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The Role of Dividend Policy and Financial Reporting Quality in Shaping Investment Strategies: Evidence from Tehran Stock Exchange

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Abstract: *This research investigates the dynamic interaction between dividend policy and financial reporting quality (FRQ) in shaping corporate investment strategies. Dividend policy, a cornerstone of financial management, serves as a signal of a firm's financial health, while FRQ ensures the reliability of these signals. The study focuses on firms listed on the Tehran Stock Exchange (TSE), analyzing data from 112 companies over five years (2018–2022).*

The findings reveal a nuanced relationship: high dividend payouts often limit internal funds available for investment but signal financial stability, attracting external investors. Meanwhile, FRQ moderates this relationship by enhancing the transparency and credibility of financial statements. Through moderated regression analysis, the study highlights how these factors collectively influence investment efficiency, offering critical insights for firms operating in emerging markets characterized by weak governance frameworks.

Keywords: *Dividend Policy, Financial Reporting Quality, Investment Decisions, Tehran Stock Exchange, Corporate Governance*

I. Introduction

Investment decisions are fundamental to a company's financial strategy, playing a pivotal role in shaping its competitive advantage, long-term viability, and the value it generates for shareholders. At the core of these decisions lie two intertwined factors: dividend policy and financial reporting quality (FRQ). The relationship between these elements directly influences how capital is allocated, both within the firm and within the broader market context.

Dividend policy is a critical determinant of how firms manage their profits, deciding whether to distribute earnings to shareholders in the form of dividends or to retain them for reinvestment into business operations. This decision is shaped by a variety of internal and external considerations, including the firm's current and projected profitability, growth opportunities, cash flow patterns, and external market conditions. While high dividend payouts can be seen as an indication of financial health, providing immediate returns to investors, they can also create a paradox by potentially limiting the firm’s ability to reinvest in future growth. Excessive payouts might constrain the financial resources needed for capital expenditures, research and development, or other investments essential for the firm's long-term competitiveness.

In contrast, financial reporting quality (FRQ) pertains to the precision, accuracy, and transparency of financial statements in reflecting a firm’s actual economic condition. High FRQ serves as a vital tool for reducing information asymmetry, a scenario where stakeholders, particularly investors, are at a disadvantage due to a lack of clear, reliable information. By ensuring that financial statements offer an accurate representation of the company’s financial health, FRQ enables more informed decision-making by investors and other stakeholders. In the context of dividend policy, FRQ ensures that the signals conveyed through dividend announcements—whether they are perceived as positive or negative—are credible and trustworthy, mitigating the risks of misinterpretation.

Emerging markets, such as Iran, present unique challenges when examining these dynamics. These markets often lack the robust regulatory frameworks that characterize developed economies, resulting in weaker governance structures, lower levels of transparency, and inconsistent disclosure practices. As a result, the interaction between dividend policy and FRQ becomes even more critical in these markets. Investors in such environments face higher risks due to the lack of reliable information, which makes the role of FRQ in facilitating transparent and accurate financial reporting even more vital. This interaction can influence the effectiveness of corporate investment strategies, particularly when firms must navigate these complex market conditions while balancing the need for immediate shareholder returns and long-term strategic investment.

In light of these dynamics, the research problem centers around the intricate nature of investment decision-making processes, which are influenced by both internal company policies and external market conditions. Dividend policy, as a key decision-making area, presents a paradoxical situation: while high dividend payouts offer immediate shareholder satisfaction, they can also limit the available funds for reinvestment in future growth. On the other hand, FRQ provides a mechanism for enhancing transparency, reducing uncertainty, and fostering investor confidence, potentially mitigating the adverse effects of limited resources due to dividend payouts. Despite its importance, the combined impact of these factors on investment decisions has been insufficiently explored, particularly within emerging markets where unique challenges prevail.

The central research questions guiding this study are as follows: How does dividend policy directly affect corporate investment decisions, and does financial reporting quality play a moderating role in this relationship? Answering these questions will provide valuable insights into how firms can navigate the trade-offs between delivering short-term shareholder value through dividends and investing for sustainable, long-term growth.

