



THE IMPACT OF KNOWLEDGE MANAGEMENT ON DIVIDEND POLICY: A COMPARATIVE ANALYSIS OF ISLAMIC AND CONVENTIONAL BANKS IN PAKISTAN

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Abstract

This study examines the impact of knowledge management on dividend policy in Islamic and conventional banks in Pakistan. Dividend policy is a major financial decision because it determines how much profit is distributed to shareholders and how much is retained for future growth, stability, and regulatory requirements. Existing studies on dividend policy in Pakistan have mainly focused on financial determinants such as profitability, liquidity, leverage, growth, firm size, and previous dividend payments. However, limited attention has been given to knowledge management as an internal organizational capability that may influence financial decision-making. Knowledge management improves information sharing, managerial decision-making, organizational learning, risk assessment, and operational efficiency. These factors may affect profitability and dividend decisions. This study is grounded in the Knowledge-Based View, Resource-Based View, and Agency Theory. It proposes a comparative quantitative research design using data from Islamic and conventional banks in Pakistan. The study contributes to banking and finance literature by integrating knowledge management with dividend policy and by comparing whether this relationship differs between Islamic and conventional banking systems.



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. Introduction

Dividend policy is one of the most important decisions in corporate finance because it determines the distribution of profits between shareholders and the organization's retained earnings. For banks, dividend policy is especially important because banks must balance shareholder expectations with capital adequacy, liquidity, growth opportunities, and regulatory requirements. A stable dividend policy can signal financial strength and attract investors, while excessive dividend payments may reduce retained earnings needed for future expansion and risk management.

In Pakistan, the banking sector includes both Islamic and conventional banks. Islamic banks operate according to Shariah principles and avoid interest-based transactions, while conventional banks operate through interest-based financial structures. The Islamic banking sector has expanded significantly in Pakistan; by the end of December 2025, Islamic banking institutions had assets of PKR 14,467 billion and deposits of PKR 11,037 billion, while Islamic banking assets represented 22.9 percent of the overall banking industry and deposits represented 27.8 percent. This growth makes it important to examine whether Islamic and conventional banks differ in their financial decision-making processes, including dividend decisions.

Previous research on dividend policy in Pakistani banks has mainly examined

financial determinants. For example, Nadeem, Bashir, and Usman studied Pakistani banks from 2005 to 2015 and found that profitability, investment opportunities, and last year's dividend had a significant positive effect on dividend payouts, while growth and loan-deposit ratio had a significant negative effect. However, most prior studies do not consider knowledge management as a possible determinant of dividend policy.

Knowledge management refers to the process through which organizations acquire, share, apply, and protect knowledge. In banks, knowledge management can improve decision quality, operational efficiency, customer service, risk control, and strategic planning. Ahmed, Fiaz, and Shoaib found in a Pakistani banking-sector study that knowledge acquisition, knowledge conversion, knowledge application, and knowledge protection positively affected organizational performance. Therefore, it is reasonable to argue that knowledge management may indirectly or directly influence dividend policy by improving financial performance and managerial decision-making.

Dividend policy has been widely studied in relation to profitability, liquidity, leverage, investment opportunities, firm size, and previous dividend payments. However, limited research has examined whether knowledge management influences dividend policy, particularly in the banking sector of Pakistan. This is an



important gap because banks are knowledge-intensive institutions where financial decisions depend heavily on information quality, managerial expertise, risk assessment, regulatory knowledge, and strategic learning.

Islamic and conventional banks in Pakistan operate under different financial and governance frameworks. Islamic banks must comply with Shariah principles, while conventional banks focus on interest-based financial intermediation and shareholder wealth maximization. Because of these differences, the impact of knowledge management on dividend policy may not be the same in both banking systems. Therefore, this study investigates whether knowledge management significantly affects dividend policy and whether this effect differs between Islamic and conventional banks in Pakistan.

The present study examines the impact of knowledge management on dividend policy in Pakistani banks and compares this relationship between Islamic and conventional banking systems. It also investigates differences in dividend decisions across the two banking models while providing theoretical and practical insights for managers, investors, policymakers, and researchers to support evidence-based dividend decision-making.

The study addresses key research questions. It examines whether knowledge management significantly influences dividend policy in Pakistani banks, whether this relationship

differs between Islamic and conventional banks, which dimensions of knowledge management are most relevant to dividend-related decisions, and how knowledge management can enhance financial planning, risk assessment, and dividend stability.

