An Empirical Investigation of Dividend Payment Decisions of Companies Listed on the Saudi Stock Exchange (Tadāwul)

By

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Declaration

I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of Doctor of Philosophy, is entirely my own work and that I have exercised reasonable care to ensure that the work is original and does not to the best of my knowledge breach any law of copyright, and has not been taken from the work of others save and to the extent that such work has been cited and acknowledged within the text of my work.

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Participation in Conferences

I have introduced parts of this study's findings at the Doctoral Colloquium of the Irish Accounting and Finance Association Conference (2017), The British Accounting and Finance Association Conference (2018), DCU Business School Doctoral Colloquium (2018) and the Irish Accounting and Finance Association Conference (2019).

Dedication

To my mother Nabila

To my father’s soul Othman

To my Husband Abdulrahman

To my four children Dhay, Faie, Khalid and Leen

To my sister Lamia

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List of Abbreviations

AAR	Average Abnormal Return
AD	Announcement Day
AExR	Average Excess Return
AMSE	American Stock Exchange
APA	Arbitrage Pricing Theory
AR	Abnormal Return
Aramco	Saudi Arabian Oil Company
CAAR	Cumulative Average Abnormal Return
CAExR	Cumulative Average Excess Return
CAPM	Capital Asset Pricing Model
CAR	Cumulative Abnormal Returns
CEO	Chief Executive Officer
CFA	Certified Financial Analyst
CFM	Certified Financial Manager
CFO	Chief Financial Officer
CIA	Certified Internal Auditors
CII	Chartered Insurance Institute
CMA	Capital Market Authority
CMA	Certified Management Accountants
CPA	Certified Public Accountants
CPI	Consumer Price Index
DD	Dividend Decrease
DI	Dividend Increase
DNC	Dividend No Change
DPE	Dividend per Share
EMH	Efficient Market Hypothesis
EPS	Earnings Per Share
ESIS	Electronic Securities Information System
ExR	Excess Return
FTSE	Financial Times Stock Exchange
GAZT	General Authority of Zakat and Tax
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GICS	Global Industry Classification Standard
HFO	Heavy Fuel Oil
ICT	Information and Communication Technology
IDX	Indonesian Stock Exchange

IPO	Initial Public Offering
ISE	Istanbul Stock Exchange
KAEC	King Abdulla Economic City
KSA	Kingdom of Saudi Arabia
MAAR	Market Adjusted Abnormal Return
MBA	Master of Business Administration
MENA	Middle East and North Africa
MSCI	Morgan Stanley Capital International
Nasdaq	National Association of Securities Dealers Automated Quotations
NSE	National Stock Exchange of India Limited
NYSE	New York Stock Exchange
OLS	Ordinary Least Squares
OPEC	Organisation of the Petroleum Exporting Countries
QFIIs	Qualified Foreign Institutional Investors
QUAL	Qualitative
QUAN	Quantitative
REITs	Real Estate Investment Trusts
RETT	Real Estate Transaction Tax
S&P	Standard and Poor
SAMA	Saudi Central Bank
SAR	Saudi Arabian Riyal
SD	Standard Deviation
SMEs	Small and Medium Enterprises
Tadāwul	Saudi Stock Exchange
TASI	Tadāwul All Share Index
UK	United Kingdom
US	United States
US$	United States Dollar
VAT	Value Added Tax
WHO	World Health Organization
WHT	Withholding Tax

Layla Othman Abaalkhail

An Empirical Investigation of Dividend Payment Decisions of Companies Listed on the Saudi Stock Exchange (Tadāwul)

Abstract

This study investigates the dividend payment decisions of companies listed on the Saudi Stock Exchange. The attitude of company executives and investors to dividends in Saudi Arabia has not been extensively reported in the academic literature, and, although a number of studies on the topic have been published, the reported findings provide only a partial view as they are based on small samples, and the perspectives adopted limited. The Saudi economy has changed significantly since the publication in 2016 of the policy document, Vision 2030, which signalled the introduction of liberal reforms in Saudi society, the adoption of a taxation regime, and the economy's opening to international investment. In this new environment, the attitudes of company managers and investors to dividend payments may be important for policymakers as they seek to encourage Saudi companies to expand and attract international investors.

The study reports findings from three separate but linked empirical approaches. First, a questionnaire was distributed to senior financial managers seeking their views on dividend policy issues including the factors that determine the setting of dividend policy for their companies, their views on the role of dividend signals, and taxation. Second, in-depth semi-structured interviews were conducted with twenty-one of financial executive managers. Third, an event study examined the market reaction to dividends.

What emerged from the empirical work is that Saudi managers appear to view the dividend decision as an important policy issue for their companies. Investors appear to rely on the dividend announcement as conveying important information that may support the view that for Saudi listed companies' dividends may affect firm valuation. The findings appear to be consistent with published findings of dividend studies of Western markets and represent a significant contribution to the dividend literature for emerging markets.

Chapter 1
Introduction

1.1 Research Background and Problem

According to Gordon (1959), the main reason why an investor acquires a company's shares is to receive dividend payments. A dividend is a shareholder's portion of a company's earnings, and the most common form is a cash dividend. Other dividend types include stock dividends and the capitalisation of reserves, both of which require the company to issue additional stock pro-rata to its shareholders. Lease *et al.* (2000) define the concept of dividend policy as 'the practice that management follows in making dividend payout decisions or, in other words, the size and pattern of cash distributions over time to shareholders' (cited in Al-Malkawi, Rafferty and Pillai, 2010, p.172). The topic of dividend policy has long been a source of interest to academics and has thus led to extensive theoretical modelling and empirical examination.

Regarding dividends, Black (1976, p.7) noted, 'The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together'. Black also observed that companies pay dividends for various reasons, including returning cash to investors, signalling information about the company's operating performance and its future prospects, rewarding current shareholders, and motivating potential investors. More recently, Baker, Powell and Veit (2002) examined dividend policy relevancy and the different factors that managers should consider when making dividend payment decisions. The authors noted that the various dividend theories that have been introduced, including signalling theory, tax preferences and agency costs, fail to explain the reasons for paying dividends. Each theory focuses on one aspect of the dividend puzzle, such as taxation or information asymmetry. Thus, despite the numerous theories that have appeared in the literature, no single theory offers a comprehensive explanation of companies' dividend behaviours (Baker, Powell and Veit, 2002). Two main reasons for this failure are provided by Baker, Dutta and Saadi (2008). First, several financial economists have been working hard to create a universal, or 'one-size-fits-all', interpretation, although the well-known nature of dividend policy may

be affected by variables such as company characteristics, corporate governance and legal environments. Second, the suggested explanations depend heavily on economic models without a deep understanding of how investors and executives view and act upon dividends.

Reported prior dividend puzzle studies on Saudi Arabian data have been inconclusive and inadequate. Neither survey nor interview-based research has been conducted on dividend policy in Saudi Arabia. This study considers the dividend decisions in a more comprehensive way. The study also examines the announcement of Vision 2030 in 2016, the new taxation system that was launched in 2017-2018 and the drop in oil prices from 2015 onward, which have not previously been studied with regard to dividend behaviour.

RQ1: What factors determine the dividend payment decisions of companies listed on the Saudi Stock Exchange? The primary goal of utilising survey questionnaires and interviews is to address the disadvantage of using market data that can clarify the surface of reality but cannot measure the motivation behind this type of data (Baker, Dutta and Saadi, 2008).

The Saudi stock market differs from other countries' stock markets in that it includes an additional Islamic tax called Zakat, which is enforced at a consistent rate of 2.5% on all companies and individuals. Zakat base is focused on the net wealth of Zakat payers (including dividends and other types of income) that has been in their hands for at least one year[1]. It is widely debated whether Zakat plays an important role in corporations' dividend decisions in the Saudi market. Two studies have reported contradictory findings on the topic of Zakat, having used different theoretical lenses (the definition of Zakat and the Zakat base). The current study targets to close this gap using evidence from a survey questionnaire and interviews with executives who are knowledgeable about the Zakat and dividends problem.

The second research question, *RQ2*, seeks to understand this issue, asking: *How does the Zakat (Islamic tax) impact a company's dividend payment decisions?*

This thesis also examines how dividend announcements affect the valuation of a company's stock price. Saudi Arabia has a unique tax system in which there are no tax

[1] Please refer to Chapter 2 of this thesis for further details on the topic of Zakat.

levies on either dividends or capital gains[2]. This tax-neutral setting provides an opportunity to examine the signalling effect without the distorting effects of dividend taxation. As will discuss in Chapter 3, in most developed countries, a higher tax is imposed on dividends compared with capital gains which may cause difficulties to determine whether changes in dividends are seen as a signal of a company's future prospects or whether taxes distort the signal (Amihud and Murgia, 1997; Al-Yahyaee, Phan and Walter, 2011). Thus, if the results of the current thesis indicate a significant response from the company's share prices to dividend announcements, this may suggest that there are other factors involved in addition to the tax effect, such as information asymmetry and agency costs, that could justify the information content of dividends in the Saudi stock market (Al-Yahyaee, Phan and Walter, 2011). In this regard, Al Qudah and Badawi (2015) reported that the Saudi stock market has a high degree of family ownership, tax-free dividends and information asymmetry[3]. Frankfurter and Wood (2002) stated that the cornerstone of dividend-signalling theory is the reduction of information asymmetries between management and investors through unexpected changes in the level of dividend payment. Dividend signalling indicates that information asymmetry and dividend policy are related positively, such that the higher the asymmetric information level, the more sensitive the dividend is to the company's potential prospects (Dionne and Ouederni, 2011).

Therefore, the third research question, *RQ3*, examines: *What is the relationship between a company's dividend announcements and share returns in the Saudi stock market?*

The study uses questionnaires and interviews with companies' managers to obtain their views regarding the dividend-signalling model in the Saudi Stock Exchange. In addition, an event study is employed to investigate the information content of dividends in Saudi Arabia empirically.

[2] The exception is that the taxation of non-resident investors' dividend income (withholding tax) is 5% on the amount of the dividend received.
[3] Information asymmetry occurs when managers have more information than market participants about the company's potential profits and liquidity (Bhattacharya, 1979; Miller and Rock, 1985).

1.2 Research Motivations

An investigation of dividend payment decisions in emerging markets, in particular the Kingdom of Saudi Arabia, is considered to be of interest for several reasons. First, closing the gap in the existing literature following previous Saudi studies, which were based only on the use of statistical analysis, may only provide a surface-level understanding of the subject of dividends. This study provides an in-depth interpretation of the dividend payment decisions of Saudi listed corporations by using both survey and interview methods to obtain the perceptions of managers who are actively involved in deciding on their companies' dividend payment decisions and strategic plans. Thus, an analysis of data collected from corporate executives may provide a more complete picture of dividend phenomena in the Saudi context.

Second, the implications of Zakat in management's decision to pay dividends has not been addressed in Saudi studies. This study, therefore, looks at the Zakat aspect by communicating closely with management (via survey questionnaires and interviews), allowing personal knowledge of managers' companies to be used and including details that are not accessible from public sources.

Finally, few studies have examined the relationship between dividend announcements and a company's share price on the Saudi Stock Exchange. Studies that have been published (Uddin and Osman, 2008; Al Qudah and Badawi, 2015; Chaabouni, 2017) are based on small samples and provide only a partial view. According to findings from three previous studies focused on the Saudi context, there is no consensus on the applicability of dividend signalling theory in the Saudi stock market (for more information, see Section 3.5.2 in Chapter 3). Moreover, the effect of a company's dividend decisions on share price was measured over a short period, from one-quarter of a year to four years. The size of the sample companies used in previous studies has often been thought to be too small to produce a persuasive conclusion in the Saudi context regarding the dividend signalling hypothesis. Therefore, a thorough investigation of the dividend information content hypothesis using a longer period of time, as the current thesis covers an eight-year examination period, may provide significant insights into how Saudi investors value the payment of dividends in their investment decisions.

1.3 Research Aim and Objectives

This study's central purpose is to empirically investigate the dividend payment decisions of companies listed on the Saudi Stock Exchange, specifically the different factors that influence the decision-making process to pay dividends and the impact of dividend announcements on company share prices. The findings obtained from this thesis and the examination of both signalling theory and the factors affecting dividend decisions are expected to offer an in-depth interpretation of the topic of dividends.

This study's first objective is to understand the current state regarding dividend payment decisions in Saudi Arabia and identify the major factors that impact companies' dividend payment decisions on the Saudi Stock Exchange. The study examines the left side of the conceptual framework stated in Section 4.3 (Chapter 4), which discusses numerous factors extracted from the literature that influence or may influence companies' decisions to pay dividends.

The second objective is to evaluate the effect of Zakat on managers' decisions regarding dividend distribution in companies listed on the Saudi Stock Exchange. The study mainly investigates how managers deal with dividends as dividends paid or dividends payable when calculating the Zakat base. Specifically, it explores how a manager measures the Zakat base when announcing and transferring dividends to an investor or upon declaring dividends but not paying them to the investor until the end of the year.

The third and final objective is to empirically test the information content of dividend announcements and the effect these announcements have on a company's stock value. This thesis investigates the right side of the conceptual framework located in Section 4.3 (Chapter 4), explains the various aspects of dividend signalling theory. On the basis of the signalling hypothesis, share prices are reacted differently depending on the direction of dividend change announcements (Pettit, 1972; Aharony and Swary, 1980). The announcement of an increase (decrease) at dividend levels would have a significant favourable (unfavourable) abnormal return and normal return for dividends without a change in the payment level (Aharony and Swary, 1980).

1.4 Contribution of the Research

This review describes this thesis's contributions to literature, theory, and practice, including those of managers, regulators, and investors. Chapter 8 will provide a more detailed breakdown of this research's contribution to the field.

Unlike previous studies conducted in developed countries such as the UK and the US, the Saudi Stock Exchange has not attracted much scholarly research attention. In particular, early Saudi studies based on the determinants that management companies consider when making dividend payment decisions are relatively few[4]. This is a novel study since it focuses on current Saudi economic conditions such as the announcement of Saudi Vision 2030, new taxes and declining oil prices, suggesting that a comprehensive analysis of company dividend behaviour is timely. Thus, the current study may also prove valuable to and enrich the literature in the field of the distribution of dividends from a nation with a particular market environment and rules.

Recent evidence from a country such as Saudi Arabia, the largest country in the Middle East, as will be discussed in Chapter 2, contributes to the theory. Few Saudi studies have been conducted on the dividend signalling theory and the reaction of market share price to companies' dividend announcements, and the studies that have been conducted focused on a limited number of companies and data over a relatively short period of time. Therefore, this study could enhance the understanding of the important function (if any) of dividend announcements in the value of the share price of a firm. Furthermore, this thesis's findings could contribute to practice by providing guidance for company managers and market regulators in recognising the impact of their strategic decision-making regarding paying dividends. Furthermore, this study's findings could be beneficial for market investors when utilising dividend announcements as a tool for deciding whether to invest in a specific company.

The current study is unique in that the impact of Zakat on dividend payment decisions has not been examined by previous research. This thesis examines the influence of Zakat on the dividend decisions of a company. Therefore, its conclusions provide an understanding of the effect (if any) of the Zakat calculation on dividend payment

[4] Some examples of published Saudi studies on dividends are Osman and Mohammed (2010), Al-Ajmi and Abo Hussain (2011), Al-Malkawi, Twairesh and Harery (2013), Alzomaia and Al-Khadhiri (2013), Al-Qahtani and Ajina (2017) and Al-Kayed (2017).

decisions. This thesis's results also contribute to an improved understanding of how the two accounting approaches, which will be explained in Chapter 2, deal with dividends to determine whether the Zakat base could or could not influence a company's decision to pay dividend payments.

1.5 Research Methods

To meet the study's objectives and address the research questions, the study utilised a mixed-methods approach in which quantitative and qualitative techniques were used to evaluate Saudi listed company dividend payment decisions. The three research methods used were a survey questionnaire, a semi-structured interview and an event study.

The survey questionnaires were explicitly used to provide explanations of (1) how Saudi Arabian company executives decide on dividend payouts, (2) how dividend declarations impact share values, and (3) the effect of Zakat (Islamic tax) on companies' decisions to pay dividends. Questionnaires were sent to all 171 companies that were listed on the Saudi stock market at the end of 2015 via email and in person, and 82 usable responses were obtained – a response rate of 48 %. The data collected from the survey were analysed on the grounds of (1) Saudi-controlled firms versus mixed-ownership firms, (2) dividend-paid versus non-dividend-paid companies, and (3) dividend-changed versus dividend-unchanged firms to determine whether these characteristics affect the responses of the managers surveyed.

Semi-structured interviews were used to examine the three key research questions in-depth and to provide a more comprehensive interpretation of the questionnaire survey findings. Face-to-face interviews were conducted with 21 managers of listed firms in Saudi Arabia, and they were considered important for understanding how various variables resulting from the survey data analysis determine the dividend payment decision. The interviews also provided further management insights into whether dividends are relevant to the share value of the companies and how investors perceive them. The data collected from the interviews were interpreted using a qualitative thematic analysis.

The event study was employed at three different analysis levels to acquire a detailed understanding of the impact of dividend payment declaration on share price movement. First, abnormal (excess) returns were measured and examined for all the sampled companies over a 41-day period. The second level of analysis was conducted over a narrower 11-day time period. The final stage of this process was to determine whether a dividend change contributed to unexpected stock returns and to permit a more specific investigation of a change in dividend levels, which grouped the firms into one of the following three categories: an increase in dividends (ID), a decrease in dividends (DD) and dividend no change (DNC). The sample included 280 announcements of dividends for 99 firms between 2011 and 2018. It was then split into three sub-groups comprising 162 ID, 33 DD and 85 DNC. Abnormal returns were calculated using the market model, while excess returns were computed using the market-adjusted model.

1.6 Structure of the Thesis

This thesis has eight chapters, which are as follows. Chapter 1 provides a roadmap to this thesis and the other chapters' contents. It begins with explaining the research background and develops into a detailed research problem and questions, followed by the motivating factors behind conducting the current study. This chapter also contains a description of the research aim and the key objectives, followed by a discussion of the contributions of the current thesis to the literature, theory and practice. This study's research methods are discussed, and the structure of the thesis is illustrated in detail.

Chapter 2 presents detailed information about the Kingdom of Saudi Arabia, including its history, geographical position, administrative areas, currency, language, demographics and political structure. The chapter also explores Saudi Arabia's economic growth, relevant regulations and laws, and a number of regulatory authorities that regulate the country's market environment. Moreover, a significant portion of the chapter addresses the Saudi Stock Exchange (Tadāwul) and explains the different phases of development the market has witnessed. Finally, the dividend payments made by Saudi listed firms are also discussed. These parts of Chapter 2 are designed to familiarise readers with different aspects of the subject matter within the Saudi context and give

them a thorough understanding of the fundamental concepts they will encounter in later chapters.

Chapter 3 detail the existing dividend literature with a focus on the signalling effect of dividends and dividend payment level determinants. The chapter begins the debate with dividend theories such as the irrelevance of dividends, bird in hand, tax preference, clientele effect, agency costs and the free cash flow hypothesis. This chapter is concerned with articulating the signal theory of dividends by analysing various previous studies that have been either undertaken in developed capital markets or conducted in emerging markets. After this, it discusses the various factors reported in the literature as impacting dividend payment decisions in both developed and emerging markets. The final section of the literature review reflects on the results of previous Saudi studies on the variables affecting dividend payment decisions and the dividend-signalling model of information content. The different sections of Chapter 3 are intended to establish a solid theoretical foundation for the thesis and enable comparison with previously published findings.

Chapter 4 explains the research methodology and methods in detail, which were designed to explore the research objectives and answer the research questions. This chapter discusses the theoretical and conceptual frameworks that help to evaluate the relationship between dividend payment decisions and different factors that could affect dividend decisions. Following this, the chapter describes the philosophical assumptions and different study paradigms behind all social science studies and explains the philosophical assumptions underpinning the thesis. In light of these assumptions, the methods used to gather the quantitative and qualitative data and justify the sequential order of the conducted research methods are demonstrated. Furthermore, this chapter discusses in-depth the research methods employed in investigating the dividend payment decisions made by Saudi listed companies, including survey questionnaires, interviews and the event study.