The objectives of this study are threefold. First, the research aims to analyze the direct impact of dividend policy on corporate investment decisions. Second, it seeks to evaluate the role of FRQ as a moderator that could influence the relationship between dividend policy and investment. Finally, the study aims to offer practical recommendations for firms looking to optimize their financial strategies, ensuring that they can balance shareholder returns with investments that drive future growth and stability. This comprehensive approach will contribute to a more nuanced understanding of how these two factors shape investment behavior in the context of emerging markets.

This research addresses a significant gap in the financial literature by integrating two critical components—dividend policy and financial reporting quality (FRQ)—into a unified framework for analyzing corporate investment decisions. While earlier studies have predominantly examined these factors in isolation, this study provides a more comprehensive and nuanced perspective by examining how dividend policy and FRQ interact to shape corporate investment strategies. By bringing these elements together, the research advances our understanding of how transparency in financial reporting and the management of dividend payouts jointly influence investment decisions within firms.

For policymakers, the findings of this study underscore the critical importance of enforcing stricter accounting standards and improving governance practices, especially in emerging markets where regulatory environments may be weaker. Strengthening financial reporting mechanisms and ensuring robust governance structures can significantly reduce information asymmetry, improve investor confidence, and ultimately contribute to the efficient allocation of capital in the market. Policymakers can use these insights to advocate for policies that enhance financial transparency, thus creating a more favorable environment for both domestic and international investment.

For corporate managers, the research offers valuable, actionable insights into how they can strategically balance dividend payouts with the firm's investment needs. It highlights the importance of maintaining an optimal dividend policy that does not hinder investment opportunities, particularly in competitive markets where firms must ensure sustainable growth to remain viable. Managers can use the findings to make more informed decisions about dividend distribution, aligning these decisions with the firm’s long-term strategic goals and financial health. In this way, the study provides practical guidance on how to navigate the complex trade-offs between rewarding shareholders and securing capital for future investments.

Overall, the significance of this study lies in its potential to contribute to both the academic understanding of investment decision-making and the practical application of its findings in improving corporate financial strategies and market policies.

II. Literature review

2.1. Theoretical Perspectives

2.1.1. Dividend Policy

The theoretical foundations of dividend policy are deeply rooted in a variety of key frameworks, each offering insights into how and why firms decide to distribute profits to shareholders in the form of dividends.

1. Bird-in-the-Hand Theory: Lintner (1956) proposed this theory, suggesting that investors prefer the certainty of dividends over the potential for capital gains, which are subject to greater uncertainty. According to this theory, when firms pay dividends, it signals to investors that the company is in a stable financial position. As dividends are perceived as more predictable and tangible, investors tend to value firms that pay dividends higher than those that do not, assuming the same underlying growth potential. This preference for dividends, according to Lintner, leads to a higher valuation of the firm, as the perceived risk is lower.
2. Signaling Theory: Bhattacharya (1979) introduced signaling theory, which explains how dividend announcements serve as a signal from management to shareholders about the firm’s future performance. In markets where information asymmetry is high (i.e., when managers possess more information about the company’s prospects than shareholders), dividend announcements can be used by managers to signal their confidence in the company’s future profitability. By increasing dividends, management indicates that they expect strong future performance and earnings growth. Conversely, reducing or omitting dividends could signal that management expects lower profits or uncertain financial prospects, potentially causing investors to reassess the firm’s value.

3. Agency Theory: Jensen and Meckling (1976) proposed that agency costs arise from the conflicts of interest between shareholders (principals) and managers (agents). In this framework, managers may be tempted to use the firm's resources for personal benefit rather than maximizing shareholder wealth. Dividend payments, according to Jensen, can help reduce these agency costs by limiting the amount of free cash flow available to managers. When firms distribute cash to shareholders in the form of dividends, there is less cash available for managers to misuse or divert, thereby aligning their interests with those of shareholders. This reduces the possibility of managerial opportunism and improves overall firm governance.

2.1.2. Financial Reporting Quality (FRQ)

High Financial Reporting Quality (FRQ) plays a crucial role in ensuring the integrity and transparency of a company's financial statements. It serves several important functions that contribute to the overall effectiveness of corporate governance and investment decision-making.

