et al., 2016, Bae et al., 2020, Karwowski et al., 2021)	
Corporate Diversification			
Industrial diversification	$H\ Sales_i = \sum \left(\frac{Sales\ per\ segement}{Total\ sales}\right)^2$ PDI= 1-$\sum S^2 i$	(Lang & Stulz, 1994; Denis et al., 1997) (Aw & Batra, 1998)	+
Geographical diversification	Foreign Sales divided by total sales	(Schmid and Walter, 2012)	+ -
Control Variables			
Profitability	EBIT divided by total assets	(Ayoib et al., 2003 and Benjamin et al., 2016)	+
Debt Ratio	Total debt divided by total assets	(Al-Maskati et al., 2015) and (Bopkin, 2011)	-
Sales Growth	The annual growth rate of the total sales of the firm for the certain year as compare to the previous year	(Hoechle et al., 2012) and Bopkin, 2011)	+ -
Investment Opportunity	Market to book value ratio of the ordinary share capital	Fenn and Liang, 2010	+ -
Firm size	Natural logarithm of total assets	Atil et al., 2022	+ -
Firm age	No of years	(Ajay & Madhumathi, 2012) and (Hujnra et al., 2014)	+ -
Dummy Variable			
Family and non-Family firms	For family firm (1) or non-family firm (0)		
Sector	Sector wise difference		

For this study's analysis, we employed a variety of statistical methods. Using quantitative methods, we will investigate if and how dividends affect a company's propensity to diversify its revenue streams. OLS regression models, a standard tool in panel data analysis, are used inthe present investigation. The study's relationship to other aspects would be charted using financial and statistical methodologies. For this reason, the study employs two models, one for Industrial

Diversification (ID) and one for Geographic Diversification (GD), to analyse the relationship between these two dependentvariables. First, the study uses an ID model to examine the bearing of exogenous factors on dividend policy. The second model looks at the effect of exogenous variables on GD's dividendpolicy. According to the study's models, where i is the cross sections and t is the time variable,α is the constant, β1 to β10 are the coefficients, and ε is the error term. Models of the present study for estimation are discussed below.

$$DY_{it} = \alpha + \beta_1 ID_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 FA_{it} + \beta_8 SECTOR_{it} + \beta_9 FO_{it} + \varepsilon_{it} \quad (1)$$

$$DY_{it} = \alpha + \beta_1 GD_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 FA_{it} + \beta_8 SECTOR_{it} + \beta_9 FO_{it} + \varepsilon_{it} \quad (2)$$

$$DY_{it} = \alpha + \beta_1 ID_{it} + \beta_2 GD_{it} + \beta_3 ROA_{it} + \beta_4 DR_{it} + \beta_5 SG_{it} + \beta_6 MBV_{it} + \beta_7 FS_{it} + \beta_8 Fa_{it} + \beta_9 SECTOR_{it} + \beta_{10} FO_{it} + \varepsilon_{it} \quad (3)$$

$$DPO_{it} = \alpha + \beta_1 ID_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 FA_{it} + \beta_8 SECTOR_{it} + \beta_9 FO_{it} + \varepsilon_{it} \quad (4)$$

$$DPO = \alpha + \beta_1 GD_{it} + \beta_2 ROA_{it} + \beta_3 DR_{it} + \beta_4 SG_{it} + \beta_5 MBV_{it} + \beta_6 FS_{it} + \beta_7 FA_{it} + \beta_8 SECTOR_{it} + \beta_9 FO_{it} + \varepsilon_{it} \quad (5)$$

$$DPO_{it} = \alpha + \beta_1 ID_{it} + \beta_2 GD_{it} + \beta_3 ROA_{it} + \beta_4 DR_{it} + \beta_5 SG_{it} + \beta_6 MBV_{it} + \beta_7 FS_{it} + \beta_8 Fa_{it} + \beta_9 SECTOR_{it} + \beta_{10} FO_{it} + \varepsilon_{it} \quad (6)$$

Whereas DY is the dividend yield, DPO is the dividend payout ratio, ID is Industrial Diversification, GD is Geographic Diversification, ROA is profitability, DR is debt ratio, SG is sale growth, MBV is an investment opportunity, FS is firm size, FA is firm age, SECTOR is sector difference, FO is the dummy variable for family or non-family firms where if the valueis 1 it's for the family firm and if it is 0 for non-family firm are examined in this study.