Chapter 5 discusses the statistical tests of the survey data and explains their findings. The results from the questionnaire survey are reported for the whole sample as well as for various sub-groups in each of the survey's four separate sections. In addition, this chapter explains the non-response bias test and describes whether the responses to the survey questionnaires vary according to a sub-group (100% Saudi-owned and mixed

ownership firms, dividend-paid and dividend-unpaid firms, and dividend-changed and dividend-unchanged firms).

Chapter 6 presents the results of the interviews with managers of companies listed in Saudi Arabia to understand their views about what variables determine dividend payment decisions and whether dividends act as a signal for their companies' future prospects. The key reason that these interviews were undertaken was to provide a more profound discussion to gain a more detailed explanation of the questionnaire survey findings. The interviews were also based on data gathered from the literature review (Chapter 3) on the various aspects of the dividend's topic, such as the Zakat problem, withholding tax. There is a limited amount of literature on these two issues, especially within the Saudi context.

Chapter 7 investigates how the stock price reacts to dividend announcements made by companies listed on the Saudi Stock Exchange. Furthermore, it offers in-depth information about the test hypothesis and various sampling criteria. The event study results are reported on a long event window (41 days) as well as a short event window (11 days). The findings of the abnormal and excess returns are presented according to the three dividends change categories: dividends increasing, dividends decreasing and companies with no change in their dividend level. Finally, the chapter summarises the results of the accumulated abnormal (excess) returns, which are demonstrated in a diagrammatic graph.

Chapter 8 details the major findings of the study, its contribution and implications, and its limitations. It also discusses additional areas on the topic that could be explored in future research.

Chapter 2
Historical and Economic Development of the Kingdom of Saudi Arabia

2.1 Introduction

This chapter is designed to give an overview of the Kingdom of Saudi Arabia, particularly its historical and economic development. In addition, it highlights details about the business environment, regulators, and different legislation that may impact the behaviour of companies listed on the Saudi Stock Exchange and their dividend payment decisions. Using such background information, the reader of the current study should follow the logic behind the research questions being examined and the findings obtained from carrying out this investigation. Therefore, this chapter aims to establish a foundation for the subject matter discussed in later chapters. The sample companies in the thesis were selected from the Saudi Stock Exchange; thus, the chapter also contains a thorough discussion of this market.

The remainder of the chapter is divided into eight sections. Section 2.2 provides background information about Saudi Arabia as a country, including its history, geographical location, administrative regions, currency, language, demographics, and political system. Section 2.3 discusses the economy of the Kingdom, outlining the country's economy before and after the discovery of oil, the Saudi Vision 2030 strategic framework, the ease of doing business, natural resources, some of the key economic indicators, and the impact of the COVID-19 pandemic. Section 2.4 summarises the key regulations and laws that influence companies' activities in the Kingdom which could significantly affect the determination of Saudi dividend policy, such as Zakat and Tax systems. This section also presents details on some regulatory authorities that supervise the country's business environment, namely, the Capital Market Authority (CMA) and the General Authority of Zakat and Tax (GAZT). Section 2.5 provides a discussion of the Saudi Stock Exchange (Tadāwul) and outlines various development stages that the market went through as the current study concentrated on listed companies and their response to dividend payment announcements. Section 2.6 provides

an overview of the dividend payment decisions of the Saudi listed companies, and Section 2.7 concludes this chapter.

2.2 Background of the Kingdom of Saudi Arabia

The Kingdom of Saudi Arabia (KSA) is a monarchy; the Al-Saud family has ruled the country since its inception. The country has gone through three main eras: First, the country of Saudi Arabia (1744–1818), which was governed by Imam Muhammad bin Saud, who occupied Al-Dir'iya, which in 1927 was the base for the first Saudi state. The end of the first Saudi state occurred in 1818 when Imam Abdullah bin Saud conceded to Ibrahim Pasha. The latter besieged Al-Dir'iya and vanquished the Saudi armies after several wars (Saudi Organisation for Certified Public Accountants, 2015).

Second, Saudi Arabia (1824–1891) was ruled by Prince Turki bin Abdullah, who announced that the city of Riyadh is the capital of the state after having compelled the Egyptian Ottoman Empire to surrender him rule of Riyadh. Abdullah bin Rasheed defeated the army of Imam Abdulrahman bin Faisal in 1891, killing most of his men, and proceeded toward Riyadh, commanded to destroy the city walls and the kings' castles, ending the age of the second Saudi country (Saudi Organisation for Certified Public Accountants, 2015).

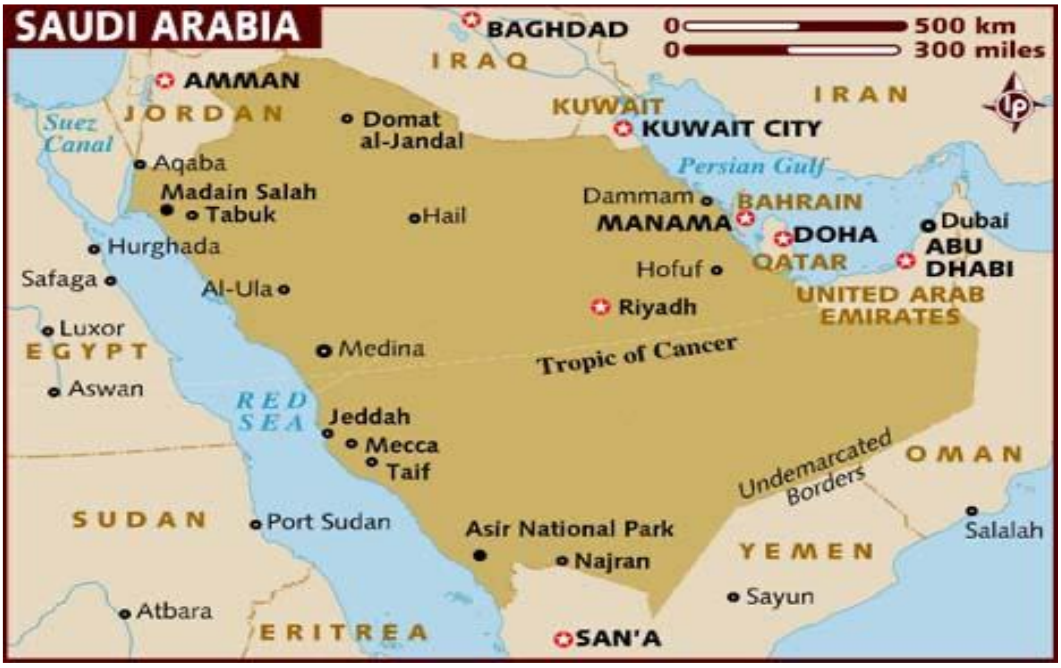
Third, the country of Saudi Arabia (1902–present) came into being after King Abdulaziz bin Abdulrahman Al-Saud retook Riyadh and then returned to it with his family in 1902 (Saudi Organisation for Certified Public Accountants, 2015). Modern life in Saudi Arabia dates back to 23 September 1932, when King Abdulaziz Al-Saud united the different Kingdom states and announced the KSA's foundation. Since then, September 23 has been celebrated as the National Day of the KSA.

The KSA is situated in the Southwest region of Asia, and it is a part of the Gulf Co-operation Council (GCC)[5]. It is one of the largest countries in the Middle East, about one-fourth the United States' size, and covers about 80% of the Arabian Peninsula

[5] The GCC was established in 1981 in Riyadh and represents a political and economic alliance block including six member countries: Saudi Arabia, Bahrain, Dubai, Kuwait, Oman, and Qatar. Hussein (2009, p. 363) summarised the purpose of this alliance, noting 'the objective of integrating and coordinating among member states in all fields and formulating similar regulations in the economy, finance, trade, legislation and administration'.

(Wynbrandt, 2010). The Red Sea borders the KSA to the west; Yemen to the south; Oman to the southeast; the Arabian (Persian) Gulf, the United Arab Emirates, Qatar, and Bahrain to the east; and Jordan, Iraq, and Kuwait to the north (as shown in Figure 2-1). According to Nurunnabi (2017), the total area of Saudi Arabia is 2,149,690 square kilometres (830,000 square miles). The country's land is characterised by various types of topography, including coastal plains, mountains, valleys, plateaus, dunes, and deserts. Saudi Arabia has a desert climate, which is hot and dry in summer with relatively high temperatures in most parts of the country and cold in winter, when rain occurs, with generally very mild temperatures that sometimes fall below zero at night.

Figure 2-1: Map of the Kingdom of Saudi Arabia



Source: (Map of Saudi Arabia, 2020).
Note: This figure displays the geographical position of the Kingdom of Saudi Arabia; it is bounded by two coasts and eight countries; Jordan, Iraq, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman and Yemen.

The country is divided into thirteen administrative regions; the main provinces are Riyadh, Makkah, and Eastern Province, which, due to urbanisation, contain about 65% of the total population (Abdul Salam *et al.*, 2014). The eastern region stretches along the Arabian (Persian) Gulf and includes a large portion of the Al-Rub'a al Khali desert (the empty quarter). The Saudi Arabian Oil Company (Aramco), responsible for discovering, producing, and selling oil, is also located in Eastern Province. The KSA has the two holiest cities for Muslims: Makkah, the most important city, is the central point

of pilgrimage[6] and Madinah, the second most important city, is where the Prophet Muhammad (God's prayers and peace be upon him) emigrated and lived. Other administrative provinces in Saudi Arabia include Aseer, Hail, the Northern Boundaries, Al-Qassim, Najran, Al- Baha, Jazan, Tabuk, and Al-Jouf.

In the KSA, the Saudi Riyal is the local currency, which was worth US$3.75 as of 7 January 2021. Arabic is the official language of the KSA, and English is the second commonly spoken language in the country; English is used mostly for business and education.

According to the last census figures released by the General Authority for Statistics (2010), Saudi Arabia's population was 27.14 million in April 2010 (the population estimates reached 34.22 million in 2019)[7], with 50.9% of the population being male and 49.1% female. In contrast to the majority of GCC countries, Saudi Arabia is dominated by nationals who account for 69% of the population versus 31% of non-Saudi people residing in the country (General Authority for Statistics, 2010). The latest available data on the breakdown of the population by age is the official estimates in mid-2019. These data show that the population is relatively youthful, with 39% under the age of 25 years. The national population of Saudi Arabia has recently been weighted towards males, who were 57.7% of the total population in 2019, with females representing 42.3% of citizens (General Authority for Statistics, 2019).

In regard to the political system, there is no written constitution in Saudi Arabia, and the country has been governed by close cooperation between the royal family and religious scholars, what is called in Arabic Ulama (Aba-Namay, 1993). Due to the country's location and the location of the two holiest cities in the Muslim faith, the country's main constitution is derived from Islamic principles, which are called Shariah laws. Shariah law derives its principles and regulations from the Holy Book of the Quran and further clarification (the Sunnah) from Prophet Mohammad (God's prayers and peace be upon him). Moreover, an announcement in Article 1 of the Basic System of Rules clearly declares that Islam is the official religion of Saudi Arabia and its

[6] This refers to the annual pilgrimage to Makkah, which in Arabic is called Hajj, that Muslims must make at least once in their lifetime. Adults are subject to this duty, so long as they have the financial and physical ability to carry it out.
[7] This is a forecast estimation of the mid-2019 population in the KSA issued by the General Authority for Statistics.

constitution shall be the God Book (the Quran) and the Sunnah of his Prophet (God's prayers and peace be upon him) (Basic Law of Governance, 1992). The King had ruled the Kingdom with the assistance of the Council of Ministers since 1958 when the Council was established (Aba-Namay, 1993). In addition, there is the Consultative Council (Majlis al-Shura), which has worked as an advisory body to the monarch since 1991. The main function of this council is to study and propose decisions and regulations to the Council of Ministers, who discuss decisions with the King (Aba-Namay, 1993). Islam influences almost all aspects of life in the Kingdom, including social and business environments. Consequently, when Saudi Arabia adopts specific standards such as accounting and auditing or corporate governance practices, it always tries to amend these standards or practices to bring them into line with the Saudi environment and Islamic rules (Al-Harkan, 2005).

In conclusion, the Saudi legal system features a unique combination of rules and regulations, adopted from the legislation of the United States, the United Kingdom and other countries, that have been influenced by the Islamic framework that operates within the country (Al Ghamdi, 2012). For example, in the commercial sector, there are several corporations that have adopted the Western system in their operational and administrational processes, such as Aramco, which has dominated petroleum production and refining and used to be a joint US-Saudi corporation (Al-Harkan, 2005). However, any rules taken from a foreign environment tend to be altered to comply with Islamic law.

2.3 Economic Development

Before oil was discovered in 1938, Saudi Arabia's economy was reliant primarily on farming, date exportation, and commercial activity relating to the "religious tourism" by pilgrims who came to perform the Hajj in Makkah and visit Madinah (Knauerhase, 1974). When King Abdulaziz bin Abdulrahman Al-Saud set out to establish the KSA as a new developing country, it was not well equipped to build the sort of economic growth he was looking for.

In 1938, oil was discovered, and this resulted in a major shift in the history of the Saudi economy. Commercial oil production started in 1938, but the actual growth of the oil industry only began in 1945 (Knauerhase, 1974). Petroleum sales grew from US$10

million in 1946–1947 to US$169.8 million in 1953–1954, with an overall compound annual growth rate of 49%; therefore, with sizable oil profits after 1946, Saudi Arabia was able to submit, for the first time, development plans to establish a national infrastructure (Edens and Snavely, 1970). The economic growth plans that had been put forward before 1970 were somewhat unofficial and indefinite due to a lack of experienced people and relatively little interest among government officials.

In 1960, the Kingdom of Saudi Arabia became a member of the Organization of the Petroleum Exporting Countries (OPEC), an inter-governmental organisation formed by Iraq, Iran, Kuwait, Saudi Arabia, and Venezuela. Currently, the organisation has thirteen member countries: Algeria, Angola, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, and Venezuela. OPEC's goal is to unify petroleum policies among member countries to secure equal and reliable prices for oil suppliers, a productive and economic daily supply of oil to consuming nations, and a fair return on capital to those invested in the industry (Organization of the Petroleum Exporting Countries, 2021).

In 1970, the first formal and precise five-year development plan was approved, which contained guidance for structured action in every area of the Saudi economy to create a new economy capable of manufacturing consumer and industrial products that were previously imported (Nehme, 1994). In the 1970s, the price of light oil rose from US$ 1.80 a barrel in 1969 to US$ 12.38 in 1973, helping the country's economy to prosper in manufacturing and trade (Nehme, 1994). Beyond the first five-year plan, Saudi officials have continued to publish periodic development plans aimed at developing a stable economy that does not rely on oil as the country's key source of income and at achieving sustainable economic development without the influence of oil price fluctuations. The Saudi government has concentrated on changing its economy from an oil-based to a knowledge-based economy in recent years[8] (Ministry of Economy and Planning, 2010).

[8] A knowledge-based economy is known as 'an economy that is capable of knowledge production, dissemination, and use; where knowledge is a key factor in growth, wealth creation and employment, and where human capital is the driver of creativity, innovation and generation of new ideas, with reliance on information and communication technology (ICT) as an enabler' (Ministry of economy and planning, 2010, p.87).

The GDP growth has averaged 5.2% per annum for the period 2008–2014 (International Monitory Fund, 2015). This growth has allowed Saudi Arabia to diversify its economy away from its dependence on oil. The government has also fought to create more jobs and spread the wealth to different regions. A key pillar of the government plans is the development of 'economic cities', initiated with around US$ 70 billion of seed investment from the Kingdom (Cisco Internet Business Solutions Group, 2009). For instance, the King Abdullah Economic City (KAEC) is one of the main country's initiatives toward diversification - turning the country into a knowledge economy as opposed to an oil-focused economy. This city has strong investment potential, is estimated to have a population of 2 million, and is expected to generate 1 million jobs (The Quincy Group, 2018). In addition, there are several more projects being pursued through Saudi Vision 2030, which will be further discussed in the upcoming pages.

The oil prices crash in 2014–2015 indicated that Saudi Arabia was unable to rely on oil as the main stream of revenue for economic progress; however, Saudi Arabia was able to sustain its growth potential by focusing its economic transformation on more productive and diversify market opportunities (The Quincy Group, 2018). Saudi Arabia's government released its Vision 2030 on 25 April 2016, promising to reduce dependency on oil and encourage business diversification and the development of various sectors, such as infrastructure, health, education, and leisure and tourism (Nurunnabi, 2017). Mohammad bin Salman bin Abdulaziz Al-Saud, the Chairman of the Council of Economic and Development Affairs, said in the official document for Vision 2030 that:

> We are determined to reinforce and diversify the capabilities of our economy, turning our key strengths into enabling tools for a fully diversified future. As such, we will transform Aramco from an oil producing company into a global industrial conglomerate. We will transform the Public Investment Fund into the world's largest sovereign wealth fund. We will encourage our major corporations to expand across borders and take their rightful place in global markets (Vision 2030, 2016, p.7)

Vision 2030 sets out three main pillars: a vibrant society, a flourishing economy, and an ambitious nation (Vision 2030, 2016). To create a prosperous economy, there are two key goals that need to be accomplished: expanding and diversifying the economy as well as increasing job opportunities (Vision 2030, 2016).

The World Bank benchmarks economies using ten different indicators to determine how easy or difficult it is to open and run businesses[9]. Overall, Saudi Arabia is ranked 62nd globally among 190 countries' economies. The Kingdom scored a total of 71.6 points; it had the most improved economy among the different countries in eight areas which measure the ease of doing business in 2020 (World Bank Group, 2020a). Saudi Arabia improved significantly when it came to issues such as starting a business, dealing with construction permits, and trading across borders; however, the KSA is still struggling with the issues of registering property and paying taxes (World Bank Group, 2020a). Despite the remarkable reforms that Saudi Arabia made regarding the ease of doing business in 2020, the country is still not a fully open market, and there are a number of proposals at the government level to increase transparency, which is a positive sign in terms of attracting more investment from international markets. To develop the country's attractiveness of doing business, the crown prince has effectively introduced and encouraged a strategy aimed at making the Kingdom a world-class investment destination (World Bank Group, 2020a). Saudi Vision 2030 includes regulatory and institutional changes that aim to attract foreign investment and diversify the Saudi economy, such as the construction of economic cities and the establishment of special zones[10].

Saudi Arabia was ranked third globally in terms of the value of its natural resources, worth an estimated US$ 34.4 trillion (Sawe, 2019). However, oil is the main natural resource of the country and the backbone of its economy and growth. As shown in Table 2-1, in 2019, Saudi Arabia was the second largest oil producer and exporter in the world; it has had a dominant position in OPEC since Saudi Arabia produces about 12.4% of the world's oil output and has about US$ 297.6 billion barrels worth of oil reserves (BP, 2020). Also, the KSA ranked as the world's largest crude oil exporter at 7.2 million barrels daily and the world's third largest crude oil and lease condensate producer, following the US and Russia (BP, 2020).

[9] The ten indicators of measuring the ease of doing business are 'starting a business, dealing with construction permits, obtaining an electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency' (World Bank Group, 2020a, p. 8).

[10] The special zones are for logistics, tourism, manufacturing, and finance. Unique trade rules will be implemented in these areas to expand investment opportunities and diversify government income (Vision 2030, 2016).

Table 2-1: Saudi Arabia: Oil Industry Statistics in 2019

Description	Value	Global Share (%)	Global Rank
Total oil proven reserves	297.6 (US$ billion barrels)	17.2	2nd
Total oil production per day	11.8 (million barrels)	12.4	2nd
Total oil exports per day	8.4 (million barrels)	11.8	2nd
Crude oil and condensate production in per day	10.1 (million barrels)	12.2	3rd
Crude oil exports per day	7.2 (million barrels)	16	1st

Source: (BP, 2020).
Note: This table shows the most remarkable figures coming from the KSA's oil industry, including details on total oil reserves, production, and exports. The data also show crude oil production and export rates in terms of total quantity and as a percentage of the global share.

