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Sentiment investor, catering incentives, corruption, COVID-19, and dividend policy

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Abstract
This study examines how corporate dividend policies are shaped by investor sentiment and behavioral factors through dividend catering theory during the COVID-19 period. Using panel data from 31 countries over 2018–2022, this study applies a quantitative approach with the SYS-GMM estimation method. The results show that catering incentives positively affect dividends in low investor sentiment conditions but negatively in high sentiment conditions. This effect becomes stronger during the COVID-19 pandemic, particularly when sentiment is low. In addition, corruption levels amplify the impact of catering incentives on dividend policy depending on investor sentiment. This study contributes by highlighting the interaction between investor sentiment, crisis conditions, and institutional environment in determining dividend decisions, offering insights for firms seeking to maintain value under changing market conditions.

Keywords:
catering incentives; corruption; COVID-19; dividend policy; sentiment investor.

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Introduction

Dividend policy has become a significant issue in corporate finance. Modigliani & Miller (1961) argued that dividends are irrelevant to firm value in a perfect capital market. However, this view was challenged by Rock & Miller (1985)

through dividend signaling theory, which emphasizes the role of information asymmetry. In addition, agency theory highlights that dividend policy can mitigate conflicts between managers and shareholders (Easterbrook, 1984; Jensen, 2005). Given its impact on stock price and risk, dividend policy remains an important area of study (Hasan, 2021a, 2021b), and further research is still needed (Ed-Dafali *et al*, 2023). Nevertheless, prior studies have largely examined these perspectives separately, with limited attention to how behavioral factors, crisis conditions, and institutional environments jointly shape dividend policy across countries. Therefore, this study integrates investor sentiment, the COVID-19 pandemic, and corruption to address this gap and provide a more comprehensive explanation of cross-country variations in dividend decisions.

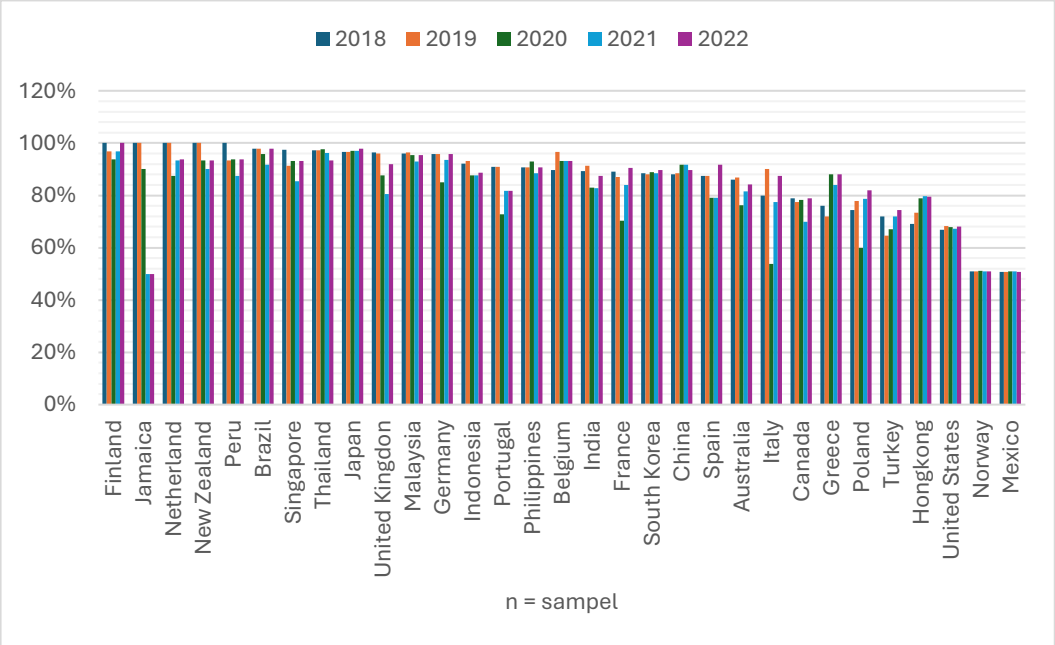
Building on this gap, this study focuses on the determinants of dividend payments across countries by examining whether firms adjust dividend policies in response to investor demand and how such decisions are influenced by crisis conditions and institutional factors. It aims to answer questions such as: Will a company pay dividends based on investor demand? Can the COVID-19 pandemic and corruption affect dividend policy?

The catering dividend theory, a key concept in behavioral finance, suggests that managers cater to investor demand for dividends through what is known as catering incentives (Byun et al., 2021; ElBannan, 2020; Gyimah & Gyapong, 2021; Takmaz et al., 2020). Fama & French, (2001) noted that as more companies stop paying dividends, the likelihood of widespread dividend payments decreases, while Baker & Wurgler (2004) documented periods when investors exhibit strong preferences for dividends. Positive catering incentives indicate that investors value dividend-paying firms, whereas negative incentives reflect a preference for non-dividend payers. Catering incentives are closely linked to investor sentiment: when sentiment is low, investors tend to prefer dividends, while high sentiment shifts preference toward capital gains (Nuansari et al., 2023). Thus, investor sentiment serves as a key behavioral channel through which firms adjust dividend policies.

The decision to distribute dividends also depends on external conditions such as economic crises. The COVID-19 pandemic, which led to widespread lockdowns, had a profound impact on economic activity and global stability. Studies by Pettenuzzo et al. (2023) and Liang et al. (2023) show that many firms reduced or postponed dividend payments during the pandemic. However, Ali (2022) finds that some firms continued paying dividends to signal financial strength. Javadi et al. (2021) highlight two key considerations: precautionary motives and agency concerns, where firms balance retaining cash for uncertainty and distributing dividends to mitigate agency problems. These findings suggest that crisis conditions may alter how firms respond to investor sentiment in determining dividend policy. Moreover, the role of institutional factors such as corruption may further influence this relationship by shaping corporate governance and investor trust across countries.

Specifically, this study examines how investor sentiment interacts with pandemic conditions and corruption levels in influencing dividend policy. From a theoretical perspective, investor sentiment affects dividend preferences through the catering mechanism, whereby managers adjust dividend policies to meet market demand. When investor sentiment is low, uncertainty increases, leading investors to prefer dividends as a more certain source of income. Conversely, when sentiment is high, investors tend to favor capital gains, reducing the demand for dividends. In this context, the pandemic strengthens this relationship by increasing economic uncertainty and risk, making firms more responsive to shifts in investor preferences. Furthermore, corruption, as a proxy for institutional quality, may moderate this relationship. Higher levels of corruption increase information asymmetry and agency problems, encouraging firms to use dividends as a signaling mechanism to build investor trust. In contrast, in low-corruption environments, greater transparency reduces the need for dividends as a signal, thereby weakening the relationship between investor sentiment and dividend policy. Accordingly, this study aims to evaluate the consistency of corporate responses while highlighting the role of behavioral and institutional factors in dividend decision-making. This approach contributes by integrating crisis conditions, investor behavior, and governance quality within a comprehensive analytical framework.

