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The Impact of the Dividend Policy on the Market Value of Shares – The Research of a Sample of Institutions Listed on the Saudi Stock: Exchange During the Period (2019-2023)

Abstract

This study aims to indicate the impact of the dividend policy on the market value of shares by applying it to the institutions listed on the Saudi Stock Exchange. A sample of 13 institutions was taken for the period (2019-2023). Statistical tools were used to study the relationship between the determinants of the dividend policy as independent variables and the market value of the share as a dependent variable, relying on the (SPSS) program. One of the most important results reached through the study was the existence of a direct relationship between the market value of the share and the cash distributions of the shares, while the rest of the variables explaining the model (earnings per share, retained earnings) did not have a statistical significance toexplain the change in the market value of the share.

Keywords*: dividend policy, market value of the share, stock market, retained earnings, cash distributions*

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Dividend siyasətinin səhmlərin bazar dəyərinə təsiri - Səudiyyə səhmində siyahıda saxlanan qurumların nümunəsinin tədqiqatı: dövr ərzində mübadilə (2019-2023)

Xülasə

Bu araşdırma, dividend siyasətinin Səudiyyə Fond Birjasında siyahıya alınmış qurumlara tətbiq etməklə səhmlərin bazar dəyərinə təsirini göstərmək məqsədi daşıyır. Dövr (2019-2023) üçün 13 qurumdan nümunə götürülmüşdür. (SPSS) proqramına əsaslanaraq, müstəqil dəyişənlər kimi dividend siyasətinin müəyyənediciləri ilə asılı dəyişən kimi səhmin bazar dəyəri arasındakı əlaqəni öyrənmək üçün statistik alətlərdən istifadə edilmişdir. Tədqiqat nəticəsində əldə edilən ən mühüm nəticələrdən biri səhmin bazar dəyəri ilə səhmlərin pul vəsaitlərinin bölüşdürülməsi arasında birbaşa əlaqənin olması, modeli izah edən digər dəyişənlərin (səhm üzrə mənfəət, bölüşdürülməmiş mənfəət) səhmin bazar dəyərindəki dəyişikliyi izah etmək üçün statistik əhəmiyyətə malik olmamasıdır.

Açar sözlər: *dividend siyasəti, səhmin bazar dəyəri, səhmlər bazarı, saxlanılan gəlirlər, nağd paylanmalar*

Introduction

During the last decades of the twentieth century, financial management witnessed fundamental transformations that significantly affected the economic and financial sectors. These transformations forced companies to discover new strategies to reach distinct financial performance levels. In the past, the main goal of companies was based on achieving the largest amount of profits, but now attention has shifted towards maximizing the market value of the company's shares and thus increasing the wealth of shareholders. Achieving this goal is considered a major challenge due to its association with many variables, including the dividend policy, which plays an important role in this context.

The dividend policy is one of the main financial decisions that have a direct impact on the value of the shares of institutions. This policy has sparked a wide debate, as some point to its positive effects on the performance of the company and the market value of its shares, while others point to its negative effects. This difference in opinions highlights the importance of the dividend policy. From this point of view, the current research focuses on studying the impact of this policy and its importance through experience, with the aim of reaching a scientific and practical understanding of how it affects the market value of companies' shares.

Research

Problematic. Based on the above, the issue can be addressed within the following problem: What is the impact of the dividend policy on the market value of the shares of institutions listed on the Saudi Stock Exchange during the period (2019-2023)? Through the study problem, the following sub-questions can be asked:

- Is there a statistically significant effect of earnings per share on the market value of the shares of the institutions, the study sample during the period (2019-2023)?
- Is there a statistically significant effect between the cash distributions and the market value of the shares of the institutions, the study sample during the period (2019-2023)?
- Is there a statistically significant effect between the retained earnings and the market value of the shares of the institutions, the study sample during the period (2019-2023)?

Hypotheses of the study: In order to explain the problem and try to answer the sub-questions, we have formulated the following hypotheses:

It is expected that there will be a statistical significance between the earnings per share and the market value of the shares of the institutions in the study sample.

It is expected that there will be a statistically significant relationship between the cash distributions and the market value of the shares of the institutions of the study sample.

- It is expected that there will be a statistical significance between the retained earnings and the market value of the shares of the institutions in the study sample.

