

**PDividend Policy and Its Impact on the Value of Economic Institutions:
«a Case Study of The SAIDAL Group 2017-2022»****KHEIRI Ammar**laboratory E.H.D .I.A, BLIDA 02 University (Algeria), a.kheiri@univ-blida2.dz**Received:** 30/09/2024**Accepted:** 12/11/2024**Published:** 19/11/2024**Abstract:**

The decision to distribute profits stands out as a complex and critical strategic financial choice made by financial management in economic institutions, given its direct implications for both investors and the institution itself. Thus, this research seeks to highlight the key dividend policies while also exploring the various models that have attempted to elucidate the relationship between dividend policy and the value of the institution.

Key words: Dividend Policy, Corporate Value, Dividend Distribution Models.**JEL Classification:** G21, O16, G32.

1. Introduction:

The dividend distribution decision is a crucial and complex strategic financial choice made by the financial management of economic institutions, as it directly impacts both the investor and the organization. The primary goal for any investor is to earn profits, and investors consistently strive to secure steady and continuous returns through dividend distribution. Additionally, management must carefully balance between the dividends paid out and the retained earnings, particularly in new and growing institutions that require funding for expansion.

Various schools of thought have emerged regarding the balance between distributing profits and retaining them for reinvestment within the institution, each shaped by different theories. Some argue that dividend distribution is essential, believing that paying out profits without retaining them will directly affect the stock's market value, thereby influencing the owners' wealth and the overall value of the institution. On the other hand, others contend that dividend distribution has no impact on the company's market value or the stock price. According to this view, whether profits are distributed or retained does not influence fluctuations in stock market prices.

Dividend distribution policies vary and take different forms from one institution to another, depending on their nature, characteristics, and future plans. Therefore, in this section, we will attempt to present the most important dividend distribution policies, while also examining the various models that have sought to explain the relationship between dividend policy and the institution's overall value.

1.1. Problem Statement:

What is the nature of a dividend distribution decision, and in what ways can it impact the value of an economic institution?

2.1. Study Hypothesis: The dividend distribution decision is regarded as one of the most challenging and significant strategic financial choices made by a company's financial management. Distributed profits serve as current income, which many shareholders favor, and as a result, this decision can influence the market price of the company's stock.

3.1. Importance of the Study: The significance of this research stems from the crucial role that economic institutions play, which necessitates their ability to preserve market value within the global business environment.

4.1. Objectives of the Study: This study aims to examine the dividend distribution policy to shareholders and its connection to the institution's value.

5.1. Study Limits: The study's limits can be divided into spatial and temporal limits as follows:

a. Spatial Limits: This study was limited to the **SAIDAL Group**, as it is a leading institution in the pharmaceutical market.

b. Temporal Limits: The temporal limits were the period from 2016 to 2022.

6.1. Previous Studies:

a. Study by Researcher: Adman Faiza titled: "Dividend Policy and Its Impact on the Market Value of the Shares of Economic Institutions Listed on the Stock Exchange – An Empirical Study of the Shares of Banks Listed on the Amman Stock Exchange during the Period 2005-2013 Using Panel Models," Master's Thesis (unpublished) in Management

Sciences, Faculty of Economics, Commerce, and Management Sciences, University of Algiers 3, 2016/2017.

This study explored the issue of how the dividend policy adopted by institutions listed on the stock exchange impacts the market value of their shares. The primary objectives of the study were:

- To seek an understanding of the relationship between dividend policy and the market value of shares;
- To present various perspectives on the link between dividend policy and the market value of shares, while highlighting the limitations of these views;
- To develop an empirical model demonstrating the effect of dividend policy on the market value of bank shares listed on the Amman Stock Exchange during the period from 2005 to 2013.

b. Study by Researcher: Ali bin Dhab titled: "A Study on the Impact of Financial Structure and Dividend Policy on the Value of Economic Institutions Listed on the Stock Exchange – A Case Study of a Sample of Companies Listed on the Kuwait Stock Exchange during the Period 2006-2008," Master's Thesis (unpublished) in Management Sciences, Faculty of Economics, Commerce, and Management Sciences, University of Ouargla, 2008/2009.