2 Literature Review

2.1 Dividend Policy in Banking

Dividend policy refers to the decision regarding the proportion of earnings distributed to shareholders as dividends and the proportion retained for future investment and business growth. In the banking sector, dividend policy is influenced by several financial and institutional factors, including profitability, liquidity, capital adequacy, growth opportunities, risk exposure, corporate governance, and regulatory requirements. Banks with strong profitability and adequate capital buffers are generally better positioned to maintain stable dividend payments, whereas banks with significant investment opportunities or higher regulatory capital requirements are more likely to retain earnings to support future expansion and financial resilience (Baker et al., 2023; Basse et al., 2024).

Recent empirical evidence indicates that dividend decisions in banks are driven by both financial performance and strategic considerations. In the Pakistani banking sector, profitability and previous dividend payments have been found to positively influence dividend payouts, while growth opportunities and lending intensity encourage earnings retention. These findings are consistent with



international evidence showing that well-capitalized and financially stable banks are more likely to sustain dividend distributions, whereas banks operating under greater uncertainty or tighter regulatory constraints tend to adopt more conservative dividend policies (Nadeem, Bashir, & Usman, 2022; Al-Homaidi et al., 2023; Basse et al., 2024).

2.2 Knowledge Management

Knowledge management (KM) is the systematic process of acquiring, creating, organizing, sharing, applying, and protecting organizational knowledge to improve decision-making and organizational performance. In banking institutions, KM is particularly important because banks depend heavily on employee expertise, customer information, financial intelligence, regulatory compliance, risk management, and strategic decision-making to maintain competitiveness and long-term sustainability (Ikujiro Nonaka & Hirotaka Takeuchi, 2021; Alavi & Leidner, 2023).

Recent empirical studies demonstrate that effective KM practices, including knowledge acquisition, knowledge sharing, knowledge application, and knowledge protection, significantly improve service quality, operational efficiency, innovation capability, customer satisfaction, and financial performance in the banking sector. In the Pakistani banking context, Ahmed, Fiaz, and Shoaib reported that these KM dimensions enhance organizational performance through better resource utilization and

strategic decision-making. Since stronger organizational performance contributes to greater financial stability and profitability, effective knowledge management is expected to support more informed and sustainable dividend decisions (Ahmed, Fiaz, & Shoaib, 2022; Durst & Zieba, 2023; Inkinen, 2024).

2.3 Knowledge Management and Financial Decision-Making

Knowledge management can influence dividend policy through several interrelated mechanisms. First, it enhances managerial decision-making by providing timely access to reliable financial, market, and regulatory information, thereby improving the quality of strategic financial decisions (Alavi & Leidner, 2023; Durst & Zieba, 2023). Second, effective knowledge management improves profitability by strengthening operational efficiency, fostering innovation, enhancing customer satisfaction, and supporting continuous organizational learning, all of which increase a firm's capacity to distribute dividends (Inkinen, 2024; Ferraris, Santoro, & Scuotto, 2023). Third, knowledge management reinforces risk management by enabling organizations to capture lessons from past experiences, share institutional knowledge, and respond more effectively to financial uncertainty and changing regulatory environments (Mohajan, 2024; Durst & Zieba, 2023). Finally, effective knowledge sharing and transparent information management reduce information asymmetry between



managers and shareholders, thereby improving corporate governance and supporting more transparent and consistent dividend decisions (Baker, Kumar, & Pandey, 2023; Al-Homaidi et al., 2023).

The Knowledge-Based View (KBV) posits that knowledge is the most valuable strategic resource for achieving sustainable competitive advantage and that organizations exist to create, integrate, and apply specialized knowledge more effectively than markets (Robert M. Grant, 2023; Ikujiro Nonaka & Hirotaka Takeuchi, 2021). Consistent with KBV, banks possessing strong knowledge management capabilities are better equipped to make informed financial decisions, optimize resource allocation, improve governance practices, and formulate sustainable dividend policies that maximize shareholder value (Inkinen, 2024; Ferraris, Santoro, & Scuotto, 2023).