RESULTS AND DISCUSSION

Descriptive Statistics

The mean, median, maximum and minimum values, standard deviation of each variable and total observations of the study are shown in Table 1. The values cover the time period ranging from 2012 to 2021 which consists of a balanced panel. The dividend policy measure of the study are Dividendyield (DY) and dividend payout ratio (DPR). In context of diversification categories, Pakistani enterprises tend to spend more in industrial diversification than geographical diversification, as evidenced by a mean ID of 0.58 versus a mean GDI of 0.30 for all firms. Due to severe overseas rivalry with and among major multinational businesses, firms do not typically diversify their company regionally, as noted by(Dawar and Frost, 1999). Profitability, debt, sales growth, investment opportunity, firm size, and firm age are the study's control variables. The average profitability of segmented enterprises was 0.08 per ringgit of total assets invested in the company. The low standard deviation (0.09427) shows that most data points as a result, increasing industrial diversification activities appears to signal a decrease in profits, whilst increasing geographical diversification activities appears to boost firm profits. In terms of debt, a average debt ratio of 0.537 meant that Pakistani enterprises used 54 cents oftotal debts for every Ringgit of total assets. From perspective of sales growth, Pakistani enterprises experienced an 8.78% average increase.

Table 1 Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Dividend Yield (DY)	620	0.029828	0.034861	0	0.207613
Dividend Payout Ratio (DPR)	620	0.230962	0.254236	0	0.988142
Industrial Diversification (ID)	620	0.582419	0.233855	0	0.991408
Geographical Diversification (GD)	620	0.30379	0.294739	0	0.945433
Profitability (ROA)	620	0.089961	0.094275	-0.32214	0.536541
Debt (DR)	620	0.534942	0.190494	0.120193	0.951081
Sales Growth (SG)	620	0.088542	0.266547	-1.24251	1.875251
Investment Opportunity (MBV)	620	21.67378	88.27484	0.035946	1297.242
Firm Size (FS)	620	18.07183	3.293428	9.488956	24.95934
Firm Age (FA)	620	41.48387	21.16192	2	154
Dummy FF	620	0.177419	0.382332	0	1

Even if the means were insignificantly different, increased involvement of Pakistani enterprises un both industry and geographical diversification strategies resulted in lower sales growth. The average market to book ratio for the firms in the sample was 21.67, indicating that the firm's market value was approximately 22 times more than its book value. Higher market priceto book value (MBV ratio) represents investors' perception of the firm's future, i.e., firms are regarded to have higher investment potential (Frank and Goyal 2003); thus, investors place greater trust in the firm's future. In case of firm size, the whole sample mean value of the log of total assets was 18.07183, corresponding to an average total asset value. According to the findings, larger organisations are more likely to engage in diversification initiatives (both industrial and geographical diversification). Bigger companies typically have enough free cashflow to diversify substantially (Park and Jang 2013). The firm age, which is the mean value ofthe age of the firm 41 years, includes both well-established and relatively new enterprises.

Table 2 Descriptive statistics of geographical firms

Variable	Obs	Mean	Std. Dev.	Min	Max
Dividend Yield (DY)	1,600	0.0331	0.0553	0	0.71884
Dividend Payout Ratio (DPR)	1,600	0.2238	0.2533	0	0.952
Geographical Diversification (GD)	1,600	0.2472	0.2882	0	0.9843
Profitability (ROA)	1,600	0.0945	0.1059	-0.7019	0.7617
Debt (DR)	1,600	0.5215	0.1908	0.0168	0.9582
Sales Growth (SG)	1,600	0.0883	0.6186	-2.8399	20.9341
Investment Opportunity (MBV)	1,600	20.0771	63.6578	0.0359	1297.242
Firm Size (FS)	1,600	16.4092	2.7157	9.4889	24.9593
Firm Age (FA)	1,600	39.8406	19.0210	2	154
Dummy FF	1,600	0.2437	0.4294	0	1
Sector	1,600	0.3875	0.4873	0	1