This study addressed the issue of how both the financial structure and dividend policy influence and explain the value of an economic institution listed on the stock exchange. The main objectives of the study were:

- To explore in greater depth the valuation methods in use and evaluate their applicability, while identifying shortcomings and challenges, particularly in light of national accounting reforms;
- To emphasize the key factors that significantly impact the institution's value, aiding in the formulation of effective and efficient decisions within the Kuwait Stock Exchange, recognized as one of the most important financial markets in the Arab world;
- To assess the applicability of certain financial models and identify the obstacles and limitations within financial theory.

2. Categories of Dividend Distribution Policies:

The financial management of economic institutions has the right to choose a dividend distribution policy that aligns with its plans and its relationship with shareholders. As a result, dividend distribution policies vary from one institution to another. The main types of dividend distribution policies can be classified into cash and non-cash policies.

2.1. Cash Dividend Policies These include various strategies such as:

2.1.1. Total Dividend Distribution Policy: Proposed by Rubner (1966), this policy suggests the distribution of total stock dividends. The idea behind this proposal is that shareholders prefer to receive as much in dividends as possible. However, in practice, institutions do not often adopt this strategy because it is neither tax-efficient nor favored by shareholders. This policy negatively affects self-financing and, additionally, taxes on distributed dividends are usually higher than those on capital gains from shares (Mondher, 2011, p. 04).

2.1.2. No-Dividend Policy: This policy is the opposite of the first, where Clarkson and Elliot (1966) argue that dividends are a luxury for both institutions and shareholders. They suggest that there is no need for dividends. However, in practice, despite the potential advantages of this policy, it is rare to find institutions that retain all their profits in reserves without making any distributions.

- This policy is usually followed in the following cases:
- When borrowing is difficult or its costs are high;
- When shareholders prefer capital gains over current profits;
- When the company is newly established and experiencing rapid growth;
- New companies seeking to strengthen their financial position;
- Companies operating in sectors characterized by high growth and advanced technologies, such as startups, with Microsoft being a prime example. Despite generating substantial profits, it did not distribute dividends to its shareholders for many years. The profit for shareholders in this type of company is capital gain, which grows attractively over time;
- Companies facing intense competition (Hkent B. , 2009, p. 443).

2.1.3. Residual Dividend Policy: Under this policy, the company relies on internally generated cash flow to finance new positive investment projects, and dividends are paid from the remaining amount, known as the surplus. This strategy is referred to as the Residual Dividend Policy. It is applied when the company wants to avoid issuing new equity shares. In such cases, the dividend distribution decision is considered secondary to the investment decision.

This policy is based on the fact that investors prefer retained earnings as long as they are reinvested at a rate of return higher than what the investor could achieve through alternative investments with similar risks. This is highly feasible because dividend distribution involves taxes on distributed profits and brokerage fees, making the return on retained earnings higher than what an investor can achieve from alternative investments.

2.1.4. Stable Dividend Policy: While financial management in economic institutions has the right to choose a dividend distribution policy that aligns with its plans and relationship with shareholders, it is observed that most businesses tend to favor a stable dividend policy, as confirmed by many empirical studies. This policy is characterized by one of the three common approaches (Hkent & Gray , 2005, p. 308):

a. Stable Dividends per Share: Many economic institutions adopt a policy of distributing a fixed amount of dividends per share. As a result, any changes in profits, whether they increase or decrease, will not affect the dividend amount per share. Under this approach, the financial management of the institution will not be inclined to increase the dividend amount unless it is confident that future expected profits will rise to a new performance level that guarantees the continuity of those profits. In general, this approach ensures a regular and stable dividend distribution pattern when implemented.

b. Fixed Dividend Payout Ratio: Under this approach, the financial management aims to set a fixed cash percentage of the profits to be distributed annually. As a result, the dividend amount will vary depending on the changes in the achieved profits.

c. Stable Pattern with an Additional Bonus: A common practice among many institutions is to adopt a stable dividend distribution pattern with an additional bonus. Companies usually resort to this approach when their annual profits fluctuate, as it provides flexibility in their dividend distribution procedures. In such cases, the financial management distributes stable but low dividends and can declare an additional bonus at the end of the year if profits improve. This allows flexibility to cancel the bonus while maintaining the low stable payout. Such an approach adds continuity to the cash dividend distribution, positively reflecting the stock price in the market.