Table 2-2 provides details about key economic indicators for the KSA during the period 2015–2019. The average growth rate of real GDP was 1.6 % from 2015 to 2019. The economy of Saudi Arabia gained from the economic and financial changes implemented by the current administration, as it helped the country get closer to meeting the goals of Vision 2030. The nation's economy showed the ability to withstand significant economic shocks from oil price fluctuations and the ability to absorb economic downturns arising from ongoing government spending on infrastructure projects and the funding of the Saudi Vision 2030 programs that led to neutralising the influences of these disruptions (Saudi Arabian Monetary Authority, 2020a). Overall, GDP increased by 0.3% in 2019 relative to an increase of 2.4% the previous year. According to an annual report by the Saudi Arabian Monetary Authority published in 2020, the oil sector dropped by 3.65% in 2019[11], compared to a rise of 3.13% the previous year, which suggests that economic growth increased in 2019 due, in part, to the robust performance of non-oil sectors. GDP for the non-oil private sector has increased by 3.78%, and GDP for the non-oil government sector has risen by 2.20% (Saudi Arabian Monetary Authority, 2020a).

Furthermore, Table 2-2 indicates that 2019 saw a lower Consumer Price Index (CPI) because of deflationary trends in the core index; the CPI for 2019 was -2.1%, whereas compared to 2.5% in 2018.

[11] This drop was primarily related to the reduction in oil production caused by the OPEC output cut agreement, which sought to balance the oil market (Saudi Arabian Monetary Authority, 2020c).

Table 2-2: Saudi Arabia: Economic Indicators 2015–2019

Description	2015	2016	2017	2018	2019
GDP (US$ billion)	654.3	644.9	688.5	786.5	792.9
GDP growth (annual %)	4.1	1.7	(0.7)	2.4	0.3
GDP per capita (current US$ thousand)	20.7	19.9	20.8	23.3	23.1
GDP per capita growth (annual %)	1.5	(0.6)	(2.7)	0.6	(1.3)
CPI inflation rate (annual %)	1.2	2.1	(0.8)	2.5	(2.1)
Exports of goods and services (US$ billion)	218	200.9	240	314.9	285.9
Exports of goods and services (% of GDP)	33.3	31.1	34.9	40	36
Imports of goods and services (US$ billion)	247.31	198.1	202	209.6	218.9
Imports of goods and services (% of GDP)	37.8	30.7	39.3	26.6	27.6

Source: (World Bank Group, 2020b).
Note: The data in this table were obtained from the World Bank's database. GDP indicates the gross domestic product. GDP growth represents the annual growth rate. CPI inflation is the consumer price index. Exports and imports display the total volume of products and services. Exports and imports as percentages of GDP calculate the share of them in relation to the country's GDP.

The inflation trend slipped to negative figures in 2019 due to two factors: the introduction of VAT at the beginning of 2018 and the sharp decrease in rental prices for homes (Saudi Arabian Monetary Authority, 2020c). Moreover, the table shows a downward trend in exports, which dropped by 10.1% in 2019; this decline in both oil and non-oil exports was due to lower oil production. This fall in oil exports was motivated largely by a reduced oil price and reduction in production, while the decrease in non-oil exports could be related to uncertainties in global trade caused later by the COVID-19 pandemic (Saudi Arabian Monetary Authority, 2020c). Table 2-2 indicates an upward trend in imports in 2019, which rose by 4.2% relative to 2018. Based on a Saudi financial stability report in 2020, the lateral quickness in private sector growth is attributable to the drivers of imports, including transport facilities, which were used mostly for railway projects underway during 2019; transport is a core driver of the economic revival laid out in Vision 2030 (Saudi Arabian Monetary Authority, 2020c).

The COVID-19 crisis, which was declared a global pandemic by the World Health Organisation (WHO) in March 2020, has had dire health and economic consequences. COVID-19 has had a significant impact on the world economy; even now, the virus is imposing tremendous burdens on families, companies, and governments. In an attempt to slow down the transmission of the coronavirus until people have been vaccinated, countries have taken a number several steps, such as complete bans on travel to heavily

affected countries[12], brief quarantines, implementation of temporary curfews, and by-laws suspending commercial activity. Saudi Arabian Monetary Authority, 2020 noted that:

> In Saudi Arabia, the Coronavirus outbreak is likely to have a significant economic impact. This was accompanied by another challenge of falling oil prices, affected by a decrease in global demand due to the world-wide travel bans and the suspension of most economic activities. Strong financial and economic measures have been taken by the Saudi government to limit the impact of these developments and to provide support to the society and economy alike (Saudi Arabian Monetary Authority, 2020c, p. 68)

In the following section, two parallel payment regimes in Saudi Arabia will be outlined and the differences between them explained. Furthermore, the companies' law in the KSA will be briefly highlighted because of their importance to the current thesis.

2.4 Taxation and Corporate Regulation

2.4.1 Zakat and Tax Systems

Saudi Arabia runs two different payment systems, and each of them is applicable to various groups of individuals and companies depending on different rules and regulations.

The Zakat, the first payment regime to be implemented in the Kingdom, has as its legal basis a royal decree that was issued in 1951, establishing Zakat collection according to Islamic provisions (General Authority of Zakat and Tax, 2019b). Zakat, a major financial obligation for a Muslim, is the third pillar of Islam, as referenced in the Holy Qur'an in more than eighty verses; Allah Almighty equated Zakat with prayer and affirmed: (And establish prayer and give Zakat). It is perceived to be one of the most significant pillars of Islam, and it distinguishes Muslim society from others (General Authority of Zakat and Tax, 2019b). Therefore, Zakat is paid for a religious purpose, and it's generally comprised of a donation of a set proportion of a person's wealth to

[12] Restrictions on Saudi citizens travelling abroad have been in effect since 23 March 2020. It is expected that these restrictions will be lifted on 17 May 2021, as reported in a statement by the Saudi Arabian government. Also, on 21 June 2020, Saudi Arabia lifted its residents' curfew, which had been in place since 23 March 2020 in an effort to control the spread of COVID-19.

society through the General Authority of Zakat and Tax (GAZT) and other relevant government entities.

The GAZT is responsible for collecting the Zakat on behalf of the government from all firms and persons who are obligated to pay Zakat (General Authority of Zakat and Tax, 2019b). The amounts collected are then sent directly to the Social Security Agency, which places them in a social security account. The Zakat funds are then spent on social projects relevant to the needy, in addition to the provision of certain monthly and yearly payments to specific categories of citizens who are registered for social insurance.

In many Islamic countries, such as Kuwait, Bahrain, Egypt, Iraq, Bangladesh, and Iran, Zakat collection from companies is optional and depends on a company's willingness to pay this due. However, in other countries, including Saudi Arabia, Malaysia, Libya, Pakistan, the Yemen Arab Republic, and Sudan, the payment and collection of Zakat is compulsory according to the laws of the State.

The following criteria are employed to determine which persons or companies are subject to Zakat (General Authority of Zakat and Tax, 2019b):

- All Saudi natural citizens and citizens from member states of the GCC countries (Gulf Cooperation Council) who are residents of the KSA and obliged to pay Zakat on their earnings and holdings for any business operating in the KSA.
- All resident corporations in the KSA for shares of Saudi partners and citizens from the GCC States, and everyone who participates in a business based on a license granted by an administrative body in compliance with the rules defined by the Authority.
- Shares that are owned by non-Saudi shareholders and their replacements, non-founders in companies located and listed on the Saudi Stock Exchange in compliance with acts or legal documents. Also, shares of Saudi government bodies and agencies

The required amount of Zakat depends on several factors, such as the amount of wealth possessed and the type of capital assets owned by a person. Zakat is collected at a fixed annual rate of 2.5% on the net wealth (not net income) of Zakat payers. Uddin and Osman (2008, p. 90) defined Zakat as 'a religious compulsory charity collected

by the government at a fixed rate based on total surplus cash and inventory of tradable goods remaining in hand at least for one year'.

Table 2-3 shows that the GAZT's method of measuring the Zakat base focuses on defining all sources of internal funds[13] and what has funded deductible assets[14] that were raised from the sources of external funds[15]. Funds for external financing are added first to the Zakat base (not exceeding the total amount of deductible assets), and then funds for internal financing are added (General Authority of Zakat and Tax, 2019b). Appendix A-1 illustrates the sequence of different items to be added to the Zakat base.

On the other hand, Table 2-4 shows the items to be excluded from the Zakat base by the GAZT calculation method are subject to the following criteria (General Authority of Zakat and Tax, 2019b):

- Non-Zakatable assets, namely fixed assets, such as buildings, machines and equipment, furniture, and intangible assets.
- Zakatable assets, such as investment in shares of Saudi firms or international firms subject to Zakat separately in compliance with principles stated in the legislation.

Overall, calculation of the Zakat base = [all sources of internal funds (capital, retained earnings, provisions and adjusted net profit for the year) + external sources of funds not exceeding deductible assets (long term liabilities and liabilities that are financing deductible assets) – non Zakatable assets - Zakatable assets] or [adjusted net profit for the year], whichever is greater (General Authority of Zakat and Tax, 2019b).

Paying Zakat is obligatory for all those eligible; there is no exclusion from Zakat payment. Even if a company is hoping to make a profit or experiencing a downturn in its

[13] Internal sources of funding, namely equity such as capital, retained earnings, adjusted net profit for the current year and reserves, as well as internal sources comprise the cumulative provisions following deduction from the year's usage (General Authority of Zakat and Tax, 2019b).
[14] Deductible assets or non-Zakatable assets describes as 'assets that shall be deductible under the regulation and include: non-Zakatable assets by nature such as fixed assets (sold for ownership not for trade) and Zakatable assets such as investments in companies' (General Authority of Zakat and Tax, 2019b, p.120).
[15] External finance generated from sources such as loans, long-term and short-term liabilities that used to finance the assets and company's investment projects (General Authority of Zakat and Tax, 2019b).

operations, Zakat must be paid in order to comply with the law. The only exception is when the company has been liquidated.

Table 2-3: Additions to the Zakat Base

Group	Item	Amount
Equity and equivalent	Increase in capital during the year	××
	Reserves carried forward from previous years	××
	Retained earnings from previous years	××
	Adjusted net profit for Zakat collection purposes	××
	Change in fair value resulting from revaluation	××
Obligations of the Zakat payer classified as long-term and equivalent	Advanced revenue	××
	Advance payments	××
	Creditors	××
	Notes payable	××
	Loans plus current instalment of the loan	××
	Partners or owners' loans	××
	Retained amounts from contractors (performance bond)	××
	Amounts due to related parties	××
	Profit under distribution	××
	Deferred long-term tax liability	××
Provisions	Opening provisions after deducting the used part during the year	××

Source: (General Authority of Zakat and Tax, 2019b, p.40).
Note: This table presents the additions section when calculating the Zakat base. It contains three basic elements: equity, liabilities, and provisions, as well as examples that fall under each basic component.

Table 2-4: Deduction from the Zakat Base

Items	Amount
Net fixed assets and equivalents	××
Capital work in progress	××
Intangible assets	××
Investments in entities inside and outside the Kingdom for non-trading in accordance with the rules mentioned below	××
Net incorporation and pre-operating expenses and equivalent capital expenses	××
Adjusted net loss in the Zakat year adjusted for Zakat purposes	××
Adjusted net accumulated loss for Zakat collection purposes	××
Net value of properties under development for sale	××
Statutory deposit of insurance and reinsurance companies	××
Inventories of agricultural inputs purchased for use in production	××
Deferred tax long term asset	××

Source: (General Authority of Zakat and Tax, 2019b, p.54).
Note: This table shows the deductions section when determining the Zakat base. The section is comprised of two important elements, namely Zakatable and non-Zakatable assets, as well as examples of each element.

The second payment structure in the KSA is the taxation system, which is relatively new in the Kingdom; it includes an income tax, withholding tax (WHT), expat tax,

value-added tax (VAT), excise tax, and real estate transaction tax (RETT) among others.

The income tax was first enforced in 2004 after an income tax law had been issued through a royal decree. There is no personal income tax levied on people who exclusively receive earnings from working jobs within the Kingdom. However, taxation is applied to a company's income, and the imposition of income tax depends on corporate residency, ownership structure, and the source of any income earned from operating activities in Saudi Arabia. There are three types of company's ownership in Saudi Arabia, and these different ownership structures are subject to different tax systems. First, companies owned by Saudi or GCC state nationals are obliged to pay Zakat. Second, foreign companies are subject to paying corporate income tax, and, finally, mixed companies must pay both Zakat in relation to the shares owned by Saudi or GCC state nationals and corporate income tax for all shares owned by non-Saudi investors. The General Authority of Zakat and Tax (GAZT) is responsible for levying taxes and putting the funds into a special account to finance some of the Kingdom's public services.

The following entities are subject to taxation under Saudi income tax law (General Authority of Zakat and Tax, 2004b):

- In relation to shares, a resident capital corporation is held either directly or indirectly by non-Saudis and in relation to the shares owned directly or indirectly by individuals who work in oil and hydrocarbon production, whether natural individuals or legal residents or non-residents[16].
- A resident non-Saudi natural individual who operates a business in Saudi Arabia.
- A non-resident individual either, natural or legal, Saudi or non-Saudi, who operates a business in Saudi Arabia through a permanent establishment.
- A non-resident individual with other taxable income from sources within the Kingdom who does not possess a permanent establishment.
- A natural individual or legal resident, Saudi or non-Saudi, who is involved in the field of natural gas investment.

[16] This does not include shares of non-Saudi partners in resident capital companies whose shares are listed on the Saudi Stock Exchange or shares that are owned by non-Saudis with the intention of speculation by trading on the Saudi stock exchange (General Authority of Zakat and Tax, 2004b).

- An individual involved in oil and hydrocarbons production.

There are a number of income tax rates that can be applied to the tax base according to the type of taxpayer, as shown in Table 2-5.

Table 2-5: Income Tax Rates

Type of Taxpayers	Tax Rate
A resident capital corporation; a resident or natural individual who carries out business in the KSA; a non-resident who operates a business in Saudi Arabia through a permanent establishment	20%
A non-resident taxpayer with other taxable income from sources within the Kingdom	Subject to withholding tax rates ranging from 5% to 20%
A taxpayer engaged in the field of natural gas investment	20%
A taxpayer engaged in oil and hydrocarbons production	Ranging from 50% to 85%

Source: (General Authority of Zakat and Tax, 2004a).
Note: This table displays the different tax rates that are levied on the incomes of the taxpayers due to the various activities that the taxpayers participate in.

Taxable income is gross income, including all profits, gains, and net income, derived from conducting any type of business activity within the Kingdom. However, there are two types of income exempted from taxation: capital gains resulting from the disposal of securities traded on the Saudi Stock Exchange and gains from the disposal of property other than fixed assets used in a business (General Authority of Zakat and Tax, 2004b).

According to the implementation regulations for the income tax law of 2004b, a non-resident is subject to withholding tax for any amount obtained from any source in Saudi Arabia, and the tax should be deducted from the total amount paid to a non-resident. WHT rates range from 5% to 20%; the WHT rate that applies to dividend income is 5% for non-residents; however, there is no withholding tax on dividends paid to a resident shareholder. The dividend payment is any distribution from a resident company to a non-resident shareholder or any earnings transferred from a permanent establishment to related parties, subject to the following:

- The withholding tax does not apply to the dividends of companies investing in the natural gas, oil, or hydrocarbons sectors.

- The distributing company is subject to income tax does not prevent the withholding tax from being imposed on the amounts distributed by this company.

Another form of tax is the value-added tax (VAT), which was implemented and enforced for the first time in the Kingdom of Saudi Arabia in January 2018. The KSA applied a standard VAT rate of 5% on taxable suppliers and imports produced in the Kingdom (General Authority of Zakat and Tax, 2020). The standard VAT rate rose to 15%, applicable on all VAT transactions from July 2020. VAT is defined as 'an indirect tax which is imposed on the importation and supply of goods and services, with certain exceptions. VAT is imposed in more than 160 countries around the world' (General Authority of Zakat and Tax, 2020, p. 5). Furthermore, the VAT is a tax that is charged at all the various levels of a production chain, beginning from the time that a producer buys raw materials to the time a supplier delivers the end commodity to a customer (General Authority of Zakat and Tax, 2020).

Finally, the expat levy was implemented in July 2017, requiring each expat dependent residing in Saudi Arabia to pay an expatriate levy of about SAR1,200 per year, which rose to SAR 2,400 in 2018 SAR 3,600 in 2019, and SAR 4,800 in 2020 (Deloitte, 2017).

The regulatory authority that is in charge of collecting Zakat and taxes is the GAZT, which, as mentioned above, was established as a separate government body in 1951 by the Minister of Finance, whom it reports to (General Authority of Zakat and Tax, 2019b). In 2017, the Zakat and Income Tax Department was replaced by an organisation called the General Authority of Zakat and Tax. The core responsibilities of this authority are applying the provisions of the Zakat and tax systems, collecting revenues, and enhancing taxpayers' willingness to pay Zakat.

2.4.2 The Saudi Companies' Law and a Company's Articles of Association

The Companies' Law, established in 1965, governs and organises all types of companies that are licensed in Saudi Arabia. Since 1965, a number of amendments have been made to this law to provide an appropriate business environment for investment, enhance the value of companies, promote the development of corporate activity and increase the level of contribution companies make to the national economy. However,

after many attempts to amend the Companies' Law, its provisions still do not address all aspects of a company's affairs. This problem arises from the fact that when the Saudi government started to formulate the law, they based it on a different international environment, such as that found in Egypt or France (Al-Zahrani, 2013). Moreover, Islamic law and the domestic environment of Saudi Arabia informed the formulation of the Saudi Companies' Law (Al-Zahrani, 2013). Overall, the Saudi Companies' Law has been criticised for being based on multiple systems, such as Islamic law (Shariah), national commercial traditions and Egyptian company law, which is derived from the French civil law tradition (La Porta et al., 1998).

With regards to the current study, the Companies' Law stipulates in its provisions that:

> The board of directors shall, at the end of each fiscal year, prepare the company's financial statements and a report on its activities and financial position for the last fiscal year. Said report shall include a proposal on distribution of profits. The board shall make such documents available to the auditor at least 45 days prior to the general assembly meeting (Ministry of Commerce, 2019, Article 126)

A company's articles of association should provide a clear vision of its legal form and all general regulations for the management and organisation of a company's activities. Furthermore, a company should adhere to the requirements stipulated in the Saudi Companies' Law. Moreover, a company's articles of association should clearly set its dividend policy and specify how it distributes its net earnings. Article 131 of the Companies' Law explained that a company's articles of association should specify the percentage of net earnings to be paid to shareholders after leaving aside the statutory reserve and any other reserves. Shareholders are entitled to their share of the earnings in accordance with a decision of the Ordinary General Assembly. This determination shall include information on eligibility and distribution dates. Dividends are payable to shareholders who have entered their names in the shareholders' register by the end of the eligibility date. The Competent Authority should establish the maximum period during which the board of directors may carry out the Ordinary General Assembly's decision on dividend distribution to shareholders (Ministry of Commerce, 2019).

In Article 129 and Article 130, the Companies' Law also states what the dividend policy of Saudi companies should be and reports that (Ministry of Commerce, 2019):

- 10% of net profit shall be set aside annually, subject to other applicable laws, to establish the company's statutory reserve. When such a reserve reaches 30% of paid-in capital, the Ordinary General Assembly may discontinue reserving such a percentage. It is permissible to stipulate in the company's articles of association that a specified portion of net earnings can be allocated to establish a provisional reserve for particular purposes.
- When determining dividends, the Ordinary General Assembly may decide to establish additional reserves to protect the company's interests or ensure that fixed dividends are distributed to shareholders in the most efficient manner possible.
- The statutory reserve should be used to compensate for the company's losses or to increase capital. Suppose the reserve exceeds 30% of paid-in capital. In that case, the Ordinary General Assembly may decide to distribute the excess to shareholders in years when the company does not earn sufficient net profits for distribution in accordance with the company's articles of association.
- The Ordinary General Assembly may, without discriminating among shareholders, use the retained earnings and distributable provisional reserves to pay the remaining value of the share or a portion of it.