1. Reducing Information Asymmetry: One of the primary functions of high FRQ is to reduce information asymmetry between managers and shareholders. By providing accurate, timely, and transparent financial disclosures, high FRQ ensures that both parties have access to the same information. This alignment of information helps shareholders make informed decisions and reduces the risks associated with managerial opportunism. The clarity of financial reports enables investors to better assess the firm's true financial position and future prospects, fostering trust and reducing uncertainty in the market.
2. Enhancing Signal Credibility: High-quality financial reports amplify the credibility of other signals the company may issue, such as dividend announcements or future performance projections. When a firm provides transparent and reliable financial information, investors are more likely to trust and act on other signals sent by management. For instance, if a company with high FRQ announces an increase in dividends, investors are more likely to believe that the firm's financial health supports such a decision and that the company's future prospects are strong. In contrast, in a low FRQ environment, even positive signals like dividend increases may be met with skepticism, as investors may question the reliability of the financial data supporting such decisions.

3. Facilitating External Financing: High FRQ can attract external financing by reducing uncertainty for potential investors and lenders. Investors are more willing to provide capital to firms that disclose high-quality financial reports because they reduce the perceived risk associated with the investment. With accurate and transparent financial statements, firms are able to lower the cost of equity capital, as investors require less of a risk premium when they can confidently assess the firm’s financial health. This increased ability to raise capital at a lower cost can significantly enhance a firm's ability to fund growth opportunities and strategic initiatives.

In summary, both dividend policy and FRQ have significant implications for the financial health of firms and their ability to attract and retain investors. While dividend policies help shape investor perceptions and manage agency costs, high FRQ ensures that firms’ financial performance is accurately represented, reducing risks and enhancing capital market efficiency. These theoretical perspectives lay the foundation for understanding how both factors contribute to firm valuation and investment efficiency.

2.2. Empirical Studies

The relationship between dividend policy and investment decisions has been widely studied, with researchers offering various insights into how dividend payouts can influence a firm's ability to invest in future growth. Fama and French (2001) found that firms with higher dividend payouts often face constraints in funding new investments. This is due to limited retained earnings, which are necessary for reinvesting in the business. Consequently, these firms may be forced to rely more heavily on external financing or limit their investment opportunities, affecting their long-term growth prospects.

On the other hand, DeAngelo et al. (2006) demonstrated that firms with stable cash flows are able to maintain high dividends without compromising investment opportunities. This suggests that for firms with reliable revenue streams, high dividends do not necessarily hinder their ability to invest in new projects. Stable cash flows provide a cushion that allows firms to balance dividend payments and investment expenditures, ensuring that both shareholders' returns and the company's growth potential are maximized.

Kazemi and Mohammadi (2018) specifically focused on the Iranian context, highlighting the negative impact of dividend payouts on research and development (R&D) investments in Iranian firms. Their study revealed that as firms in Iran distribute more of their earnings as dividends, they have fewer resources available for crucial investments in innovation and development. This underscores the trade-off that firms may face when deciding how to allocate their limited resources between rewarding shareholders and funding long-term growth initiatives.

In this context, financial reporting quality (FRQ) can play a critical moderating role in shaping the effects of dividend policies on investment. Bushman et al. (2004) demonstrated that high FRQ can mitigate the adverse effects of dividend constraints on investment. By ensuring that financial statements are accurate, transparent, and reflective of the firm's actual financial health, high FRQ can help reduce information asymmetry. This reduction in asymmetry makes it easier for firms to raise external capital, even when dividend payouts limit their internal funding, leading to more efficient capital allocation.

Chen et al. (2011) further emphasized that high FRQ enhances the alignment between dividend policies and shareholder expectations. When a firm has high-quality financial reporting, shareholders are more likely to understand the rationale behind dividend decisions and investment strategies. This transparency helps maintain investor confidence, even if dividend payouts are high or investment opportunities are temporarily constrained. As a result, the firm can continue to attract investment, and its overall financial strategy can be better supported by its stakeholders.

Shahriari et al. (2019) highlighted the specific role of FRQ in reducing information asymmetry in the Tehran Stock Exchange (TSE). In the Iranian market, where information dissemination can be less consistent, the importance of FRQ is amplified. By providing clear and reliable financial data, high FRQ helps investors make informed decisions, thus reducing the risk of capital misallocation and improving investment efficiency.

Combined studies in emerging markets have examined the relationship between dividend policies and FRQ, providing valuable insights into the dynamics of these variables in different institutional contexts. Gul et al. (2011) conducted a study on Chinese firms, examining the interplay between dividend policies and FRQ. They concluded that high FRQ mitigates resource constraints by allowing firms to raise external capital more efficiently, even when faced with the challenge of high dividend payouts. In this way, FRQ serves as a valuable tool for firms to balance shareholder rewards with the need for reinvestment in growth.