Study Objectives. This study aims to:

- Providing a critical analysis of various theories related to dividend policy and discovering how they affect the market value of shares.
- Studying the financial statements of the institutions to assess the impact of dividend distribution strategies on the market value of their shares during the study period.
- Determining any of the variables of the dividend policy that have an impact on the market value of the shares of the institutions of the study sample.

The importance of the study. The significance of the study is reflected through the following points:

- The scientific importance is to know whether the change in the stability of the distribution of profits, whether by increase or decrease, contributes to changing the market value of companies.
- The study is a valuable addition to previous research on the impact of dividends on the market value of shares.

Study Approach. In order to reach the objectives underlined in the study and to take note of its various aspects, the approach taken in the study is to use the descriptive approach in order to form concepts of the two variables, and the analytical approach with regard to the applied literature by interpreting the results reached and analyzing the outputs of the SPSS to reveal the impact of independent variables for a study in the market value of the stock.

1. What is the policy of dividend distribution and the market value of the share:

1-1 Definition and Characteristics of Dividend Policy

There are many definitions of dividend policy, the most important of which are:

The dividend policy is defined as “the guiding policy of the company that determines the dividends paid to shareholders and the dividends allocated to finance future investments. In fact, two cases are studied in this context. On the one hand, if management decides to distribute dividends, the size of the profits owned will decrease, and therefore, the internalsource of funding will decrease. On the other hand, if management decides not to distribute dividends, funding from internal sources will increase (E, 2020).

"The dividend policy is one of the important strategic decisions in the company, which is subject to many considerations to determine, as the dividend policy affects the market value of the share, and this is important for investors, lenders, managers and other stakeholders (Tijjani, 2019).

It is also known that "the dividend policy is the decision of the institution regarding the disposal of the profits it has made, either by distributing them to the owners or holding them for the purpose of reinvestment (Akinleye, 2018).

In light of the above, we can define the dividend policy as a policy taken by the institution to dispose of the profits it has achieved, which are distributed to shareholders in order to make decisions. The dividend policy also has multiple characteristics, some of which are summarized in the following points:

- Different distribution policy across countries: It varies from one country to another as it follows the change in profits and this difference is due to the levels of taxes imposed on distributions and capital gains across countries.
- The development of distributions more than profits: This happens due to the efforts of the Foundation in working to raise the value of distributions and keep them at their level. Many studies have confirmed that distributions are less variable than profits achieved because the Foundation controls distributions.
- Distributions have the same tendency as profits: that is, there is a relationship between these two variables, as John Lanter studied the way in which the institution determines the amount of distributions that are transferred to shareholders and concluded that the institution determines a target percentage of distributions depending on the level of profits achieved, which may witness changes in their value due to the change in the development of the level of profits.

1-2 Concept of Market Value of Shares

The accounting literature has introduced many concepts related to market value, where market value is represented in the value at which a stock is sold on the stock market. The share price in the market is based on the relationship between the price of that share and the retained earnings, and the profit achieved by the company, according to its assets (Kulati, 2014).

Market value can also be defined as the price at which it is traded on the stock market. Due to the multiplicity of factors that contribute to determining this price, this value is not characterized by stability, but rather by volatility and change from time to time (Adesina, 2015).

Through the above, the market value is measured based on the forces of supply and demand in the market, which is one of the most important basic division tools that are used and relied upon to determine the value of the company in the financial market and is characterized by continuous change as a result of several factors that affect its stability.

2. Analyzing the impact of the dividend policy on the market value of the share.

The dividend policy can be presented under the circumstances of certainty and uncertainty, as well as the explanatory approaches to the impact of the dividend policy on market value, as a critical variable.

2-1 Theories explaining the dividend policy under the conditions of certainty:

The discussion began by assuming the neutrality of the dividend policy, as a study (1961) Miller & Modigliani concluded that investors do not care if the company distributes or detains profits. In the first case, the shareholder gets the distribution, but there is no change in his wealth, but the value of the share will decrease by the same amount of profit distributed. In the second case, there is no adjustment to the market value of the share, but the profit remains in the possession of the company. In both cases, the investor remains the same wealth. On the contrary, (Thauvron, 2009) the two researchers believe that the distribution of profits here has no impact on the investor's wealth, but it has a negative impact on the market value of the stock, not that the latter decreases by the same value as the distributions, which means that there is an inverse relationship between the two variables.