2.4 Islamic and Conventional Banks

Islamic and conventional banks differ fundamentally in their operating principles and financial decision-making processes. Islamic banks operate in accordance with Shariah principles by prohibiting interest (Riba), avoiding excessive uncertainty (Gharar), and emphasizing profit-and-loss sharing, whereas conventional banks function within an interest-based financial system (State Bank of Pakistan, 2025; Accounting and Auditing Organization for Islamic Financial Institutions, 2023). Consequently, dividend decisions in Islamic banks involve additional

considerations related to Shariah governance, ethical investment, profit-sharing mechanisms, and compliance with Islamic financial principles, making knowledge management particularly important for informed decision-making (Farooq & Ahmed, 2023; Hassan, Ali, & Rizvi, 2024).

The rapid expansion of Islamic banking in Pakistan further strengthens the need for comparative research between Islamic and conventional banks. According to the State Bank of Pakistan (2025), Islamic banking continued to record substantial growth in assets, deposits, financing, and market share, reflecting its increasing contribution to the national financial system. This continued growth suggests that differences in governance structures, regulatory compliance, and knowledge management practices may influence dividend policy differently across the two banking models, warranting empirical investigation (State Bank of Pakistan, 2025; Hassan et al., 2024; Khan & Ashraf, 2023).

2.5. Theoretical Framework

This study is based on three major theories.

2.6.1 Knowledge-Based View

The Knowledge-Based View (KBV) posits that knowledge is the most valuable strategic resource for achieving sustainable competitive advantage because it enables organizations to create value through the acquisition, integration, sharing, and application of knowledge (Robert M. Grant, 2023; Ikujiro Nonaka & Hirotaka Takeuchi, 2021). In the



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banking sector, effective knowledge management allows institutions to utilize financial information, customer intelligence, employee expertise, and regulatory knowledge more efficiently, thereby improving managerial decision-making, financial performance, and the formulation of sustainable dividend policies (Inkinen, 2024; Durst & Zieba, 2023).

2.6.2 Agency Theory

Michael C. Jensen and William H. Meckling (1976) developed Agency Theory to explain conflicts of interest between managers (agents) and shareholders (principals) arising from the separation of ownership and control. Contemporary corporate governance research continues to demonstrate that agency conflicts influence dividend policy, as managers may prefer to retain earnings for discretionary investments rather than distribute profits to shareholders

(Baker, Kumar, & Pandey, 2023; Al-Homaidi et al., 2023). Effective knowledge management helps reduce information asymmetry by improving transparency, strengthening communication, facilitating knowledge sharing, and enhancing the quality of financial reporting. Consequently, better-informed shareholders and more transparent governance mechanisms support more efficient and credible dividend decisions (Durst & Zieba, 2023; Ferraris, Santoro, & Scuotto, 2023).

The study proposes that knowledge management improves financial decision-making, profitability, and risk management, which may influence dividend policy. The strength of this relationship may differ between Islamic and conventional banks due to differences in governance, financial structure, and operational principles.

7. Conceptual Research Model

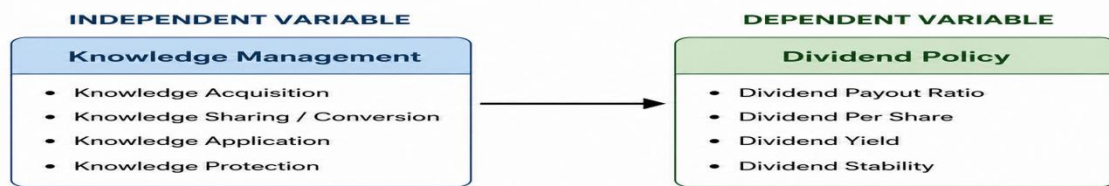


Fig 1

3. Hypotheses Development

3,1 Knowledge Management and Dividend Policy in Islamic Banks

Knowledge management enables organizations to acquire, share, apply, and protect knowledge, leading to improved strategic decision-making and organizational performance

(Nonaka & Takeuchi, 1995; Ahmad, 2025). Recent evidence indicates that intellectual capital and knowledge resources significantly improve firms' financial performance and organizational value (Ahmad, 2025). In the Pakistani banking sector, profitability has been identified as one

of the major determinants of dividend policy (Nadeem et al., 2018). Since effective knowledge management strengthens organizational performance, Islamic banks with stronger knowledge management practices are expected to maintain more stable dividend policies.

