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The Impact of Dividend Policy on Firm Market Value : An Econometric Analysis of Companies Listed on the Saudi Stock Exchange –Tadawul- (2019 – 2025)

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Abstract:

This study investigates the effect of dividend policy on the market value of firms listed on the Saudi Stock Exchange over the period 2019–2025. The analysis employs Panel data models. The study's findings reveal a positive and statistically significant impact of cash dividends, retained earnings, and share repurchases on market value, suggesting that dividend policy plays a strategic role in firm valuation. In contrast, stock dividends were found to have no significant effect. These findings support several alternative dividend theories, including the Bird in the Hand, Signaling, Agency, Tax Preference, and Clientele Effect theories. Overall, the study highlights that dividend policy is a critical financial decision and can enhance market value.

Keywords: Market Value; Dividend Policy; Theories; Saudi Stock Exchange.

Jel Classification Codes : G30, G32, G35, M41.

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1. INTRODUCTION

Modern financial management is grounded in the principle of maximizing shareholders' wealth as the ultimate objective of a firm's activities, a goal that is primarily achieved through the maximization of its market value, this objective is closely linked to the manner in which dividend policy is designed and implemented, as dividend policy represents one of the most important strategic financial decisions made by firms, it directly affects the relationship between management and shareholders and plays a pivotal role in determining firm value in financial markets. Recent financial studies have demonstrated that dividend distributions are not limited to merely returning a portion of profits to shareholders, rather, they also convey signals regarding management's ability to generate profits and sustain the firm's financial performance, in addition, dividends contribute to shaping investors' expectations and their assessment of the firm's performance and future prospects, which in turn influences investors' perceptions and behavior in the securities market. Accordingly, the adoption of an optimal dividend policy constitutes a critical factor in maximizing firm value and shareholders' wealth, whether through direct cash dividends or through non cash distributions such as stock dividends (bonus shares), share repurchases, and stock splits.

Scholarly discourse highlights a tension in dividend policy: while consistent distributions bolster investor confidence and market premiums, excessive payouts may constrain capital for reinvestment and future growth. The Saudi Stock Exchange (Tadawul) offers a fertile ground for exploring this dynamic, characterized by its rapid structural evolution and diverse sectoral representation. These attributes provide a sophisticated empirical setting for analyzing the nexus between dividend strategies and firm market value within an emerging, high-growth economy.

1.1 Study Problem and Hypotheses

In light of the foregoing discussion, the research problem of this study can be articulated through the following central question : **Does dividend policy have an impact on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period (2019–2025)?** Based on

this question, the study is grounded in the main hypothesis that : **Dividend policy has a significant impact on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period (2019–2025)**. This main hypothesis is further decomposed into the following sub hypotheses :

- There is a statistically significant effect of cash dividends per share on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 ;
- There is a statistically significant effect of retained earnings per share on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 ;
- There is a statistically significant effect of stock dividends (bonus shares) on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 ;
- There is a statistically significant effect of share repurchases on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025.

1.2 Objectives of the Study

In seeking to answer the research questions and test the proposed hypotheses, the objectives of this study are as follows :

- To identify and clarify the key concepts related to firm market value and dividend policy ;
- To review and discuss the major theoretical frameworks explaining dividend policy ;
- To examine and empirically test the impact of dividend policy on the market value of firms listed on the Saudi stock market over the study period.

1.3 Significance of the Study

This study focuses on analyzing dividend policy and its impact on firm market value, as maximizing market value represents a central objective of modern financial management, the importance of this topic is further accentuated in emerging financial markets, which are often characterized by instability and varying levels of market efficiency. In such contexts, understanding the relationship between dividend distribution

decisions and market value is of considerable theoretical and practical relevance, by providing an econometric analysis, this study contributes to deepening the academic understanding of this relationship and offers quantitative indicators that can support decision makers in adopting more efficient dividend policies.

1.4 Research Methodology

To achieve the objectives of the study, a descriptive research approach is employed, providing a comprehensive framework that integrates several research methods in the theoretical part, particularly for reviewing and synthesizing the key concepts related to the subject matter. In the empirical part, the descriptive approach is complemented by a case study methodology applied to a sample of firms listed on the Saudi stock market, in addition, the econometric software EViews 14 is used to analyze the impact of the independent variables on the dependent variable.