2.5 The Saudi Stock Exchange (Tadāwul)

2.5.1 The History of the Tadāwul

The history of the Saudi Stock Exchange (Tadāwul)[17] can be divided into different developmental stages based on a number of pivotal factors, such as its structure, operation, and regulations. The first stage (the early stage) of the Tadāwul's history dates back to 1935 when the Arab Automobile Company was set up as the first joint-stock company in Saudi Arabia and offered its shares to the public for the first time (Khoj and Akeel, 2020). In 1954, owing to the rapid growth in economic markets and the implementation of the nationalisation of international banks, the emergence of informal financial market activities began (Saudi Stock Exchange, 2019c). The Saudi Stock Exchange was established at the end of 1970. The rising number of joint-stock corporations hit approximately 14 public firms by 1975 and 50 firms by 1984 (Khoj and

[17] In short, Tadāwul is another name for the Saudi Stock Exchange.

Akeel, 2020; Lamouchi, 2020). Although the Saudi economy expanded quickly in the 1970s as oil prices grew, the Saudi exchange market remained largely informal, unorganised, and only Saudi people were able to trade on the market (Nehme, 1994; Khoj and Akeel, 2020). However, as a Saudi organisation for registering securities, the Saudi Stock Exchange gained some formality in 1980 (Saudi Stock Exchange, 2019a).

The second evolutionarily stage (the establishment stage) happened in 1984; this stage can be considered an establishment period for the Saudi Stock Market; the trading securities system became more organised than before due to the official formation of the Saudi company for share registration (Saudi Stock Exchange, 2019a). This company was regulated and governed by a particular ministerial committee consisting of the Ministry of Finance and National Economy, the Saudi Central Bank (SAMA) and the Ministry of Commerce (Khoj and Akeel, 2020). SAMA was the government body tasked with regulating and monitoring day-to-day market activities (Khoj and Akeel, 2020). In order to develop a regulatory framework, stock-trading intermediation was limited to local commercial banks (Uddin and Osman, 2008). In 1990, a new system for trading securities was launched and operated by SAMA under the name the Automated Saudi Information System (Saudi Stock Exchange, 2019a). The Tadāwul electronic system was launched in 2001 with advanced technology that provided a modern dimensional system (Uddin and Osman, 2008).

The third stage (the modern stage) began in 2003 when the capital market law was issued by royal decree (No.M/30); a new regulator for the Saudi Stock Exchange was established under this law called the Saudi Capital Market Authority (CMA). This stage continues into the present day (Khoj and Akeel, 2020). The CMA's function was to ensure fair and efficient transactions and to make sure investors were well protected (Lamouchi, 2020). Overall, the CMA plays a fundamental role in operating, developing, and regulating the capital market by issuing and imposing rules and instructions and applying provisions of the capital market law in order to create a suitable investment environment in the Kingdom. Moreover, it is charged with protecting investors from illegal practices and maintaining the fairness and integrity of the Saudi Stock Exchange. Furthermore, in 2003, an altered system for trading securities was launched and operated by SAMA under the name the Electronic Securities Information System (ESIS) (Saudi Stock Exchange, 2019a). In 2006, the electronic trading system was

updated by contracting a Swedish electronic exchange system developer, OMX (OMX, 2006). The new system enabled the Tadāwul to widen investor access and increase the flexibility of its electronic services. In 2007, the CMA formed the Saudi Stock Exchange as a joint-stock company, which is the sole organisation for facilitating trading in securities in Saudi Arabia (Lamouchi, 2020).

Since the announcement of Saudi Arabia's Vision 2030, the Saudi economy has expanded and diversified, which has brought more focus to small and medium enterprises (SMEs) (Saudi Stock Exchange, 2017a). The Tadāwul established a parallel market in 2017, the Nomu, which provides SMEs with a means to acquire capital and obtain profits through the market; the parallel market is available to qualified foreign investors, institutional investors, and qualified retail investors (Saudi Stock Exchange, 2017a). Figure 2-2 illustrates the developmental phases of the Saudi Stock Exchange, from its start to the present.

Figure 2-2: An Outline of Saudi Stock Exchange Growth Phase

Source: (Saudi Stock Exchange, 2019a, p.8).
Note: This figure shows the developmental stages that the Saudi Stock Exchange went through from 1954 to 2019.

2.5.2 The Liberalisation of the Tadāwul

Stock market liberalisation is defined by Henry (2000, p. 529) as 'a decision by a country's government to allow foreigners to purchase shares in that country's stock market'. The author observed that when a stock exchange is liberalised, there are two significant consequences: first, a country's total cost of equity capital will decrease. Second, liberalisation of a capital exchange produces higher rates of growth of outputs and has a greater effect on economic welfare than local investor's financial windfalls (Henry, 2000).

Major changes have been introduced to the Saudi Stock Exchange since 2007, including stock market liberalisation, increased accessibility to information, changes to listing criteria, simplification of foreign direct investment rules, and promotion of foreign investment. For example, the internationalisation of the Saudi stock market began with GCC citizens being authorised to participate in the Saudi market in 2007. However, their participation is still very limited, as they mainly concentrate on their own domestic markets (Sharif, 2019). The next step in the opening of the Saudi market to international investors occurred in 2008 when the SWAP framework was launched in order to enable non-resident foreign investors to invest and buy shares on the market, helping improve market stability (Saudi Stock Exchange, 2015b).

The most critical move in the liberalisation of the Saudi stock market happened when the Saudi authority opened its capital market to qualified foreign institutional investors (QFIIs) for the first time on 15 June 2015. There were many goals of this strategic decision, such as to

- Improve market stability and sophistication by attracting foreign expertise.
- Diversify the Saudi economy and boost its economic growth.
- Support greater corporate governance across companies by allowing foreign institutions to play an active role in listed companies as shareholders.
- Improve the scope of research, local information, and experience through cooperation with QFIIs, benefiting all listed firms, investors, and financial intermediaries.
- Strengthen the Saudi Stock Exchange's attempt to be a leading market and to attain its rightful position among the international markets.

- Rebalance the existing stock market as a whole from an individual investor-driven to an institutional investor-driven structure[18] (Saudi Stock Exchange, 2015b).

Saudi Arabia has also created several stringent restrictions to regulate direct foreign investor activities on the Saudi Stock Exchange, for example (Capital Market Authority, 2019):

- Entry to the Saudi market is limited to financial institutions that have legal status as a bank, brokerage or securities firm, insurance firm, or government or a related entity; investment funds and other financial institutions may be found to be qualified according to the regulations.
- The QFIIs should have assets under their management or control of SAR 1,875 billion or more.
- QFIIs can possess maximum foreign ownership of a listed company of 49%.

Sharif (2019) investigated how the participation of international investors affected Saudi stock pricing, liquidity, and volatility utilising data from the Tadāwul. The analysis demonstrated that QFIIs supported security valuations. The evidence, generally, indicates average progress for various market measures over the period since liberalisation, but the less-than-anticipated improvements in Tadāwul over the post-liberalisation span may be attributed to strict QFII regulation and weak shareholder protection legislation (Sharif, 2019). In late 2017 and early 2018, Saudi regulatory authorities took further measures to ease obstacles for QFIIs, enabling them to trade and grow international investor shareholding in Saudi-listed companies from 5% to 10% (Sharif, 2019). Such initiatives have been beneficial in helping the Tadāwul approach qualification for emerging market index inclusion (Sharif, 2019).

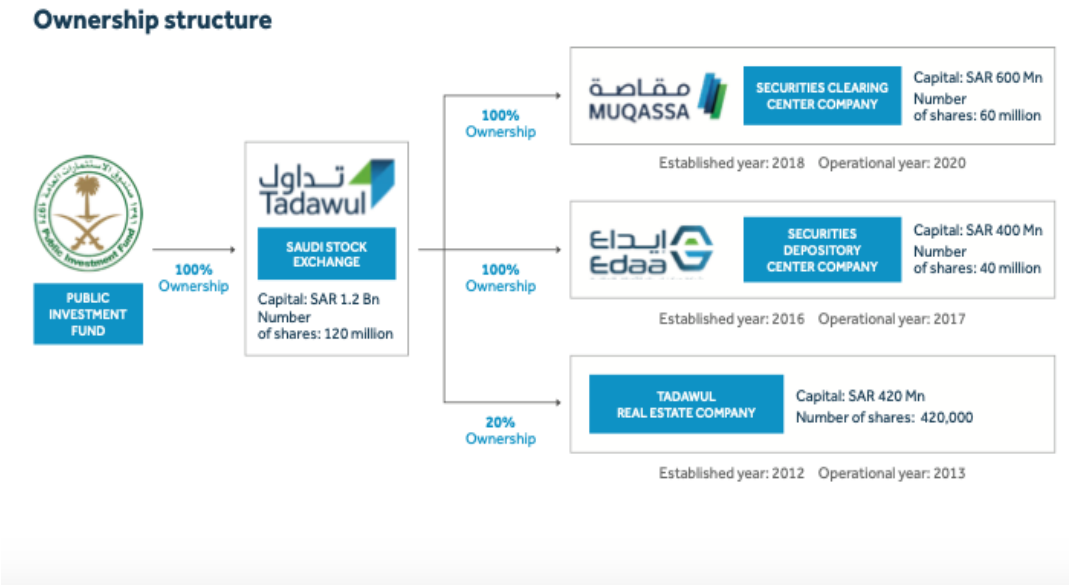
In 2019, the Morgan Stanley Capital International (MSCI) and Standard and Poor (S&P) indexes identified the Tadāwul as an emerging market, which contributed to a spike in QFIs from 500 to 1,800 over that year (Saudi Stock Exchange, 2019a). In addition, the Saudi Arabia General Investment Authority allowed international firms to be listed on the Tadāwul exchange in 2019 (Saudi Stock Exchange, 2019a).

[18] Individual investors contributed to around 34% of market holdings and 90% of monthly trading volume compared to the institutional investors (Saudi Stock Exchange, 2015a).

2.5.3 The Tadāwul Ownership Structure, Management, and Functions

The Saudi Stock Exchange (Tadāwul) is the only organisation allowed to operate the stock exchange in the KSA. It is also the formal source of all market information in the KSA (Saudi Stock Exchange, 2017a). The ownership of the Tadāwul organisation is illustrated in Figure 2-3. The Tadāwul paid-up capital is SAR1.2 billion, split into 120 million shares with a value per share of SAR10; however, all shares are owned by the Public Investment Fund (Saudi Stock Exchange, 2019a).

Figure 2-3: The Ownership Structure of the Saudi Stock Exchange (Tadāwul)



Source: (Saudi Stock Exchange, 2019a, p.9).
Note: This figure provides details about the Tadāwul ownership structure, which holds equity in three firms, namely, Muqassa, Edaa, and Tadāwul Real Estate Company. The Public Investment Fund currently owns the entirety of Tadāwul organisation shares. Mn and Bn are abbreviations for million and billion, respectively.

As shown in Figure 2-3, two fully controlled subsidiaries support the Saudi Stock Exchange in its activities. The first, the Depository and Settlement Institution, colloquially known as Edaa, was established in 2016. It manages the Depository and Settlement System, which is used to document and maintain shares and register share ownership (Saudi Stock Exchange, 2019a). The second subsidiary is the Securities Clearing Centre Company (Muqassa), which was founded in 2018 to play an intermediary role in the exchange phase and mitigate counterparty risk (Saudi Stock Exchange, 2019a). Also, the Saudi Stock Exchange has a 20% ownership stake in Tadāwul Real Estate Company, a new company that started operations in 2013.

The stock market is managed by a board of directors, which consist of members nominated by shareholders' Ordinary General Assembly and appointed by the CMA (Capital Market Authority, 2003). The regulations and instructions approved by the CMA determine the procedures for the meetings of the Tadāwul's board of directors, decision-making processes therein, plans for conducting business, the powers and duties delegated to each member of the board of directors and the executive director, and all other related administrative and financial matters (Capital Market Authority, 2003).

The Saudi Stock Exchange is entrusted with many functions to provide an appropriate environment for securities trading. It must

- Ensure the fairness of the listing requirements for the Saudi Stock Exchange as well as their adequacy and transparency.
- Manage and provide trading securities services.
- Enhance the market's integrity, quality, and fairness.
- Provide excellent and reliable information on the listed securities.

In 2018, the Tadāwul became a partially self-regulating body since it took over certain roles from the CMA, the primary market regulating authority, such as approving listings (Saudi Stock Exchange, 2018b).

2.5.4 The Tadāwul Market Structure

The old classification structure of listed companies on the Saudi Stock Exchange, before 2017, did not keep pacing with the development of the Saudi economy, and the emergence of new industries caused the misallocation of listed companies due to the limitations of the market classification system. The drawbacks of the old classification system arose from the fact that it was not based on an internationally accepted classification standard, meaning investors were unable to make comparisons between the various capital markets when they decided to invest in Saudi securities.

In 2017, the Saudi market implemented a new system for the classification or grouping of companies that followed the Global Industry Classification Standard (GICS); this new system helped with the placing of companies in appropriate sectors, according to the nature of the commercial activities carried out by them. The new classification structure aligned the Tadāwul with the main developers of indices, which allowed the

exchange to deliver more indices that suited local and global investors' needs (Saudi Stock Exchange, 2017a). Furthermore, the Tadāwul stated that researchers would now be able to effectively incorporate Saudi companies into sector-specific reports that had adopted GICS, providing them with more exposure, particularly to foreign investors (Saudi Stock Exchange, 2017a).

In 2015, there were fifteen sectors in the Saudi Stock Exchange; in 2016, one more sector was added to the market list, for a total of sixteen sectors. Each sector includes a number of joint-stock companies that have different proportions of ownership. As shown in Table 2-6, the current Tadāwul market structure has twenty-one sectors (industry groups) based on the GICS classification system.

Table 2-6: The Number of Tadāwul Sectors and Companies at the End of 2019

Pharma 1	Software and service 1	Media and entertainment 2	Utilities 2	Commercial and professional services 3
Telecommunications 4	F & S retailing 4	Diversified financials 4	Energy 5	Transportation 5
Consumer durables 6	Healthcare 6	Retailing 8	Consumer services 10	Banks 11
Real estate 11	Capital goods 12	Food and beverages 12	REITs 17	Insurance 33
		Materials 42		

Source: (Saudi Stock Exchange, 2019a, p.28).
Note: This table shows a list of Tadāwul sectors in compliance with the GICS framework and the number of companies listed on the market classified according to sector or group.

The Tadāwul's listed firms are categorised into various segments of the market based on industry groups; currently listed companies are allocated into the following groups: energy, materials, capital goods, commercial and professional services, transportation, consumer and durables apparel, consumer services, media and entertainment, retailing, food and staples retailing, food and beverages, healthcare equipment and services, pharmaceuticals, biotechnology and life sciences, banks, diversified financials, insurance, telecommunication services, utilities, real estate investment trusts (REITs), and real estate management and development (Saudi Stock Exchange, 2019a). The total

number of listed companies reached 199 at the end of 2019, encapsulated within the twenty-one market sectors, as presented in Table 2-6 (Saudi Stock Exchange, 2019a).

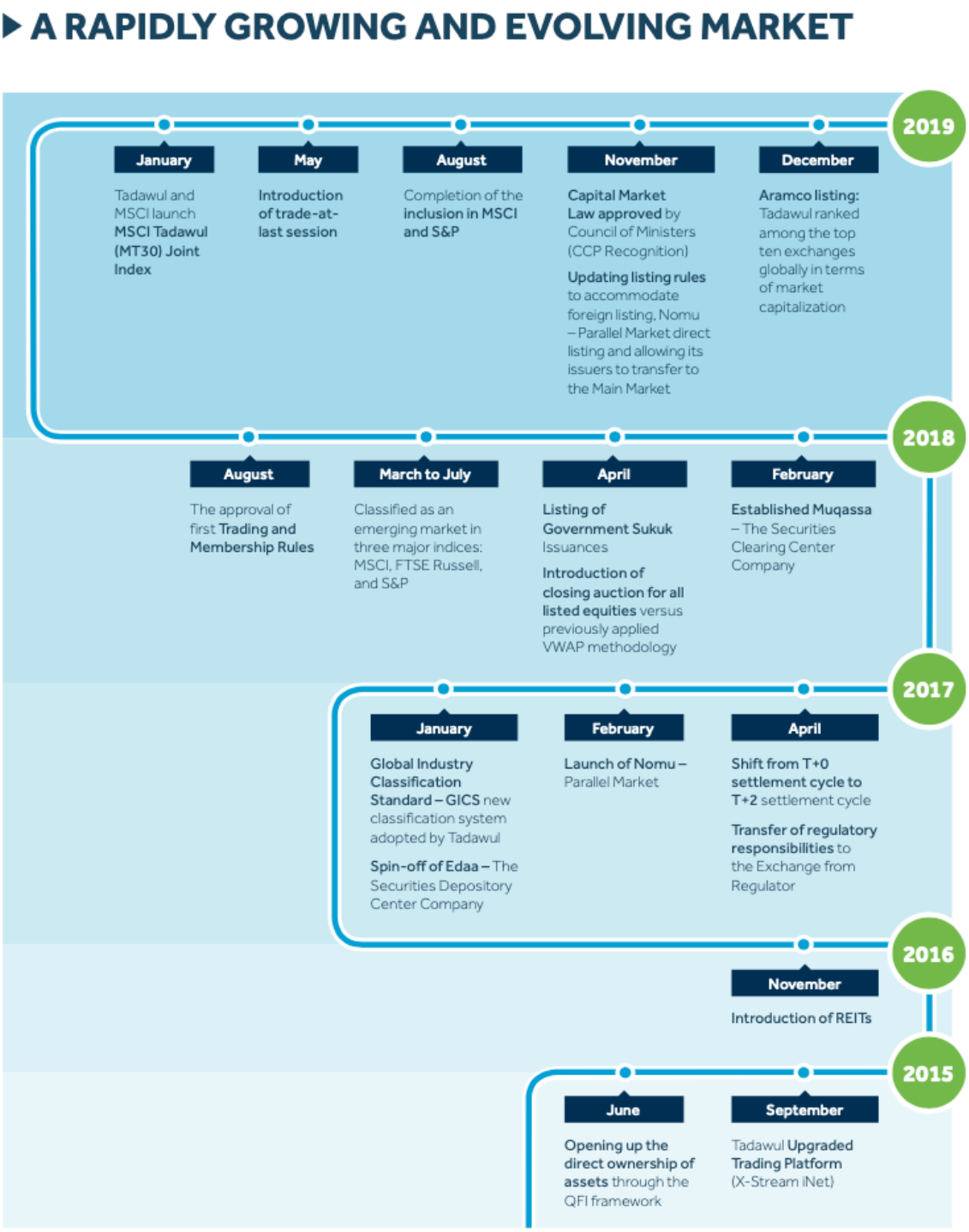
2.5.5 Performance of The Tadāwul Over a Five-Year Period, 2015-2019

The exchange's growth has helped put the Tadāwul's aims and plans in accordance with the KSA's Vision 2030. Both are moving towards raising the private sector's commitment to the economy, bringing in further international funding, raising the SME sector, and having the KSA ranked among the top ten most innovative countries in the Global Competitiveness Index (Saudi Stock Exchange, 2019a). In the five-year period from 2015–2019, the Saudi Stock Exchange witnessed a period of increasingly expanding development, as shown in Figure 2-4. The Tadāwul was featured on the emerging market indexes watch lists of the MSCI, the Financial Times Stock Exchange (FTSE) Russell, and the S&P in 2017, which favourably affected the activity of QFIIs in the Saudi capital market (Saudi Stock Exchange, 2019a). Following that, in 2018, the MSCI, S&P, and FTSE Russell identified the Tadāwul as an emerging market (Saudi Stock Exchange, 2018b).