Akhigbe et al. (2017) found similar results in African markets, emphasizing the role of governance in amplifying the benefits of high FRQ. In markets with weaker institutional frameworks, high FRQ can play a critical role in overcoming the limitations imposed by governance issues, enabling firms to attract investment and allocate capital more effectively.

Their study suggests that in emerging markets, where governance structures may not be as robust, the role of FRQ in improving capital efficiency becomes even more crucial.

These studies collectively highlight the complex relationship between dividend policy, financial reporting quality, and investment in emerging markets. They underscore the importance of transparent financial reporting in mitigating the challenges faced by firms with high dividend payouts and its role in ensuring efficient capital allocation.

III. Materials and Methods

This study employs a rigorous quantitative research design to investigate the interplay between dividend policy, financial reporting quality (FRQ), and corporate investment decisions. By leveraging moderated regression analysis, the research framework facilitates a comprehensive examination of both direct and interactive effects among the key variables. This methodological approach is particularly suitable for disentangling the complex relationships inherent in financial decision-making, allowing for a nuanced understanding of how dividend policy and FRQ collectively shape investment outcomes.

The data utilized in this study was meticulously gathered from 112 publicly listed firms on the Tehran Stock Exchange (TSE) over a five-year period from 2018 to 2022. This time frame captures both short-term fluctuations and long-term trends, ensuring a robust basis for empirical analysis. The primary sources of data include annual financial reports, which provide detailed insights into the financial health and strategic choices of firms, the TSE database, and the Codal system, which serves as a centralized repository of financial disclosures in Iran. Together, these sources offer a comprehensive and reliable dataset, enabling the study to achieve high levels of accuracy and validity in its findings.

The study's variables and measurements are carefully defined to align with its research objectives. The dependent variable, corporate investment, is operationalized as the ratio of capital expenditures to total assets (CAPEX/TA). This metric effectively captures a firm's commitment to growth and resource allocation, serving as a direct indicator of its investment strategy.

The independent variable, dividend policy, is represented by the dividend payout ratio (DPR), which reflects the proportion of earnings distributed to shareholders relative to total profits. This measure provides critical insights into how firms balance the dual imperatives of rewarding shareholders and retaining earnings for future investments.

FRQ, the moderating variable, is assessed using accrual-based metrics, which are widely recognized as reliable indicators of financial reporting quality. These metrics evaluate the extent to which reported earnings reflect underlying economic realities, offering a nuanced perspective on the transparency and credibility of financial disclosures.

In addition to these primary variables, the study incorporates a set of control variables to account for external and firm-specific factors that may influence investment decisions. Firm size, measured as the natural logarithm of total assets, captures the scale and resource capacity of firms, which often dictate their ability to undertake significant investments. Profitability, represented by return on assets (ROA), reflects operational efficiency and financial performance, highlighting a firm's capacity to generate internal funds for reinvestment. The leverage ratio indicates the extent of a firm's reliance on debt financing, shedding light on its financial obligations and associated constraints. Finally, growth opportunities, typically proxied by market-to-book ratios or similar indicators, provide a measure of a firm's potential for expansion and value creation.

By integrating these variables into a cohesive analytical framework, the study not only addresses its core research questions but also provides a robust foundation for exploring the broader implications of dividend policy and FRQ in emerging market contexts. This meticulous approach ensures that the findings are both reliable and relevant, offering valuable insights for academics, practitioners, and policymakers alike.

IV. Results and Analysis

4.1. Descriptive Statistics

The dataset, comprising 112 firms across various industries, provides a comprehensive foundation for analyzing the intricate relationships between dividend policy, financial reporting quality (FRQ), and investment decisions. The descriptive statistics of the variables, as summarized in Table 1, reveal key insights into the corporate financial behaviors and conditions of the sampled firms.

