



DETERMINANTS OF DIVIDEND POLICY IN INDIAN FMCG SECTOR: A COMPREHENSIVE LITERATURE REVIEW

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Article DOI: <https://doi.org/10.36713/epra31955>

DOI No: 10.36713/epra31955

ABSTRACT

The present study aims to identify the major determinants of dividend policy in the Fast-Moving Consumer Goods (FMCG) sector in India. It also seeks to review and analyse the findings of previous studies on the determinants of dividend policy and compare the findings of global studies with studies on FMCG sector. The study uses a descriptive research approach and is based on secondary data collected from previously published research papers and other relevant academic literature. The review of previous studies indicates that several financial factors influence dividend policy, including profitability, earnings per share, firm size, liquidity, leverage, growth opportunities, retained earnings, cash flows, and past dividend payments. The Indian studies on FMCG suggest that profitability, earnings per share, dividend payout ratio, and retained earnings influences dividend decisions. Other studies indicate that firm size, investment opportunities, business risk, and financial leverage influences dividend payments. Global studies also highlight the importance of profitability, firm size, ownership structure, and past dividend decisions.

KEYWORDS: Dividend Policy, FMCG Sector, Profitability, Firm Size, Dividend Payout Ratio, Leverage, Liquidity, Retained Earnings.

INTRODUCTION

Dividend policy is an important financial decision through which a company decides how its earnings should be allocated between shareholder distributions and financing of business operations in future. A good dividend policy should contribute to enhancing investors' confidence while allowing a company to keep sufficient resources for its long-term objectives. Therefore, dividend decisions are closely connected with a company's financial performance, financing requirements, investment plans, and overall corporate strategy.

The determinants of the dividend are influenced by many financial and firm-specific variables. Profits affect the earnings of the company available for distribution, whereas liquidity reflects the company's ability to meet its immediate financial obligations while making dividend payments. Capital structure of a company influences the proportion of earnings retained by a company. In addition, firm size, business risk, growth opportunities, cash flow, and ownership structure can influence dividend decisions of a company. The relative importance of these factors may vary across companies depending on their operating conditions, financial objectives, and stage of development.

The FMCG sector provides a relevant context for examining these financial decisions. The sector includes packaged foods, beverages, personal care items, and household necessities. Dividend policy may differ among FMCG companies according to their profitability, financial position, business maturity. Companies generating relatively stable earnings may provide regular dividend payments. Furthermore, the preferences of shareholders and the financial policies adopted by management may influence decisions concerning dividend distribution.

Previous studies have examined dividend policy across different industries and economic environments, examining factors such as profitability, liquidity, leverage, firm size, growth opportunities and ownership structure. However, the findings of these studies may differ because of variations in sample, operating environment, geography, periods of study. Examining the existing literature can therefore provide a broader understanding of the factors associated with dividend decisions and reveal areas in which previous findings remain inconsistent or require further investigation.

In this context, the present study reviews previous studies on the determinants of dividend policy in the FMCG sector. It focuses on identifying the major factors examined in the existing literature, comparing the findings of relevant studies.

OBJECTIVES

The following are the objectives of the study:

1. To identify the major determinants of dividend policy in the FMCG sector in India
2. To review and examine the findings of previous studies on the determinants of dividend policy concerning the FMCG sector.
3. To correlate the findings of global studies on the determinants of dividend policy with studies on the FMCG sector.



RESEARCH METHODOLOGY

The present study adopts a descriptive approach to examine previous studies related to the topic of major determinants of the dividend policy FMCG sector. The study is entirely based on secondary data collected from previously published papers and other relevant academic publications. The primary purpose of the study is to review and examine previous studies related to determinants of the dividend policy of the FMCG sector and correlate them with global studies.

Sources of Data

Secondary data are collected from academic databases and scholarly search platforms, including Google Scholar and relevant journal websites, subject to accessibility. Mainly the attention is given to studies examining dividend policy in FMCG companies. But research relating to other industries is also considered as it provides relevant insights in understanding determinants of dividends.

Method of Analysis

The selected studies are reviewed and examined using a qualitative and descriptive approach. The findings are organized according to the major determinants of dividend policy, and similarities, differences, and inconsistencies among previous studies are examined considering both FMCG sector studies and global studies.