2. Theoretical Framework of the Study

2.1 Firm Market Value

2.1.1 Definition of Firm Market Value (MV)

Firm market value is defined as the value that investors assign to a firm's shares in the financial market, it reflects the market price per share multiplied by the total number of issued and outstanding shares, this value is also referred to as market capitalization or market value of equity, and it represents a direct indicator of the market's assessment of the firm's performance and its future expectations. It is calculated using the following formula (Prep, 2024):

$$\textit{Market Value of company} = \textit{Market Value Per Share} \times \textit{Total Shares Outstanding}$$

The market value of a share may be defined as "the price at which an asset can be sold in the market with respect to common stock, this market price may be equal to, higher than, or lower than the book value of the share, depending on the firm's profitability" (Al-Karasneh, 2010, p. 8). Accordingly, firm market value fluctuates in response to changes in stock prices, particularly during material events such as earnings announcements. Large firms generally exhibit more stable market values, whereas smaller

firms or those with thin trading tend to be more volatile and more susceptible to speculation or price manipulation. Understanding market value also facilitates comparison with other valuation measures, such as book value and enterprise value (EV), thereby allowing for a more comprehensive analysis of the firm's financial position (Chen, Understanding Market Value of Equity: Definition and Calculation Guide, 2025).

In this regard, it is important to distinguish between firm market value (MV) and enterprise value (EV), The latter represents the total value of the firm's operating assets (excluding cash) and reflects the price that an acquirer would have to pay to purchase the firm in its entirety. Enterprise value is calculated as follows (Team, 2025):

Enterprise Value (EV) = Market Capitalization + Total Debt - Cash and Cash Equivalents

Based on the above, market value (MV) focuses exclusively on the shareholders' perspective, that is, the market value of their equity holdings, whereas enterprise value (EV) provides a more comprehensive view of the firm's overall value by incorporating the claims of debt holders and other stakeholders.

2.1.2 Factors Affecting Firm Market Value

Numerous factors influence and determine a firm's market value (share price), these factors can be broadly classified into internal environmental factors and external environmental factors, internal factors are those that can be controlled or influenced by the firm and include the nature of the firm's activity, the level of technology employed, expectations regarding future earnings per share, the degree of risk and the likelihood of achieving expected profits, the composition of the financial structure, and dividend policy, among others (Hadi Kaho Radhi & Abd Alameer Ahmed, 2020, p. 100). External factors, by contrast, lie beyond the firm's control and include macroeconomic conditions (economic indicators, interest rates, inflation, and exchange rates), supply and demand dynamics in the financial market, laws and regulations, monetary policy, fiscal policy, and geopolitical events, among others (Team I. E., 2025).

2.2 Dividend Policy

2.2.1 Definition of Dividend Policy

The term dividend policy refers to the practice adopted by management when making dividend distribution decisions, in other words, it concerns the amount and form of distributions (cash or non cash) paid to shareholders (Husam-Aldin Nizar Al-Malkawi, Michael Rafferty, & Rekha Pillai, 2010, p. 172) , dividend policy also reflects the manner in which a firm manages its earnings, on the one hand, investors tend to prefer receiving the highest possible value of dividends in the present period, on the other hand, the firm may seek to retain a portion of its earnings for reinvestment purposes in order to enhance future growth rates (Bougnama & Youssfi, 2022). Dividend policy can therefore be defined as the process of determining the proportion of net earnings generated during the current or previous periods that will be distributed to shareholders through various cash or non cash forms, as well as the proportion that will be retained for reinvestment, this process aims to strike a balance between current dividend payments and future earnings in pursuit of maximizing firm value.

In general, the actual quantum of dividend pay-out on a yearly basis will depend on various internal and external factors, including the firm's existing and expected financial performance, cash flow and liquidity position, capital expenditure and investment plans, acquisitions and disposals, restructuring activities, interim dividends already declared during the year, future funding requirements, the macroeconomic environment, market conditions and consumer trends, changes in regulatory requirements, and shareholder expectations (Report, 2021, p. 2).

2.2.2 Forms of Dividend Distributions

Firms may resort to several forms of dividend distributions, which can be summarized as follows:

- **Cash Dividends**: Cash dividends represent the most common and widely preferred form of dividend distributions among shareholders, they constitute a cash return paid to shareholders based on the number of shares they own, this type of dividend is typically used when the firm has sufficient retained earnings to finance all its investments, in addition

to adequate residual liquidity that allows it to distribute cash dividends (Judy Laux, 2011, p. 25).