It is important to mention several reasons for preferring a stable dividend policy:

- Shareholders and investors tend to prefer a stable dividend policy over a volatile one, as they are more satisfied with a lower return under a stable dividend policy.
- It embodies the concept of informational content, also referred to as the signaling hypothesis. Continuous fluctuations in dividends can increase uncertainty, which subsequently raises the weighted average cost of capital (WACC) and leads to lower stock prices in the market compared to a more stable dividend pattern.
- Many investors and common stockholders depend on distributed dividends to meet their consumption needs. Continuous fluctuations can create challenges for them, often forcing them to sell portions of their shares, along with causing anxiety regarding future market prices and expected distributions. Conversely, with a stable dividend policy, the weighted average cost of capital decreases, leading to an increase in the company's market value, and consequently, the market value per share also rises.

2.2. Non-Cash Dividend Policies (Distribution in the Form of Shares or Stock Splits)

While cash dividends are the most prevalent method of dividend distribution, a company can also distribute its profits in the form of stock dividends or utilize stock splits as a means of profit distribution (Lease, R.C., John, K., & Kalay, A., 2000).

2.2.1. Stock Dividends (Bonus Shares): In many cases, companies distribute bonus shares to shareholders instead of paying cash dividends. This process requires the company to have significant reserves and retained earnings and a desire to retain more profits as reserves in the future. However, some regulations prevent increasing reserves beyond a certain limit (such as paid-up capital). In such cases, companies can increase their capital by converting reserves and retained earnings into capital, then distribute bonus shares to shareholders based on the size of reserves and retained earnings converted into capital.

The question arises: What are the benefits of distributing bonus shares, given that the stock price in the market will decrease? The answers include (Cobbaut, 1997, p. 457):

- When the company converts reserves and retained earnings into capital, it creates the opportunity to retain future profits as reserves, which increases the company's chances for expansion and growth.
- A decrease in the stock price does not mean a decrease in the shareholder's wealth. On the contrary, the shareholder receives additional shares, maintaining the value of their wealth. Furthermore, the lower stock price encourages small investors to buy the company's stock, increasing demand and potentially driving the price up in the future.

- Distributing bonus shares provides informational content (a signal) about the company's future expectations, suggesting that the company intends to expand and grow, indicating the success of its business.

2.2.2. Stock Split Policy: This is a measure the company's management may take to stimulate demand for its shares in the market. When the stock price reaches a high level, it may affect trading activity, prompting the company to increase the number of shares in circulation to generate active demand for its stock, leading to a new rise in stock prices. The stock split policy involves reducing the nominal value of the share by a certain percentage and issuing new shares in the same proportion without affecting the company's capital or the market capitalization, thereby not impacting shareholder wealth. Essentially, the number of shares each shareholder holds increases as a result of the split, but the company's total market value remains unchanged before and after the stock split. Unlike the previous policy (bonus shares), stock splits do not alter common stock accounts, share premiums, or retained earnings (Baker, H.K & Powell, G.E, 2005).

2.2.3. Reverse Stock Split (Stock Consolidation): The reverse stock split aims to increase the stock price rather than reduce it, as in a regular stock split. This is achieved by reducing the number of shares in circulation. Some key reasons why a company might adopt this policy include (Brigham, E.F & Ehrhardt, M.C, 2014, p. 23):

- Stock exchanges often impose a minimum price for trading. Consolidating shares can help the company raise its stock price above the minimum threshold.
- The desire to eliminate small investors who hold shares below the consolidation level, which helps reduce administrative costs associated with managing a large number of small shareholders.

2.2.4. Share Repurchase Policy: A company's management can repurchase its own shares, reducing the number of shares in circulation and thus lowering the equity on the balance sheet. These repurchased shares are not considered assets of the company and do not receive dividend distributions. Share repurchases are usually carried out in three ways (Brigham, E.F & Ehrhardt, M.C, 2014, p. 24):

- Open Market Purchases: The company buys its shares at the market price through a broker, which involves paying a commission. This process generally leads to an increase in the stock price in the financial market during the purchase.
- Tender Offers: The company offers to buy a specific number of shares at a predetermined price, usually higher than the market price, to incentivize shareholders to sell their shares.
- Negotiated Purchases from Major Investors: The company negotiates a price with one or a group of major shareholders. In such cases, the price must be fair to avoid causing losses to other shareholders due to a lower purchase price.