Geographic diversification resulted in a dividend yield that was somewhat lower than the dividend payout ratio of 0.2238. Geographic diversification has a mean score of 0.2472, indicating that Pakistani enterprises are not heavily invested in geographic diversification techniques. Pakistani businesses earned an average of 0.09 ringgit for every ringgit of total assets investedin the company. In terms of debt, the average debt ratio of 0.521 indicates that these businesses used 52 cents of total debts for every ringgit of total assets. It can be seen that increasing geographic activity results in less reliance on debt 0.52. Although the means were not considerably different, geographical diversification techniques reduced sales growth for Pakistani enterprises, which had mean sales growth of 8.8%. The sample companies'average market to book ratio was 20.07, meaning that the market value of the company was around 20 times more than its book value. The mean value of the log of total assets for the entire sample in the case of company size was 16.38, translating to an average total asset value.The firm age, the mean value of the age of firm 40 years, contains a mix of well-established and relatively new businesses.

Regression

In this section we illustrate the main results and further test aiming to investigate the impact of corporate diversification on dividend policy in Pakistan's non-financial sector using an OLS regression model. In the analysis, three models are run for each dependent variable.

Table 3

	Model 1 (ID)		Model 2 (GD)		Model 3 (ID&GD)	
Variable	**Coef.**	**P>t**	**Coef.**	**P>t**	**Coef.**	**P>t**
ID	0.0055	0.307	---	---	0.0060	0.276
GD	---	---	0.0194	0.000**	0.0028	0.525
ROA	0.1424	0.000**	0.1648	0.000**	0.1427	0.000**
DR	-0.0227	0.005**	-0.0172	0.02*	-0.0228	0.005**
SG	0.0004	0.924	-0.0017	0.419	0.0006	0.888
MBV	-0.00005	0.000**	-0.00007	0.001**	-0.00005	0.001**
FS	0.0009	0.023*	-0.0006	0.248	0.0008	0.045*
FA	-0.0001	0.058*	-0.0001	0.01**	-0.0001	0.067
Dummy FF	-0.0167	0.000**	-0.0087	0.005**	-0.0163	0.000**
Sector	---	---	0.0082	0.007**	---	---
_cons	0.0181	0.05*	0.0398	0.000**	0.0182	0.05*

Note: GD is Geographical Diversification, ROA is Profitability, DR is Debt Ratio, SG is Sales Growth, MBV is Investment Opportunity, FS is Firm Size, FA is Firm Age, Dummy FF is Family and Non-Family Firms, Sector. Significance Codes: '**' =0.01 '*' =0.05

Industrial diversification shows insignificant negative impact on dividend yield. By diversifying among business areas to stabilize cash flows, diverse organizations may keep a bigger part of earnings for internal investments, according to an insignificant correlation. Profitability (ROA) shows significant positive impact on dividend yield. This suggests that investors are more drawn to investments that raise company value when there is a rise in profitability. Debt ratioshows significant but negative impact on dividend yield. This relation suggests that companies with high debt levels may be more committed to maintaining dividend payments in order to meet debt obligations and represent financial stability. The dividend yield is only marginally positively impacted by sales growth. Rapid sales growth mayforce businesses to reinvest profits in growth, which would lower the amount of money available for dividend payouts. The relationship between the expectations of the market and

a company's financial health and dividend policy varies significantly between industries. The investment opportunity (MBV) shows significantly but negative impact on dividend yield. Thissuggests that companies with significant investment prospects favour reinvesting earnings into growth projects, which may reduce the amount of money available for dividends. Both company age and size have a sizable but detrimental impact on dividend yield. For larger and older firms seeking to manage their dividend policies,it's important to strike a balance between dividend payouts and reinvestment in order to cater to both income-seeking and growth-focused investors. The family firm and non-family firm dummy variable shows significant but negative impact on dividend yield when examined alongside with industrial diversification. These dynamic highlights the delicate balance between family interests and the demands of external shareholders. The interplay of the FF dummy variable with industrial diversification can resultin a variety of effects, influencing investor perceptions and valuations.