- **Stock Dividends**: Also known as bonus shares, stock dividends involve granting investors a certain number of additional shares instead of cash payments, each investor's entitlement is determined according to the proportion of shares they already hold in the firm, one of the key implications of this policy is a decline in the market value per share as a result of the increase in the number of outstanding shares(Jaide Machkour & Abdel Salam Sadek, 2018, p. 225). Stock dividends are generally characterized by their tax advantages, as they are often not subject to taxation, firms resort to this form of distribution for several reasons, most notably to preserve cash liquidity. Moreover, according to signaling theory, stock dividends convey a positive signal to the market regarding the firm's strength and future earnings prospects (Al-Amri, 2010, pp. 442-443), in addition, they may attract specific categories of investors, such as individuals with a higher propensity for speculative behavior, which may ultimately lead to an increase in the share's market value in the future.
- **Stock Splits**: A stock split occurs when a firm increases the number of outstanding shares by exchanging one old share for a specified number of new shares, such as one and a half, two, three, or any other ratio determined by the firm (Ross, Westerfield, & Bradford, 2003, p. 12). Firms typically undertake stock splits when their share prices become excessively high, with the objective of reducing the market price to make the shares more affordable for small investors, broadening the ownership base, and increasing stock liquidity by raising the number of shares traded in the market, stock splits may also be used to prepare for an initial public offering (IPO) by lowering the subscription price, thereby ensuring the successful sale of the offered shares. This measure is expected to have a positive effect on investors in the medium and long term due to the increase in the number of shares they hold (Sasi, Bambang, & Alfian, 2017, p. 479).
- **Share Repurchases**: Share repurchases constitute an alternative to cash dividends, whereby the firm uses excess cash to buy back its previously

issued shares from the market, such transactions result in what is known as treasury stock (Hafsi, 2016, p. 42). Unlike stock splits, firms resort to share repurchases to increase the market value of their shares when they are undervalued, when excess cash is available and not immediately needed, or as a defensive mechanism against hostile takeovers by competitors, repurchased shares may be held for resale at a later date or canceled to reduce the firm's share capital. This process provides shareholders with flexibility, those in need of liquidity may sell part of their holdings to obtain cash instead of receiving dividends, while shareholders who retain their shares may benefit from a subsequent increase in the market value of theirholdings (Jamadar, Mohammad Reyad, Md, Thakur, & Mamun, 2024, p. 5).

2.2.3 Theories Explaining Dividend Policy

- **Dividend Irrelevance Theory Modigliani and Miller (1961):** Modigliani and Miller (M&M) supported the view that a firm's value is unaffected by its dividend policy. According to this theory, under certain assumptions namely, perfect capital markets, the absence of taxes, issuance and transaction costs, and complete certainty regarding investments and future earnings, the value of the firm is determined solely by the efficiency of its investment decisions, that is, by the ability of its assets to generate earnings. Consequently, firm value is driven by earning power and business risk rather than by how earnings are divided between dividends and retained earnings (Zarguoune, 2010, p. 86). The essence of the M&M argument is that the market value of a share at the beginning of the investment period equals the sum of the dividends distributed at the end of the period and the market value of the share at that time, in other words, dividend payments are exactly offset by an equivalent change in the market value of the share, thus, if a firm decides to distribute part of its earnings, the market value of the share after the dividend announcement will decline by an amount equal to the dividend received by the shareholder.
- **Gordon and Lintner's Bird in the Hand Theory (1963):** Challenging the Modigliani-Miller irrelevance proposition, Gordon and

Lintner's **"Bird in the Hand" theory** asserts that dividend policy fundamentally dictates firm valuation. Grounded in investor risk aversion, the model posits that immediate dividends are preferred over uncertain future capital gains. Consequently, higher payouts mitigate perceived risk, leading to a lower discount rate and a corresponding increase in share price. Conversely, reliance on retained earnings heightens the required rate of return due to temporal uncertainty, reinforcing the inverse relationship between dividend distribution and the cost of equity. (Rój, 2019, pp. 98-99).