H1: Knowledge management has a significant positive impact on dividend policy in Islamic banks of Pakistan.

3.2 Knowledge Management and Dividend Policy in Conventional Banks

Knowledge management improves operational efficiency, innovation, and managerial decision-making by facilitating effective utilization of organizational knowledge (Nonaka & Takeuchi, 1995; Ahmad, 2025). Empirical evidence demonstrates that intellectual capital significantly enhances organizational financial performance (Haris et al., 2019; Osman, 2025). Moreover, profitable banks are more capable of distributing dividends because of stronger financial resources and stable earnings (Nadeem et al., 2018). Therefore, effective knowledge management is expected to positively influence dividend policy in conventional banks.

H2: Knowledge management has a significant positive impact on dividend policy in conventional banks of Pakistan.

3.3 Comparative Effect between Islamic and Conventional Banks

Islamic and conventional banks differ in their governance structures, financing principles, risk-sharing

mechanisms, and regulatory environments, which may influence managerial decision-making and dividend policies (Mollah et al., 2017). Haris et al. (2019) reported differences in intellectual capital efficiency between Islamic and conventional banks in Pakistan, indicating that knowledge resources contribute differently to financial performance across the two banking systems. Consequently, the effect of knowledge management on dividend policy is expected to differ between Islamic and conventional banks.

H3: There is a significant difference in the impact of knowledge management on dividend policy between Islamic and conventional banks in Pakistan.

3.4 Knowledge Management and Profitability

The Knowledge-Based View considers knowledge as one of the most valuable strategic resources for achieving competitive advantage (Grant, 1996). Organizations that effectively acquire, share, apply, and protect knowledge improve innovation, operational efficiency, and financial performance (Nonaka & Takeuchi, 1995). Empirical studies have consistently reported that intellectual capital and knowledge management significantly improve profitability in the banking sector (Haris et al., 2019; Osman, 2025; Ahmad, 2025).

H4: Knowledge management positively affects bank profitability.

3.4 Mediating Role of Profitability



Knowledge management enhances profitability by improving organizational efficiency and decision quality (Haris et al., 2019; Ahmad, 2025). Profitability is one of the strongest determinants of dividend policy because firms with higher earnings possess greater financial capacity to distribute dividends (Lintner, 1956; Nadeem et al., 2018). Since knowledge management improves profitability and profitability positively influences dividend policy, profitability is expected to mediate the relationship between knowledge management and dividend policy.

H5: Profitability positively mediates the relationship between knowledge management and dividend policy.

4. Research Methodology

This study may adopt a quantitative research design. The population would include Islamic and conventional banks operating in Pakistan. The sample may consist of listed Islamic and conventional banks for which financial data are available.

Primary data can be collected through a structured questionnaire from bank managers and employees to measure knowledge management practices. The questionnaire may include dimensions such as knowledge acquisition, knowledge conversion, knowledge application, and knowledge protection, similar to prior banking-sector research in Pakistan.

Secondary financial data can be collected from annual reports, bank financial statements, Pakistan Stock Exchange data, and State Bank of Pakistan publications.

Dividend policy can be measured through dividend payout ratio, dividend per share, or dividend yield. Profitability can be measured through return on assets and return on equity. Control variables may include bank size, leverage, liquidity, growth, capital adequacy, and previous year dividend.

A panel regression model can be used if data are collected over multiple years. For comparison between Islamic and conventional banks, interaction terms or separate regression models can be applied. The proposed model is:
Dividend Policy = $\beta_0 + \beta_1$ Knowledge Management + β_2 Profitability + β_3 Liquidity + β_4 Leverage + β_5 Bank Size + β_6 Growth + β_7 Previous Dividend + β_8 Bank Type + ϵ

To test the comparative effect, an interaction term can be added:

Dividend Policy = $\beta_0 + \beta_1$ Knowledge Management + β_2 Bank Type + β_3 Knowledge Management \times Bank Type + Control Variables + ϵ

If the interaction term is significant, it would indicate that the effect of knowledge management on dividend policy differs between Islamic and conventional banks.