3. Models of Dividend Policy:

Several scholars and researchers in the field of finance have attempted to present theoretical models that discuss the relationship between dividend distribution and the market value of company shares, based on a set of assumptions. The most important of these models can be outlined as follows:

3.1. Walter's Model (1963): Walter's model highlights the crucial influence of the internal rate of return and the cost of financing on the dividend distribution policy aimed at maximizing the market value of a share. This model is founded on several key assumptions:

- The institution relies exclusively on retained earnings to fund its investments.
- Both the internal rate of return (the required rate of return) and the cost of financing are assumed to be constant.
- A single dividend distribution policy is utilized, either distributing all earnings or retaining them entirely.
- The levels of earnings and distributions remain stable, ensuring the institution's continuity.

In this model, Walter posits that the decision regarding dividend distribution is a financial choice that follows the investment decision made by the institution. The amount of distributions is influenced by the investment opportunities available to managers. Shareholders are inclined to prefer earnings retention if the return on reinvested earnings exceeds the returns they would achieve by investing in alternative projects with a comparable risk profile.

Walter formulated an equation to represent the market value of the share based on these assumptions **as follows:**

$$P = \frac{D + \frac{R(B - D)}{k_e}}{k_e} \dots\dots\dots (01)$$

Where:

P0 : Market price of the share;

D: Annual dividends per share;

r: Required rate of return;

k: Expected return on investment;

E: Earnings per share (earnings allocated to each share).

In general, Walter's model is considered one of the first theoretical models to discuss the relationship between dividend distribution and the market value of company shares, based on a set of simplified assumptions, even though some of these assumptions are merely theoretical.

Walter assumed that the company's investments would be financed by retained earnings, which implies the absence of external financing. This means that its application would be limited to companies that are financed by equity sources, known as unleveraged companies.

He also assumed that the expected return on investment remains constant, which is an illogical assumption because any increase in the company's investments must be accompanied by a change in the expected rate of return on investment.

Finally, the model's assumption of a constant required rate of return ignores the risks faced by the company and their impact on the market value of the share.

Despite these limitations, Walter's model is important for explaining the relationship between dividend distribution and the market value of a single share, and consequently its impact on the wealth of shareholders.

3.2. Lintner's Model (John Lintner Model: 1956): John Lintner conducted a series of interviews with 28 managers from various firms, focusing on their dividend distribution policies. Through these interviews, Lintner found that managers prefer stable dividend distributions, and the distribution policy is only changed when absolutely necessary. He also concluded that a firm's earnings are a key determinant of dividends, and managers make partial adjustments to dividends in line with the firm's earnings and previous dividends (Lintner, J, 1956, p. 102).

Assuming that the firm targets a dividend payout ratio (d), the dividends per share for the next period (DIV_1) will equal a fixed percentage of the earnings per share (MPA_1). Therefore, DIV_1 is given by (Lintner, J, 1956, p. 103):

$$DIV_1 = d \times MPA_1 \text{ (02)}$$

The change in dividends per share in the upcoming year (DIV_1) compared to the current year's dividends per share (DIV_0) is expressed as:

$$DIV_1 - DIV_0 = (d \times MPA_1) - DIV_0 \text{ (03)}$$

The following model shows a partial adjustment to the previous model, indicating an adjustment factor (c) and a constant (k):

$$DIV_1 - DIV_0 = a + c(d \times MPA_1 - DIV_0) \text{ (04)}$$

Lintner found that priority is given to the decision regarding dividend distribution, while other financial decisions are secondary to it. If the internal financing capacity is insufficient to meet investment needs, the firm will resort to external financing. Additionally, the earnings per share for a given firm are related to the firm's current earnings but are more significantly influenced by past earnings.

The Lintner model for dividend distribution has been tested in several empirical studies, most of which concluded its validity. For example, the study conducted by Fama and Babiak (1968), which analyzed the dividend distributions of a group of 392 firms in the United States from 1946 to 1964, found results that were consistent with Lintner's model (Lintner, J, 1956, p. 103).