REVIEW OF PREVIOUS STUDIES

(Ahmed & Javid, 2008) has examined 320 non-financial companies listed on the Karachi Stock exchange, for a period covering 2001 to 2006. The study used Dividend yield as dependent variables, whereas independent variables include Net earnings, Ownership, Leverage, Investment opportunities, Size, Sales growth, Market capitalisation, Market liquidity, Market to book value of equity and Lagged Dividend yield for test Lintner Model. Generalized Method of Moments was used to address the issue of endogeneity. The findings revealed that net earnings have a positive and statistically significant relationship with dividend yield, indicating that firms with higher earnings tend to pay higher dividends to shareholders. Ownership concentration also positively and significantly influences dividend payout, suggesting that firms with major shareholders tend to distribute more dividends to reduce agency conflicts. In contrast, investment opportunities and firm size showed a negative and significant relationship with dividend payout, indicating that firms may prefer to invest their available funds in business growth and assets rather than distribute them as dividends. Market liquidity also had a negative and significant relationship with dividend yield, whereas leverage showed a negative but statistically insignificant relationship, suggesting that debt levels were not a significant determinant of dividend policy. Furthermore, the previous year's dividend yield had a positive relationship with the current year's dividend yield, indicating that firms tend to maintain consistency in their dividend payments. Overall, the study concluded that profitability, ownership concentration, investment opportunities, firm size, market liquidity, and previous dividend payments are important factors influencing dividend policy.

(Denis & Osobov, 2008) has examined determinants of dividend policy in the United States, Canada, UK, Germany, France and Japan, during 1989-2002. The variables considered for the study are profitability, size, growth opportunities and the ratio of retained earnings to total book equity. The findings revealed that profitability, firm size, and retained earnings were positively associated with the dividend payments across all six countries, while the effect of growth opportunities varied between countries. The study concluded that financial performance, firm size, earnings, and past dividend decisions are important determinants of corporate dividend policy.

(Kapoor et al., 2010) examined the determinants of the dividend policy of the companies which belong to the service sector in India. The study identified several financial factors influencing dividend decisions, including profitability, cash flows, debt-equity ratio, retained earnings, sales growth, share prices, capital expenditure, beta, and interest paid. The existing literature reviewed by the authors suggested that the dividend payout was positively related to profitability and cash flows, whereas capital expenditure, retained earnings, sales growth, share prices, beta, interest paid, and debt-equity ratio generally exhibited inverse relationships with dividend payout. The author used factor analysis to explore the relationships among the identified variables and to determine the major factors influencing dividend policy. The study aimed to provide an overview of important dividend theories and empirically examine the determinants of dividend behaviour in service-sector companies in India.

(Al Shabibi & Ramesh, 2011) has examined 90 non-financial companies of the UK in the period 2007. For the study multiple regression model was used with Dividend per share as response variable and predictor variables included Board size, Board independence, Firm size, Profitability, Debt level, Firm growth and Firm risk. The results show that profitability, firm size, firm risk and board independence as the major variables affecting dividends per share.

(Issa, 2012) has examined 284 firms listed on Kuala Lumpur Stock Exchange of Malaysia. The study period is 9 years from 2003 to 2011. The study includes 7 sectors like Consumer products, Industrial products, Construction, Finance, Technology, Properties and Telecommunications sector. The variables of the study include Dividend payout ratio as dependent variable and Free cash flow, Return on Equity, Return on Assets, Earnings per Share, Market to book ratio, Growth assets, Market capitalisation and Business risk as independent variables. The findings indicate that Return on Equity (ROE), Return on Assets (ROA), Earnings per Share



(EPS), Market-to-Book Value (MBV), and Market Capitalization have a significant positive relationship with the Dividend Payout Ratio (DPR), while business risk (Beta) has a significant negative relationship. Free Cash Flow (FCF) and growth assets show no significant relationship with dividend payout based on multivariate regression analysis.

(Azhagaiah, 2014) has studied the relationship between Dividend Policy and Shareholders wealth of the FMCG sector. The paper says that 13 companies have been dividends continuously out of 16 FMCG companies listed on NSE. Earnings per share (EPS), Dividend per Share (DPS), Retained earnings per share are considered as independent variables to study the relationship between Dividends and Shareholders wealth. The results say that there is a long run relationship between DPS, EPS and Retained earnings.

(GejaLakshmi & Azhagaiah, 2015) has studied the relationship between Dividends and Shareholders wealth before after the financial meltdown in the FMCG sector considering 13 FMCG companies. The independent variables considered for the study to analyse the relationship between dividends and shareholders wealth are Earning per share (EPS), Dividend per share (DPS), Retained earnings per share, Price earnings ratio, Lagged price earnings, Earnings and lagged market value. The data considered for the study has no issue of heteroskedasticity and autocorrelation. The results indicate that, dividend per share (DPS) and retained earnings per share (RPS) had significant positive relationships with shareholders' wealth before the crisis. After the crisis, DPS, lagged price-to-earnings ratio, and lagged market value showed significant positive relationships with shareholders' wealth. The Chow test also indicated a significant structural change in shareholders' wealth following the global financial crisis.