On the other hand, geographical diversification has a diverse client base and lower risk exposure tend to havemore steady cash flows and greater dividend yields. Corporate diversification may have a substantial effect because the additional costs associated with diversification outweigh the benefits (Hengartner, 2006). Profitability shows a significant but positive impact on dividend yield. The significant relationship between ROAand dividend yield suggests that higher profitability, is associated with higher dividend yield. Debt ratio negative significance to highlight that different businesses and industries may have quite different effectsof debt on dividend policy. This can be because other elements, including business size or market conditions, might have a bigger impact on dividend policy. Sales growth has insignificant negative impact on dividend yield, because sales growth alone may not be the soledeterminant of dividend policy. Higher dividend yields could result from great profitability (asdetermined by ROA) and significant sales growth. Businesses that experience strong sales growth and corresponding earnings are more likely to have cash on hand to pay dividends. The negative sign in the association between investment opportunity (MBV) and dividend yield indicates that corporations with considerable investment potential prioritise reinvesting earnings in growth projects. The firm size shows insignificant negative impact on dividend yield. This suggests that for the companies analyzed, firm size appears to be one of the key determinants of dividend policy. The firm age shows significant but impact on dividend yield. Lower yields are a common effect of older companies' preferencefor consistency and reinvestment over large dividend payouts. The family firm and non-family firm highlights the complexities of implementing dividend policy in family businesses, when long-term viability and family control may take precedence over immediate dividend payouts. The sector dummy variable shows significant but positive impact on dividend yield when examined alongside with geographic diversification. This influence stems from sector-specific stability, geographic resilience, and risk diversification. Stable industries contribute to a consistent income stream, while regional variety improves earnings resilience and minimises sensitivity to sector-specific issues. This effect is amplified further by investor perceptions of sector stability.

Both industrial and geographical diversification shows insignificant but positive impact on dividend yield. This demonstrates the negative impact of diversification on business earnings and shareholder wealth. This result supports the arguments presented in previous studies suchas (Galván et al., 2007), (Chen and Yu, 2012) and (Duchin, 2010) and that of the agency theory. Profitability has a significant positive impact on dividend yield. Profitable companies,regardless of diversity, have the financial resources to pay out bigger dividends, enticing income-seeking investors and strengthening investor confidence. This strategy assures that dividend yields can be maintained and possibly increased while managing the challenges of multiple businesses and marketplaces. Debt ratio shows a significant but negative impact on dividend yield. Debt servicing and financial stability are frequently prioritized over dividend payments by companies with larger debt ratios, resulting in lower

dividend returns. Insignificance of sales growth means that firms with better sales growth is more likely to have higher dividend yields. This could be because strong sales growth provides corporations with the finances and confidence to pay out greater dividends. Market to book value ratio has significant negative effect on dividend yield. Market to book value is often used to forecast future investment levels. A firm with a high investment opportunity will opt to pay out more dividends so that the company's money does notaccumulate, and this is a way for management to explain the status of a good and successful company. Firmsize and firm age show significant impact on dividend yield. Larger, more mature firms may prioritize reinvestment or financial stability over higher dividend payouts, resulting in lower dividend yields. The family firm and non-family firm dummy variable shows significant but negative impact on dividend yield when examined alongside with industrial and geographical diversification. As a result of this preference, dividend yields are lower, indicating the balancebetween family interests and external shareholder expectations.

Table 4

	Model 1 (ID)		**Model 2 (GD)**		**Model 3 (ID&GD)**	
Variable	**Coef.**	**P>t**	**Coef.**	**P>t**	**Coef.**	**P>t**
ID	0.0995	0.011**	---	---	0.0831	0.033*
GD	---	---	-0.0183	0.346	-0.1135	0.000**
ROA	1.0828	0.000**	0.9728	0.000**	1.0728	0.000**
DR	-0.1319	0.022*	-0.1822	0.000**	-0.1282	0.025*
SG	-0.0084	0.803	-0.0122	0.163	-0.0171	0.612
MBV	0.0002	0.028*	0.00037	0.000**	0.0001	0.077
FS	0.0033	0.25	0.0064	0.005**	0.0063	0.034*
FA	0.0010	0.019**	0.00059	0.043*	0.00091	0.04*
Dummy FF	-0.0867	0.000**	-0.0633	0.000**	-0.1018	0.000**
Sector	---	---	-0.0067	0.599	---	---
_cons	0.0529	0.424	0.1138	0.005**	0.0516	0.43