2-1-1 The theory of inappropriateness of distributions:

This theory was developed by the pioneers of the latest revolution in the world of finance, Franco Modigliani and Martun Mill, who explained that the value of the institution is measured by the optimal use of available resources, that is, it depends on the profits it achieves. They also stressed that the dividend policy affects the value of the institution so that if the institution distributes profits to investors or shareholders, the market value of the shares of the institution decreases with the same retained value. Depending on Modigliani and Miller, the assumptions of effective capital according to the theory of inappropriateness of distributions are as follows (Theoremer, 2006):

- Markets work perfectly (full and efficient markets in the absence or tax neutrality).
- There are no costs for trading and trading in stocks.

The problem with this theory is that its criteria cannot be met in actual reality.
2-1-2 Jordan's theory:

Jordan relies in determining the share price on the use of cash dividends, and Jordan differed from Modigliani and Miller's thought, as he relies that the dividend policy has an impact on the market value of the share. Jordan has developed hypotheses for his model, which is based on the impact of distributions on the share price and the value of the company, and they are as follows (JOHN, 2002):

- There is no external transfer, that is, all the institution's investments are transferred through equity.
- The expected rate of return on the investment of the facility is fixed.
- The required rate of return on investment for the establishment is fixed.
- The establishment is not subject to tax.
- The growth rate is constant.
- The required rate of return on investments is greater than the growth rate.

- The percentage of dividends distributed to the holders of ordinary shares is fixed and does not change.

The distributions do not affect the market value, but the main influences are the earnings per share and the required rate of return on investment. Therefore, the market value of the share is the result of investment decisions and not financing decisions, but this is only a decisionequal to both the required rate of return for investment and the expected rate on investment.

2-2 Theories explaining the impact of the dividend policy under conditions of uncertainty

The theory of personal dividend policy, even in light of the uncertainty, Modiglia and Miller still insist on their findings regarding the independence of the dividend policy in the value of the share, as he stressed that the investor does not care about the form of dividend distribution because it is he who controls the policy that suits him and does not affect the distribution of profits on the wealth of investors. Their idea is that the wealth of owners before distributions plus the value of distributions reduces the market value by the same percentage of profit. In the case of holding profits, there is no amendment to the market value.

2-2-1 The theory of a bird in the hand:

This theory is attributed to Walter and Lintner and was supported by the theory of profitability proposed by (1959) Gordon, which means that the dividend policy does not affect and is not affected by the required rate of return on equity. This sparked the controversy of Gordon and Lintner, who confirmed the existence of a relationship between the two variables, where he ordered and that the lower the required return on equity, the higher the percentage of profits distributed. This raises investors' doubts about obtaining their returns resulting from the retention of profits. This is because they believe that the expected distributions are more certain than future capital profits and this will raise the value of the stock, but Modiglbani and Miller did not agree with this theory because they believe that there is no relationship between the required rate of return and the policy of dividend distribution. The view of Gordon and Lintner was called the name of a bird in the hand, but the most important thing that Gordon and Lintner theory referred to is the relationship of time and the degree of certainty in distributions, where the date of entitlement of distributions was linked to the degree of certainty and vice versa.

The hand sparrow theory is based on the existence of a direct correlation between the profit distribution policy and the market value of the institution. Therefore, when investors are sure that the institution wants to distribute its profits, the uncertainty that usually prevails in the financial markets decreases, which leads to a rise in the market value of the institution, due to investors' preference for current profits, which are less risky than future capital gains. As noted, this theory contradicts the theory of misalignment of the distributions of Miller and Medcleani (1961) (Morni, 2009).

2-2-2 Agency Theory:

According to (2008) (al & Ross), the cost of agency arises between the management of the institution and its shareholders when the latter works to serve their personal interest and mustnot maximize the wealth of their shareholders, and this is contrary to what (1961) (M&M), which assume that the management of the institution is an ideal agent for the shareholders and there is no conflict of interest between the two parties (Shah, 2016).

This theory also states that there is a direct relationship between the profit distribution policy and the market value of the institution, so that whenever the value of the distributed profits goes up, the stock prices will also see a rise in their value, because investors are sure that the institution does not withhold large percentages of profits, which raises the possibility of managers' interest in achieving their personal goals and reuse them in their investment less profitable to maintain a margin of gratitude and less risk (Quiry, 2014).