(Pandey & Mansuri, 2017) has studied determinants of dividend policy of 12 FMCG companies for a period of 10 years from 2003-04 to 2012-13. The variables considered for the study are Divided payout ratio, Debt-equity ratio, Earnings, Corporate tax, Earnings per share and Firm size. The findings revealed that the dividend payout ratio, debt-equity ratio, earnings, and corporate tax significantly influenced earnings per share and dividend policy. The regression analysis further indicated that earnings, debt-equity ratio, and corporate tax had a significant impact on dividend policy and dividend payout ratio.

(Gangil & Nathani, 2018) examined 11 FMCG companies listed under CNX FMCG index of NSE for a period of 10 years from 2007 to 2016. Dividend payout ratio (DPR) was considered as a response variable, whereas Return on Assets (ROA), Earnings per Share (EPS), Profit after Tax (PAT), Current Ratio (CR), Liquidity Ratio (LR), Price to earnings ratio (PE), Debt-equity ratio (DE), beta, cash flow to sales ratio, log of total assets, market capitalisation, and retained earnings were considered as predictor variables. Factor analysis was used to study the relationship between these variables. The study identified five determinants of dividend policy in the FMCG sector: profitability, firm size, liquidity, growth opportunities, and market value. The findings revealed that growth opportunities had a significant negative relationship with dividend decisions, while profitability showed a positive relationship significant at the 10% level. Firm size, liquidity, and market value were found to have statistically insignificant relationships with dividend decisions.

(Biswas et al., 2022) has analysed 30 companies listed on the BSE of which 25 companies belong to FMCG and the other 5 belong to Consumer Durables. To study dividend policy six factors were considered which included ownership, size, Net profit margin, Return on Capital employed, growth, liquidity and leverage. The financial period considered for the study is 2013-14 to 2019-20. The findings revealed that FMCG companies indicated stronger dividend-paying capabilities than consumer durables companies. ITC Limited ranked first, followed by Hindustan Unilever Limited, across the overall dividend-paying capability rankings. The top five positions in the Borda Count ranking were occupied by FMCG companies, indicating their comparatively stronger dividend performance. The study also observed that larger FMCG companies with higher market capitalization maintained relatively consistent positions in the rankings.

(Kaur, 2025) examined 12-NIFTY FMCG companies for the time period of 2009 to 2022, based on the results of Hausman test Random Effect Model was applied for panel data. The results suggests that profitability, investment opportunities and company size affect the dividends whereas business risk and book value of share have negative impact on dividend payout ratio. The Random effect model has a R-square of 48.89%.

(Shekhar & Priya, 2026) examined the dividend policy of Hindustan Unilever Limited (HUL) for 5 years, from 2020–21 to 2024–25. The study used Ratio analysis, trend analysis, and regression analysis to examine dividend payout ratio, dividend yield, earnings per share (EPS), debt-equity ratio (DER), and earnings retention. The findings revealed that HUL maintained relatively high dividend payout ratios and a low debt-equity ratio during the study period. However, regression results indicated that EPS and DER were not statistically significant at the 5% level. The study highlighted HUL's dividend distribution practices and the importance of balancing shareholder returns with financial stability and future investment requirements.

(Trisanti et al., 2026) has examined 80 manufacturing companies listed on the Indonesia Stock Exchange covering a period of 2022-2025. Dividend payout ratio used as a dependent variable whereas Profitability, Leverage, Asset growth rate and Sales used as independent variables. The findings indicate that sales and profitability have a positive and significant impact, Asset growth as negative and significant impact on Dividend payout ratio. Leverage has no impact on the Dividend payout ratio.



FINDINGS

The following are the finding of the study based on review of previous studies:

1. Profitability and earnings are important factors influencing dividend policy.
2. Firm size and ownership structure influence dividend payments.
3. Liquidity and cash flow affect a company's ability to pay dividends.
4. Leverage and debt levels may influence dividend decisions.
5. Growth opportunities can reduce dividend payments as companies retain funds for future investment.
6. Past dividend payments influence current dividend decisions.
7. The impact of these factors on dividend policy varies across companies and studies.

CONCLUSIONS

The present study examined the major determinants of dividend policy in the Fast-Moving Consumer Goods (FMCG) sector in India through a descriptive review of previous studies. The study also compared the findings of studies in India with global studies to understand the factors influencing dividend decisions across different industries and countries.

The review reveals that dividend policy is influenced by profitability, earnings per share, retained earnings, liquidity, firm size, leverage, growth opportunities, business risk, and past dividend payments. Profitability and earnings support a company's capacity to distribute dividends, whereas growth opportunities and investment requirements may require companies to retain earnings for future development. Liquidity and leverage are also important because dividend payments can be only if cash is available and interest obligation is within limits.

In conclusion, dividend policy in the FMCG sector is a multifaceted financial decision that requires companies to balance shareholder returns, financial stability, and future growth. Understanding the major determinants of dividend policy can help investors, financial managers, and other stakeholders assess dividend decisions more effectively.

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