3.3. Gordon's Model (1962): Gordon's model focuses on the influence of dividend policy on the market value of a firm, and consequently, the market value of its shares. This model is built upon several foundational assumptions (Gordon, M.J, 1959, p. 100):

- The firm is entirely financed through equity, with no external financing, and all investments are funded from retained earnings.
- The expected rate of return on investment and the required rate of return are both constant.
- The required rate of return exceeds the growth rate of earnings.
- All investors are risk-averse and act rationally.

Gordon's theory is based on the dividend capitalization model, which posits that the market value of a share is equivalent to the present value of expected dividends, discounted at an appropriate rate. He articulated his model through the following mathematical equation (Gordon, M.J, 1959, p. 101):

$$P_0 = \frac{B(1-T)}{R - k_e \times T} = \frac{D_1}{k_e - g} \dots\dots\dots (05)$$

Where:

P: Current market price of the stock;

D1: Dividend per share in the first period;

r: Cost of equity;

g: Expected growth rate of dividends;

b: Retention ratio;

k: Expected return on investment;

EPS: Earnings per share (share's share of annual profit).

3.4. Kalay Model (1980): The signaling model in dividend distribution models is based on the idea that the firm will adjust dividends to signal its current or potential future state. An increase in dividends indicates that the firm expects an improvement in cash flows, and vice versa.

The Kalay model of dividend distribution relies on a set of assumptions, which are:

- The absence of transaction costs, agency costs, and bankruptcy costs;
- The analysis is based on a single time period;
- Investors are aware that managers are knowledgeable about the firm's current and future situation;
- Investors are risk-neutral.

The Kalay model illustrates that managers do not increase dividends unless they are certain that the firm's future situation will improve and remain so; otherwise, managers would incur costs that are not in their favor. Therefore, managers prefer to distribute a low percentage of earnings and will only increase it if there is an effective change in the firm that will continue in the future. This percentage also allows managers to maintain it even if cash flows are low. Consequently, any decrease in this ratio indicates a continuous decline in the firm's future cash flows, which is considered bad information for the market.

3.5. Merton and Marsh Model and Transaction Costs (Merton & Marsh, 1987): The Merton model of financial asset equilibrium assumes that the cost of information includes two essential components: the first component is the cost of collecting and processing data, while the second component represents the cost of producing and issuing information by the firm. These costs provide an inverse picture to the costs of the signaling and agency models. Additionally, this model is based on the method of innovation under uncertainty.

The Merton and Marsh model is formulated as follows:

$$R_s - r = \beta_s [R_m - r] + \lambda_s - \beta_s \lambda_m \dots\dots\dots (06)$$

Where:

R_S : The return of asset S in equilibrium;

R_m : The return of the market portfolio in equilibrium;

r : The risk-free rate of return;

β_S : The beta of the asset;

λ_S : The cost of information in equilibrium for asset

λ_m : The average cost of information.

The Merton and Marsh model is considered a generalization of the Merton model for describing the evolution of earnings per share as well as for the market portfolio.

4. Theories Explaining the Effect of Dividend Policy on Firm Value:

Opinions vary on how dividend policy influences the market value of shares and, by extension, the overall value of a firm. Some argue that raising dividends has a positive effect on share prices, while others contend that cutting dividends can actually lead to an increase in share prices. A third perspective maintains that there is no correlation between the decision to distribute dividends and the market value of shares. Below is a summary of the most significant theories representing these differing viewpoints, along with their proponents..

4.1. The Personal Dividend Theory of Miller and Modigliani (Miller & Modigliani's Theory): Miller and Modigliani insist on their findings, even in the face of uncertainty, that dividend policy does not affect share value. They argue that investors can create a dividend policy that suits them (Homemade Dividend) regardless of what the firm adopts, according to their income needs. When a firm decides to distribute more than what an investor needs, the investor will purchase additional shares using this excess income; conversely, if the distributions do not meet the investor's liquidity needs, the investor will necessarily seek to satisfy these needs by selling some of their shares to others. This evidence was, of course, established under a set of assumptions, which are similar to previous ones except for the exclusion of the assumption of certainty (Miller, M.H & Modigliani, F, 1961, p. 415).

Thus, the investor can establish their own dividend policy without being restricted by that of the firm, achieved by the ability to buy and sell their shares. Consequently, the firm can choose a distribution policy that suits it without adhering to the desires of its investors, as this policy does not affect the market value of the shares held by investors. The essence of the effect is merely a result of providing a specific service to this investor, which they cannot obtain without the firm's assistance, something that is not available in dividend policy (Miller, M.H & Modigliani, F, 1961, p. 418).