Figure 1.
Companies paying dividends in the period 2018-2022

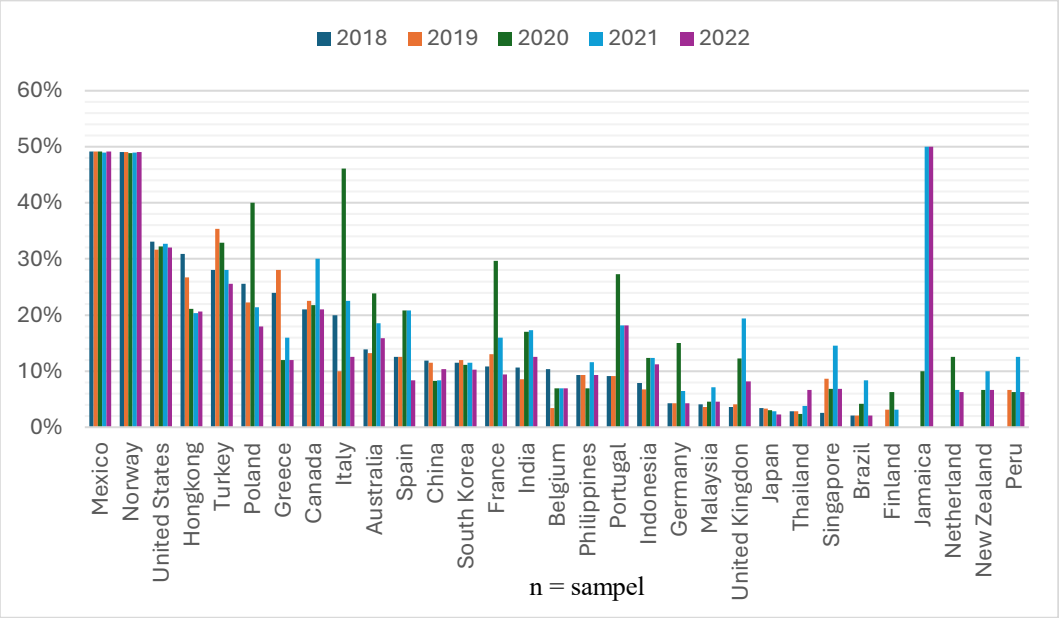


Source: Thomson reuters database (2023)

Figure 1. shows dividend distribution trends across 31 countries from 2018 to 2022. After the WHO declared COVID-19 a pandemic, many countries saw an increase in firms paying dividends. This rise was especially notable in China, with

similar but smaller increases in Hong Kong and the Philippines. In contrast, Jamaica experienced a decline in dividend-paying firms during the same period.

Figure 2.
Companies that did not pay dividends in the period 2018-2022



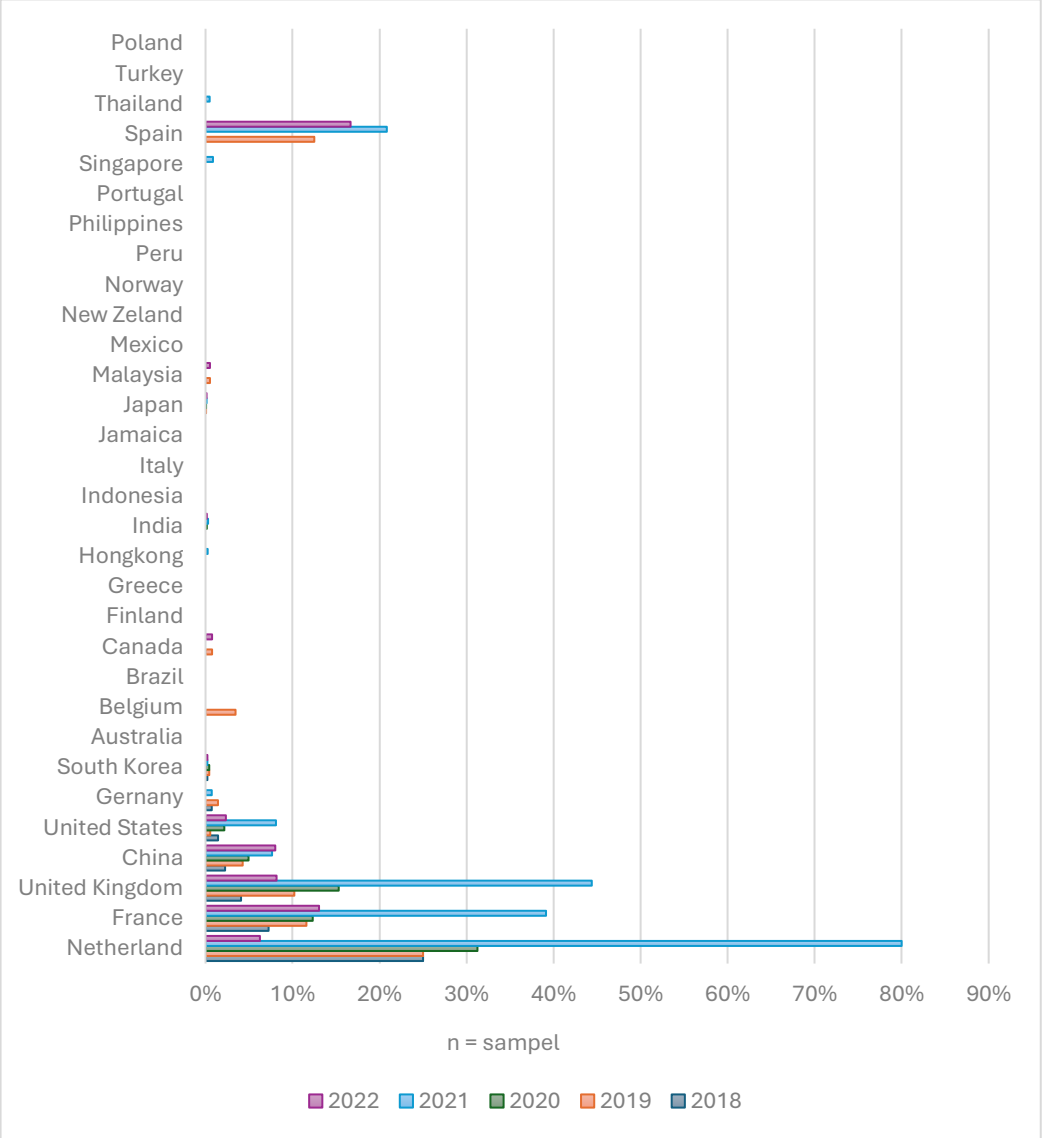
Source: Thomson reuters database (2023)

Figure 2. shows a decline in non-dividend-paying firms in Hong Kong and China, indicating a shift toward more consistent dividend payouts. In contrast, countries like Italy, Poland, Australia, France, and Portugal saw an increase in firms suspending dividends. Italy, notably, experienced a sharp rise in non-payers in 2020, followed by a decline, supporting Baker & Stein (2004) view that dividend decisions are shaped by economic conditions. Meanwhile, Mexico and Norway showed stable patterns.

Figure 3 highlights firms that paid dividends despite reporting losses between 2018 and 2022. In 2022, 80% of Dutch firms with negative profits still issued dividends—the highest among the sample. Similar behavior was observed in France, the UK, China, the U.S., and others. However, in countries like Poland, Turkey, Portugal, and Indonesia, no firms paid dividends while incurring losses.