- **Tax Preference Theory:** Shares provide their holders with two types of returns: current income (dividends) and capital gains (realized upon sale). Typically, dividend income is taxed at a higher rate than capital gains, according to the Tax Preference Theory, which emerged in the early 1970s, investors tend to favor firms that distribute a lower proportion of their earnings in order to minimize their tax burden, this implies retaining a larger portion of earnings and reinvesting them, which enhances earnings growth and ultimately increases investors' wealth, capital gains taxes, by contrast, are paid only once and only upon the sale of shares (Dantas de Souza Junior, Mehdi Hijazi, & Pedro da Silva, 2025, p. 4115), based on these considerations, shareholders prefer earnings retention over dividend distribution and are willing to pay higher prices for shares of firms that do not distribute dividends, in this context, firms that wish to return cash to shareholders may prefer share repurchases rather than cash dividends in order to avoid imposing higher tax costs on shareholders (Das, 2020, p. 2705), this trend became particularly evident from the 1980s onwar. In summary, according to this theory, maximizing firm market value is achieved through earnings retention rather than dividend distribution.
- **Agency Cost Theory:** Agency theory, developed by Berle and Means (1932), Jensen and Meckling (1976), and Jensen (1986), emphasizes the existence of conflicts of interest between managers, shareholders, and bondholders, which give rise to agency costs (Amanj Mohamed Ahmed, Deni Pandu , & István, 2023, p. 3), these costs arise because managers

(agents) may pursue personal interests that diverge from those of shareholders (principals), who seek to maximize firm value (ADOGBEJI & Ohidoa, 2023, p. 431), problems associated with the separation of ownership and control lead to inefficiencies in resource allocation, dividend payments help mitigate agency problems by reducing the free cash flow available to managers, thereby limiting opportunities for value destroying behavior (Dantas de Souza Junior, Mehdi Hijazi, & Pedro da Silva, 2025, p. 4115).

- **Signaling Theory**: Signaling theory was introduced by Bhattacharya (1979) and further developed in the mid 1980s by Miller and Rock. This theory posits that dividend payments convey information about a firm's expectations regarding future earnings, empirical evidence suggests that most managers believe shareholders prefer stable dividends or gradual and regular increases in dividend payouts, in response to these preferences, managers tend to adjust dividends partially over time until a target payout ratio is achieved. Moreover, managers are generally reluctant to increase dividends unless they believe that the increase in earnings is permanent, allowing the firm to sustain higher dividend levels in the future. Consequently, when a firm announces an increase in dividend payments, the market interprets this announcement as a positive signal of future earnings growth, leading to an increase in share value and shareholders' wealth (Xiaotong Deng, Sander De Groote, & Chao Kevin Li, 2024, p. 3).
- **Clientele Effect Theory**: The Clientele Effect Theory explains movements in a firm's share price based on the needs and objectives of different groups of investors, Investors tend to select firms whose dividend policies align with their tax positions and income preferences, thereby forming distinct investor clienteles. According to this theory, specific investors are initially attracted to particular firm policies, when a firm changes one or more of these policies, investors adjust their portfolios accordingly, as a result of this adjustment process, stock prices may fluctuate. In essence, any change in firm policy such as dividend policy or taxation may prompt investors to buy or sell shares,

leading to changes in share prices in line with the preferences of the prevailing investor clientele (Chen, Clientele Effect: Definition, Theory, Examples, 2022).

3. The Applied Study

3.1 Methodology of the applied study

3.1.1 Study Population and Sample

The study population consists of all firms listed on the Saudi stock market (Tadawul), It is considered the largest stock exchange in the Middle East, the number of listed firms reached 253 distributed across 23 sectors, while the total number of shares traded in the main market amounted to 6.5 billion shares (website, 2025). Meanwhile, the study sample consists of a subset of firms comprising 30 firms. Financial data were collected for the period (2019–2025) based on the following criteria : The availability of published financial data in PDF format, the firm's shares were not suspended from trading during the study period, the firm reported positive profits in at least three or four fiscal years within the study horizon. The total number of observations was 180 (30 companies × 6 years).

3.1.2 Applied Study Model

this study relied on the following model:

$$\mathbf{MV_t = \beta_0 + \beta_1 * DPS_{(t-1)} + \beta_2 * RES_{(t-1)} + \beta_3 * SD_{(t-1)} + \beta_4 * SRP_{(t-1)} + \mu}$$

Where:

- **The dependent variable (MV):** It is represented by the firm market value (MV), measured as the average closing price of the shares of the sampled firms for each year of the study period. The period (2020–2025) was adopted for this variable.
- **Independent variables (determinants**):
  - **Dividend per Share (DPS):** Cash dividends ÷ Number of common shares ;
  - **Retained Earnings per Share (RES):** Earnings per share (EPS) – Dividend per share ;
  - **Stock Dividends (SD):** Proportion of shares distributed as bonus shares ;
  - **Share Repurchases (SRP):** Treasury shares ÷ Share capital.

The period (2019–2024) was adopted for this variable.

- **Statistical parameters (β_0):** The constant represents the value of the firm when all independent variables are equal to zero.
- **The coefficients β_1 to β_4:** The regression coefficients measure the amount of change in the firm's value when each independent variable changes by one unit.
- **μ:** Represents the random error term or other variables that were not included in the model.