2-3 Explanatory Approaches to the Impact of Dividend Policy on the Market Value of Shares

2-3-1 Miller and Schulz Theory:

Miller and Schulz focused on the possibility of the use of tax scams by the investor that would enable him to achieve a tax advantage over the return. As the withholding of profits results in postponing the payment of tax in addition to increasing the market value of the share. If the investor prefers to obtain profits, he can borrow an amount of money so that his paid interest is equal to the expected distributions. He also directs these funds to the investment to generate a risk-free return. Another advantage achieved by the investor is the increase in capital gains achieved (M.S, 1978).

However, this approach can be problematic in the risks associated with this method, which forces caution on the part of the investor by investing the loan asset.

2-3-2 Brennan's approach:

Whoever expanded the point of view of Ferrar and Sloane, but Bernan sought to determine how the dividend policy affects the value of the institution, as he focused on the tax, which is of interest to the contributor in the first place. Among the additions provided by Berkan is that when the risks to two institutions are equal, the rate of return after tax must be equal for both institutions. In the case of a high distribution of profits, this will certainly result in high tax payments and therefore a decrease in the value of the institution after tax from it. The value of the institution will be lower than it would have been if it had been less politicized. It can be said that the tax saving has a role in raising the value of the institution that conducts less distributions. After what was the problem in the method of distribution, the problem became in the circumstance in which the distribution takes place, as the tax impact had a role in making the impact of the dividend policy on the value of the institution clear.

3. An analytical study of the impact of the dividend policy on the market value of the shares of institutions listed on the Saudi Stock Exchange during the period (2019-2023)

The study aims to ascertain the impact of independent variables on the market value of shares. This was done by studying a group of institutions in the Saudi Stock Exchange, which includes 13 companies. To achieve this, we use the multiple linear regression model to assess this with the aim of building a model that explains the relationship between them.

3-1 Study Methodology

To test the study parameters, we will explain the various steps adopted, in addition to the model adopted to show the relationship between the various variables under study.

3-1-1 Data Collection Methods

A sample of 13 companies from the basic materials sector of the Saudi Stock Exchange, whose financial statements are listed on the stock exchange on an ongoing basis during the study period, was selected to conduct an analytical study to try to know the impact of the dividend policy on the market value of the shares of the institutions under study, based on the financial statements of the concerned institutions, with regard to the share of cash distributions, the share of retained earnings, and the profits achieved per share. The information was collected and classified in accordance with the objectives of the study, based on a number of considerations, including:

- The institutions must be listed on the Saudi Financial Market.
- Non-stop trading of shares of institutions during the study period.
- Institutions should not have merged during the study period.
- All required financial statements shall be included in the statistical and annual reports issued by the Stock Exchange during the study period.

3-1-2 Description of study variables

Based on the hypotheses of the study, it revolves around four variables: market value per share, earnings per share, share of cash dividends, share of retained earnings. The following is a table showing the development of these variables during the study period:

Table 01: Development of the study variables during the period (2019- 2023)

Medium Retained earnings per share	**Medium Dividends per share**	**M.Earnings per share**	**The median market value per share**	**Company Name**	**In this regard, UNFPA stated that it has improved its terms of reference (TOR) for auditing NEX projects and continues to improve them.**
0.99	3.81	2.98	98.64	SABIC	2010
0.25	1.25	0.92	25.34	Saudi Industrial Investment Group	2250
-	2.7	1.24	(53-63)	Yanbu National Petrochemical Company	2290
0.86	1.71	2.42	29.05	Sahara International Petrochemical Company	2310
0.25	0.54	0.50	13.06	Hail Cement	3001
0.99	0.92	1.88	55.97	Zahrat Al Waha Company	3007
0.13	0.35	1.46	11.74	Northern Cement	3004
0.06	2.09	1.75	35.89	Arabian Cement Company	3010
-	2.55	2.64	58	Saudi Cement	3030
0.15	3.24	2.98	69.52	Qassim Cement	3040
0.37	2.6	2.85	62.47	Southern Province Cement Company	3050
-	3.9	1.31	37.01	Yanbu Cement Co.	3060
0.26	2.02	2.16	33.97	Eastern Cement Company	3080

Source: *SPSS Outputs and Results*

DISPLAY THE STUDY RESULTS

This section deals with the evaluation of measurement tools to verify their suitability in the way of reviewing the statistical methods used to change the data and verify the validity of the hypotheses of the study.