To illustrate the idea mathematically, let's assume that last year's profit for a firm is R_0 (which is certain in nature), while the expected profit at the end of the current year, which is uncertain, amounts to R_1 . The firm has relied on funds to invest during the current year amounting to I , representing certain cash flows. We will assume that the available sources of financing for the firm consist of retained earnings and (or) the issuance of common shares and (or) the issuance of new bonds.

If the firm decides to distribute from last year's profits an amount of DIV , this would deprive the firm of increasing retained earnings by the value of the distributions made. Consequently, the firm may need to acquire additional funds from external sources amounting to E if the remaining profits generated from the previous year are insufficient to finance the approved investments and distributions. All of the above can be illustrated in the form of an equation as follows (Miller, M.H & Modigliani, F, 1961, p. 420).

$$R_0 + E = DIV + I \quad \dots\dots\dots (07)$$

Where the left side represents the sources of funds, which include generated profits as well as funds obtained from external sources, while the right side represents the uses of these funds, which are new investments in addition to the distributions to be made. The equation (08) can be reformulated as follows:

$$DIV = R_0 + E - I \quad \dots\dots\dots (08)$$

Further analyze, obtaining additional funds from external sources will result in financial expenses (FF) representing the cost of these funds. Let's assume that the company will be liquidated at the end of the current year to simplify the mathematical equations without compromising the integrity of the analysis. Consequently, the expected profit (R_1) will be distributed among the current owners, who will receive an amount valued at (DIV_1), and among the new sources of financing, which will receive an amount valued at (FF). This is reflected in the following equation:

$$R_1 = DIV_1 + FF \quad \dots\dots\dots (09)$$

Where:

R_1 is the company's income from net profits plus its income from liquidation funds;

DIV is the income of the owners from profits plus their share of the liquidation funds;

FF is the cost of the funds obtained from external sources as well as their share of the liquidation funds.

The equation (08) can be reformulated as follows:

$$DIV_1 = R_1 - FF \quad \dots\dots\dots (10)$$

If we return to the hypothesis of financing solely with internal funds to simplify the solution, the value of the share is represented by the current distributions plus the value of retained earnings after paying out dividends. We can express this as follows:

$$P_0 = DIV + P_1 \quad \dots\dots\dots (11)$$

Where P_1 represents the present value of the expected cash flows that the owners will receive at the end of the period, that is, at the end of the year (assuming the life span of the company is one year), which is illustrated by the following equation:

$$P_1 = \frac{DIV_1}{1 + K} \dots\dots\dots (12)$$

If we reformulate Equation (12) according to the Capital Asset Pricing Model (CAPM), we need to use what is called the Certainty Equivalent approach.

This approach allows us to convert the discount rate for uncertain cash flows into a discount rate for certain cash flows, using a factor defined by the following equation:

$$F = 1 - \frac{PR.COV(DIV_1, RM)}{DIV_1} \dots\dots\dots (13)$$

$$\frac{1}{1 + k} = \frac{F}{1 + RSF} \dots\dots\dots (14)$$

Thus, Equation (14) can be expressed in the following form:

$$P_1 = \frac{DIV_1 - PR.COV(DIV_1, RM)}{1 + RSF} \dots\dots\dots (15)$$

Where:

PR: Risk premium;

RM : Market return;

COV(DIV₁, RM): Covariance between the asset return and the market return;

RSF : Risk-free asset return.

Substituting the obtained value into Equation (15), we get:

$$P_1 = \frac{(R_1 - FF) - PR.COV((R_1 - FF), RM)}{1 + RSF} \dots\dots (16)$$

And since:

$$\begin{aligned} COV((R_1 - FF), RM) \\ = COV(R_1, RM) - COV(FF, RM) \end{aligned} \dots (17)$$

Then:

$$P_1 = \frac{R_1 - PR.COV(R_1, RM)}{1 + RSF} - \frac{FF - PR.COV(FF, RM)}{1 + RSF} \dots(18)$$