3.1.3 Statistical analysis methods used

To estimate the model, the study relied on the Panel Data Method with its three models (Pooled Regression Model, Fixed Effects Model, and Random Effects Model), using the Multiple Linear Regression method, which tests the effect of independent variables on the dependent variable by constructing an equation used for prediction or interpretation.

3.2 Analysis of the Study Results

3.2.1 Descriptive Statistics of the Study Variables

Table 1. Descriptive Statistics of the Study Variables

	MV	DPS	RES	SD	SRP
Mean	47.20633	1.609264	0.957778	0.011310	0.012659
Median	34.00000	1.000000	0.440000	5.00E-06	0.000000
Maximum	336.0000	18.00000	14.08000	0.360000	0.160000
Minimum	0.950000	0.000000	0.000000	0.000000	0.000000
Std. Dev.	52.00690	2.088816	1.695735	0.056682	0.032366
Skewness	3.139622	3.808272	4.490390	5.165650	3.165312
Kurtosis	15.47209	25.45185	29.41818	28.51233	12.83163
Jarque-Bera	1462.364	4215.729	5839.310	5682.112	1025.533
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	8497.140	289.6675	172.4000	2.035800	2.278540
Sum Sq.	885263.4	1247.156	679.8384	0.598125	0.216354
Sum Sq. Dev.	484144.6	781.0045	514.7175	0.575100	0.187511
Observations	180	180	180	180	180

Source: Prepared by the researchers based on the EViews 14 output.

The results of the descriptive statistics indicate that the mean value of the dependent variable, representing the market value of the firm, is estimated at 47.20633, while its standard deviation amounts to 52.00690, reflecting a considerable degree of variation in market values across the sampled firms. With regard to the independent variables, namely cash

dividends per share, retained earnings per share, stock dividends (bonus shares), and share repurchases, their respective mean values are 1.609264, 0.957778, 0.011310, and 0.012659. In contrast, the corresponding standard deviations are 2.088816, 1.695735, 0.056682, and 0.032366, respectively, indicating a relative heterogeneity in the dividend distribution policies adopted by firms over the study period. Furthermore, the total number of observations used in the statistical analysis amounts to 180 observations for all study variables, providing an adequate data set for conducting subsequent econometric analyses and deriving statistically meaningful inferences.

3.2.2 Time Series Stationarity Test

To examine the stationarity of the study variables, the Phillips–Perron test is employed, the following results are obtained:

Table 2. Stationarity of the Study Variables

Variables	Statistic (PP - Fisher Chi-square)	Prob
MV	94.2365	0.0031
DPS	89.3452	0.0083
RES	64.4687	0.2608
SD	35.2325	0.9955
SRP	168.322	0.0000

Source: Prepared by the researchers based on the Eviews 14 output.

The table results indicate that the p-values for the variables MV, DPS, and SRP are below the 5% significance level. Accordingly, these variables are stationary at level (I(0)) and do not exhibit a unit root problem, meaning they are integrated of order zero, I(0). On the other hand, the p-values for the variables RES and SD are greater than 5%, indicating that these series are non stationary at level, therefore, we apply the first difference to RES and SD, respectively, to achieve stationarity.

Table 3. Stationarity of the (RES & SD)

Variables	Statistic (PP - Fisher Chi-square)	Prob
RES	127.115	0.0000
SD	38.9619	0.0011

Source: Prepared by the researchers based on the Eviews 14 output.

We observe that the p-values are less than 5%, indicating that the data are stationary at first difference for both variables (RES & SD).

3.2.3 Panel Cointegration Analysis Using the Kao Test

Some variables were found to be stationary at levels (I(0)), while others were non-stationary (I(1)). To verify whether the model could be estimated in level form without the risk of spurious regression, the Kao residual panel cointegration test was conducted.

Table 4. Kao Residual Cointegration Test

	t-Statistic	**Prob**
ADF	-3.6666	0.0001
Residual variance	0.0003	
HAC variance	0.0002	

Source: EViews 14 output.

The results of the Kao residual panel cointegration test strongly reject the null hypothesis of no cointegration (ADF = -3.6666, p = 0.0001), confirming a long-run equilibrium relationship among SRP, SD, RES, DPS, and MV. Although some variables are stationary at levels (I(0)) while others are non-stationary (I(1)), the existence of cointegration ensures that estimating the model in level form is statistically valid and does not produce spurious regression.