Appendix 4 highlights that in 2020, 47% of Italian firms with positive net income chose not to distribute dividends—a proportion that declined in subsequent years. This suggests that dividend decisions are not solely based on financial performance, supporting Baker & Wurgler (2004) call for broader research into the factors influencing dividend policy.

Figure 3.
Negative net income companies paying dividends in the period 2018-2022



Source: Thomson reuters database (2023)

This discussion reinforces the catering dividend theory, which posits that dividend decisions are shaped by investor demand, not solely by fundamentals. The COVID-19 crisis, particularly in severely affected countries, may have strengthened the positive influence of catering incentives during periods of low investor sentiment (Ali, 2022; Javadi et al., 2021). Agency theory also supports increased dividend payments in times of crisis to mitigate managerial opportunism. Conversely, when sentiment is high, catering incentives may reduce dividend payouts (Liang et al., 2023b; Pettenuzzo et al., 2023).

Corruption further complicates dividend policy. In pessimistic markets, high corruption may drive investors to demand higher dividends as protection, consistent with agency theory (Hossain et al., 2021;Tran, 2020, 2021). In optimistic markets, however, corruption may suppress dividends (Dong et al., 2022; Tahir et al., 2020).

Thus, corruption can moderate the relationship between catering incentives and dividends. Building on past research Byun et al. (2021) and Andriosopoulos et al. (2021), this study offers a broader perspective by analyzing 31 countries. It introduces a sentiment index developed by Seok et al. (2019) and constructs a new sentiment measure using technical indicators like RSI and PLI, areas largely underexplored. Moreover, unlike prior studies relying on static methods, this study uses system-GMM to address endogeneity. Overall, it aims to provide new insights into how catering incentives, investor sentiment, COVID-19, and corruption jointly shape dividend policies.

Literature review

Dividend policy is explained by multiple theoretical perspectives, including dividend irrelevance theory, agency theory, and dividend catering theory, which offer differing predictions about how dividends affect firm value. Rather than providing a single conclusion, these theories collectively suggest that dividend decisions are conditional on market conditions, investor preferences, and managerial responses. In particular, dividend catering theory provides a behavioral explanation by linking investor sentiment to corporate decisions, arguing that firms adjust dividend payouts in response to investor demand. Prior empirical studies support this view by showing that investor sentiment systematically influences dividend premiums and payout policies, especially under changing market conditions. However, existing research largely examines these relationships in isolation, with limited attention to how investor sentiment interacts simultaneously with firm-level incentives and broader external conditions. To address this gap, this study develops an integrated framework that connects investor sentiment, catering incentives, and dividend policy, while explicitly incorporating crisis conditions and corruption as moderating factors. Therefore, a deeper examination of empirical evidence is necessary to clarify how these relationships operate in practice and to strengthen the linkage between theory and hypothesis development.

Empirical research has explored several facets of the catering dividend hypothesis. Kumar et al., (2022) found that in adverse economic conditions, investor demand for higher dividends leads managers to modify dividend payouts. Pieloch-Babiarz (2020) suggested that positive dividend premiums reflect dividend-based investor sentiment, influencing managerial decisions on dividend distributions. Market dynamics, particularly during bear markets, significantly affect investor demand for dividends (Bilel & Mondher, 2021). Yu et al. (2021) noted that changes in dividend tax rates and shareholder preferences shape corporate dividend strategies. These findings collectively reinforce the argument that investor sentiment plays a central and observable role in shaping dividend policy through catering incentives, thereby supporting the theoretical framework proposed in this study.

Investor demand for dividends critically influences stock prices, as initially highlighted by Modigliani & Miller (1961), who argued that dividend policy is irrelevant in perfect markets. Subsequent studies, however, demonstrate that in the presence of information asymmetry and taxes, dividend policy becomes relevant (Grullon & Michaely, 2002; Rock & Miller, 1985). Building on this, Baker & Wurgler (2004) introduce dividend catering theory, which directly links investor sentiment to dividend decisions through catering incentives. Empirical evidence further shows that firms increase dividends when dividend-paying stocks command a premium and reduce payouts otherwise, particularly during adverse market conditions and periods of shifting investor preferences. These findings indicate that catering incentives serve as a transmission channel through which investor sentiment affects dividend policy.

Importantly, investor sentiment varies across market environments, where low sentiment reflects risk aversion and stronger demand for dividends, while high sentiment indicates optimism and a preference for capital gains. Empirical studies, such as Byun et al. (2021) confirm that firms are more likely to pay dividends in low-sentiment environments. Building on this evidence, this study argues that the effect of catering incentives on dividend policy is conditional on sentiment levels, thereby providing a clear and logical basis for hypothesis development. To operationalize this relationship, this study constructs a comprehensive investor sentiment index using proxies such as turnover ratios, IPO metrics, dividend premiums, and stock issuance ratios. Due to limited IPO data in developing markets, firm-level daily data—RSI, PLI, ATR, and LTV—are utilized, with principal component analysis applied to derive the sentiment index, ensuring that the empirical measurement aligns closely with the theoretical framework.

H1a: In conditions of low investor sentiment, catering incentives positively affect dividend policies.

H1b: In conditions of high investor sentiment, catering incentives negatively affect dividend policies.

The COVID-19 pandemic severely disrupted economic activity and destabilized global financial markets, heightening uncertainty and risk for firms. Agency theory highlights that information asymmetry between principals and agents can lead to opportunistic behavior. During crises, firms may reduce cash holdings to mitigate such risks and channel funds into dividends (Ali, 2022; Javadi et al., 2021), especially when investor sentiment is low and dividends are preferred over capital gains.

However, when investor sentiment is high—signaling optimism—investors tend to favor capital gains. In such cases, firms experiencing uncertainty and declining cash flows may retain earnings to safeguard liquidity, consistent with the precautionary motive (Liang et al., 2023a; Pettenuzzo et al., 2023). Thus, the

pandemic may amplify the negative effect of catering incentives on dividend policy under high investor sentiment.

H2a: In conditions of low investor sentiment, the COVID-19 pandemic amplifies the positive impact of catering incentives on dividend policies.

H2b: In conditions of high investor sentiment, the COVID-19 pandemic amplifies the negative impact of catering incentives on dividend policies under high investor sentiment.

Corruption remains a major concern due to its damaging effects on market institutions, business systems, and its role in hindering economic and social development (Xu & Li, 2018; Freckleton et al., 2012). It also undermines corporate stability and investor confidence, compromising shareholder welfare. In highly corrupt environments, firms often reduce cash holdings by increasing dividend payments to mitigate agency

Problems (Hossain et al., 2021; Tran, 2020, 2021). These conditions indicate that corruption heightens information asymmetry and investor uncertainty, thereby increasing the importance of dividends as both a monitoring and signaling mechanism. This argument is further supported by recent evidence showing that when political sentiment is negative, firms tend to pay higher dividends to assuage investors' concerns regarding future prospects, as well as to address agency cost issues arising from free cash flow problems (Hossain et al., 2025).

When investor sentiment is low, indicating pessimism and a preference for dividends over capital gains, elevated corruption levels may further strengthen the positive impact of dividend-based incentives. This aligns with agency theory, which suggests that firms distribute dividends to limit agents' opportunistic behavior in contexts of high information asymmetry and corruption.

Conversely, under high investor sentiment—where capital gains are preferred—increased corruption may reduce dividend payouts, amplifying the negative effect of catering incentives on dividend policy.