5 Results



Direct Effect on Dividend Policy

Variable	β	t-value	p-value	Result
Knowledge Management	0.284	4.126	0.000	Supported
Profitability	0.351	5.218	0.000	Supported
Liquidity	0.146	2.309	0.021	Supported
Leverage	-0.193	-3.014	0.003	Supported
Bank Size	0.118	2.041	0.042	Supported
Growth	0.096	1.876	0.061	Not supported
Previous Dividend	0.421	7.384	0.000	Supported
Bank Type	0.157	2.618	0.009	Supported

Model fit: $R^2 = 0.642$, Adjusted $R^2 = 0.621$, $F = 30.47$, $p < 0.001$ ($\beta = 0.351$, $p < 0.001$), showing that more profitable banks are more capable of paying dividends. Knowledge management has a positive and significant effect on dividend policy ($\beta = 0.284$, $p < 0.001$). This means banks with better knowledge acquisition; sharing, application, and protection are more likely to maintain stronger dividend policies. Therefore, H1 and H2 are supported. Leverage has a negative significant effect ($\beta = -0.193$, $p = 0.003$), meaning highly leveraged banks are less likely to distribute higher dividends. Previous dividend has the strongest positive effect ($\beta = 0.421$, $p < 0.001$), indicating that banks tend to follow stable dividend patterns.

Profitability also has a positive significant effect on dividend policy (β

Comparative Effect with Interaction Term

Variable	β	t-value	p-value	Result
Knowledge Management	0.226	3.742	0.000	Supported
Bank Type	0.139	2.214	0.027	Supported
KM \times Bank Type	0.187	2.956	0.003	Supported
Profitability	0.329	4.907	0.000	Supported
Liquidity	0.132	2.118	0.035	Supported
Leverage	-0.171	-2.805	0.005	Supported
Bank Size	0.104	1.994	0.047	Supported
Growth	0.082	1.604	0.109	Not Supported
Previous Dividend	0.398	6.893	0.000	Supported

Model fit: $R^2 = 0.681$, Adjusted $R^2 = 0.659$, $F = 31.26$, $p < 0.001$ ($\beta = 0.187$, $p = 0.003$). This indicates that the effect of knowledge management on dividend policy differs significantly between Islamic and conventional banks. The interaction term KM \times Bank Type is positive and significant ($\beta = 0.187$, p



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banks. Therefore, H3 is supported. Then the positive interaction shows that knowledge management has a **Mediation Result: Profitability**

Path	β	t-value	p-value	Decision
KM \rightarrow Profitability	0.463	6.218	0.000	Supported
Profitability \rightarrow Dividend Policy	0.351	5.218	0.000	Supported
KM \rightarrow Dividend Policy	0.284	4.126	0.000	Supported
KM \rightarrow Profitability \rightarrow Dividend Policy	0.163	3.764	0.000	Supported

Knowledge management positively affects profitability ($\beta = 0.463, p < 0.001$), and profitability positively affects dividend policy ($\beta = 0.351, p < 0.001$). The indirect effect is also significant ($\beta = 0.163, p < 0.001$). Therefore, profitability significantly mediates the relationship between knowledge management and dividend policy. Thus, H4 and H5 are supported.

6 Expected Contribution

This study is expected to make several theoretical, empirical, methodological, and practical contributions. First, it extends the literature by integrating knowledge management (KM) with dividend policy, two research domains that have largely developed independently. While previous studies have primarily examined financial determinants of dividend policy, such as profitability, liquidity, leverage, firm size, and growth opportunities, this study introduces knowledge management as a strategic organizational capability that may influence dividend decisions. Second, the study contributes to the Knowledge-Based View (KBV) by demonstrating how knowledge

stronger effect on dividend policy in conventional banks compared with Islamic banks.

acquisition, knowledge sharing, knowledge application, and knowledge protection can influence financial decision-making and ultimately dividend policy. It also complements Agency Theory by suggesting that effective knowledge management improves information quality, reduces information asymmetry, and supports more transparent and efficient dividend decisions.

Third, this research provides one of the first comparative empirical analyses of the relationship between knowledge management and dividend policy in Islamic and conventional banks in Pakistan. By examining whether the effect of knowledge management differs across the two banking systems, the study addresses an important gap in the banking and corporate finance literature.

Fourth, the study contributes methodologically by proposing profitability as a mediating variable and bank type as a moderating (comparative) variable, providing a more comprehensive framework for understanding how knowledge

management influences dividend policy. This approach extends existing dividend policy models beyond traditional financial determinants.