Though the process of including the Tadāwul in the MSCI and S&P indices is complete, its inclusion in the FTSE Russell index is still incomplete (Saudi Stock Exchange, 2019a).

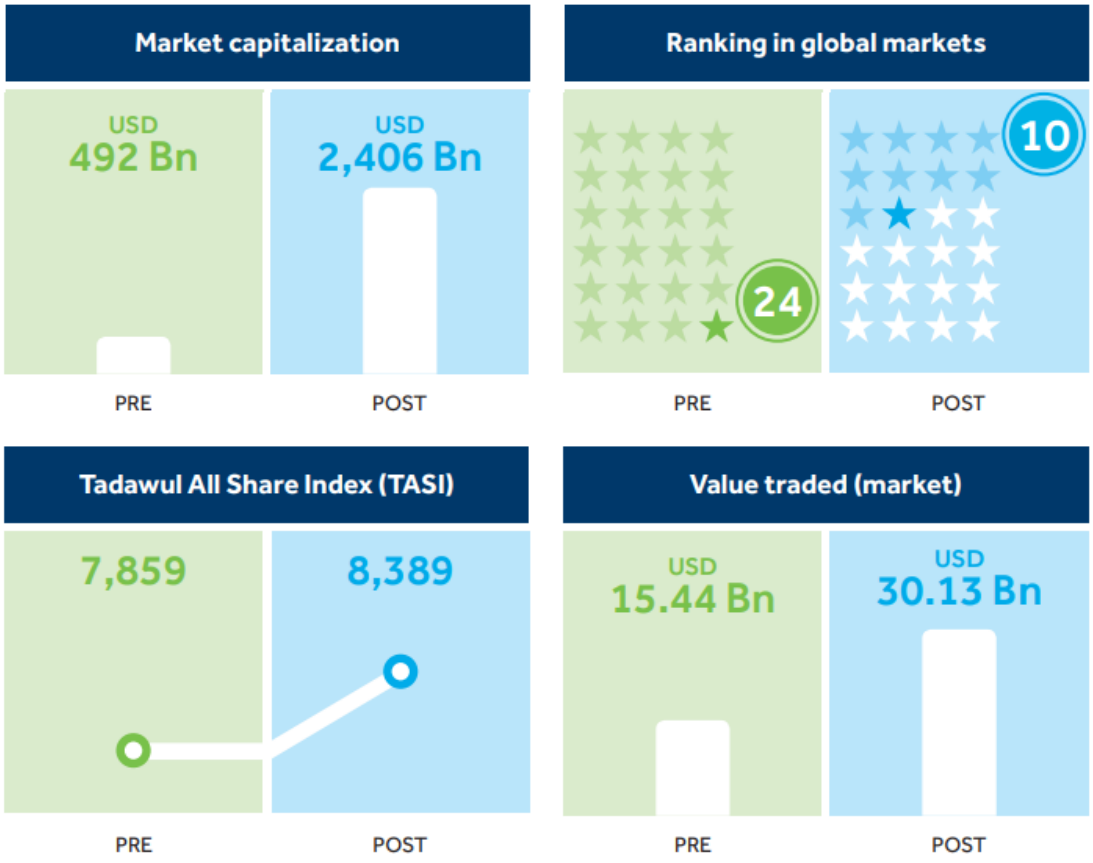
At the end of 2019, the listing of Aramco, the most profitable business in the country, was one of the most remarkable events of the year. It was a result of almost two years of hard work on markets and technologies (Saudi Stock Exchange, 2019a). Aramco was the biggest IPO in history, larger than Microsoft and Apple, with a valuation of US$1,700 billion of market capitalisation (Saudi Stock Exchange, 2019a). The Tadāwul thus ranked tenth in terms of market capitalisation worldwide, reflecting the largest market capitalisation to GDP ratio across developing markets. As seen in Figure 2-5, the listing of Aramco has had a positive effect on the Saudi stock market, as reflected in the roughly 400 % increase in market capitalisation. The Tadāwul All Share Index (TASI) also rose from 7,859 to 8,389 points just after the inclusion of Aramco (Saudi Stock Exchange, 2019a).

Figure 2-4: The Major Developments and Milestones of the Tadāwul from 2015–2019



Source: (Saudi Stock Exchange, 2019a, p.26).
Note: This figure demonstrates the significant of accomplishments of Tadāwul throughout the five-year period (2015-2019).

Figure 2-5: The Impact of Listing Aramco on the Performance of the Tadāwul



Source: (Saudi Stock Exchange, 2019a, p.21).
Note: The figure reveals the considerable effect of the listing of Aramco on Tadāwul's performance at the end of 2019 with regard to market capitalisation, ranking among global markets, TASI performance, and market value traded.

The Saudi stock market is one of the largest and most liquid markets in the Middle East and North Africa (MENA) region (with a total market capitalisation of US$ 2,406 billion), representing 76% of the MENA region's total market capitalisation by the end of December 2019 (Saudi Stock Exchange, 2019a). The Saudi Stock Exchange is an attractive investment environment due to its stability, which is supported by the rise in trading activities and the investor base (Saudi Arabian Monetary Authority, 2020c). Furthermore, one of the reasons the Saudi stock market has been very attractive to foreign investors is that the CMA has been able to effectively encourage the development of the securities market by completing the process for full inclusion of the Tadāwul in two main international indices, the MSCI and S&P. It was then upgraded from a standalone market to an emerging market by MSCI (Saudi Arabian Monetary Authority, 2020c).

Table 2-7 outlines how the Saudi stock market functioned over a five-year period. The number of companies that were listed on the Saudi Stock Exchange rose from 171 to 199 during the period 2015 to 2019. Moreover, the number of sectors (industry groups) hit twenty-one in 2019, owing to the introduction of the GICS classification framework. Table 2-7 shows a gradual growth in market capitalisation until 2018 (before Aramco was listed) then a boom of 385.51% in 2019 when Aramco was listed. The trading volume of the Tadāwul has risen over the last two years, with the market's overall value at US$ 232.23 billion in 2018 and 234.70 billion in 2019, although the number of shares exchanged on the market declined from 65.99 billion shares in 2015 to 33.06 billion shares in 2019.

Table 2-7: Saudi Stock Exchange Data over the Period 2015–2019

Item	2015	2016	2017	2018	2019
Number of companies	171	176	179	190	199
Number of sectors (industry groups)	15	16	20	20	21
Market capitalization (billion US$)	421.10	448.52	450.56	495.72	2406.78
Change in market capitalisation (%)	(12.90)	6.52	0.45	10.02	385.51
Value of shares traded (billion US$)	442.83	308.53	223.01	232.23	234.70
Change in trading value (%)	(22.64)	(30.33)	(27.72)	4.14	1.06
Number of shares traded (billion)	65.99	67.73	43.30	37.82	33.06
Change in number of shares traded (%)	(6.48)	2.19	(32.85)	(12.65)	(13.13)
Number of transactions (million)	30.44	27.27	21.90	25.01	28.40
Change in number of transactions (%)	(14.87)	(10.41)	(19.72)	14.23	13.53

Source: (Saudi Stock Exchange, 2015a, 2016, 2017b, 2018a, 2019b).
Note: The table shows the total number of public firms; the total number of market sectors or industry groups; the total value and change in percentage for the market capitalisation; the total value and change in percentage for securities exchanged; the total number and change in percentage for shares traded and the total number and the change in percentage for transactions over the period 2015 to 2019.

2.5.6 The Tadāwul All Share Index (TASI)

The Tadāwul All Share Index (TASI), the main market index, reflects the performance of all listed companies by measuring the average of companies' stock prices. Table 2-8 provides details about the TASI from 1985 to 2019. The table shows that the TASI reached its highest level in 2005 at 16,712.64 points due to the expansion phase of the market (2001–2005), which occurred as the market grew with a large number of new share offerings and dividend announcements from established companies (Uddin and Osman, 2008).

Table 2-8: TASI Index Data for the Period 1985–2019

Year	General Index (TASI)	Traded Volume (Million Shares)
1985	690.88	4
1986	646.03	5
1987	780.64	14
1988	892.00	15
1989	1086.83	15
1990	979.77	17
1991	1765.24	34
1992	1888.65	34
1993	1793.30	60
1994	1282.87	152
1995	1367.60	117
1996	1531.00	138
1997	1957.80	314
1998	1413.10	295
1999	2028.53	528
2000	2258.29	555
2001	2430.11	692
2002	2518.08	1,736
2003	4437.58	5,566
2004	8206.23	10,298
2005	16,712.64	12,281
2006	7933.29	68515
2007	11,038.66	57,829
2008	4802.99	58,727
2009	6121.76	56,685
2010	6620.75	33,255
2011	6417.73	48,545
2012	6801.22	86,006
2013	8535.60	52,306
2014	8333.30	70,118
2015	6911.76	65,920
2016	7210.43	67,729
2017	7226.32	43,969
2018	7826.73	37,791
2019	8389.23	33,380

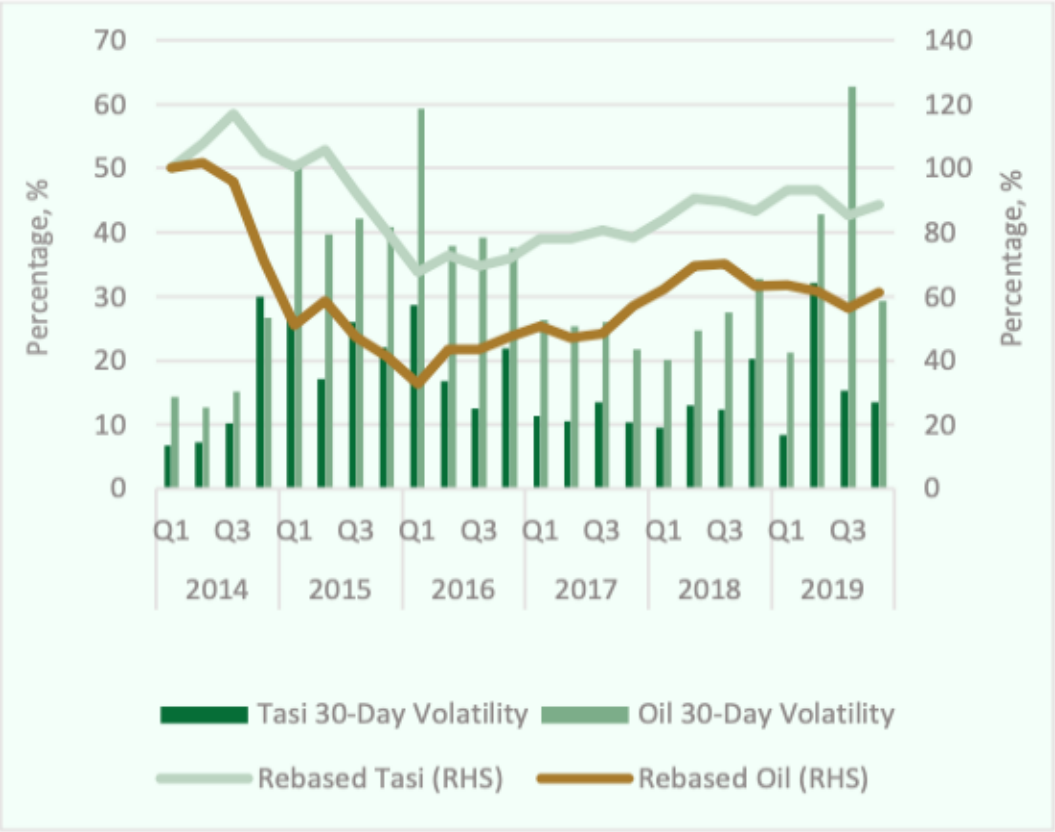
Source:(Saudi Arabian Monetary Agency, 2020b).
Note: This table presents a chronological overview of the TASI and traded volume from 1985 to 2019.

The market witnessed a significant price correction at the beginning of 2006, following a lengthy boom cycle from 2001 to 2005. The TASI dropped by more than half its

value, reaching 7,933.29 points in 2006 (Uddin and Osman, 2008). In 2008, the financial crisis affected the index, which reached its lowest level of 4,802.99 points. In the years following that, the index recovered some losses and reached a level of 8389.23 points in 2019.

One of the biggest influences on the movement of the TASI index is the behaviour of the price of oil, as demonstrated in Figure 2-6. It can be observed that both the TASI and the price of oil moved in a somewhat parallel pattern; when oil prices increased, the index's value would rise, and when oil prices dropped, the index's value would decrease as well. Moreover, throughout the time period, the two curves were variable and unpredictable, though oil prices displayed greater levels of uncertainty than the TASI. Despite the decrease in oil prices in 2019, the TASI posted a 7.2% rise due to accelerating foreign direct investment (Saudi Arabian Monetary Authority, 2020c).

Figure 2-6: The Correlated Movements of the TASI and Oil Prices



Source: (Saudi Arabian Monetary Authority, 2020c, p.53).
Note: The figure depicts the simultaneous trends of the TASI index and global oil prices from 2014 to 2019.

2.6 Dividend Payment Decisions in Saudi Listed Companies

Appendix A-3 shows individual company's data on dividend announcements for 171 companies listed on the Saudi Stock Exchange in 2015[19]. According to this table, Saudi listed companies can be divided into three categories: companies that paid regular dividends, companies that paid irregular dividends, and companies that never paid dividends. Companies that paid regular dividends represent more than half of the total Saudi listed companies at 53%. Just 21% of companies paid irregular dividends. Companies that never paid dividends represent 26% of the total, and most of them came from the insurance sector[20] (30 companies out of the 40 that never paid dividends).

What distinguishes the Saudi market from the markets of other nations is the fact that it operates in a relatively non-tax economy—individuals do not really pay taxes on income from employment inside the KSA. In addition, as stated in section 2.4, neither dividends nor income from capital gains resulting from the disposal of securities traded on the Saudi Stock Exchange has a tax liability apart from the WHT, which is levied on the dividend income earned by non-resident investors.

Depending on the existing wealth at a year of maturity[21], Zakat is paid by companies and individuals separately[22] at the same rate of 2.5 % (Uddin and Osman, 2008). Since Zakat on the individual level is paid at a fixed rate of 2.5%, regardless of the amount of an investor's wealth, there cannot be a Zakat-clientele impact on dividends[23] (Uddin and Osman, 2008). Also, the value of the Zakat due is not a demand on current profits, as with taxes; a shareholders' worth is not raised by withholding Zakat. Even if a

[19] The sample of companies presented in appendix A-3 was used in the current thesis for the distribution of a questionnaire that examined the listed companies' dividend payment decisions, as outlined in chapter 5.

[20] While the performance of Saudi insurance firms has been improved in 2015 over 2014, insurance companies' total retention ratio increased in 2015 to 83% as compared to 79.8% in 2014 (Saudi Arabian Monetary Agency-the General Department of Insurance Control, 2015). All licensed insurance companies must comply to the minimum holding ratio of 30% of their total insurance premiums under the regulation (Saudi Arabian Monetary Agency-the General Department of Insurance Control, 2015). Thus, the strict constraints imposed on insurance firms including technical reserves, mathematical reserves and other reserves could affect the level of dividend payment compared to other market companies.

[21] The Zakatable year is the fiscal year of Zakat payment, which may be Gregorian or Hijri, short or long, at either the start or end of a business cycle (General Authority of Zakat and Tax, 2019b).

[22] A compulsory Zakat is charged by the KSA government on corporate dividends and collected by the GAZI, while the Zakat paid by an individual on a dividend received is an act of religious worship between God and an investor to support the poor.

[23] The Zakat-clientele effect on dividends is similar to the tax-clientele effect on dividends, which is addressed in greater depth in chapter 3, section 3.2.3.

company spends further on fixed assets to minimise the Zakat due, investors do not gain because rises in the market value of the stock would, in turn, raise Zakat liabilities at the individual level (Uddin and Osman, 2008).

The two accounting approaches that are used to deal with dividends in the calculation of the Zakat base that may have an impact on the dividend's decision are as follows:

- A company announces and pays dividends before the end of the year; therefore, the dividends paid during the Zakat year can be excluded from the retained earnings, and this in effect reduces the Zakat base, which in turn lowers the amount of Zakat payable[24].
- A company announces dividends but does not immediately pay shareholders. In this case, dividends payable should be added to the retained earnings in the Zakat base, which would increase the amount of Zakat payable[25] (General Authority of Zakat and Tax, 2019a).

Sections 5.5.3 in Chapter 5 and 6.3.4 in Chapter 6 examine whether Zakat has an effect on companies' decisions to distribute earnings, using data gathered from a survey questionnaire and interviews with financial managers.

2.7 Chapter Summary

This chapter has presented a comprehensive review of Saudi Arabia's political, geographical, demographic, and economic growth stages. In the early stages of the Saudi Arabian economy, it was primarily dependent on farming and pilgrim income from worshippers who came to Makkah to conduct Hajj and to visit Medina. The discovery of oil was a significant economic revolution that has now contributed to making the Saudi economy one of the world's largest and most prosperous. The chapter also discussed some of the companies' regulations and laws that contribute to the understanding of the current thesis, as well as the regulatory authorities in Saudi Arabia who are

[24] The retained earnings should be added to the Zakat base at the opening balance of the interval minus dividends paid through the Zakat year (General Authority of Zakat and Tax, 2019b). A numeric example and diagram of how to add retained earnings is provided in appendix A-2.
[25] There is an exception to this situation for those dividends declared for distribution but not yet received by their owners, provided that these unreceived dividends are deposited in a special account and the company does not use them; these dividends will not be added to the retained earnings in the Zakat base (General Authority of Zakat and Tax, 2019a).

responsible for monitoring and supervising the implementation and development of these regulations.

Furthermore, this chapter highlighted the history of the Saudi Stock Exchange and the various growth phases it underwent before becoming the well-organised and structured market it is now. This chapter also discussed how the CMA supervises the Saudi Stock Exchange through the issuing and imposition of regulations and the monitoring of the implementation of capital market legal provisions to safeguard investors against illegal exchange activities.

The last section of this chapter provides an overview of corporations' dividend payment decisions of listed companies in the Saudi Stock Exchange, which is the focus area of this thesis. In general, the Saudi listed companies can be divided into three categories: companies that paid regular dividends, companies that paid irregular dividends, and companies that never paid dividends. There are no taxes levied on dividends received as a consequence of buying or selling stock on the Tadāwul.

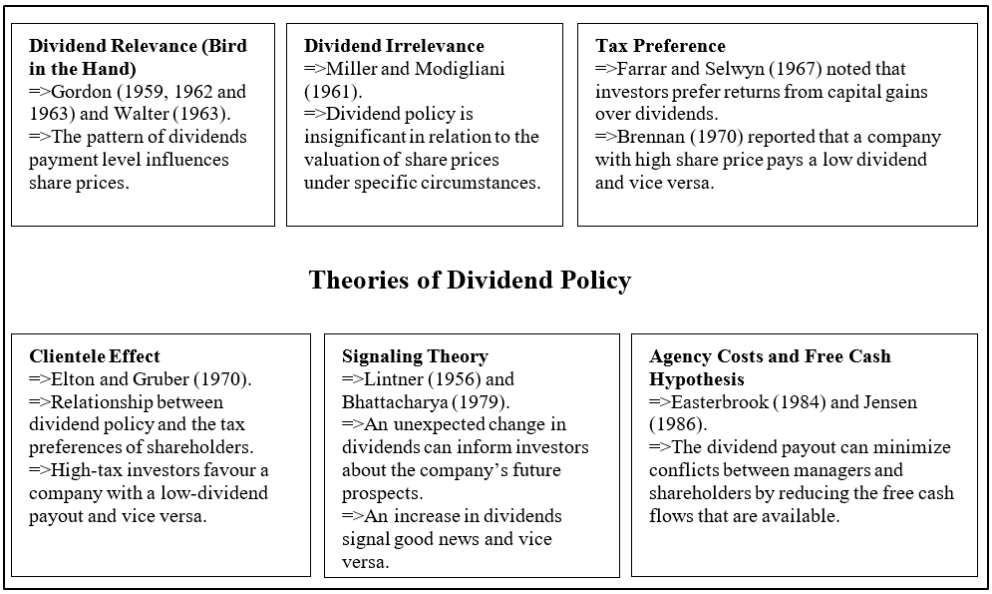
The following chapter reviews the literature on dividend payment policy with regard to the three research questions stated in chapter 1.