H3a: In conditions of low investor sentiment, corruption amplifies the positive effect of catering incentives on dividend policies.

H3b: In conditions of high investor sentiment, corruption amplifies the negative effect of catering incentives on dividend policies when investor sentiment is high.

Overall, this study contributes to the literature by extending prior research through a unified framework that simultaneously incorporates behavioral factors (investor sentiment), firm-level mechanisms (catering incentives), and external conditions (COVID-19 and corruption), thereby providing a more comprehensive explanation of dividend policy dynamics.

Research methods

Our study covers 31 countries worldwide using our sampling approach follows the methodologies outlined by Fama & French (2001) and DeAngelo et al. (2005), specifically excluding financial companies from our analysis. The sample includes countries with active stock markets, namely: Australia, the Netherlands, Brazil, China, Finland, Germany, Greece, Hong Kong, India, the United Kingdom, Jamaica, South Korea, Malaysia, Mexico, New Zealand, Norway, France, Peru, the Philippines, Poland, Portugal, Singapore, Spain, Thailand, the United States, Belgium, Canada, Japan, Turkey, and Italy. Data for this study were sourced from Thomson Reuters and the World Bank.

To address potential endogeneity concerns, this study employs dynamic panel data analysis using the generalized method of moments (GMM), specifically the System-GMM (Blundell-Bond) estimator. The use of System-GMM is justified by several potential sources of endogeneity in our model, including simultaneity between the dependent and independent variables, omitted variable bias, and measurement errors. Additionally, the dynamic nature of the model, which incorporates lagged dependent variables as regressors, may induce correlation with the error term in static panel models, leading to biased and inconsistent estimates.

System-GMM is particularly suitable for panels with a large cross-sectional dimension (N) and a relatively small time dimension (T), allowing for consistent estimation despite these endogeneity concerns. In this study, internal instruments are generated using lagged levels and differences of the endogenous variables, following the Blundell-Bond procedure. This approach ensures that the instruments are valid (uncorrelated with the error term) and relevant (sufficiently correlated with the endogenous regressors), thereby enhancing the reliability of our estimates. The analytical models used in this study are specified as follows:

$$DPR_{i,t} = \beta_0 + \beta_1 L1.DPR_{i,t-1} + \beta_2 CI_{c,t} + \beta_3 SIZE_{i,t} + \beta_4 NI_{i,t} + \beta_5 LEV_{i,t} + \beta_6 INFL_{c,t} + \beta_7 UR_{c,t} + \beta_8 IR_{c,t} + \beta_9 GDP_{c,t} + \beta_{10} LC_{i,t} + \beta_{11} IP_{c,t} + \beta_{12} IO_{c,t} + \beta_{13} SR_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$DPR_{i,t} = \beta_0 + \beta_1 L1.DPR_{i,t-1} + \beta_2 CI_{c,t} + \beta_3 COV-19_{c,t} + \beta_4 CI_{c,t} * COV-19_{c,t} + \beta_5 SIZE_{i,t} + \beta_6 NI_{i,t} + \beta_7 LEV_{i,t} + \beta_8 INFL_{c,t} + \beta_9 UR_{c,t} + \beta_{10} IR_{c,t} + \beta_{11} GDP_{c,t} + \beta_{12} LC_{i,t} + \beta_{13} IP_{c,t} + \beta_{14} IO_{c,t} + \beta_{15} SR_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$DPR_{i,t} = \beta_0 + \beta_1 L1.DPR_{i,t-1} + \beta_2 CI_{c,t} + \beta_3 CORR_{c,t} + \beta_4 CI_{c,t} * CORR_{c,t} + \beta_5 SIZE_{i,t} + \beta_6 NI_{i,t} + \beta_7 LEV_{i,t} + \beta_8 INFL_{c,t} + \beta_9 UR_{c,t} + \beta_{10} IR_{c,t} + \beta_{11} GDP_{c,t} + \beta_{12} LC_{i,t} + \beta_{13} IP_{c,t} + \beta_{14} IO_{c,t} + \beta_{15} SR_{i,t} + \varepsilon_{i,t} \quad (3)$$

This study controls for several firm-level and country-level factors that may influence dividend policy. At the firm level, controls include size, net income, leverage, firm life cycle, and stock repurchase. High leverage may constrain dividend payments, as firms prioritize debt obligations, while larger and more profitable firms generally face higher investor demand for dividends. Stock

repurchases are included because firms may return cash to shareholders through buybacks instead of dividends, affecting observed payout behavior.

At the country level, the study controls for inflation, GDP, unemployment rate, interest rate, investor protection, and institutional ownership, which may influence dividend decisions. Institutional ownership is included because institutional investors can affect firm behavior, which in turn influences dividend policy. In countries with controlling shareholders, dividend decisions may also be shaped by the preferences of the dominant owners rather than minority investors, potentially leading to lower or more irregular dividend payouts. Institutional ownership is measured as the percentage of institutional investors in a stock index, while investor protection is captured with a common law dummy (1 for common law countries, 0 otherwise). Inflation, GDP, unemployment, and interest rates are obtained from World Bank data.

To ensure the validity of the empirical analysis, preliminary diagnostic tests are conducted prior to model estimation. Before conducting the GMM regression, a unit root test was performed to ensure data stationarity, with all variables confirmed stationary at the 5% significance level (see Appendix 1 for results and Appendix 2 for variable descriptions).

Investor sentiment (SENT) is measured using four indicators: RSI (Relative Strength Index), PLI (Psychological Line Index), ATR (Adjusted Turnover), and LTV (Logarithm of Trading Volume). According to Seok et al. (2019), investor sentiment components can vary with fundamental values compared to sentiment itself. This study uses an investor sentiment index at the country level, so sentiment components can vary with fundamental country values, such as inflation rate, GDP (Gross Domestic Product), unemployment rate, and interest rate. Based on this explanation, in forming investor sentiment, it is necessary to control for these variations by estimating the residual value using the following equation:

$$CP_{j,t} = \eta_0 + \eta_1 INFL_{j,t} + \eta_2 GDP_{j,t} + \eta_3 UR_{j,t} + \eta_4 IR_{j,t} + \varepsilon_{j,t} \quad (4)$$

Where $CP_{j,t}$ is the sentiment component consisting of RSI, PLI, ATR, and LTV for each Country j in period t. $INFL_{j,t}$ is the inflation rate in Country j in period t. $GDP_{j,t}$ is the Gross Domestic Product rate in Country j and period t. $UR_{j,t}$ is the Unemployment Rate of Country j in period t. $IR_{j,t}$ is the Interest Rate of Country j in period t. $\varepsilon_{j,t}$ represents the Country-specific component. Equation (1.4) is estimated one by one to obtain the residual value of each investor sentiment component. Then, four regression operations are required as follows:

$$RSI_{j,t} = \eta_0 + \eta_1 INFL_{j,t} + \eta_2 GDP_{j,t} + \eta_3 UR_{j,t} + \eta_4 IR_{j,t} + \varepsilon_{j,t} \quad (5)$$

$$PLI_{j,t} = \eta_0 + \eta_1 INFL_{j,t} + \eta_2 GDP_{j,t} + \eta_3 UR_{j,t} + \eta_4 IR_{j,t} + \varepsilon_{j,t} \quad (6)$$

$$ATR_{j,t} = \eta_0 + \eta_1 INFL_{j,t} + \eta_2 GDP_{j,t} + \eta_3 UR_{j,t} + \eta_4 IR_{j,t} + \varepsilon_{j,t} \quad (7)$$

$$LTV_{j,t} = \eta_0 + \eta_1 INFL_{j,t} + \eta_2 GDP_{j,t} + \eta_3 UR_{j,t} + \eta_4 IR_{j,t} + \varepsilon_{j,t} \quad (8)$$