The mean investment ratio, measured as capital expenditures relative to total assets (CAPEX/TA), stands at 0.12, or 12%, indicating moderate levels of corporate investment among the firms. This suggests a cautious but steady approach to resource allocation, where firms balance the pursuit of growth opportunities with the constraints imposed by limited resources and external economic factors. The standard deviation of 0.04 further highlights a relatively narrow range of investment activities across the sample, with a minimum of 0.05 and a maximum of 0.25. This consistency in investment levels could reflect the structural characteristics of firms listed on the Tehran Stock Exchange (TSE), such as industry norms, regulatory requirements, or shared economic challenges.

The average dividend payout ratio (DPR) of 38% underscores a balanced approach to profit distribution. This ratio reflects the portion of net earnings allocated to shareholders in the form of dividends, as opposed to being retained for reinvestment. The DPR range, from a minimum of 0.10 to a maximum of 0.70, alongside a standard deviation of 0.15, indicates variability in corporate dividend policies. Firms with higher payout ratios may prioritize shareholder returns, signaling financial stability and managerial confidence, while those with lower ratios likely reinvest a greater share of profits to fuel future growth. This variability aligns with differences in firm-specific factors such as lifecycle stage, cash flow stability, and growth opportunities.

The FRQ index, with a mean value of 0.76 and a standard deviation of 0.09, suggests that the majority of firms maintain reasonably high standards of financial reporting quality. This indicates adherence to acceptable reporting practices, which likely reduce information asymmetry and foster investor confidence. The range of the FRQ index, from 0.50 to 0.90, points to some degree of variation in reporting quality among the firms. Firms with higher FRQ scores are expected to provide more reliable and transparent financial disclosures, thereby enhancing their attractiveness to investors and facilitating efficient capital allocation. Conversely, firms at the lower end of the spectrum may face challenges in maintaining credibility and attracting external financing.

Firm size, as measured by the natural logarithm of total assets, averages 14.7, with a standard deviation of 1.25. This suggests a diverse sample in terms of organizational scale, ranging from relatively smaller firms (minimum of 12.3) to significantly larger entities (maximum of 17.1). Larger firms often have access to more resources, broader market reach, and stronger financial stability, enabling them to adopt more aggressive investment strategies. Meanwhile, smaller firms may face constraints due to limited financial and operational capacities, though they may exhibit greater agility in exploring niche opportunities.

The leverage ratio, with a mean value of 0.42 and a standard deviation of 0.10, reflects the extent to which firms rely on debt financing relative to their equity. The range of 0.20 to 0.60 indicates moderate variability in leverage levels. Firms with higher leverage ratios may face greater financial obligations, limiting their ability to undertake new investments, while those with lower ratios likely enjoy more flexibility in capital allocation.

Profitability, represented by return on assets (ROA), averages 0.09 or 9%, with a standard deviation of 0.05. This measure of efficiency in generating earnings from assets ranges from 0.01 to 0.22 across the sample, illustrating notable differences in operational performance.

Firms with higher ROA are better positioned to reinvest earnings into productive projects, supporting sustained growth and shareholder value creation. Lower profitability, on the other hand, may signal inefficiencies or external pressures that hinder financial performance.

In summary, the descriptive statistics provide a detailed snapshot of the financial characteristics and strategic choices of the sampled firms. Moderate investment levels, a balanced approach to dividend payouts, and relatively high FRQ scores collectively reflect a cautious but structured approach to corporate finance within the TSE. These patterns suggest that firms are navigating the complex interplay of growth aspirations, shareholder expectations, and financial constraints, while leveraging financial reporting quality as a critical tool for fostering transparency and trust in an emerging market context.

4.2. Regression Analysis

Regression analysis was conducted to assess the direct effect of dividend policy on corporate investment decisions and to evaluate the moderating influence of financial reporting quality (FRQ). The findings, as outlined in Table 2, provide compelling evidence of the complex interactions between these variables and their impact on investment strategies.

The coefficient for the dividend payout ratio is negative and statistically significant (-0.150, $p < 0.01$), indicating that higher dividend payouts reduce the funds available for corporate investment. This finding aligns with the hypothesis that firms distributing a larger proportion of their earnings as dividends retain fewer internal resources for reinvestment in growth opportunities. This relationship underscores a fundamental trade-off in corporate finance: while high dividend payouts may satisfy shareholder expectations and signal financial stability, they simultaneously constrain the firm’s capacity to finance capital-intensive projects internally.