Chapter 3
Literature Review

3.1 Introduction

This chapter aims to build a robust theoretical framework for this thesis by examining the literature on dividend phenomena in different regions. First, a lot of studies have been published on Western markets, exploring dividend-related topics in detail and providing dividend policy findings for well-developed capital markets (e.g., the UK, the US and various European countries). Second, a considerable amount of literature has been published on dividend policy in Eastern stock markets (developing or emerging markets), such as Pakistan, the United Arab Emirates and India. Finally, the limited previous studies published on dividend decisions in the Kingdom of Saudi Arabia which have been reviewed in this chapter. The in-depth discussion in this chapter illustrates a comparison between the current study's findings and previously published results. Prior work on well-developed stock markets is also helpful for conducting the empirical work in the current thesis, particularly the construction of the survey and event study methods. Figure 3-1 summarises the theories of dividend policy identified in the literature.

Figure 3-1: Summary of the Theories on Dividend Policy



The remainder of this chapter is organised as follows: Section 3.2 summarises the studies of dividend theories, including dividend irrelevance, a bird in the hand, tax preference, clientele effect, agency costs and the free cash flow hypothesis. Signalling theory is reviewed in Section 3.3, with an extensive discussion of the content hypothesis, the relationship between dividend announcements and share prices, the interactions between dividends and earnings signals, dividend cuts and omissions and signalling theory in emerging markets. Section 3.4 reviews the literature on the determinants of dividend payments, focusing on well-developed capital markets and emerging markets. Studies focusing on the Saudi context are discussed in Section 3.5 in two main categories: the determinants of dividend policy and the reaction of share price to dividend announcements. Finally, Section 3.6 concludes the chapter.

3.2 Pioneering Studies of Dividend Payment Theories

Many research papers have examined the dividend phenomena in developed markets, for example, in the US (Baker, Farrelly and Edelman, 1985; Baker, Powell and Veit, 2002; Baker and Powell, 1999), the UK (Lonie *et al.* 1996; Dhanani, 2005), Ireland (McCluskey *et al.* 2006; McCluskey, Burton and Power 2007), Canada (Baker *et al.* 2007; Baker *et al.* 2012) and Australia (Partington 1989; Brown, Handley and O'Day

2015; Dempsey, Gunasekarage and Truong 2019). The following sections present in detail the most common theories related to dividend policy.

3.2.1 Dividend Irrelevance Theory

In 1961, Miller and Modigliani's influential paper was the first to assert an irrelevance proposition. The authors argued that under the restrictive assumptions of perfect markets[26], rational investors and perfect certainty, dividend policy is irrelevant to the value of a company's shares and its shareholders' wealth. They concluded the following:

> Values are determined solely by real considerations; in this case, the earning power of the firm's assets and its investment policy; and not by how the fruits of the earning power are packaged for distribution (Miller and Modigliani, 1961, p.414)

Under these circumstances, the dividend decision for a company operating in a perfect market would not be a significant factor in determining its valuation. Instead, the company's investment policy and future earnings power would be the significant determinants of its valuation.

In reviewing Miller and Modigliani's proposition, Sadka (2007) examined the real cause of the variation in the dividend price ratio. The author concluded that 70% of the variation in the ratio could be explained by expected earnings rather than expected dividends. These findings are consistent with Miller and Modigliani's irrelevance theory, which states that dividend policy is irrelevant in the context of valuation. Sadka suggested that the reason for dividend irrelevancy is that dividends are viewed as a financial decision rather than as a tool of measuring performance. Furthermore, Sadka's paper demonstrated a considerable negative correlation between expected earnings and expected returns, making it difficult to determine which one causes stock price volatility.

[26] The concept of the perfect capital market is defined as follows: 'No buyer or seller (or issuer) of securities is large enough for his transactions to have an appreciable impact on the ruling price. All traders have equal and costless access to information about the ruling price and about all other relevant characteristics of shares' (Miller and Modigliani, 1961, p.412).

3.2.2 Bird in the Hand Theory (Dividend Relevance)

An alternative view of dividend irrelevance theory is the bird in the hand theory (dividend relevance), which assumes that dividend policy is relevant to a company's value and is reflected in its share price. Gordon (1959) asserted that investors prefer regular dividend payments (current cash received) over retained earnings (growth in the future dividend) because of uncertainty regarding the company's future cash flow. He concluded that dividends are more relevant than earnings when valuing a company's shares. Gordon published two additional papers in 1962 and 1963, both of which provided further theoretical and empirical support about the impact of dividends on the market value of a company's stock. In the second paper, he observed the following:

> The dividend policy changed: the near dividend was reduced, and the distant dividends were raised. This caused a rise in the discount rate, and the result was a fall in the price of the shares. I, therefore, say that the change in dividend policy changed the share's price (Gordon, 1963, p.267)

Walter (1963) supported Gordon's view (1959) and noted that when the imperfection assumption is relaxed, a company's dividend policy nearly always affects the company's value.

3.2.3 Tax Preference Theory and Clientele Effect Explanations

In many cases, the tax rates a country imposes on dividends are higher than capital gains; this may result in investors preferring retained earnings, which gives rise to the clientele effect (Baker *et al.,* 2007).

Based on the restrictive assumptions of their study, Miller and Modigliani (1961) asserted that investors are indifferent to a cash dividend versus retained earnings. The authors ignored the tax effect of dividend decisions on a company's value, but this is an unrealistic position. Al-Malkawi, Rafferty and Pillai (2010) noted that in reality, investors are interested in after-tax income, which may affect their decisions regarding receiving cash dividends.

Farrar and Selwyn (1967) further developed Miller and Modigliani's assertions; they considered a complex tax structure in a valuation model that includes all three types of taxes: personal income tax, corporate income tax and capital gains tax. The authors

concluded that because of the existence of individual income tax, investors prefer capital gains to cash dividend payments.

Subsequently, Brennan (1970) criticised Farrar and Selwyn's (1967) work, highlighting the limitations of their valuation model. Brennan used the capital asset pricing model (CAPM) to combine the effects of different tax rates that are levied on investors' income from the receipt of either cash dividends or capital gains. Brennan's model observed a positive relationship between the after-tax dividend yields and risk-adjusted returns. Accordingly, Brennan suggested that a company with a high-yield stock may sell its stock at a lower price compared with non-dividend-paying companies as a result of the tax disadvantages associated with dividend yields. Brennan's view appears to support Gordon's (1959) stance. Al-Najjar and Kilincarslan (2019, p. 207) summarised this idea as follows:

> Income tax is greater than the rate of capital gains tax, high dividend payments would increase shareholders' tax burden. Therefore, other things being equal, firms should avoid or make minimal dividend payments if they want to maximize their share price

The relationship between dividend policy and the tax preferences of shareholders results in the clientele effect, whereby each company tends to attract specific types of investors (clientele) who prefer a company's dividend policy that is appropriate for their tax rates (Miller and Modigliani, 1961; Elton and Gruber, 1970; Allen, Bernardo and Welch, 2000). Consequently, shareholders in high tax brackets are attracted to companies with low dividend payouts, whereas shareholders in low tax brackets prefer companies that have high dividend payouts (Elton and Gruber, 1970).

Allen, Bernardo and Welch (2000) studied the reason behind the preference of some companies to pay a dividend rather than the repurchase shares option. They argued that the clientele effects that induce ownership (institutions versus individual investors) motivate some companies to pay dividends to their shareholders. In particular, companies that are paying dividends attract more institutional investors, who are taxed at a relatively lower rate compared with individual investors (Allen, Bernardo and Welch, 2000).

3.2.4 Agency Cost Theory and Cash Free Hypothesis

In the presence of informational asymmetry, the agency cost has been proposed as a way to explain a company's dividend payment decisions (Frankfurter and Wood, 2002). Jensen and Meckling (1976) explained the agency relationship as an agreement between shareholders (owners) and managers (agent), where the former utilises the latter to manage their business, which requires delegating some tasks and decision-making authority to managers. Several studies have observed that the payment of dividends mitigates the conflicts of interests between managers and shareholders (Easterbrook, 1984; Jensen, 1986). For example, Easterbrook (1984) studied the role of dividend payments in reducing agency costs resulting from the differences in interests between managers and shareholders. He suggested that the payment of dividends is used as a tool to mitigate agency conflicts by reducing the free cash available to managers, which might then force managers to raise money from the capital market; this is considered an excellent way to monitor a company's management. However, the use of dividends as a monitoring tool results in high costs because of floating new capital and tax burdens. Thus, the author suggested other approaches for dealing with agency costs, such as profitable growth ventures and giving managers major residual equity in the company (Easterbrook, 1984).

Jensen (1986) noted that engagement in growth ventures increases the power of management over a company's resources, giving managers more control over free cash. The free cash flow hypothesis is defined as 'cash flow in excess of that required to fund all projects that have positive net present values when discounted at the relevant cost of capital' (Jensen, 1986, p.323). Further, Jensen (1986) reported that managers with fundamental free cash flow would either invest it in a project with a present negative value or waste it on inefficient activities. Thus, the increase of dividend payouts can reduce the amount of free cash under managers' control, which implies a reduction of agency conflicts between management and shareholders. In contrast, Al-Qahtani and Ajina (2017) provided weak evidence for using cash dividends as a monitoring tool to mitigate agency costs in Saudi Arabian–listed companies.

Frankfurter and Wood (2002) argued that the market imperfection of information asymmetry is the foundation of three distinct effects that explain why companies pay dividends: the dividend-signalling model, agency cost theory and the free cash

hypothesis. In the following section, the dividend-signalling theory is explored in more depth because it plays a significant role in this thesis in three main areas: developed markets, emerging markets and the Saudi Arabian market (at the end of this chapter). In addition, Chapters 5, 6 and 7 present the empirical results related to dividend-signalling theory based on three distinctive research approaches, including a survey, interview and event study.

3.3 Signalling Theory

Signalling theory focuses on the relationship between a company's dividend announcements and its share returns. Studies by Lintner (1956), Bhattacharya (1979), DeAngelo, DeAngelo and Skinner (1992) and Koch and Shenoy (1999) also have approved of such relationships, finding that company managers use dividend announcements as a tool to signal information about the future prospects of their companies. However, other studies have minimally supported this position (Miller and Modigliani, 1961; Lipson, Maquieira and Megginson, 1998; Uddin and Osman, 2008), particularly in the Saudi stock market, because of the presence of high levels of asymmetric information (Al Qudah and Badawi, 2015).

3.3.1 The Information Content of Dividends and Information Asymmetry

It has been argued that in the absence of one or more market imperfection assumptions, dividend policy would be relevant to the company's valuation. For example, Keane (1985) demonstrated that one of the main reasons to explain the relevancy of dividends is that a dividend announcement acts as a tool for signalling the company's performance information to the market. The signalling role of a dividend announcement is important when the company's information is not available to all market participants. Similarly, Frankfurter and Wood (2002) contended that the backbone of dividend-signalling theory is the mitigation of the information asymmetries between a company's managers and shareholders through unanticipated changes in the dividend levels. They indicated that 'the proponents of signalling theories believe that a corporate dividend policy used as a means of putting the message of quality across has a lower cost than other alternatives' (Frankfurter and Wood, 2002, p.114). Bhattacharya (1979, 2007) reported that the information content of the dividend-signalling model implies that

shareholders (outsiders) have inadequate or less information about the company's future profitability compared with managers (insiders). He noted that the considerable cost of using dividend-signalling results from the higher income tax imposed on dividends compared with capital gains. Similarly, Miller and Rock (1985) noted that asymmetric information occurs when a company's management has more knowledge about the actual state of the company's profitability than shareholders.

There are several explanations from the review of the literature on dividends that illustrate the signalling function of the dividend announcement. First, as mentioned in the discussion above, because of informational asymmetries, managers possess more information regarding the company's future profitability and liquidity than market participants. In light of this, management changes the dividend level to signal information about the company's future prospects (Baker, Farrelly and Edelman, 1985). Second, managers are cautious in their decisions to make changes to the current level of dividends; they tend to increase dividends only when they can sustain the new payment level in the future, and thus, investors view the change in dividends as a reliable sign from the managers about the company's future profitability and cash flow (Lintner, 1956; Pettit, 1972; Aharony and Swary, 1980; DeAngelo, DeAngelo and Skinner, 1992). Third, although the income from dividends is taxed at a higher rate than the returns from capital gains, the company's management uses the unexpected changes in dividends to signal their expectations about the company's future prospects. Hence, the major signalling cost associated with dividends could suggest that managers have important information to convey about the company's future profitability to investors (Bhattacharya, 1979).

Previous studies of dividends have identified the information content of the dividend-signalling hypothesis as managers are using an unexpected change in the company's dividend payment level to convey information about the company's future prospects to shareholders (Keane, 1985; Frankfurter and Wood, 2002; Baker, Powell and Veit, 2002; Bhattacharya, 1979, 2007). The implication of dividend signalling is that outside shareholders will perceive an increase (initiate) in the dividend levels as good news or a good sign about the company's future prospects, whereas they view a decrease (cut or omission) in dividend payments as bad news regarding the future profitability of the company (Pettit, 1972; Aharony and Swary, 1980; Lonie *et al.,* 1996; McCluskey *et al.,* 2006).

3.3.2 Dividend Announcements and Share Price Reaction

To date, many studies have investigated the effect of dividend policy as a signalling tool by exploring the reaction of share prices to changes in dividend announcements surrounding the announcement date (e.g., Pettit, 1972; DeAngelo, DeAngelo and Skinner, 1992; Lonie *et al.*, 1996; Joliet and Muller, 2015). The results from these studies indicate that there is a significant relationship between dividend announcements and share prices. In particular, when a company announces an increase in its dividend level, its share price moves upward. In contrast, when a decrease is announced, the share price moves downward.

Pettit (1972) conducted one of the earliest studies in this field, employing the market model using two data sets on a monthly and daily basis for US firms to study the relationship between dividend announcements and share prices. Pettit collected daily information for about 1,000 dividend announcements made by 625 companies listed on the New York Stock Exchange (NYSE) between January 1946 and June 1968. In addition, Pettit (1972) gathered daily data from 135 announcements of dividend changes made by NYSE companies for the period 1967–1969. The sample companies were sub-grouped based on their dividend and earnings performance. The dividend announcements were classified into seven mutually exclusive groups depending on the change in the level of dividends from quarter to quarter[27]. To control the effect of reported earnings, the sample companies were classified based on whether their actual earnings during the period exceeded or fell short of their expected earnings (Pettit, 1972). The results supported the idea that a firm's share price reacts to the information content of a dividend announcement and to other news made public during the announcement period. Hence, this would imply that the market is quite efficient for both types of empirical data (monthly and daily)[28]. Pettit (1972, p.1007) elaborated further on this:

> The rather large anticipation effect evident in the monthly data could be the result of either the use of insider information (an inefficient market) or the result of announcements related to dividend change (an efficient market). The small anticipation effect

[27] The seven dividend sub-groups were omissions, reductions, no change, initial payment, less than 10% increase, 10% to less than 25% increase and 25% or greater increase.
[28] Pettit (1972) pointed out that the term efficiency market implies that 'asset prices fully, immediately and without bias reflect currently available information' (Pettit, 1972, p.993).

> in the daily data; however, when correlated announcements were not a large factor, implies that the use of insider information is not a major factor affecting short-run returns

Consistent with Pettit's (1972) study, Aharony and Swary (1980) examined the effects of dividend changes announced by US companies listed on the NYSE from 1 January 1963 to 31 December 1976. The sample companies were divided into three sub-groups: dividend increase, dividend decrease and dividend with no change in the payment level. The sample comprised 2,612 dividend announcements that follow and 787 that precede the announcement of the quarterly earnings, with a separation period between them of at least 11 trading days. The total sample of 2,912 announcements was divided into sub-groups, including 384 increased dividend levels, 47 decreased dividend levels and 2,968 unchanged dividend levels. The study revealed that there were significant positive abnormal returns on the announcement day (AD) and on a preceding day (AD-1) for the companies with dividend increases. Furthermore, the findings showed that, on average, there were significant negative abnormal returns on the AD and AD-1 for the decreasing dividend companies and no abnormal returns during the announcement period for companies that did not announce any change in their dividend level. The authors went on to report the following:

> These findings of capital market reaction to dividend announcements strongly support the information content of the dividend hypothesis, namely that changes in quarterly cash dividends do provide information about changes in management's assessment of future prospects of the firms (Aharony and Swary, 1980, p.8)

Similarly, Lonie *et al.* (1996) investigated the stock market reaction to dividend announcements by conducting an event study to determine abnormal returns by using a sample of 620 UK companies that announced dividends over the period 1 January to 30 June 1991. The findings indicated that companies that announced an increase in their dividend level had a significant positive abnormal return on AD (0.61%) and AD-1 (1.42%). Furthermore, companies with a decrease in their dividend level had a significant negative abnormal return of -2.15%, whereas companies with no change in their dividend level had a positive abnormal return of 1.44% on the AD-1. In view of this, it appears that Lonie *et al.*'s (1996) study was able to support the dividend-signalling model of information content.

McCluskey *et al.* (2006) investigated the share price reaction to the company's dividend announcement by calculating the company's abnormal return and its excess returns for 41 days (the window period of dividend announcement)[29]. The study looked at 50 Irish companies listed on the Irish Stock Exchange that made at least eight dividend announcements from 1 January 1987 to 31 December 2011. In line with the previous findings, the authors reported a significant positive abnormal return of 0.82% and an excess return of 0.85%, which supports the idea that the Irish Stock Exchange reacts to companies' announcements of dividend payments.

A recent study by Joliet and Muller (2015) examined the informational content and persistence of dividend policies in multinational entities; they used Hines' (1996) dividend process model[30] to explore the relationship between a company's dividend policy and international earnings compared to local earnings. The study sample included 283 dividend-paying global companies from Europe, Australia, New Zealand, the US and Canada between 1993 and 2006. Their results revealed that company dividend policies in New Zealand and Australia signal information to investors in terms of both international and local company performance. However, company managers do not appear to use dividends as a signalling tool to convey information about performance in Europe, the US or Canada. The researchers also concluded that the persistence of good foreign earnings news when coming from a risky developing market, which is characterised by a higher level of volatility in earnings performance, is lower compared with the positive earnings news originating from developed or less risky markets.

In contrast with the above studies, Watts (1973) presented a significant analysis and discussion on the information content hypothesis for dividends, applying a regression model to forecast future earnings. Using a sample of 310 US companies for the period from 1946–1967, the author reported that the relationship between the changes in the current dividend and share price did not signal information about the company's future earnings. The average coefficients across all companies were positive; however, the

[29] McCluskey *et al.* (2006, p.627) pointed out that a company's excess returns are 'generated on the assumption that the expected return for all firms is equal to the market return, and hence often used in studies of smaller markets, where thin trading can lead to biased results'.
[30] In the Hines' (1996) dividend payout model, the determination of cash dividend payment levels is made by entering two factors separately into the model: domestic and foreign earnings (Joliet and Muller, 2015).

average t-test value was low. Furthermore, if the dividend conveys any information to the market, investors may consider it unimportant or minor when evaluating a company, which means the return an investor gains from this information may not outweigh the transaction costs.