And now we set:

$$E = \frac{FF - PR.COV(FF, RM)}{1 + RSF} \dots\dots\dots (19)$$

So, the equation (20) becomes:

$$P_1 = \frac{R_1 - PR.COV(R_1, RM)}{1 + RSF} - E \dots\dots\dots (20)$$

Where:

E: the present value of the additional funds obtained by the institution from external sources;

If we refer back to the value of the share at time (20) represented by equation (21), we find:

$$P_0 = DIV + \frac{R_1 - PR.COV(R_1, RM)}{1 + RSF} - E \quad \dots\dots\dots (21)$$

And we have Equation (21):

$$DIV = R_0 + E - I \quad \dots\dots\dots (22)$$

Hence:

$$P_0 = R_0 + E - I + \frac{R_1 - PR.COV(R_1, RM)}{1 + RSF} - E \quad \dots\dots (23)$$

$$P_0 = \frac{R_1 - PR.COV(R_1, RM)}{1 + RSF} + R_0 - I \quad \dots\dots\dots (24)$$

And from the last equation, we notice that no variable related to the dividend policy appears (neither current nor future distributions), which indicates the neutrality and independence of the dividend policy. The variables controlling the market value of the share here are the investment decision, as evidenced by (I), and the current and future outcomes (R_1), (R_0), and the risk premium corresponding to the return.

In conclusion, it can be said that both Miller and Modigliani emphasize the independence and non-impact of the dividend policy on the market value of the share. The company has the right to adopt the policy it wishes to pursue, regardless of the reactions of the shareholders.

4.2. the Bird in the Hand Theory of Gordon and Lintner: Gordon and Lintner disagree with Miller and Modigliani regarding the effect of dividend policy on the market value of shares. They argue that dividend policy does influence share value. To support their perspective, they introduced the Bird in the Hand model, which emphasizes that current distributions are preferable to future capital gains, as the future remains uncertain. (Gordon, M.J, 1959, p. 105)

This model is based on the logical assumption that investors act rationally and seek to avoid risks. They perceive current dividends as less risky compared to future dividends or capital gains. By receiving current dividends, investors experience reduced uncertainty, leading them to discount the company's future profits at a lower discount rate, which in turn raises the company's share price. Conversely, if dividends are reduced or not paid, uncertainty increases, prompting a higher required return and lowering the share price. As uncertainty grows, risk-averse investors demand a higher return, meaning the discount rate increases with higher retained earnings. The model suggests that the market value of a share is the present value of future cash flows (dividends). Assuming the company is fully equity-financed, these cash flows are discounted at a rate (K) that reflects both the required return and the cost of financing. This rate escalates over time as retained earnings increase, resulting in heightened risks for investors., and thus the value of the shares can be found according to the following equation:

$$P = \sum_{n=1}^n \frac{D_n}{(1 + Kn)^n} \quad \dots\dots\dots (25)$$

$$P = \frac{D_1}{(1 + K_1)^1} + \frac{D_2}{(1 + K_2)^2} + \dots + \frac{D_n}{(1 + K_n)^n} \dots (26)$$

And this is in the case of a policy that involves distributing all profits (retained earnings are zero), in addition to the fact that the discount rate in the upcoming period will be greater than its predecessor.

To further analyze, let's assume that the company decided to retain the profits that were intended to be distributed to shareholders at the end of the first year and invested them at an expected investment rate of (g), so that the return on this investment will be added to the distributions in the following years. In this case, the following equation will be obtained:

$$P = \frac{0}{(1 + K_1)^1} + \frac{D_2 + (D_1 \cdot g)}{(1 + K_2)^2} + \dots + \frac{D_n + (D_1 \cdot g)}{(1 + K_n)^n} \dots (27)$$

By comparing equation (27) with equation (26), it is clear that the market value of the share in equation (26) is higher than that in equation (27). This is because the average value of the discount rate (K) in equation (26) is lower than in equation (27). Given the inverse relationship between the present value of cash flows and the discount rate, the market value of the share in equation (26) surpasses that in equation (27), indicating that dividend policy affects the market value of ordinary shares.

The fundamental principle of the Gordon and Lintner model is the relationship between the degree of certainty and time concerning distributions. As the maturity date of the distributions extends, the level of uncertainty increases, establishing a direct relationship between time and uncertainty.