Accordingly, the empirical analysis is conducted using panel data regression techniques, namely the Pooled Regression Model (PRM), the Fixed Effects Model (FEM), and the Random Effects Model (REM), with lagged independent variables included to capture short-run dynamic interactions within the model framework.

3.2.4 Hsiao Homogeneity Test

Table 5. Hsiao Homogeneity Test

Hypotheses	**F-Stat**	**P-Value**
H1	1.696345	0.045754
H2	0.568798	0.982133
H3	9.441010	2.48E-21

Source: Prepared by the researchers based on the Eviews 14 output.

The p-value of the Fisher statistic exceeds the 5% significance level, indicating the presence of overall homogeneity in the panel data. This means that the coefficients of the explanatory variables under study are not significantly different from each other.

3.2.5 Panel Data Models

a) Pooled Regression Model (PRM)

This model is one of the simplest panel data models, as all coefficients are assumed constant over time and time effects are ignored. It does not account for heterogeneity across firms, effectively treating the sample as a single firm and disregarding both the time series and cross sectional dimensions of the data. Accordingly, the pooled regression model can be specified as follows (Ben Amra, 2021, p. 3) :

$$Y_{it} = \beta_0 + \Sigma_{(j=1\rightarrow k)} \beta_j X_{j(it)} + \varepsilon_{it}$$

Table 6. Pooled Regression Model (PRM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPS	12.94549	1.250863	10.34925	0.0000
RES	6.739244	1.410275	4.778673	0.0000
SD	32.08302	41.90255	-0.765658	0.4449
SRP	565.1432	80.80133	6.994232	0.0000
C	13.12788	3.260439	4.026416	0.0001
		R-squared		0.635689
Mean dependent var	47.20633	**Adjusted R-squared**		0.627362
S.D. dependent var	52.00690	**S.E. of regression**		31.74714
Akaike info criterion	9.780867	**Sum squared resid**		176379.1
Schwarz criterion	9.869560	**Log likelihood**		-875.2780
		Durbin-Watson stat		1.001585
		F-statistic		76.33974
Hannan-Quinn criter.	9.816828	**Prob(F-statistic)**		0.000

Source: EViews 14 output.

The model shows an F-test statistic of 76.34 with a p-value of 0.0000, which is below the 5% significance level, indicating that the model is statistically significant.

b) Fixed Effects Model (FEM)

This model, known as the fixed effects model, allows both intercepts and slopes to vary across cross-sectional units, capturing individual and temporal dimensions and enabling estimation through within-unit comparisons over time. Accordingly, the model can be specified as follows (Ben Amra, 2021, p. 3):

$$Yit = \beta_{0(i)} + \Sigma_{(j=1\rightarrow k)} \beta j\ X_{j(it)} + \varepsilon_{it}$$

Table 7. Fixed Effects Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.

DPS	4.249064	1.170864	3.628998	0.0004
RES	2.557034	1.078512	2.370892	0.0191
SD	21.61367	33.72098	0.640956	0.5226
SRP	284.9106	106.2162	2.682364	0.0082
C	34.06839	2.987656	11.40305	0.0000

Effects Specification
Cross-section fixed (dummy variables)

		R-squared	0.873295
Mean dependent var	47.20633	**Adjusted R-squared**	0.844656
S.D. dependent var	52.00690	**S.E. of regression**	20.49783
Akaike info criterion	9.046943	**Sum squared resid**	61343.52
Schwarz criterion	9.650057	**Log likelihood**	-780.2249
Hannan-Quinn criter.	9.291480	**F-statistic**	30.49343
Durbin-Watson stat	1.377205	**Prob(F-statistic)**	0.000000

Source: EViews 14 output.

The model shows an F-statistic of 30.49343 with a p-value of 0.0000, which is below the 5% significance level, indicating that the model is statistically significant.

c) Random Effects Model (REM)

Unlike the FEM, the REM treats cross sectional and temporal effects as random, assuming the intercept varies randomly across units, estimation is conducted using generalized least squares (GLS), which accounts for both between unit and within unit variations. The model can be specified as follows (Ben Amra, 2021, p. 3):

$$Yit = \beta_0 + \Sigma_{(j=1\rightarrow k)}\ \beta j\ X_{j(it)} + ui + \varepsilon_{it}$$

Table 8. Random Effects Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPS	7.447574	1.060162	7.024940	0.0000
RES	3.776189	1.039715	3.631946	0.0004
SD	10.20495	32.09833	0.317928	0.7509
SRP	488.2739	84.04004	5.810015	0.0000
C	25.30821	4.339565	5.831969	0.0000