3-2-1 Testing the validity of the form:

The model was validated by analyzing its data to ensure that it matched the general linear model.

- Determine the type of community distribution

Table 02 : Normal Distribution Testing (Test of Normality)

	Kolmogorov-simirnov			Shapiro- wilk		
	Statistic	Df	Sig	Statistic	Df	Sig
Y	0.127	13	0.200	0.957	13	0.707
X1	0.115	13	0.200	0.947	13	0.548
X2	0.104	13	0.200	0.960	13	0.751
X3	0.263	13	0.014	0.799	13	0.007

Source: *SPSS Outputs and Results*

Based on the data provided, the following can be concluded:

- The result shown in the previous table of the retained earnings per share variable shows that sig = 0,014, which is less than the significance level of 0,05, and therefore we reject the null hypothesis that the share of retained earnings does not follow the normal distribution.
- For the rest of the variables, we find that the value of the significance sig is greater than 0.05, and

therefore we accept the null hypothesis that (market value per share, earnings per share, share of retained earnings) follows the normal distribution.

- Multiple Pace Correlation Test:

The Pearson correlation coefficient, the variance inflation coefficient and the tolerance coefficient were used to know the correlation coefficients between the independent variables through which the problem of multiple linear correlation between the study variables can be detected.

Table 03: Results of the test of the coefficient of variation inflation and the coefficient of toxicity

VIF	Tolérance	Canstance
1,807	553	X1
1,602	624	X_2
1,315	760	X_3

Source: *SPSS Outputs and Results*

- The data presented in the table indicate that all values are between 0,10 and 1 reflecting the absence of indications of the problem of multiple linear correlation, that is, independent values do not show a strong linear correlation between them, which allows data analysis without being affected by linear multiplicity.

- VIF values appear to be less than 10 and therefore the model does not suffer from the problem of multiple linear correlation, which means that the independent variables in the model are not related to each other in a way that negatively affects the accuracy of predictions.

The following table shows the correlation according to the Pearson coefficient

Table 04 : Testing the relationship between independent variables

		Y	X1	X2	X3
Corrélation de pearson	Y	1,000	0,753	0,722	0,347
	X1	0,753	1,000	0,529	0,351
	X2	0,722	0,529	1,000	-,104
	X3	0,347	0,351	-,104	1,000
Sig. (unilatéral)	Y	.	0,001	0,003	0,05
	X1	0,001	.	0,031	0,120
	X2	0,003	0,031	.	0,368
	X3	0,123	0,120	0,386	.
N	Y	13	13	13	13
	X1	13	13	13	13
	X2	13	13	13	13
	X3	13	13	13	13

Source: *SPSS Outputs and Results*

It is clear from the above table regarding the relationship of variables, that the correlation coefficient between earnings per share and share of cash dividends, which amounted to 0.031, which is less than 0.05, to a strong and titled relationship between these two variables. As for the correlation coefficient for the share of cash dividends and the share of retained earnings, it amounted to 0.366, which is greater than 0.05, which is an indication that there is no moral correlation between the two variables, which applies to the share of retained earnings with the earnings per share, in which the correlation was estimated at 0.368.

3-2-2 Estimate and test the significance of the model parameters:

In the data analysis phase, we evaluate the impact of the dividend policy on the market value of the shares of companies listed on the Saudi Stock Exchange, and we rely in our estimates on the method of ordinary least squares, whose results are presented in the following:

Table 05: Testing the selection coefficient of the model under study the resume of the models

Standard error of the estimate	Adjusted R-squared	R	R	Model
13,38957	696	.772	A	1

a. Predictors: (Constant), x3, x2, x1 b. Dependent variable: Y

Source: SPSS Outputs and Results

In the context of evaluating the accuracy of the model , the determination coefficient test indicates that the model is acceptable, as the value of the determination coefficient is estimated at 0.772, which means that the interpreted variables adopted in this model have been able to explain 77.2% of the changes in the dependent variable represented in the distribution of profits, earnings retention and earnings per share compared to the market value of the shares of the listed companies, while the remaining 22.8% is due to random error.