An essential conclusion drawn by Gordon and Lintner is that in uncertain situations, dividend policy impacts the market value of shares. Investors tend to favor current distributions over future ones or capital gains, as companies may encounter shocks that could eliminate previously retained earnings, making future price increases uncertain.

5 .Case Study of the SAIDAL Group:

In this section of the study, we will examine the dividend distribution policy of the SAIDAL Group, recognized as a leading institution in the Algerian pharmaceutical market, during the period from 2016 to 2022.

The following table illustrates the various stock distributions as well as the annual distributed results:

Table (01): Stock distributions during the period 2016-2022.

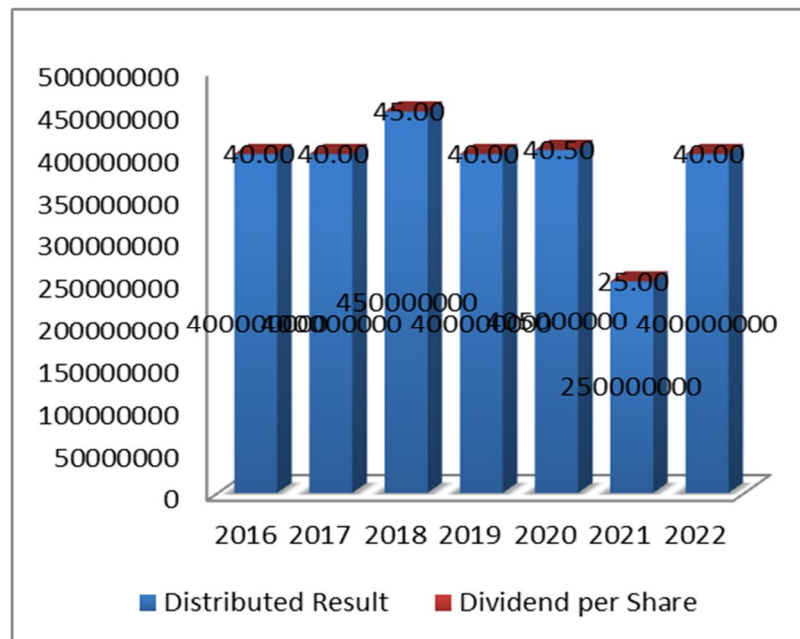
Dividend Distribution Schedule	2016	2017	2018	2019	2020	2021	2022
Number of shares	10000000	10000000	10000000	10000000	10000000	10000000	10000000
Dividend per Share	40.00	40.00	45.00	40.00	40.50	25.00	40.00
Distributed Result	400000000	400000000	450000000	400000000	405000000	250000000	400000000
Net Course Result	1509161605	1376295648	1174214391	793514004.1	189936341.3	48694704.82	-2987159712

Source: Prepared by the researchers based on financial statement data for the period 2016-2022.

It is noticeable from the above table that the **SAIDAL Group** adopts a relatively stable dividend distribution policy, with distributions mostly ranging between 40 DZD and 45 DZD, which is equivalent to 400,000,000 DZD and 450,000,000 DZD. This is despite the variation in annual results, which may sometimes be negative. This indicates that Saidal's dividend policy is an encouraging and reassuring strategy for shareholders, which in turn increases the institution's value in the capital market.

The following figure illustrates the dividends per share during the period 2016-2022.

Figure (01): Graphical representation of share distributions during the period 2016-2022.



Source: Prepared by the researchers based on the data from Table (01).

6. Conclusion:

It is evident from the earlier discussion that the choice of dividend distribution has a substantial impact on the market value of a share.

The dividend policy reflects a firm's financial decision to prioritize either distributing profits to shareholders or retaining those profits for reinvestment, thereby serving as a source of financing. This policy is crucial for managing net income, whether through retention or distribution to shareholders.

While some companies emphasize distributing realized profits to their shareholders, others focus on retaining earnings. Each approach has its own importance and rationale. Retained earnings serve as a source of equity financing and tend to be less expensive than issuing common or preferred shares. In certain situations, retained earnings may be the only source of equity financing available, especially if a company cannot issue new shares for investment funding or if it is owned by a small group of individuals who prefer not to dilute ownership by adding new shareholders. Conversely, distributed profits provide immediate income that many shareholders favor, which, in turn, can significantly influence the market price of the company's shares.

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