The FRQ index demonstrates a positive and highly significant effect on investment (0.280, $p < 0.001$), affirming the crucial role of high-quality financial reporting in fostering efficient capital allocation. By reducing information asymmetry and enhancing the credibility of financial disclosures, high FRQ enables firms to attract external financing and allocate resources more effectively. This result reinforces the importance of transparency and reliability in financial reporting, particularly in emerging markets where regulatory and governance frameworks may be less robust.

The interaction term (Dividend × FRQ) is also positive and significant (0.100, $p < 0.01$), suggesting that FRQ moderates the negative impact of dividend payouts on investment. This finding implies that firms with high FRQ are better equipped to mitigate the constraints imposed by high dividend payouts. By providing clear and accurate financial information, these firms can maintain investor confidence and secure external funding to support their investment activities, even when a substantial portion of earnings is distributed as dividends.

Among the control variables, firm size exhibits a positive and significant relationship with investment (0.050, $p < 0.01$), indicating that larger firms are more likely to undertake substantial investment projects. This can be attributed to their greater access to capital markets, economies of scale, and more diversified revenue streams, which collectively reduce the risks associated with large-scale investments.

The leverage ratio, on the other hand, has a significant negative effect on investment (-0.100, $p < 0.05$). This result suggests that higher debt levels impose financial constraints on firms, limiting their flexibility to allocate resources toward new investment opportunities. Leverage may increase financial obligations, such as interest payments, thereby crowding out funds that could otherwise be directed toward productive activities.

Profitability, as measured by return on assets (ROA), positively affects investment decisions (0.220, $p < 0.05$). Firms with higher profitability are better positioned to reinvest their earnings into growth-oriented projects, enabling them to sustain competitive advantage and enhance shareholder value. High ROA reflects operational efficiency and robust financial performance, which provide the necessary foundation for pursuing ambitious investment strategies.

The R-squared value of 0.75 indicates that 75% of the variability in investment decisions is explained by the model's independent variables, while the adjusted R-squared of 0.73 confirms the model's robustness. These metrics highlight the strong explanatory power of the regression analysis in capturing the key determinants of corporate investment behavior.

To validate the robustness of these findings, sensitivity analyses were conducted. The use of alternative FRQ measures, such as discretionary accruals, yielded consistent results, reinforcing the reliability of the conclusions. Furthermore, industry-specific models were estimated separately for manufacturing and service sectors, which also confirmed the main findings, suggesting that the relationships observed are not confined to a specific industry context.

In summary, the regression analysis provides comprehensive insights into the interplay between dividend policy, FRQ, and corporate investment. High FRQ emerges as a critical factor in mitigating the potential adverse effects of high dividend payouts on investment, while firm size, leverage, and profitability further shape the investment landscape. These findings underscore the importance of integrated financial strategies that balance shareholder returns with long-term value creation, particularly in markets characterized by information asymmetry and resource constraints.

5. Discussion

The findings of this study provide valuable theoretical contributions by reinforcing key financial theories and offering new insights into their applicability within emerging market contexts. In relation to signaling theory, the negative relationship between dividend payouts and corporate investment illustrates a fundamental trade-off faced by firms. While high dividend payouts serve as a strong signal of financial stability and managerial confidence to shareholders, they also constrain the internal funds available for reinvestment. This finding emphasizes the dual role of dividends: as a tool for communicating stability and as a potential limitation on growth. Signaling theory is thus reaffirmed as a critical lens through which dividend decisions can be evaluated, particularly in environments with high information asymmetry.

From the perspective of agency theory, the results highlight the pivotal role of financial reporting quality (FRQ) in reducing agency conflicts. By ensuring that financial statements are transparent, reliable, and accurate, high FRQ enables efficient allocation of dividends without undermining a firm's ability to pursue strategic investments. This is particularly relevant in cases where managers might otherwise prioritize short-term shareholder satisfaction over long-term value creation. High-quality financial reporting aligns the interests of managers and shareholders, fostering a cooperative approach to balancing dividend payouts and growth objectives.

In the context of emerging markets like Iran, the findings underscore the heightened importance of FRQ in mitigating the challenges posed by weaker regulatory frameworks and less stringent enforcement mechanisms. In such environments, information asymmetry is more pronounced, making it crucial for firms to adopt robust reporting practices. The results of this study reinforce the notion that FRQ acts as a stabilizing force, reducing the adverse effects of systemic weaknesses and enabling firms to attract and retain investor confidence. This underscores the unique role of FRQ in bridging gaps created by structural inefficiencies in emerging markets.