Effects Specification		
	S.D.	**Rho**
Cross-section random	18.94230	0.4606
Idiosyncratic random	20.49783	0.5394

Weighted Statistics			
		R-squared	0.350329
Mean dependent var	19.07595	**Adjusted R-squared**	0.335479
S.D. dependent var	27.93368	**S.E. of regression**	22.77102
Sum squared resid	90740.91	**F-statistic**	23.59173
Durbin-Watson stat	1.247040	**Prob(F-statistic)**	0.000000
Unweighted Statistics			
R-squared	0.558395	**Mean dependent var**	47.20633
Sum squared resid	213800.6	**Durbin-Watson stat**	0.529267

Source: EViews 14 output.

The model's F-statistic is 23.59173 with a p-value of 0.0000, which is below the 5% significance level, indicating that the model is statistically significant.

3.2.6 Model Comparison Among the Three Approaches

To achieve this, we rely on the Fisher test to compare the pooled model with the fixed effects model, and the Hausman test to compare the fixed effects model with the random effects model.

a) Fisher Test

To compare the pooled regression model (PRM) and the fixed effects model (FEM), we use the F-Fisher test, such that:

- **H_0**: The (PRM) is appropriate, as $p > 0.05$;
- **H_1**: The (FEM) is appropriate, as $p < 0.05$.

Table 9. Fisher Test Results

Test	Statistical value	Prob
F- Test	76.33	0.0000

Source: EViews 14 output.

Since the calculated p-value is less than the significance level (0.05), the null hypothesis that the (PRM) is superior is rejected, and the alternative hypothesis, which states that the (FEM) is more appropriate, is accepted.

b) Hausman Test

This test is used to compare the Fixed Effects Model (FEM) and the Random Effects Model (REM), with the following hypotheses:

- **H_0:** The (REM) is appropriate ;
- **H_1:** The (FEM) is appropriate.

Table 10. Hausman Test Results

Test	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
Cross-section random	44.9669	4	0.0000

Source: EViews 14 output.

We observe that the p-value corresponding to the Chi-square statistic is less than 0.05, indicating that the Fixed Effects Model (FEM) is the appropriate model at the 5% significance level**.**

3.2.7 Model Specification and Hypothesis Testing

a) Study Hypothesis

To test the main hypothesis of the study, its two sub-hypotheses will be examined, which are formulated as follows:

- **H_0**: There is no statistically significant effect of dividend policy on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 ;
- **H_1**: There is a statistically significant effect of dividend policy on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025.

b) Model Specification

After conducting the panel data analysis between the dependent variable and the independent variables and estimating the parameters of the proposed model, we observe the existence of a positive relationship between the market value per share (MV) and each of the following variables: cash dividends per share (DPS), retained earnings per share (RES), stock dividends (SD), and share repurchases (SRP). This relationship is expressed by the following equation:

$$MVt = 34.068390 + 4.249064 \times DPS(t-1) + 2.557034 \times RES(t-1) + 21.613667 \times SD(t-1) + 284.9106 \times SRP(t-1) + \mu$$

3.2.8 Model Goodness of Fit Test

Based on the coefficient of determination (R-squared) In the table (7), it can be observed that 87.33% of the variations in the market value of the firm (MV) are explained by the independent variables, namely cash dividends per share (DPS), retained earnings per share (RES), stock dividends (SD), and share repurchases (SRP). The remaining 12.67% of the variation is unexplained and attributed to other factors not included in the model.

3.2.9 Statistical Significance Test of Estimated Parameters

To assess the statistical significance of the estimated parameters, the t-statistic is used to test each coefficient individually. According to the fixed effects model table, the p-values for (DPS), (RES), and (SRP) are 0.0004, 0.0191, and 0.0082, respectively, all of which are below the 5% significance level, indicating that these coefficients are highly statistically significant over the study period. Accordingly, the null hypothesis (H_0) is rejected in favor of the alternative hypothesis (H_1), which posits that these variables have a significant effect on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025.

In contrast, the p-value for (SD) is 0.5226, which is greater than 5%, indicating that the (SD) coefficient is not statistically significant. Accordingly, the alternative hypothesis (H_1) is rejected in favor of the null hypothesis (H_0), which states that this variable does not have a significant effect on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025.

3.2.10 Model Quality Test

From the table (7), we observe that the F-statistic is estimated at 30.49, with an associated Prob (F-statistic) of 0.0000, which is below the 5% significance level, this indicates that the model as a whole is statistically significant and acceptable.