Note: GD is Geographical Diversification, ROA is Profitability, DR is Debt Ratio, SG is Sales Growth, MBV is Investment Opportunity, FS is Firm Size, FA is Firm Age, Dummy FF is Family and Non-Family Firms, Sector. Significance Codes: '**' =0.01 '*' =0.05

Significant relation implies that industrial diversified organizations have more constant and diverse income streams, allowing them to regularly allocate a bigger part of earnings as dividends. Firms seeking to increase dividend payouts might diversify strategically while maintaining careful financial management to sustain these dividend policies. Profitability (ROA) shows significant positive impact on dividend payout ratio. Profitable businesses often have the financial potential to pay out bigger dividends, attracting income-oriented investors andreinforcing investor confidence. Debt ratio shows significant but negative impact on dividend payout ratio. This means that firms with greater levels of debt frequently priorities debt repayment andfinancial stability over dividend payouts, resulting in lower payout ratios. Sales growth showsinsignificant negative impact on dividend payout ratio. Rapid sales growth may necessitate corporations reinvesting profits in order to expand, limiting money available for dividend payouts. Investment opportunity (MBV) of a companies that want to enhance their dividend payout ratios while also having significant investment opportunities should carefully balance growth investments with dividend distributions. The firm size shows insignificant positive impact on the dividend payout ratio. While larger companies may have more resources to deliver dividends, the link isfrequently muddled due to a variety of factors such as differences in capital allocation methods,development possibilities, and shareholder expectations. Firm age has significant

positive impact on dividend payout ratio. This means that older companies have more established business models, more predictable cash flows, and a track record of stability, which results in higher dividend payouts. Investors frequently expect established corporations to deliver stabledividends. The family firm and non-family firm dummy variable shows significant but negativeimpact on dividend payout ratio when examined alongside with industrial diversification. This highlights the complexities of implementing dividend policy in family businesses, where long-term sustainability and family control may take primacy, requiring careful alignment with investor expectations and financial strategy.

The geographic diversification has insignificant negative effect of dividend payout ratio, means lumbering corporate conglomerate, owning too many investments can be confusing, increase investment costs, add layers of required due diligence, and lead to below-average risk-adjustedreturns. Firms can also establish beneficial networks among themselves and with third parties,particularly in overseas regions (Beleska-Spasova and Glaister 2010; Boone et al. 2007). Profitability shows significant positive impact on dividend payout ratio. Profitable companiestypically have enough earnings to pay out in dividends, enticing income-seeking investors andboosting investor confidence. The Debt Ratio assesses a company's reliance on debt to financeits operations. Because of the negative coefficient, higher debt levels may be associated with lower dividend payouts, but this relationship is statistically insignificant. Swings in sales growth may not have a consistent impact on dividend decisions. Companies may base their dividend policies on otherfinancial measures or strategic aims. Market to book value ratio shows significant positive impact on dividend payout ratio. Market sentiment may not be the key motivator for these companies' dividend selections. Other considerations, like as profitability or strategic goals, may take precedence in determining dividend policies. Firm size has significant but positive impact on dividend payout ratio. Companies of different sizes may have diverse strategic objectives. While larger firms might prioritize dividend payments to attract investors, some smaller companies may retain earningsfor reinvestment and growth. Firm age has a significant positive impact on dividend payout ratio. Older businesses often have a longer track record of success and are seen as more solid and established. The familyfirm and non-family firm dummy variable shows significant but negative impact on dividend payout ratio when examined alongside with geographical diversification. This implies that thedifficulty of implementing dividend policy in family businesses, when long-term sustainability and family control may take precedence over current dividend payouts. Sector dummy variable shows significant negative impact dividend payout ratio. This relation suggests the significance of comprehending sector-specific profit patterns as well as the complications imposed by diversification plans.