From a practical standpoint, the study offers actionable insights for corporate managers and policymakers. Managers are encouraged to strike a delicate balance between dividend payouts and investment needs. By leveraging high FRQ, they can provide investors with confidence in the firm's financial health while simultaneously preserving sufficient funds for growth-oriented projects. Adopting an integrated financial strategy that harmonizes dividend policies with high-quality reporting practices can enhance overall firm performance and investor satisfaction. Such an approach ensures that dividend signals are credible and that resource constraints do not hinder future growth.

For policymakers, the findings highlight the need to strengthen reporting standards and regulatory oversight to reduce information asymmetry and enhance market efficiency. Enforcing stricter FRQ requirements can compel firms to adopt transparent and reliable reporting practices, thereby mitigating the trade-offs associated with dividend decisions. Additionally, promoting policies that encourage disclosure consistency across sectors and firms can further enhance the credibility of financial information, fostering an environment of trust and stability. Such measures are particularly vital in emerging markets, where weak governance structures often exacerbate the challenges associated with financial decision-making.

Despite its contributions, this study is subject to certain limitations that warrant consideration. The data constraints inherent in the analysis, such as limited access to detailed sector-specific information, restrict the generalizability of the findings to other contexts or industries. Future research could address this limitation by incorporating more granular data or focusing on specific sectors to provide a deeper understanding of the dynamics at play.

Additionally, while this study focuses exclusively on firms within the Tehran Stock Exchange, cross-country comparisons could provide valuable insights into the generalizability of the findings across different regulatory environments and economic conditions. Exploring similar relationships in other emerging markets would allow researchers to validate the conclusions and identify context-specific factors that influence the interplay between dividend policy, FRQ, and investment decisions.

Overall, the study not only advances theoretical understanding but also provides a practical roadmap for improving corporate financial strategies and regulatory frameworks, thereby contributing to the broader discourse on financial management in emerging markets.

V. Conclusion

This study underscores the complex relationship between dividend policy and financial reporting quality (FRQ) in influencing corporate investment strategies. High dividend payouts, while signaling financial stability and satisfying shareholder expectations, often reduce the internal funds available for reinvestment. This inherent trade-off poses a significant challenge for firms, particularly those operating in emerging markets where financial and operational constraints are more pronounced. However, the findings reveal that FRQ plays a crucial role in mitigating these constraints by enhancing the transparency and reliability of financial disclosures. Through improved FRQ, firms can reduce information asymmetry, attract external financing, and maintain a balance between distributing returns to shareholders and allocating resources for growth-oriented investments.

The study emphasizes that adopting integrated financial strategies is essential for optimizing corporate performance in emerging markets, where regulatory and governance challenges persist. Integrated strategies should harmonize dividend policies with high-quality financial reporting practices to achieve sustainable growth and long-term value creation. In environments characterized by weaker regulatory frameworks and greater market volatility, such approaches are particularly critical for maintaining investor confidence and ensuring efficient capital allocation.

To address these challenges, the study offers two key recommendations. First, firms should prioritize the enhancement of FRQ as a strategic imperative. By investing in robust reporting systems and ensuring adherence to high accounting standards, firms can provide stakeholders with transparent and accurate financial information. This not only helps balance shareholder returns with investment needs but also positions firms as credible and reliable entities in the eyes of both domestic and international investors. Improving FRQ enables firms to navigate the constraints imposed by high dividend payouts while continuing to pursue growth opportunities effectively.

Second, policymakers must take proactive steps to strengthen transparency and governance across financial markets. This involves enforcing stricter FRQ requirements and fostering a regulatory environment that encourages consistency and reliability in financial reporting. By addressing systemic weaknesses and promoting greater accountability among firms, policymakers can reduce information asymmetry and enhance market efficiency. Such measures are crucial for attracting investment, fostering economic growth, and creating a stable and predictable financial ecosystem in emerging markets.

In conclusion, the study highlights the pivotal role of FRQ in shaping investment strategies and mitigating the limitations associated with dividend policy. By adopting integrated financial strategies and fostering an environment of transparency and accountability, firms and policymakers alike can drive sustainable economic development and strengthen the foundations of emerging financial markets.

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