Based on the above :

- The null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted, which states that: « There is a statistically significant effect of dividend policy on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 **»**, with respect to the variables: cash dividends per share (DPS), retained earnings per share (RES) and share repurchases (SRP) ;
- Conversely, the alternative hypothesis (H_1) is rejected in favor of the null hypothesis (H_0), which states that « There is no statistically significant effect of dividend policy on the market value of firms listed on the Saudi Stock Exchange (Tadawul) during the period 2019–2025 », with respect to the variable (SD).

4. CONCLUSION

This study seeks to contribute to the ongoing academic debate regarding the relevance of dividend policy in explaining firms' market value, by providing an empirical investigation within the context of an emerging financial market characterized by specific institutional and regulatory features, namely the Saudi stock market over the period 2019–2025. The adoption of the fixed effects model, supported by the Fisher and Hausman tests, enabled the estimation of consistent parameters that account for unobserved firm specific heterogeneity, thereby enhancing the robustness and credibility of the empirical findings, the most important of which are as follows :

- The results reveal a positive and statistically significant effect of cash dividends, retained earnings, and share repurchases on firms' market value, these findings stand in clear contradiction to the dividend irrelevance proposition advanced by Modigliani and Miller, which assumes that dividend policy does not affect firm value under the conditions of perfect capital markets, absence of taxes, no agency costs, and symmetric information ;
- Moreover, the empirical evidence strongly supports the Bird in the Hand Theory, as investors in the Saudi market appear to place greater value on current and certain cash flows in the form of cash dividends than on uncertain future capital gains, firms that adopt stable cash dividend policies are therefore rewarded with higher market valuations. This result is also consistent with the Signaling Theory, whereby cash dividends and share repurchases are interpreted by investors as credible signals of managerial confidence in future earnings sustainability, leading to increased demand for such firms' shares and, consequently, higher market value ;
- The statistically significant impact of share repurchases can further be interpreted through the lens of Agency Theory, share repurchases contribute to mitigating free cash flow problems by reducing the discretionary resources available to managers, thereby limiting potential opportunistic behavior and aligning managerial decisions more closely

with shareholders' wealth maximization objectives. This mechanism is positively reflected in the market valuation of firms engaging in repurchase activities ;

- With respect to retained earnings, the positive and significant coefficient suggests that the Saudi Stock Exchange does not necessarily perceive earnings retention as detrimental to shareholder wealth. Instead, retained earnings are valued positively when they are associated with profitable investment opportunities, reflecting a combination of signaling effects and growth oriented considerations. In this context, the market rewards firms that demonstrate the ability to reinvest internal funds efficiently to generate future value ;
- In contrast, stock dividends were found to have no statistically significant effect on firms' market value, despite their positive estimated coefficient, this finding can be explained by the Clientele Effect Theory, as the dominant investor base in the Saudi market appears to favor direct cash returns over stock dividends, which do not result in an immediate or tangible change in shareholder wealth. Additionally, this result may be interpreted in light of the Tax Preference Theory, insofar as stock dividends may not offer meaningful tax advantages compared to alternative payout mechanisms, thereby limiting their attractiveness to investors ;
- Overall, the findings of this study confirm that dividend policy is far from neutral in the Saudi stock market and constitutes a strategic financial decision with a significant impact on firms' market value, the effect of dividend policy, however, varies according to the payout instrument employed. These results highlight the importance of adopting flexible and well designed dividend policies that account for investor preferences, market structure, and informational and tax considerations, thereby enhancing market efficiency and supporting the long term objective of shareholder wealth maximization.

Recommendations

Based on the study findings, we propose the following recommendations for the Management of Listed Firms :

- Firms are encouraged to implement clear and stable cash dividend policies, given their positive and statistically significant impact on market value and their strong informational content, which enhances investor confidence and reduces market uncertainty ;
- Corporate management should employ share repurchase programs in a well calibrated manner, particularly when the firm's shares are perceived to be undervalued, as such programs contribute to improving capital structure, mitigating agency problems, and supporting market valuation ;
- Retained earnings should be allocated to projects with clear value added potential, accompanied by enhanced disclosure regarding investment objectives and expected returns, thereby ensuring that earnings retention is interpreted by the market as a rational growth oriented decision rather than a restriction on shareholder returns ;
- In light of the lack of statistical significance of stock dividends, firms are advised not to rely on this payout mechanism as a primary tool for market value enhancement, and to limit its use to specific structural or regulatory considerations.

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