Next, PCA (Pricipal Component Analysis) is carried out to form the investor sentiment index ($Sent_{c,t}$) based on the first component ($F_{c,t}$) for each stock of Country c in period t using equation (1.5) as follows:

$$Sent_{c,t} = F_c RSI\ \varepsilon_{c,t}^{RSI} + F_c PLI\ \varepsilon_{c,t}^{PLI} + F_c ATR\ \varepsilon_{c,t}^{ATR} + F_c LTV\ \varepsilon_{c,t}^{LTV} \quad (9)$$

The Relative Strength Index (RSI), devised by J. Welles Wilder Jr., evaluates whether a stock is overbought or oversold by comparing its upward price movements to its downward price movements over a specified period. Chong & Ng (2008) highlight that Wilder recommended a 14-day period for RSI computation. Chen et al. (2010) applied RSI as an indicator of market emotional states.

$$RSI_{c,t} = \left[\frac{RS_{c,t}}{1+RS_{c,t}}\right] \text{ x } 100, \text{ dimana } RS_{c,t} = \frac{\sum_{k=0}^{13} \max(P_{c,t-k} - P_{c,t-k-1}, 0)}{\sum_{k=0}^{13} \max(P_{c,t-k-1} - P_{c,t-k}, 0)} \quad (10)$$

The Psychological Line Index (PLI), as discussed by Yang & Zhang (2014), gauges market conditions and momentum, calculating the frequency of short-term price reversals and investor confidence over a given timeframe. The way it works is by measuring the percentage change in price increases compared to the total change in prices (both increases and decreases) over a certain time period. This index helps traders and investors identify whether the market is bullish (i.e., trending upward) or bearish (trending downward). The PLI is a tool for understanding market psychology by observing 12 trading days. According to Yang & Zhang (2014), 12 trading days best demonstrate an investor's psychological state.

$$PLI_{c,t} = \left[\sum_{k=0}^{11} \left\{\frac{\max(P_{c,t-k} - P_{c,t-k-1}, 0)}{P_{c,t-k} - P_{c,t-k-1,}}\right\} / 12\right] \text{ x } 100 \quad (11)$$

The turnover rate, indicative of market liquidity, serves as a proxy for investor confidence (Baker & Stein, 2004; Kim & Byun, 2010). An increased Adjusted Turnover (ATR) signifies bullish sentiment.

$$ATR_{c,t} = \frac{V_{c,t}}{number\ of\ share\ outstanding_{i,t}} \text{ x } \frac{R_{c,t}}{[R_{c,t}]} \quad (12)$$

Here $V_{c,t}$ represents the trade volume of country c at time t and $R_{c,t}$ is the return on stock c at time t, both in percentage terms. $R_{c,t} = \left(\frac{P_{c,t}}{P_{c,t-1}}\right) - 1$.

The Logarithm of Trading Volume measure, trading volume, reflects investor sentiment toward the stock market (Baker & Stein, 2004; Liao et al., 2011).

$$LTV_{c,t} = \ln(V_{c,t}) \quad (13)$$

This study incorporates Catering Incentives alongside the independent variable. According to the Dividend Catering Theory, dividend premium measurement can be analyzed from demand and supply perspectives. On the supply side, it proxies for dividend catering motivations. On the demand side, it measures investor preference for dividends through the market-to-book ratio. Baker & Wurgler (2004) note that the market typically reassesses catering incentives annually. The calculation formula is as follows:

$$IC_{c,t} = \log\ (\overline{MTB}_{p,t}) - \log\ (\overline{MTB}_{np,t}) \quad (14)$$

$$MTB_{i,t} = \frac{market\ equity_{i,t} + book\ debt_{i,t}}{book\ equity_{i,t}} \quad (15)$$

Where $IC_{c,t}$ represents catering incentives in year t at the market aggregate level, $\overline{MTB}_{p,t}$ and $\overline{MTB}_{np,t}$ denote the average market to book ratios of dividend-paying a non-dividend paying firms, respectively, in year t.

The dependent variable in this study, represented by the proxy dividend payout ratio, reflects the company's dividend policy (Erdogan et al., 2023). It is calculated by dividing the common cash dividend by the net income, then multiplying by 100%. The COV-19 pandemic and the level of corruption were employed as moderation variables. The COV-19 pandemic is represented by a dummy variable, with a value of 1 during the COV-19 period and 0 otherwise. The corruption variable, CORR, utilizes the Corruption Perception Index (CPI), where a higher CPI score indicates a lower level of corruption.

Results

Appendix 1 presents a summary of the variables used in this study, displaying descriptive statistics including mean, standard deviation, minimum, and maximum values. This study combines data from companies in thirty-one countries in the research sample for the period 2018 to 2022. For the group selected by low investor sentiment, the average values for Dividend Payout Ratio (DPR), Catering Incentive (CI), COVID-19, and Corruption (CORR) are 0.528, 0.330, 0.512, and 61.497, respectively. In contrast, the group with high investor sentiment shows average values of 0.579, 0.506, 0.490, and 57.187, respectively.

The primary hypothesis investigates the effect of catering incentives on the dividend payout ratio. For the low-sentiment group, a positive relationship is hypothesized in Hypothesis 1a, while a negative impact is expected for the high-sentiment group, as stated in Hypothesis 1b. Preliminary results in Tables 2 and 3 confirm these hypotheses. To address the presence of extreme values observed in

several variables (e.g., DPR and LEV), all continuous variables are winsorized at the 5th and 95th percentiles to mitigate the influence of outliers. The Sargan test, used to assess the validity of the instrumental variables, indicates that the instruments are appropriate, as reflected by a p-value greater than 0.05. Furthermore, the Arellano-Bond test is applied to examine serial correlation in the residuals within the SYS-GMM framework.