Industrial diversified firms have more stable and diverse income streams,allowing them to share a larger portion of earnings as dividends. This partnership exemplifiesthe strategic benefit of diversifying across company categories. Geographic diversification hasa significant but negative impact on dividend payout ratio. Changes in geographic diversification may not have a significant impact on a company's dividend distribution strategy within the sample investigated. The internal capital market mechanism of resource sharing can help minimize transaction costs for the geographically diverse corporate group (Mackey et al., 2017). Control variables each coefficient indicates the change in DPR associated with a unit change in the appropriate control variable, and its significance varies. ROA significance implies that diversification strategies enhance profitability, such as efficient cost management, revenue growth, and prudent financial management. Debt ratio shows a significant negative impact on dividend payout ratio. To preserve financial stability and meet investor expectations for dividend payouts, it is critical to balance the benefits of diversification with smart debt management. Sales growth shows a insignificant negative impact on dividend payout ratio. Because quick sales development may entail significant reinvestment in the business, restricting immediate payout capacity, the relationship is frequently strained. MBV has a significant positive

impact on dividend payout ratio. MBV compares a company's market valuation to its book value (accounting value). The coefficient indicates that MBV and DPR have a very minor positive association. This could imply that firms with greater market prices relative to book values have lower DPR. The low p-value of 0.077 implies that the connection between MBV and DPR in this sample is statistically significant. Firm size and firm age have positive insignificant effect on dividend payout ratios, larger firms, in terms of size, may have a slightly lower DPR. This means that corporations adopting diversification strategies should recognise the potential benefits of firm size and age in increasing dividend payment ratios while coping with the influence of these characteristics. The family firm and non-family firm dummy variable shows significant but negativeimpact on dividend payout ratio when examined alongside with industrial and geographical diversification. Family businesses value long-term viability over immediate returns, resulting in lesser payouts. It is critical for investor relations to balance family and external shareholder interest.

According to the study's results, dividend policy varies depending on industrial and geographical diversification.The behaviour of dividend policy and explanatory variables of the study is inconsistent in the analysis. To analyse the impact of industrial and geographical diversification on dividend policy is one of the major objectives of this study. A corporation that operates across numerous industries is less vulnerable to industry-specific economic downturns or problems. For example, if a manufacturing firm diversifies into both the technology and healthcare industries, it may generate stable earnings even if one of the areas is experiencing difficulties. Earnings stability as a result of industry diversity is a substantial benefit to a company's dividend policy. Shareholders frequently appreciate periodic dividend payments as an indication of financial health and commitment to repaying value. Companies with diverse operations can guarantee shareholders that their dividend policy will be maintained even during economic downturns inspecific areas. Increased EPS as a result of industrial diversification might have a direct impacton the dividend payment ratio. When a company's earnings are more reliable, it may afford todevote a bigger share of its earnings to dividend payments without jeopardizing its financial stability. Some industries may create significant cash reserves, allowing for bigger dividend payouts, whilst others may necessitate investing in growth.

Another major objective of the current study is to analyse the impact of geographical diversification on dividend policy. Significant results follow the study of (Qureshi, Akhter and Imdadullah, 2012). The results of geographic diversification are positive in case dividend yield. Companies that expand their activities throughout different geographic locations tend to disperse a lesser part of their earnings as dividends. As a result, the diversification strategy hashigher costs and benefits (Ali, Hashmi & Mehmood, 2016). Geographic diversification is frequently pursued in order to reduce risks connected with regional economic downturns or political instability. Companies can create reserves for unexpected obstacles in these different market places by keeping earnings. Investor expectations frequently impact multinational corporations' payout policies. Expansion into new geographical markets frequently necessitatesconsiderable capital investments. These investments could involve building new infrastructure,accessing new markets, or adjusting to new regulatory regimes. As a result, a significant amount of earnings could be preserved for capital expenditures, resulting in fewer dividend payouts. Corporate diversification and dividend policy may be related because, in the absence of well-managed corporate governance, corporations find it appealing to diversify their company, which ultimately harms them (Phung & Mishra, 2016). Shareholders may expect long-term growth via geographic expansion and are ready to forego present dividends in exchange for the possibility of future gains. The fluctuating outputs are the result of the country's various circumstances and economic conditions, as well as fluctuations in thePakistan Stock Exchange between 2012 and 2021. This reason is supported by (Iqbal, Hameedand Qadeer, 2012). Dividend-paying stocks are frequently chosen by investors based on their dividend yield. A higher dividend yield suggests the possibility of larger income