In accordance with Watts (1973), Lipson, Maquieira and Megginson (1998) observed that dividend-initiating companies do not use a dividend announcement as a signalling tool. Instead, they employ dividend initiation to differentiate themselves from similar companies within the same industry. Moreover, the authors asserted that the decision to initiate a dividend appears to occur when managers believe that the level of future earnings can maintain the dividend level, which they have decided to initiate for the long term. This conclusion seems to support Lintner's (1956) position. In contrast to Lipson, Maquieira and Megginson (1998), Al-Malkawi, Rafferty and Pillai (2010) noted that to close the information gap between managers and outside shareholders, the former attempt to use dividend announcements as a tool to convey information about future earnings.

3.3.3 Interaction Signals of Dividend and Earnings Announcements

Although Miller and Modigliani (1961) did not disagree with the idea that dividends signal information, they argued that it is not the dividend that changes the share price; rather, the share price is considered to be a reflection of a company's expected profits and investment opportunities.

Some researchers have pointed out that the information content about the future prospects of dividend announcements outweigh earnings announcements when both figures are announced to the market at the same time. For example, Pettit (1972) studied the effect of dividend and earnings announcements on the share price through a variance F-ratio analysis. The F-ratio for the earnings effect indicated an insignificant p-value of 0.98 in the month of the announcement. In contrast, the F-ratio of the dividend announcement had a significant p-value of 18.01 in the same month. This result implies that the information content of a dividend announcement might be more likely to be viewed as a signal of a company's future prospects when compared with the information conveyed by earnings announcements (Pettit, 1972).

However, Watts (1973) documented that, on average, the extent of changes in future earnings because of a change in dividends was minimal. Sign tests revealed that the relationship between the sign of the anticipated changes in the current dividend and the sign of the associated unanticipated change in future earnings was positive but not significant, suggesting that the information content of a dividend change might only be trivial (Watts, 1973).

In contrast, other studies have indicated that the dominant signal of information content about future profitability comes from earnings announcements rather than the information content of dividend announcements. For example, Lonie *et al.* (1996) investigated the interaction relationship between dividend and earnings signals regarding a company's future prospects, employing regression models for 620 UK sample companies from January 1991 to July 1991. The results were significant, showing that companies' abnormal returns were simultaneously affected by dividend and earnings announcements, although 'the current earnings constituted the dominant signal to the capital market and the dividend announcement a partial' (Lonie *et al.,* 1996, p.48). Consistent with Lonie *et al.*'s (1996) results, McCluskey *et al.* (2006) used an analysis of variance (ANOVA) statistics test to examine the joint signals of dividends and earnings when they are announced at the same time in the Irish stock market; the study reported that earnings news had a greater effect on the company's share price reaction than dividend news about the reaction.

Other researchers have also noted that there is an interaction effect between dividend and earnings announcements and the share price reaction caused by the joint signals that result from the announcements of two items (Aharony and Swary, 1980; Kane, Lee and Marcus, 1984). For example, Aharony and Sawary (1980) studied NYSE share prices reactions to the announcement of both dividends and earnings using the observations of quarterly announcements of the two items from 1 January 1963 to 31 December 1976. The analysis examined the joint signal effects of both dividends and earnings when they were announced in the same quarter with at least 11 trading days between them. The sample included 384 dividends increase announcements that preceded the announcement of earnings figures, and 74 dividends increase announcements after the earnings announcement, with more focus on the positive (increase) signals of both the dividend and earnings changes. The study provided evidence of the use of dividend and earnings tools to signal managers' anticipation about the

company's future prospects, signifying that 'changes in quarterly dividend provide a signalling device that is at least as effective as quarterly earnings number' (Aharony and Sawary, 1980, p.9).

In contrast to Aharony and Sawary (1980), Kane, Lee and Marcus (1984) investigated the joint signals of dividends and earnings when they were simultaneously announced to the stock market. The authors examined 352 quarterly dividends and earnings announcements, in particular during the fourth quarter of 1979 and the second quarter of 1981. The study concentrated on a sample of dividend and earnings announcements that were separated by fewer than 10 days from each other to analyse the effects of the interactive signal of both announcements. The authors measured the abnormal returns around the interaction announcement in addition to the separate effects of the two items. They reported evidence of a significant interaction between the announcements of dividends and earnings together.

In conclusion, some researchers have supported the dividend-signalling model (i.e., Pettit, 1972), while others have suggested that earnings announcements constitute the dominant signal when both dividend and earnings figures are reported jointly to the market. The last group of studies provides evidence of the interaction effects of both dividends and earnings when they are announced simultaneously to the public.

3.3.4 The Information Content of Dividend Cuts and Omissions

Several authors have supported the information content hypothesis of dividend changes, which implies that management uses a change in the dividend payment level as a tool to convey information about the company's future prospects. The dividend-signalling model suggests that the announcement of a dividend increase leads to an increase in the share price, while the announcement of a dividend decrease results in a decline in the share price (Pettit, 1972; Aharony and Swary, 1980; DeAngelo, DeAngelo and Skinner, 1992; Lonie *et al.*, 1996; McCluskey *et al.*, 2006). However, other researchers have investigated the reaction of the stock market to the announcement of dividend initiation and omissions (Ghosh and Woolridge, 1988, 1989, 1991; Asquith and Mullins, 1983), stipulating that the findings were consistent with the dividend information content and showing that a change in dividend payment levels signals good or bad news to the stock market.

Ghosh and Woolridge (1988) used a multiple regression model with an event study to examine the information content of dividend cuts and omissions made by companies listed on the NYSE and American Stock Exchange (AMSE) for the period 1962 to 1984. Based on a sample of 930 observations of dividend cuts and omissions, the authors found that the effect of dividend cuts and omissions on the company's share price depended on the information content of the company's substantial simultaneous announcements, such as poor earnings reports, stock dividend payments and profitable growth opportunities. The findings showed that although the concurrent announcements of profitable growth opportunities reduced the capital loss associated with dividend cuts, the t-statistic was not significant. However, the joint announcement of a stock dividend payment was positive and significant in relation to mitigating the effect of dividend cuts and omissions on shareholders' wealth. The authors explained the significant impact of a stock dividend:

> Since stock dividends are costlier than press announcements of profitable investment opportunities, it is concluded that, as such, the results are consistent with the notion that the value of a signal is a function of costs associated with it (Ghosh and Woolridge, 1988, p.293)

Ghosh and Woolridge published a subsequent study in 1989 that examined the effect of the announcements of dividend cuts associated with the announcement of growth opportunities in the US market. An event study was performed involving sample companies listed on the NYSE and AMEX (American Stock Exchange) that announced dividend cuts motivated by growth opportunities; the time frame was between 1962 and 1984. The results revealed that although the announcements of profitable growth opportunities induced dividend cuts to mitigate the capital loss, the magnitude of this reduction was not significant, and the effect of the growth announcement did not offset the loss related to dividend redaction. The authors established that the reason behind the inefficiency of growth announcements as a signalling tool for future prospects was the shortage of information about the profitability of growth opportunities supplied to outside shareholders.

Ghosh and Woolridge (1991) examined the reaction of a company's share price to the announcements of successive dividend omissions by using an event study. The sample included 358 first omissions, 160 second omissions, 72 third omissions, 29 fourth omissions and 55 fifth or higher-order omissions made by companies listed on the

NYSE and AMEX; here, the time frame was from 1962 to 1984. Dividend omissions were found to follow the company's announcement of poor earnings or dividend cuts, which might be perceived by a shareholder as a bad signal from management about the company's future prospects. Moreover, a significant capital loss occurred with the announcements of the first dividend omissions, while no significant capital loss was observed with the announcement of the second and higher-order dividend omissions. In focusing on these findings, the authors explained that the power of the information content of the first dividend omissions was high because the market only reacted to the new (first) information content of the dividend change, whereas the following successive dividend omission conveyed no further information to the market participants (Ghosh and Woolridge, 1991).

A subsequent study carried out by DeAngelo, DeAngelo and Skinner (1992) studied the effect of the dividend reductions of US companies listed on the NYSE over the period 1980 to 1985. Based on a sample of 167 NYSE companies that had at least one annual loss and that had reduced their dividends (compared with 440 companies without losses), their study concluded that dividend announcements have information content, which implies that when a company lowers its dividends, the predictive power of current earnings regarding the company's future profitability is increased.

In line with previous studies, Asquith and Mullins (1983) studied the effect of dividends on shareholders' wealth by investigating the performance of the share price around the announcement period of dividend payment initiation. They used a sample of 168 companies listed on the NYSE or AMEX from December 1963 to 1980 that announced either the first dividend in the company's history or a dividend after a 10-year gap. Excess returns were calculated to examine the impact of dividend announcements on the share price. The results showed that the excess two-day return around the announcement period was +3.7%, with a significant t-statistic value of 6.59, and 70% of the companies' excess returns were positively associated with the announcement of dividend initiation. Moreover, the authors noted that both initial and resumption dividends were supported by the signalling model of dividends, which implies that dividends signal important and valuable information to external investors (Asquith and Mullins, 1983).

In conclusion, the findings from the studies discussed in this section are in line with the information content hypothesis, which implies dividend changes signal information to market participants. In particular, dividend cuts and omissions convey bad news to the market, even when they are associated with announcements of profitable investment opportunities. Moreover, the announcements of the initial dividend signal provide important and useful information to investors.

3.3.5 Signalling Theory in Emerging Markets

Various studies have assessed the efficiency of the dividend-signalling model in emerging stock markets, which are characterised by their absence of stability in the long-term dividend payout rates (Glen *et al.*, 1995; Felimban, Floros and Nguyen, 2018). Moreover, this type of dividend volatility over time might create uncertainty about a company's future prospects, which could affect market participants (Felimban, Floros and Nguyen, 2018). However, emerging markets do share some similarities with developed countries in terms of management concerns about having target dividend payout rates, but this becomes less important in the long run for companies in emerging stock markets, as noted by Glen *et al.* (1995, p.24):

> Emerging market firms often do have a target dividend payout ratio, like their developed country counterparts, but they are generally less concerned with volatility in dividends over time and, consequently, dividend smoothing over time is less important

The emerging markets of the Gulf Cooperation Council (GCC) countries[31] share a common and unique tax system in which there is no tax imposed on returns from dividends or capital gains, which helps provide a suitable environment to test the tax-based signalling models (Al-Yahyaee, Pham and Walter, 2011; Felimban, Floros and Nguyen, 2018). Amihud and Murgia (1997, p.397) noted that 'tax-based signalling models propose that the higher tax on dividends is a necessary condition to make them informative about [their] companies'. Moreover, researchers have focused on the presence of information asymmetry in GCC stock markets when examining the dividend-signalling tool (Al-Malkawi, Rafferty and Pillai, 2010; Al Qudah and Badawi, 2015; Felimban, Floros and Nguyen, 2018).

[31] For more information about the GCC countries, see Section 2.2 in Chapter 2.

In a comprehensive study of the impact of dividend changes on share prices from GCC countries[32], Felimban, Floros and Nguyen (2018) found evidence of the use of a dividend change as a signalling tool (Al-Yahyaee, Pham and Walter, 2011; Chabouni, 2017). An event study was conducted to investigate stock market reactions to 1,092 dividend announcements made by 299 companies listed on GCC stock markets between January 2010 and June 2015. The total announcement sample was divided into sub-groups, including 497 dividend increases (DI), 223 dividend decreases (DDs) and 372 dividends with a constant payment level (DC)[33]. The results revealed that although GCC stock markets operate in a tax-free environment[34], the announcement of dividend changes is significantly informative for a company's performance in such markets (Al-Yahyaee, Pham and Walter, 2011; Chabouni, 2017). Moreover, the authors noted that GCC stock markets are not efficient for two reasons: (1) in the case of the announcement of bad news (dividend decrease), there was informational leakage before the announcement date, and (2) in the case of the announcement of good news (dividend increase), the share price took some time to adjust to the announced information.

Similarly, a study conducted by Al-Yahyaee, Pham and Walter (2011) showed that the information content hypothesis of cash dividend announcements works in the Omani stock market, which is based on a tax-free economy[35]. The authors employed an event study by using the market-adjusted model of 501 cash dividends announced by Omani companies from the beginning of January 1997 to the end of August 2005. They divided the sample into three sub-groups: 'dividend increase', 'dividend decrease' and 'dividend no change'. The findings showed that positive average abnormal returns occurred when dividend increases were announced. Negative average abnormal returns accompanied reductions in dividends, whereas no significant abnormal return occurred when the dividend level remained unchanged.

[32] The sample of GCC countries covers seven stock markets: Abu Dhabi, Bahrain, Dubai, Kuwait, Oman, Qatar and Saudi Arabia.
[33] Felimban, Floros and Nguyen (2018) reported that Saudi Arabia plays a large role in the research sample as it accounted for 456 announcements of dividend payments compared to Bahrain, which is considered to be the smallest GCC country in the sample, with only 24 dividend announcements. Moreover, companies in Oman and Kuwait had a high tendency to pay dividends in a constant pattern over the study period.
[34] There are no taxes imposed on either dividends or capital gains in GCC stock markets (Felimban, Floros and Nguyen, 2018).
[35] In Oman, no taxes are levied on dividends or capital gains (Al-Yahyaee, Pham and Walter, 2011).

As opposed to Al-Yahyaee, Pham and Walter (2011) and Felimban, Floros and Nguyen (2018), Altiok-Yilmaz and Akben-Selcuk (2010) conceded with the information content hypothesis of dividend change in an emerging market, particularly the Istanbul Stock Exchange (ISE). Using an event study to calculate cumulative abnormal returns (CARs) over the period 2005 to 2008, Turkish share price responses to the announcement of a dividend change level was examined. A sample of 184 announcements of dividend changes made by 46 companies was categorised into three groups: 88 dividend increases, 73 dividend decreases and 23 dividends with no change. The results for a short event window (three days) showed significant positive CARs for sample companies that had an increased dividend, significant negative CARs for sample companies that had a decreased dividend and no significant CAR value for sample companies that had a constant dividend level. However, the CAR values for longer event windows were not significant for all three sub-samples. Moreover, there was informational leakage in the pre-event period for the decreasing group sample, resulting in significant negative CAR values in days (-5, -1) (Altiok-Yilmaz and Akben-Selcuk, 2010; Felimban, Floros and Nguyen, 2018).

A detailed examination of the effect of pure cash dividend announcements on the share returns of listed Indian manufacturing companies maintained the signalling hypothesis effect (Anwar, Singh and Jain, 2017). The authors employed an event study methodology with a sample of 228 manufacturing companies and 605 cash dividend announcements. They also used a market model to estimate abnormal returns, here with an estimation window of 150 days. The impact of dividend announcements on share returns was examined for 30 days as an event window. The findings showed significant positive abnormal returns associated with dividend announcements. This confirms the applicability of the signalling theory to the Bombay Stock Exchange.

Although there are differences between developed stock markets and developing or emerging stock markets, there are some common features in terms of the impact of announcements of dividend changes on share prices. Notably, both developed and emerging markets have target dividend payout ratios; nevertheless, managers in developing markets do not usually maintain consistent dividend policies in the long term.

3.4 The Determinants of Dividend Policy

Concerning dividend policy and behaviour, a number of empirical investigations have been carried out in the examined literature to determine the different factors that affect companies' dividend payment decisions. Globally, researchers have used various methods, such as surveys, interviews and different models, to understand dividend phenomena.

3.4.1 Determinants of Dividend Policy in Developed Markets

One of the most frequently cited studies is that of Lintner (1956), who sought to understand dividend behaviour by interviewing the financial managers of 28 well-established US firms. The author concluded that the primary consideration of management in dividend payment decisions is current earnings:

> The management we interviewed very generally believed that, unless there were other compelling reasons to the contrary, their fiduciary responsibilities and standards of fairness required them to distribute part of any substantial increase in earnings to the stockholders in dividends (Lintner, 1956, p. 100)

Lintner (1956) also found that companies' managers attempt to maintain dividend payments at a certain level over time and are reluctant to declare an increase in the current payment rate unless they are confident that future earning levels will be predictable. Lintner further concluded that managers generally indicate earnings growth by increasing dividend payments to shareholders. At the same time, some managers believe that shareholders should be informed of any expected decline in earnings by cutting the dividend. It was also concluded that 'most managements sought to avoid making changes in their dividend rates that might have to be reserved within a year or so' (Lintner, 1956, p.99).

In addition to continuity and stability, Lintner documented that managers considered the relationship between the current dividend payout rate and the target dividend payout rate[36] to be more important than a change in current earnings when it comes to a company's decisions regarding dividend payments.

[36] The target payout rate comprises a fixed target payout ratio of the current and expected earnings (Lintner, 1956).

Linter provided the following mathematical model to encapsulate corporate dividend behaviour:

$$\Delta D_{it} = \alpha_i + c_i (D^*_{it} - D_{i(t-1)}) + U_{it} \qquad [3.1]$$

where ΔD_{it} is the change in the level of dividend payment; i refers to each company, and t refers to the year; α_i is a constant term[37]; c_i represents the speed of adjustment factor; D^*_{it} (= $r_{it} P_{it}$) is the dividend payment for the current year, which is a function of the target payout rate, r_{it}, multiplied by current year earnings, P_{it}; $D_{i(t-1)}$ is the dividend payment for last year; U_{it} is an error term. From Equation 3.1, the change in the dividend level can be explained by the current year's target dividend payment minus the prior year's dividend payment multiplied by the parameter of the speed adjustment. It can also be concluded from the equation that a company's dividend behaviour can be explained by its current earnings (P_{it}) and the previous year's dividend payment.

However, to study dividend behaviour in pre-war years, Linter (1956, p.109) noted that 'when the equation was fitted to the years 1918–1941, practically the same regression coefficients were obtained as were found when the war and postwar years were included, so that the equation fitted to the interwar years gave very satisfactory predictions both war and postwar dividend payments'. Lintner provided Equation 3.2 to fit the data from the pre-war years (1918–1941) by converting Equation 3.1 to the following:

$$D_{it} = \alpha_{it} + b P_{it} + d D_{i(t-1)} + U_{it} \qquad [3.2]$$

where b = c r and d= (1-c). As a result, Lintner stated that his dividend model described 85% of the change in a company's dividend payment level.

Likewise, numerous studies have attempted to explain companies' behaviour related to their dividend policies by using Lintner's theoretical model and other research approaches from the US (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999, 2000; Baker, Veit and Powell, 2001), the UK (Dhanani, 2005) and Ireland (McCluskey, Burton and Power, 2003, 2007). Baker and Powell (1999) performed the first major fieldwork on dividends. Employing a survey approach with US corporate

[37] 'The constant α will be zero for some companies but will generally be positive to reflect the greater reluctance to reduce than to raise dividend' (Linter, 1956, p.107).

managers of NYSE firms, the study found that managers supported Lintner's model (1956), particularly regarding the continuity of dividend payment levels, current and future earnings and the prior year's dividends. It was also ascertained that the availability of cash flow was managers' concern when setting the dividend policy. The respondents further showed that the dividend policy affects a company's share value and having a signalling effect that conveys information to shareholders about the company's future earnings. In their 198 responses to the authors' questionnaire, the surveyed managers' responses agreed with those in the studies of Baker, Farrelly and Edelman (1985) and Baker and Powell (2000). In these studies, the respondents reported that the most influential factors in companies' dividend decisions are current and future earnings, continuity with the previous year's dividend, the market value of company shares and the signalling effect of the dividend change. Furthermore, the managers reported that the availability of cash flow is one of the most influential factors in a company's dividend policy. In a follow-up study, Baker, Veit and Powell (2001) used a survey method, gathering 188 responses from managers of Nasdaq-listed companies; they found that the factors affecting decisions regarding companies' dividend payments to be similar to those previously reported (1985, 1999, 2000) for NYSE-listed companies[38]. The findings suggest that the Nasdaq corporate managers behaved consistently with the Lintner model when deciding on dividend payments.