Table 1.
Dividend policy, COVID-19, corruption on low and high sentiment investor

Variable	Dependent: DPR × Low sentiment investor			Dependent: DPR × High sentiment investor		
	1	2	3	1	2	3
L.DPR	0.636***	-0.321***	0.444***	0.219***	0.206**	0.307***
	-2.838	(-6.189)	-10.673	-4.543	-2.232	-3.062
CI	0.035***	0.067***	1.132***	-0.019**	-0.120***	-0.096**
	-2.934	-2.981	-5.060	(-2.293)	(-4.380)	(-2.099)
COV-19		2.171***			0.134***	
		-7.624			-3.752	
CI*COV-19		1.261***			-0.166***	
		-5.529			(-4.922)	
CORR			-0.012**			0.011
			(-2.202)			-1.125
CI*CORR			1.710***			-0.474**
			-5.028			(-2.337)
SIZE	0.037	-0.014	0.006	0	0.150**	0.205***
	-1.130	(-0.446)	-0.194	(-1.347)	-2.275	-2.728
NI	0	0	0	0.000*	-0.000*	-0.000**
	(-0.537)	(-0.326)	(-0.466)	-1.721	(-1.952)	(-2.378)
LEV	0	0	0.000***	0	0	0
	(-0.379)	-0.54	-2.597	-1.111	-0.553	-0.173
INFL	-0.015*	0.102***	-0.005	-0.228***	-0.01	-0.006
	(-1.730)	-4.306	(-0.412)	(-4.418)	(-0.860)	(-0.598)
GDP	-0.000**	0.000*	-0.000***	-0.000***	0	-0.000*
	(-1.988)	-1.870	(-2.586)	(-2.838)	(-1.491)	(-1.775)
IR	0.004	-0.059***	0.007	0	0.033	0.030
	-0.468	(-3.708)	-1.215	(-1.347)	-1.55	-1.472
UR	0.044***	0.038**	0.019	0.096**	-0.027**	-0.118***
	-2.653	-2.397	-1.586	-2.131	(-2.169)	(-3.130)
LC	-0.099***	-0.051	0.083*	0.025	0.013	0.336
	(-2.905)	(-1.555)	-1.749	-1.165	-0.49	-1.634
IP	0.267***	0.503***	0.416***	0.409	-0.095	-0.072
	-3.145	-4.381	-2.868	-1.247	(-0.284)	(-0.337)
IO	0.464**	0.674	0.656*	1.064***	-0.422	-0.151

Variable	Dependent: DPR × Low sentiment investor			Dependent: DPR × High sentiment investor		
	1	2	3	1	2	3
SR	0.453	-7.855**	-0.219	-4.507	8.188	-12.715**
	-0.287	(-2.218)	(-0.177)	(-1.287)	-0.427	(-2.137)
SECTOR	YES	YES	YES	YES	YES	YES
YEAR	YES	YES	YES	YES	YES	YES
OBS.	8155	8436	8072	6545	6545	6545
AR(1)	-6.624	-7.135	-11.991	-6.624	-7.135	-11.991
AR(1) P-Val	0	0	0	0	0	0
AR(2)	1.028	0.854	0.334	1.028	0.854	0.334
AR(2) P-Val	0.304	0.393	0.738	0.304	0.393	0.738
Sargan Stat.	17.452	16.602	16.358	8.795	9.424	3.979
Sargan P-Val	0.1334	0.1202	0.1754	0.6408	0.4924	0.9483

Note: *t* statistics in parentheses $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Author's work (2026)

The regression analysis of model 1 is presented in Table 1 supports the hypothesis that catering incentives have a positive effect on the dividend payout ratio during periods of low investor sentiment, but a negative effect during periods of high sentiment. Table 1 shows that under low sentiment conditions, the coefficient of catering incentives (CI) is 0.035 and significant, indicating that a one-unit increase in CI leads to a 3.5% increase in the dividend payout ratio. In contrast, Table 1 shows that under high sentiment conditions, CI has a coefficient of -0.019 and is significant, implying that catering incentives negatively affect the dividend payout ratio. Overall, these findings support Hypothesis 1, where the results under low sentiment are consistent with Hypothesis 1a and those under high sentiment are consistent with Hypothesis 1b. This aligns with research by Byun et al. (2021) and Bilel & Mondher (2021), which emphasizes the significant role of investor sentiment in dividend distribution, particularly during low sentiment phases. Gyimah & Gyapong, (2021) and Pieloch-Babiarz (2020) also contribute to this understanding by highlighting the tendency of firms with entrenched management to distribute substantial dividends in response to external investor demand. Compared to these prior studies, the present findings provide more nuanced evidence by explicitly distinguishing between low- and high-sentiment regimes, showing that the positive effect of catering incentives is primarily concentrated in low-sentiment periods. This extends the existing literature by demonstrating that the strength and direction of the relationship are conditional on market sentiment rather than uniformly applied across different market conditions.

Our study's findings are further corroborated by research in various global contexts, such as Indonesia, China, India, France, Sri Lanka, and Taiwan (Dewasiri

et al., 2019; Labhane, 2019; Rochmah & Ardianto, 2020; Teng & Liu, 2018; Trabelsi et al., 2019; Yu et al., 2021). The relationship between catering incentives and dividend policy, particularly during high investor sentiment periods, is explored, revealing a complex dynamic where higher sentiment can negatively impact dividend payouts. In contrast to prior cross-country studies that generally report a stable or positive association between catering incentives and dividend policy, this study highlights a reversal effect under high-sentiment conditions. This divergence suggests that in overly optimistic markets, firms may prioritize internal financing or managerial discretion over dividend distribution, thereby offering a novel contribution to the literature by uncovering the asymmetric impact of investor sentiment across different market environments.

Table 1 focuses on low- and high-sentiment groups, incorporates the COVID-19 pandemic variable (COV-19) with catering incentives (CI). The interaction term (CI*COV-19) shows that during periods of low sentiment, the pandemic crisis substantially amplifies the effect of CI on dividend policy. From an economic perspective, the magnitude of the interaction coefficient (1.261) indicates a significant increase in the sensitivity of the dividend payout ratio to changes in CI, suggesting that firms become more responsive to investor preferences when making dividend decisions during crisis periods. In contrast, under high sentiment conditions (Appendix 3), the negative interaction coefficient (-0.166) implies that the pandemic weakens and even reverses the effect of CI, indicating that in optimistic market conditions, heightened uncertainty during the crisis leads firms to adopt more cautious dividend policies. These findings support the second hypothesis and highlight that crisis conditions not only influence the direction of the relationship but also alter the economic sensitivity of dividend policy to catering incentives. This result is consistent with prior studies, such as Ali (2022) and Javadi et al. (2021), which emphasize the role of the COVID-19 crisis in shaping corporate dividend decisions through increased uncertainty and adjustments to investor expectations.

However, compared to these prior studies, the present research provides a more detailed perspective by explicitly modeling the interaction between catering incentives and crisis conditions across different sentiment regimes. While earlier studies generally document a uniform impact of COVID-19 on dividend policies, this study reveals that the effect is conditional—amplifying dividend responsiveness under low sentiment but weakening it under high sentiment. This distinction offers a more nuanced contribution to the literature by demonstrating that the role of crisis is not homogeneous, but depends critically on prevailing market sentiment.