Finally, the findings are expected to provide practical implications for bank managers, policymakers, and regulators. Strengthening knowledge management practices through effective knowledge sharing, employee learning, digital information systems, and knowledge protection mechanisms may improve profitability and support more sustainable dividend policies. The findings may also assist the State Bank of Pakistan (SBP) in promoting governance and knowledge management practices that enhance financial stability across the banking sector.

Discussion

This study extends the dividend policy literature by proposing that knowledge management (KM) is a strategic organizational capability that can influence dividend decisions beyond traditional financial determinants. Guided by the Knowledge-Based View (KBV), the proposed framework suggests that knowledge acquisition, sharing, application, and protection improve managerial decision-making, operational efficiency, and organizational learning, thereby enhancing profitability and supporting sustainable dividend policies. This perspective broadens conventional dividend policy models, which primarily emphasize firm-specific financial factors such as profitability, liquidity, leverage, and firm size.

The study also strengthens Agency Theory by arguing that effective knowledge management reduces information asymmetry, improves the quality of financial information, and promotes transparent decision-making. Better-informed managers are expected to make more efficient capital allocation and dividend decisions, balancing shareholder expectations with long-term organizational growth. Accordingly, profitability is proposed as a mediating mechanism through which knowledge management translates into improved dividend performance.

Another important contribution is the comparative perspective between Islamic and conventional banks. Differences in governance structures, Shariah compliance, risk-sharing principles, and regulatory requirements suggest that the relationship between knowledge management and dividend policy may vary across the two banking systems. By incorporating bank type as a comparative variable, the proposed framework provides a more comprehensive understanding of how institutional characteristics shape dividend decisions. The study therefore offers a foundation for future empirical research examining strategic management and corporate finance within Pakistan's dual banking system.

7 Conclusion

This study proposes a conceptual framework explaining how knowledge management may influence dividend

policy in Pakistani banks. Drawing upon the Knowledge-Based View and Agency Theory, the study argues that effective knowledge management enhances organizational learning, improves managerial decision-making, strengthens operational efficiency, and increases profitability, which subsequently supports stable and sustainable dividend policies.

Unlike previous studies that have focused primarily on financial determinants of dividend policy, this research introduces knowledge management as an important organizational capability that may directly and indirectly influence dividend decisions. The proposed mediating role of profitability provides a theoretical explanation of how knowledge management can translate into improved dividend performance.

The comparative analysis between Islamic and conventional banks further strengthens the study by recognizing the differences in governance structures, risk-sharing mechanisms, and regulatory requirements between the two banking systems. Since Islamic banks operate under Shariah principles while conventional banks follow interest-based financial models, the influence of knowledge management on dividend policy may differ across these institutions.

Overall, this study addresses an important gap in the literature by integrating knowledge management into dividend policy research within the Pakistani banking sector. The proposed framework contributes to theory by extending both the

Knowledge-Based View and Agency Theory and contributes to practice by providing insights for bank managers and regulators seeking to improve financial performance and dividend decisions through effective knowledge management. Future empirical research can validate the proposed relationships using data from Islamic and conventional banks in Pakistan and examine additional mediating or moderating variables to further advance this emerging area of research.

Limitations of the Study

This study is conceptual in nature and does not empirically test the proposed relationships using primary or secondary data. The framework is developed within the context of Pakistani Islamic and conventional banks; therefore, its applicability to other countries or financial institutions may be limited. In addition, the model focuses on profitability as the primary mediating variable and bank type as a comparative factor, while other potentially important determinants, such as corporate governance, ownership structure, capital adequacy, risk management, and macroeconomic conditions, are not incorporated. These limitations provide opportunities for further empirical investigation and model refinement.

Future Directions

Future research should empirically validate the proposed framework using data from Islamic and conventional banks in Pakistan and other countries to enhance the generalizability of the findings.



Researchers may employ advanced quantitative techniques, including structural equation modeling (SEM), panel data analysis, or multilevel modeling, to examine the direct, indirect, and comparative effects of knowledge management on dividend policy. Future studies should also investigate additional mediating and moderating variables, including corporate governance, intellectual capital, digital transformation, organizational innovation, ownership structure, capital adequacy, and risk management practices. Comparative research across different regulatory and institutional environments would further improve understanding of how knowledge management contributes to sustainable dividend policy and long-term financial stability in the banking sector.

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