in comparison to the stock's market price. This discussion highlights the strategic advantages of geographical diversification in shaping a company's dividend yield and underscores the importance of effective risk management in capitalizing on these benefits.

CONCLUSION

The non-financial sector is critical to Pakistan's economic progress. A detailed investigation of the dividend policy of this sector at the industry and business levels is required. Firms choose tactics that expand their business in today's competitive business environment. Diversificationis one approach that businesses use to stay competitive. The impact of these factors on firm dividend policy has been studied separately, but the combined analysis of these determinants and sectoral impact on non-financial firm dividend policy has yet to be studied. This issue is also addressed in the current study by analyzing and determining the important consequences in the field of corporate finance.

The study looked at the relationship between business diversification and dividend policy in Pakistan. Diversification strategies of two categories were investigated: industrial diversification and geographical diversification. The study examined data from a sample of 162enterprises registered on the Pakistan Stock Exchange over a ten-year period (2012–2021). Nevertheless, the firm's motivations may vary based on the diversification techniques they pursue.

Based on the result of the study that industrial diversification was found to be significantly positive in influencing dividend payout ratio among Pakistani firms. This shows that corporations that diversify across industries tend to distribute greater dividends. This finding can be linked to diversification's stabilising influence on earnings and cash flows. Thestabilizing effect of industrial diversification on a company's earnings and cash flows is one ofthe primary reasons for this good influence. This diversification can help to mitigate the impact of economic downturns or industry problems. As a result, evenin the face of sector-specific changes, the company is more likely to sustain stable and consistent profitability. Second, this study highlighted the positive impact of geographical diversification on dividend policy in Pakistan. It highlights how the integration and sharing of resources across multiple nations can result in firm-wide economies of scale and scope via the internal capital market. Companies typically engage in market diversification to enhance their potential for generating additional commercial possibilities and maximizing profits. Implementing a resource-sharing plan can effectively decrease transaction costs and diminish the need for external funding. Decreasing transaction expenses can help the company enhance its performance and boost its dividend yield. Third, regardless of diversification, family businesses were found to have a large but negative impact on dividend polices. These companies place a premium on long-term viability and family ownership over immediate dividend distribution. The considerable yet unfavorable influence of family ownership on dividend payment ratios, independent of diversification, shows family-owned enterprises' different motivations and decision-making processes. Long-term sustainability, family control, and delayed gratification are more important to these companies than rapid dividend distribution. Non-family-owned businesses, on the other hand,may be more concerned with short-term profits and achieving investor expectations throughbigger dividend payouts. Last, the study discovered that different sectors within the non-financial sector had variableeffects on dividend yield and payout ratios when examined on a sectoral basis. Some industrieshad a favorable impact on dividend yield, but others had a negative impact on dividend payment ratio.

This study has its limitations. A potential future research approach in this area could be a more in-depth examination of how regulatory changes and economic variations affect sector-specificdividend programmes. Investigating how companies in different industries adjust their dividend strategy in response to changing regulatory frameworks and economic conditions could provide significant

insights into dynamic dividend policy decision-making. Another limitation is that because this study was conducted in a single country, the findings may not be applicable to other South-east Asian countries, despite the fact that these countriesmay have similar corporate cultures. A comparison of the results in other countries, as well asregulators' efforts in defining corporate governance regulations, could provide advice for developing better governance structures in these countries. It is worthwhile to investigate the role that corporate governance practices play in mediating the relationship between dividend policies and diversification. Examining the ways in which various governance frameworks affect corporate decision-making may help identify the processes by which companies determine how much dividends to distribute. Robust governance might potentially amplify the advantages of diversification, resulting in more steady dividend policies.

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