Table 2.
Propensity to pay dividend, COVID-19, corruption, low and high sentiment investor

Variable	Dependent: Propensity to Pay Dividend × Low sentiment investor			Dependent: Propensity to Pay Dividend × High sentiment investor		
	1	2	3	1	2	3
L.PROP	0.631***	0.030***	0.280	0.224*	-0.344**	-0.588
	-9.482	-3.783	-1.072	-1.786	(-2.227)	(-1.146)
CI	0.003*	0.032	0.055**	-0.005*	-0.012*	-0.038***
	-1.938	-1.322	-2.584	(-1.797)	(-1.777)	(-3.094)
COV-19		0.094			-0.017	
		-1.362			(-0.948)	
CI*COV-19		0.055*			-0.025***	
		-2.008			(-3.443)	
CORR			-0.003			-0.001
			(-1.117)			(-0.173)
CI*CORR			0.091**			-0.240**
			-2.531			(-2.421)
INFL	0.008**	0.011	0.013*	0	0.006	-0.002
	-2.261	-1.390	-1.748	-0.551	-0.514	(-0.236)
GDP	-0.000***	0	-0.000**	-0.000***	-0.000***	-0.000*
	(-3.541)	(-0.312)	(-2.521)	(-3.926)	(-4.139)	(-1.963)
IR	0.002	0.013	0.002	0.007***	0.007*	0.010*
	-1.207	-1.593	-0.465	-4.311	-1.836	-1.927
UR	-0.009	-0.046***	-0.009*	-0.009	-0.017	-0.042
	(-1.311)	(-2.810)	(-1.928)	(-1.314)	(-1.326)	(-1.207)
IP	-0.006	0.001	-0.001	0.08	0.071	-0.033
	(-0.339)	-0.004	(-0.021)	-0.918	-0.482	(-0.149)
IO	0.048	0.132	0.106	0.509	0.583	0.063
	-1.294	-0.148	-1.705	-0.694	-0.740	-0.072
SECTOR	YES	YES	YES	YES	YES	YES
YEAR	YES	YES	YES	YES	YES	YES
OBS.	77	77	77	72	72	72
AR(1)	-2.679	-3.143	-2.066	-2.221	-1.702	-2.268
AR(1) P-Val	0.007	0.002	0.039	0.026	0.089	0.023
AR(2)	0.841	1.456	1.149	-0.027	-1.526	-0.400
AR(2) P-Val	0.400	0.145	0.251	0.978	0.127	0.689
Sargan Stat.	4.343	0.718	0.811	0.044	0.976	4.575
Sargan P-Val	0.501	0.949	0.997	0.978	0.807	0.206

Note: *t* statistics in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Source: Author's work (2026)

This study also incorporates corruption as a moderating variable, as presented in the third model of Table 1. For the low-sentiment group (Table 1), the interaction between catering incentives and corruption (CI*CORR) has a positive and significant effect on dividend policy, with a coefficient of 1.710. From an economic standpoint, this relatively large coefficient suggests that in more corrupt environments, firms become substantially more responsive to investor demand for dividends, potentially using higher dividend payouts as a mechanism to mitigate agency problems and reduce expropriation concerns. In contrast, for the high-sentiment group (Table 2), the interaction term is negative (-0.474), indicating that

corruption weakens and even reverses the influence of catering incentives on dividend policy.

This implies that when investor sentiment is high, the presence of corruption may lead firms to retain earnings rather than distribute dividends, possibly due to increased managerial discretion and opportunistic behavior under favorable market conditions. These findings support the third hypothesis of this study, confirming that corruption plays a significant moderating role in shaping the relationship between catering incentives and dividend policy. These observations are consistent with prior literature showing that higher corruption levels can encourage firms to increase dividend payments as a governance mechanism Hossain et al., 2021; Tahir et al., 2020; Tran, 2020), while also aligning with studies such as Dong et al. (2022) and Tahir et al.(2020b), which document a negative moderating role of corruption under certain market conditions. Compared to prior studies, this research extends the literature by explicitly demonstrating that the moderating effect of corruption is not uniform but varies across investor sentiment regimes. While earlier findings generally emphasize either the positive governance role or the negative opportunistic effects of corruption, this study reconciles both perspectives by showing that corruption can strengthen dividend payments under low sentiment but weaken them under high sentiment. This dual effect highlights the conditional nature of corruption's role and provides a more comprehensive understanding of how institutional factors interact with market sentiment in shaping corporate dividend policy.

Finally, a robustness test is conducted using aggregate analysis by replacing the dependent variable with the propensity to pay dividends, measured as the percentage of dividend-paying firms in a given country-year. This alternative measure captures firms' decisions at the extensive margin (whether to pay dividends), rather than the intensity of payouts. The results are presented in Table 2 for low and high-sentiment conditions.

In Table 2, Model 1 shows a positive CI coefficient of 0.003, indicating that catering incentives increase the propensity to pay dividends. In Model 2, the interaction between CI and COV-19 (0.055) suggests that during the pandemic, the positive effect of CI on the propensity to pay dividends becomes stronger, implying that firms are more inclined to initiate or maintain dividend payments in response to investor demand under crisis conditions. In Model 3, the interaction between CI and CORR (0.091) further indicates that in more corrupt environments, firms are even more likely to pay dividends when catering incentives are high, reinforcing the role of dividends as a governance mechanism.

In contrast, results shows negative coefficients across all models. Model 1 reports a CI coefficient of −0.005, indicating a reduced propensity to pay dividends when investor sentiment is high. In Model 2, the negative interaction between CI and COV-19 (−0.025) suggests that the pandemic further weakens firms' propensity to pay dividends under optimistic market conditions. Similarly, Model 3 shows a

stronger negative interaction between CI and CORR (−0.240), implying that in corrupt environments, firms are significantly less likely to pay dividends when sentiment is high, potentially reflecting greater managerial discretion and retention of earnings.

Overall, these consistent patterns confirm that catering incentives increase the propensity to pay dividends during low-sentiment periods but reduce it during high-sentiment periods. The results from Models 2 and 3 further demonstrate that both crisis conditions and institutional quality (corruption) meaningfully shape this relationship. Collectively, these findings strengthen the robustness of the research model by showing that the main conclusions hold not only for dividend payout levels but also for the propensity to pay dividends.

Conclusion

This study examines dividend catering behavior across 31 countries during 2018–2022 by constructing country-level investor sentiment indices using Principal Component Analysis (PCA) based on technical indicators. Employing the System GMM approach, the findings show that catering incentives positively affect dividend policy during low-sentiment periods but negatively during high-sentiment periods. Furthermore, the COVID-19 crisis and corruption significantly moderate this relationship, strengthening the effect under low sentiment and weakening or reversing it under high sentiment. These results remain robust when using the propensity to pay dividends as an alternative measure.

Overall, this study extends the dividend catering literature by showing that the impact of investor sentiment on dividend policy is not uniform, but conditional on both market sentiment regimes and aggregate country-level conditions, particularly the COVID-19 crisis and corruption. By incorporating these factors, the findings provide a more nuanced understanding of how external environments shape firms' responsiveness to investor demand. In addition, this study introduces a market-based sentiment index derived from technical indicators using PCA, offering a scalable and comparable alternative to conventional sentiment proxies in cross-country settings.

From a practical perspective, the results suggest that firms adjust dividend policies in response to investor sentiment, although the direction and magnitude of this response depend on external conditions, providing useful insights for payout decisions under varying market environments.

Despite these contributions, several limitations should be acknowledged. Although the study covers a broad cross-country sample and incorporates macroeconomic factors, unobserved heterogeneity across countries may still persist. Furthermore, the sentiment proxy based on technical indicators may not fully capture fundamental investor expectations. Future research could extend this study by comparing the dynamics of dividend catering behavior between developed and developing countries to better understand how differences in economic

structure and market maturity influence the relationship between investor sentiment and dividend policy.

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Appendix 1.

Dicky fuller unit root test results

	DPR	CI	COV-19	CORR	TA	NI
P-Value	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
	ROA	INFL	UR	IR	GDP	SR
P-Value	0.0000	0.000	0.000	0.0000	0.0000	0.0000

Note: Appendix 1 presents the Dicky Fuller Unit Root Test Results, indicating significant p-values for various financial metrics.