This study is based on the following hypotheses:

- There is a statistically significant effect between all independent variables and the dependent variable in the institutions under study

- There is no statistically significant effect between all the independent variables and the dependent variable in the institutions under study

Table 06: Testing the significance of the parameters of the model under study coefficient

Unstandardized coefficients				**Standardized coefficients**		
Model		B	standard error	Béta	T	Sig
1	(Constante)	-6,365	10,303	.	-,618	,552
	X1	10,623	6,352	,358	1,672	,129
	X2	11,811	4,232	,562	2,791	,021
	X3	18,856	12,297	,280	1,533	,160

Source: *SPSS Outputs and Results*

As for testing the statistical significance of the estimated parameters of the model based on the statistical calculation (t) Student for each parameter separately, we find that the earnings per share and the share of the retained earnings are statistically insignificant because $_{t\ x1}$ = 1,672

t x3 = $_{1,533}$, which is less than 2, and affects 35.8% and 28%, respectively, in the dependent variable, and the level of profitability significance is estimated at 0.552. The level of significance of the share of retained earnings estimated at 0,129 is less than 0.05.

While we note that the share of cash dividends is statistically significant because 2,791 t= greater than 2 and affects the dependent variable by 56.2% and therefore has a positive impact on market value according to this model.

Conclusion

The dividend policy is a key tool for managing wealth among investors, as it enables companies to secure self-financing by retaining profits, which eliminates reliance on external sources. This policy requires a careful evaluation of the options between distributing profits to show the good financial position of the company and retaining it to ensure adequate funding for future investments. If investors expect high returns from their investments in the company through periodic distributions, the company benefits from the retained profits to enhance its growth and increase the market value of its shares, and this approach has triggered. There is a wide debate about the impact of dividend policy on the value of the market share, as some breadwinners believe that it has no effect, while others believe that it has a noticeable effect, especially when the expected rate of return differs from the required rate, and these raise concerns that excessive retention of profits may lead to a reduction in the market value of the share.

Results of the study

The most important findings can be summarized in the following points:

- Dividend policies may vary from one institution to another and this is due to the lack of a unified rule as it is affected by financial policies, economic conditions and the company's objectives, which requires continuous evaluation to determine the appropriate policy.
- The results confirm that investors prefer to receive cash distributions immediately according to the Gordon and Linter model. This detail is due to the time value of the money and the possibility of achieving returns and obtaining additional material distributions through the immediate investment of these distributions.
- The results indicate that the dividend policy accounts for 72.2% of the fluctuations in the market value of the shares, while the remaining 22.80% is due to other factors unrelated to the distribution of profits. The analysis shows that the large percentage of the cash dividends of the share has a noticeable positive impact on the market value of the share. This investment behavior explains that listed companies distribute profits at high rates, which enhances the prices of their shares in the market.
- Distributed cash return significantly affects the valuation of shares, while the impact of earnings per share is relatively lower. This reflects the tendency of Saudi investors to prefer cash returns, which indicates their focus on liquidity in their investment decisions.
- Rejecting part of the first hypothesis, which assumed a statistical relationship between retained earnings and the market value of the share, while the second part, which acknowledges that there is a direct relationship between cash distributions and the market value of the share, is considered one of the most important factors affecting the value of the share, based on the analysis of the selected sample during the time period of the study, as investors in this market pay great attention to cash distributions as a main priority.
- There is a strong and moral correlation at the level of significance of 5% between the earnings per share and the market value of the share.
- During the study period (2019 - 2023), the average distribution of profits per share in the studied companies did not exceed a barrier of 3 riyals per share, reflecting a low distribution value that shows a slowdown in the operational performance of these companies.during the said period.

Recommendations:

- The need for full and accurate disclosure of financial information of companies listed on stock exchanges from evaluating the performance of companies Financial information to enhance market transparency and enable investors to evaluate the performance of companies.
- Employing a dividend strategy to enhance the market value of the company's shares instead of just considering it a regular mechanism for sharing the remaining profits.
- The need for companies to analyze and research the data affecting the market value of their shares, with a special focus on the strategy of dividend distribution to develop an ideal approach that contributes to raising the value of shares to the maximum extent possible.

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