Source: Author's work (2026)

Appendix 2.

Variables explanation

Variable	Explanations	Source(s)
$DPR_{i,t}$	In company i during period t, the common cash dividend as a percentage of net income is calculated by dividing the common cash dividend by net income and then multiplying the result by 100%.	Thomson Reuters Database
$CI_{c,t}$	In country c during period t, the difference in the average logarithmic market-to-book value is calculated by comparing the average of this value for companies that pay dividends with those that do not.	Thomson Reuters Database, Author Calculation
$COV-19_{c,t}$	In country c during period t, dummy variable representing the period following the COVID-19 pandemic announcement by WHO.	The announcement by WHO on COVID-19 being classified as a pandemic.
$CORR_{c,t}$	Corruption Perception Index in country c during period t.	www.transparency.org

Variable	Explanations	Source(s)
$SIZE_{i,t}$	In company i during period t, the natural logarithm of a company's total assets.	Thomson Reuters Database
$NI_{i,t}$	In company i during period t, total revenue minus total expenses excluding the cost of goods sold	Thomson Reuters Database
$LEV_{i,t}$	In company i during period t, representation or measure of the debt of a company or ongoing business	Thomson Reuters Database
$INFL_{c,t}$	Inflation rates (Consumer Prices Index) in country c during period t.	The World Bank
$UR_{c,t}$	Unemployment rate (percentage of total labor force) in country c during period t.	The World Bank
$IR_{c,t}$	Interest rate (percentage of real interest rate) in country c during period t.	The World Bank
$GDP_{c,t}$	Gross domestic product (current US$) in country c during period t.	The World Bank
$LC_{i,t}$	Life cycle, as outlined by Bhattacharya *et al*., (2020), classifies firms into five stages—introduction, growth, maturity, shake-out, and decline—based on cash flow patterns. These stages are identified as: (1) introduction stage (OANCF < 0, IVNCF < 0, FINCF > 0), (2) growth stage (OANCF > 0, IVNCF < 0, FINCF > 0), (3) maturity stage (OANCF > 0, IVNCF < 0, FINCF < 0), (4) decline stage (OANCF < 0, IVNCF > 0), and (5) shake-out stage for remaining years in company i during period t.	Thomson Reuters Database, Author Calculation
$IP_{c,t}$	Investor Protection, where the variable to store the value 1 if the country has a common law system and 0 otherwise in country c during period t.	(Porta *et al*., 1997)
$IO_{c,t}$	Investor ownership is measured by calculating the percentage of institutional ownership within a country's stock index in country c during period t.	Thomson Reuters Database, Author Calculation
$SR_{i,t}$	Stock repurchase, where the company carrying out stock repurchase is given a dummy of 1 and other than that a dummy of 0 in country c during period t.	Thomson Reuters Database, Author Calculation
$RSI_{c,t}$	Ratio of average price gain to average loss, expressed as a percentage in country c during period t.	Thomson Reuters Database, Author Calculation
$PLI_{c,t}$	Ratio of positive price changes to total price changes, expressed as a percentage in country c during period t.	Thomson Reuters Database, Author Calculation
$ATR_{c,t}$	Ratio of trading volume to the number of outstanding shares in country c during period t.	Thomson Reuters Database, Author Calculation
$LTV_{c,t}$	Logarithm of the trade volume in country c during period t.	Thomson Reuters Database, Author Calculation

Source: Author's work (2026)

Appendix 3.

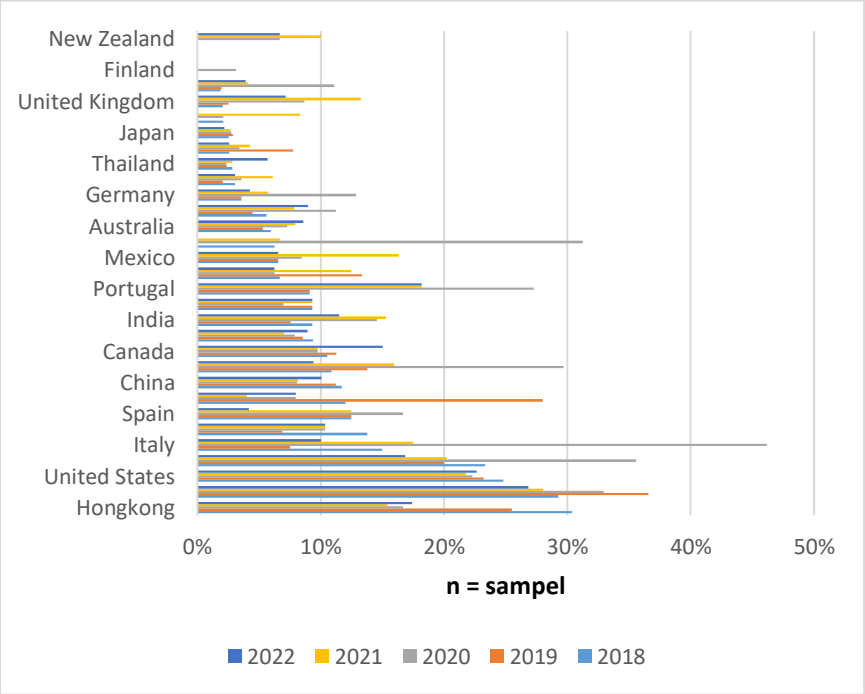
Descriptive statistics

Variable	Obs	Mean	Std. dev.	Min	Max	Obs	Mean	Std. dev.	Min	Max
	Low Sentiment Investor					High Sentiment Investor				
DPR	19,639	0.528	6.632	0	726.817	20,341	0.579	7.833	0	819.81
CI	19,639	0.330	1.403	-0.958	9.771	20,341	0.506	1.386	-1.704	9.726
COV-19	19,639	0.512	0.499	0	1	20,341	0.490	0.499	0	1
CORR	19,639	61.497	15.189	28	95	20,341	57.187	17.405	29	96
SIZE	19,639	21.104	1.668	16.074	27.942	20,341	20.636	1.863	13.624	28.332
NI	19,639	2.10e+08	1.15e+09	-2.1e+10	7.60e+10	20,341	1.72e+08	8.30e+08	-5.7e+09	3.43e+10
LEV	19,639	474.633	27236.09	0	2979008	20,341	181.845	6412.814	0	732051.9
INFL	19,639	2.216	2.508	-1.247	19.596	20,341	2.535	5.007	-1.138	72.308
UR	19,639	4.136	2.254	2.35	21.49	20,341	4.829	2.542	0	14.78
IR	19,639	1.976	2.582	-0.5	27.400	20,341	2.126	3.892	-0.7	38.403
GDP	19,639	7.42e+12	6.63e+12	1.38e+10	2.55e+13	20,341	4.41e+12	4.99e+12	0	2.14e+13
LC	19,639	3.513	0.598	1	4	20,341	3.538	0.591	1	4
IP	19,639	0.144	0.351	0	1	20,341	0.410	0.491	0	1
IO	19,639	0.290	0.196	0	0.514	20,341	0.198	0.170	0	0.514
SR	19,639	0.007	0.083	0	1S	20,341	0.007	0.083	0	1

Source: Author's work (2026)

Appendix 4.

Net Income Positive Companies Not Paying Dividends in the Period 2018-2022



Source: Thomson reuters database (2026)