In a comprehensive study of dividend policy in UK-listed companies, based on 164 responses from corporate managers, Dhanani (2005) found that dividend policy is relevant to a company's share value (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999, 2000; Baker, Veit and Powell, 2001). Managers have also generally viewed dividend policy as separate from a company's investment and finance policies because they consider paying dividends more critical than retaining the earnings to finance a new future project (Dhanani, 2005). The findings from the survey uphold the signalling effect of dividends to convey information about a company's future prospects (Pettit, 1972; Baker and Powell, 1999; McCluskey, Burton and Power, 2007). Finally, the respondents suggested that shareholder preferences were one of the most important

[38] There were some differences in the level of importance assigned to some factors. For example, while the availability of cash flow was ranked in previous survey studies (1985 and 2000) as one of the most important factors influencing dividend policy, in the 2001 survey study, this factor was ranked as one of the less important determinants.

factors taken into consideration when determining their companies' dividend payments (Dhanani, 2005).

McCluskey, Burton and Power (2003) investigated dividend policy by distributing a survey questionnaire to over 1,000 Irish companies. Based on 269 usable responses, their findings confirmed that Irish managers behaved consistently with Lintner's model regarding dividend payments. In particular, Irish companies avoided making changes to their payout ratios, maintained an uninterrupted record of dividend payment levels and had target dividend payout ratios. Shareholders in the Irish market prefer returns from capital gains more than returns from dividends because of the tax rate imposed on dividends. McCluskey, Burton and Power (2007) also interviewed 20 executives to investigate several aspects related to the dividend payment decisions of Irish companies. Their results supported Lintner's model, highlighting that Irish managers were reluctant to announce dividend reductions and that an increase in dividend level could only be made when managers believed they could maintain this level in the future. The Irish managers also supported the signalling theory, according to which dividend announcements affect companies' share prices.

A study by Baker, Mukherjee and Paskelian (2006) examined Norwegian managers' views regarding the dividend policies of their companies, which were listed on the Oslo Stock Exchange. The authors used a survey approach, gathering 33 usable responses. They concluded that the most important factors in dividend payment decisions included the current and future earnings, the stability of earning levels, the current financial leverage and the availability of cash flow (Baker, Mukherjee and Paskelian 2006). The managers surveyed also supported the use of dividend policy as a signalling tool to convey information to the market about a company's performance (Baker and Powell, 1999; Dhanani, 2005; McCluskey, Burton and Power, 2007; Baker *et al.*, 2007).

Baker *et al.* (2007) provided a good summary of the dividend policy situation in Canadian companies listed on the Toronto Stock Exchange. Based on 103 usable responses, the survey findings were in line with Lintner's (1956) survey findings and theoretical model. The interviewed Canadian managers believed the most influential factors in their companies' dividend policy were the level of anticipated future earnings, the stability of earning levels, the patterns of previous dividend payments and

the level of current profits (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999, 2000; Baker, Veit and Powell, 2001). Moreover, the findings from the survey support the signalling effect of dividends and the effect of dividend policy on companies' share values.

Regarding the tax effect on dividend policy, there seems to be no converging evidence to indicate the role of tax in influencing companies' dividend decisions. For example, in a study carried out to determine the impact of tax factors on US companies, Brav *et al.* (2005) found that managers perceived tax as the second most important factor in dividend payment decisions, but it was not the dominant factor (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999, 2000). Similarly, the respondents in Baker, Veit and Powell's (2000) survey ranked shareholders' tax situation as the least important factor in the decision to pay a dividend. However, Baker, Mukherjee and Paskelian (2006) and Baker *et al.* (2007) reported that managers were unsure of the role of shareholders' tax preferences on companies' dividend policies. Indeed, the survey responses from Baker, Mukherjee and Paskelian's (2006) study showed that over 65% of the managers had no opinion. Meanwhile, the findings from the two studies conducted in the Irish market by McCluskey, Burton and Power (2003, 2007) revealed that the issue of taxation was a concern to managers of unquoted companies than those of quoted companies. The authors observed, 'Considering that it would be nearly impossible for quoted companies' directors to know the tax status of its shareholders this result is to be expected' (McCluskey, Burton and Power, 2003, p.44).

Researchers have attempted to evaluate the impact of other factors affecting dividend payment decisions apart from those mentioned in the discussion above. These include agency cost, liquidity, industry group and company characteristics (e.g., size, investment opportunities and ownership structure). One example is the use of dividend policies to minimise the agency conflict between management and shareholders that arises from the free cash available to managers. Dhanani (2005) found that British managers did not support the use of dividend policy as a tool to reduce the agency issue between managers and outside investors; instead, companies used other means to mitigate the agency issue. In accordance with this, Baker *et al.* (2007) found that even though Canadian companies are characterised by a high level of ownership concentration, the managers disagreed with the payment of dividends forcing companies to obtain external financing. Instead of using a dividend policy to reduce the agency

issue between management and ownership, shareholders benefited from the use of their legal power to force managers to pay dividends (Baker *et al.*, 2007). Furthermore, Brav *et al.* (2005) reported that about 78% of survey respondents did not view dividend policy as a control tool over managers for reducing the agency problem with owners.

The type of industry group was also found to have an influence on dividend policy. For example, Baker, Veit and Powell (2001) noted that there were significant differences among the survey respondents regarding the factors that influenced dividend decisions between financial and non-financial companies. Some elements were ranked as more important in dividend policy in financial companies than in their counterparts. For example, many managers from the banking sector viewed legal rules and constraints as critical factors in determining the level of dividend payments. The authors suggested that these differences might be because of the fact that financial companies are operated in a highly regulated environment compared to non-financial companies (Baker, Farrelly and Edelman, 1985)[39]. However, Baker and Powell (1999, 2000) observed that there was little or no difference among survey responders in the importance they placed on some factors influencing companies' dividend decisions[40]. Dhanani (2005) documented that the type of industry to which executives belong affects how they view the importance of the different factors determining their companies' dividend policies. For example, managers from the financial and utility sectors viewed the signalling effect of dividend policy as being more important than in other industries (Dhanani, 2005).

Additionally, studies have shown that liquidity—or the availability of cash—is one of the most important factors impacting companies' dividend payment decisions (Baker and Power, 2000; McCluskey, Burton and Power, 2003; Baker, Mukherjee and Paskelian 2006; Baker *et al.*, 2007). These studies provide clear evidence of the usefulness of an available cash flow in paying cash dividends to companies' shareholders. Specifically, managers were more willing to maintain a stable level of dividend

[39] Baker, Farrelly and Edelman (1985) found significant differences in questionnaire respondents' views of the importance of different factors in making dividend payment decisions. Executives from utility companies viewed some factors as more important than executives who worked in manufacturing and wholesale/retail sectors.

[40] Baker and Powell (2000) noted that the differences among industries may have diminished over time because of the changing economic and competitive environment for utilities.

payments when their companies had a constant level of cash flow (Baker and Powell, 2000).

Several studies have highlighted the relevant importance of an individual company's characteristics in defining dividend policy, such as the company's size, growth opportunities and ownership structure. Small companies with high-growth investment opportunities tend to pay fewer dividends compared to larger companies with low growth rates (Fama and French, 2001; Dhanani, 2005; Baker *et al.*, 2007). Dhanani and Baker also reported that the ownership structure has an impact on a company's dividend policy-defining process.

This section has provided a summary of the literature relating to the different determinants of dividend payment decisions of companies operating in developed markets. The reviewed studies have indicated the importance of Linter's theoretical model in explaining companies' dividend policies (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999, 2000; Baker, Veit and Powell, 2001; Dhanani, 2005; McCluskey, Burton and Power, 2003). This review has also shown that managers support the notion of a signalling effect on dividend policy, implying that increased dividend payments are perceived as conveying positive information about companies' future prospects in general, whereas decreases or cuts in dividend payments signals negative information regarding companies' future earnings performance (Baker and Powell, 1999; Dhanani, 2005; McCluskey, Burton and Power, 2007; Baker *et al.*, 2007).

3.4.2 Determinants of Dividend Policy in Emerging Markets

A growing body of literature has investigated the determining factors of companies' dividend policies in emerging markets, including Saudi Arabia, the United Arab Emirates, Morocco, Indonesia, India, Pakistan and Turkey.

Khan, Burton and Power (2011) provided evidence from managers regarding the dividend behaviours of Pakistani companies that are listed on the Karachi Stock Exchange. The study employed semi-structured interviews with 23 companies' executives. The findings show that companies' current year earnings and liquidity are the most critical factors in determining the level of dividend payment. Managers were also unwilling to announce any cuts in dividends. In contrast to Linter's model, Khan,

Burton and Power (2011) stated that the managers of Pakistani companies generally do not consider the pattern of last year's dividend payments in their current dividend payment decisions.

A recent study by Botoc and Pirtea (2014) investigated the determinants of dividend policy, particularly regarding cash management and liquidity. This study used a sample of 2,663 companies from 16 emerging markets, including Saudi Arabia, over the period from 2003 to 2011. They tested seven hypotheses using three-dimensional panel data and dynamic panel models; the models included the impact of liquidity, cash needs, company size, growth opportunities, profitability, business risk, business cycle, leverage, corporate governance, legal origin and shareholders' rights. The main findings show that liquidity and cash management (residual cash flow theory) have a significant influence on a company's dividend policy in emerging markets in relation to investors protection rights. In countries with high levels of investors protection, cash management is a critical factor in explaining a company's dividend policy. On the other hand, in countries with limited investors protection, liquidity has a significant impact on dividend policy. These findings support the substitution model of dividends, implying that companies in high-risk emerging markets would pay more generous dividends to their investors to establish a good reputation.

In relation to Saudi Arabia, Botoc and Pirtea (2014) showed that the Kingdom of Saudi Arabia has the highest average dividend payment ratio (at 5.96%) among the 16 countries included in the study (Botoc and Pirtea 2014; Felimban, Floros and Nguyen, 2018). This confirms the results of Osman and Mohammed (2010), who found that Saudi companies tend to distribute the majority of their realised profits.

A number of authors have considered the effect of Lintner's theoretical model in explaining the behaviour of companies' dividend policies (Chazi, Boubakri and Zanella, 2011; Baker and Powell 2012; Naser, Nuseibeh and Rashed, 2013; Baker and Kapoor 2015; Baker and Jabbouri 2016; Baker, Kilincarslan and Arsal 2018). For example, Chazi, Boubakri and Zanella (2011) used a survey research method, eliciting responses from 36 companies listed on the Abu Dhabi or Dubai Securities Exchanges[41].

[41] The authors targeted the population of all companies listed on the Abu Dhabi or Dubai Securities Exchanges due to the small size of these markets, which include a total of 104 companies (Chazi, Boubakri and Zanella, 2011).

The findings show support for Lintner's 1956 model: 81.82% of the respondents stated that future earnings were a significant factor in dividend payment decisions, while 72.73% considered the dividend payment level in the last years to determine the current level of dividends paid. In addition, 66.67% of the chief financial officers (CFOs) said they maintained a continuous level of paid dividends from year to year, while 59.38% said they avoided making changes in dividend payments that might need to be reserved in a year or so (Chazi, Boubakri and Zanella, 2011). Similarly, in Naser, Nuseibeh and Rashed's (2013) study[42], the responses confirmed that the managers of companies listed on Abu Dhabi Securities Exchanges also follow Lintner's model in the dividend payment decision-making process (Chazi, Boubakri and Zanella, 2011).

To examine the dividend policy in Indian companies listed on India's National Stock Exchange (NSE), Baker and Kapoor (2015) carried out a study based on a survey research approach. Analysing 42 usable responses, the authors found that Indian executives viewed earnings (stability of earnings, current and future earnings) and the prior year's dividends as the most influential determinants of companies' dividend decisions. Furthermore, the respondents reported that dividend policy affects a company's share value, and managers must implement a dividend policy that maximises shareholders' value. According to Baker and Kapoor (2015, p. 201), '… this involves finding an optimal dividend policy that strikes a balance between current dividends and future growth that maximises shareholder value'.

In an analysis of dividend policy in Indonesian companies listed on the Indonesian Stock Exchange (IDX)[43], Baker and Powell (2012) found that earnings (the stability of earnings level, current and anticipated earnings) and the historic dividend payment (Baker and Kapoor, 2015; Baker, Kilincarslan and Arsal 2018) had a significant impact on dividend policies.

Several studies in developing markets have confirmed the effectiveness of using the dividend policy to signal information regarding the company's future prospects (Chazi, Boubakri and Zanella, 2011; Baker and Powell, 2012; Naser, Nuseibeh and Rashed, 2013; Baker and Kapoor, 2015; Baker and Jabbouri, 2016; Baker,

[42] The authors employed a survey questionnaire with 34 responses from managers of companies listed on the Abu Dhabi Securities Exchange to study dividend policy.
[43] The 52 usable responses (31.9%) were from managers of companies listed on the IDX.

Kilincarslan and Arsal 2018). For example, Baker and Powell (2012) found that most of the Indonesian managers of listed companies supported the signalling hypothesis that changes in dividend levels provide a signal of a company's future earnings, as well as affecting the company's stock prices. In the same context, Chazi, Boubakri and Zanella (2011) and Naser, Nuseibeh and Rashed (2013) found that managers' views were consistent with the signalling effect of dividend policy whereby an increase or decrease in dividends conveys information to shareholders. Further, Baker and Kapoor (2015) reported that 78% of executives believed that dividend changes send information to the stock market about a company's future performance, while 70% agreed that these changes affect the company's share price. In agreement with previous studies, Baker and Jabbouri (2016) found that generally, their survey respondents believed decisions around dividend payment conveyed information regarding the company's future earnings. However, Baker and Jabbouri (2016, p.283) pointed out that these types of signalling tend to be a side effect:

> Although the surveyed managers generally agree that dividend payments send signals about the future of the firm, signalling is not their primary concern when setting dividend policy. Therefore, these findings confirm the prior conclusion of Baker and Kapoor (2015) that signalling could simply be a desirable consequence of a firm's dividend policy

According to Baker, Kilincarslan and Arsal (2018), the managers of Turkish-listed companies viewed changes in dividend payment levels from year to year as more essential than the difference in the actual amounts of dividends paid. They also disagreed with the notion of paying higher dividends to prove that their companies were able to raise external funds, thus enhancing their companies' image compared with competitors.

Several investigations of dividends in developing markets have identified other important determinants of dividend payment decisions, including agency costs, the availability of cash flow, a company's characteristics, shareholders' preferences and the predictions of the future economic conditions. For instance, respondents from different survey studies stated that the availability of cash in a company played an essential role in dividend payment decisions (Chazi, Boubakri and Zanella, 2011; Khan, Burton and Power, 2011; Baker and Powell, 2012; Baker and Kapoor, 2015; Baker, Kilincarslan and Arsal, 2018). However, Baker and Jabbouri (2016) showed that managers

ranked earnings as a critical factor in constructing a dividend policy. This reflects the relationship between company earnings and cash flow, which is considered the basis of dividend payments.

A few studies have revealed a correlation between a company's dividend policy and its characteristics (e.g., size, investment opportunities and ownership structure). For example, Baker and Jabbouri (2016) found that 90% of executives believed that a company's expenditure on new investments affected its dividend payment decisions. Similarly, Baker and Kapoor (2015) found that about 84.6% of respondents agreed that the availability of profitable investment projects strongly affects a company's decisions regarding paying dividends (Baker and Powell, 2012; Baker, Kilincarslan and Arsal, 2018). Most of the interviewees in Khan, Burton and Power's (2011) study responded that their dividend payment level was changing because of shifts in their companies' investment and financing requirements. The results also showed that managers viewed investment and finance policies as more critical than dividend policies.

Another important element in formulating a company's dividend policy that is highlighted in the literature on developing markets is future economic conditions. Baker and Powell (2012) found that their survey respondents considered the country's economic situation as a factor affecting their companies' dividend decisions (Naser, Nuseibeh and Rashed, 2013; Baker, Kilincarslan and Arsal, 2018).

The following section particularly focuses on the Saudi dividend payment policy in relation to the implementation of signalling theory and the different factors that affect dividend payment decisions.

3.5 Dividend Policy in the Kingdom of Saudi Arabia

There are relatively few studies on dividend policy in the Saudi context (Uddin and Osman, 2008; Osman and Mohammed, 2010; Al-Ajmi and Abo Hussain, 2011; Al-Malkawi, Twairesh and Harery, 2013; Alzomaia and Al-Khadhiri, 2013; Al Qudah and Badawi, 2015; Al-Qahtani and Ajina, 2017; Al-Kayed, 2017; Chabouni, 2017). Those studies that exist have been based on purely mathematical and theoretical approaches, such as regression analysis and Linter's model. However, there is no consensus among researchers on dividend policy in Saudi-listed companies. As shown in

Table 3-1, only a few published Saudi studies have investigated the determinants of dividend payment decisions in the Kingdom of Saudi Arabia's listed companies. Table 3-2 provides a summary of prior studies that have been conducted on the Saudi stock market to explore the relationship between dividend announcements and companies' share prices.

The following two sections discuss earlier literature that focuses on dividend policy within the Saudi context, particularly the determinants of dividend policy (3.5.1) and dividend announcements and share price reaction (3.5.2).

3.5.1 The Determinants of Dividend Policy in Saudi Arabia

To date, several studies have investigated the factors affecting companies' decisions about dividend payment levels in Saudi Arabia. For example, Osman and Mohammed (2010) examined the various factors determining dividend policy among Saudi-listed companies by employing regression models and using the dividend yield as a dependent variable. They differentiated between financial and non-financial companies, which enabled them to separately explore the determinants of dividend payout policies in the financial and non-financial fields. The authors also considered the commonality of factors for both company types. The number of listed companies in the sample varied throughout the study period, ranging from 14–37 financial companies and 73–105 non-financial companies[44]. This resulted in 413 company-year observations for financial companies and 1,057 company-year observations for non-financial companies over the period from 1989 to 2004. The study concluded that the common factors influencing companies' dividend policies were profitability, company size and business risk. Furthermore, government ownership, leverage and maturity were found to have an impact on non-financial companies. Agency cost, asset tangibility and growth opportunities were not significant factors for determining a company's dividend policy because 'the factors that influence the probability to pay dividends are the same factors that drive the amount of dividends paid for both financial and non-financial firms'

[44] The number of companies changed in the sample size from one year to another because each year a number of companies were listed on the Saudi stock market over the course of the study period (1989–2004).

(Osman and Mohammed, 2010, p.99). Finally, their findings highlighted that Saudi-listed companies distribute nearly 100% of their earnings as dividends.

A follow-up study by Al-Malkawi, Twairesh and Harery (2013) included a sample of 69 non-financial companies, obtaining 483 corporate-year observations over the period 2005–2011. Using a regression model, the findings indicated that three significant factors have a positive relationship with a company's likelihood of paying dividends: profitability, maturity and company size. A negative correlation was found between a company's dividend decisions and business risk and leverage. The findings also suggest that there is no relationship between a company's dividend decisions and ownership structure, growth opportunities or asset tangibility in Saudi Arabia. According to Osman and Mohammed (2010), the ownership structure is a determinant of dividend policy in non-financial companies. However, Al-Malkawi, Twairesh and Harery (2013) found no significant relationship between a company's ownership structure and its dividend policy; these results reinforce the role of agency cost, which is contrary to the findings of Al-Ajmi and Abo Hussain (2011), and signalling theory, which is consistent with Al-Malkawi, Twairesh and Harery's (2013) and Alzomaia and Al-Khadhiri's (2013) arguments.

Al-Ajmi and Abo Hussain (2011) investigated the factors impacting Saudi companies' dividend payments, including the prior year's dividends, the current year's earnings, cash flow, company size, debts, ownership structure, maturity and tangible assets and Zakat. They also examined the persistence of dividend policies in Saudi companies. The study employed a Tobit regression and the Lintner (1956) model to analyse companies' dividend behaviour. The sample of this study included an unbalanced data panel for 54 listed companies during the period 1999–2006 (708 company-year observations). The findings indicated that Saudi companies pay dividends that are lower than their actual earnings. This is contrary to the results of Osman and Mohammed (2010), who reported that nearly 100% of Saudi firms' profits were distributed to their shareholders in the form of dividends. Al-Ajmi and Abo Hussain (2011) agreed that Saudi companies have unstable dividend policies and that economic conditions have a significant influence on those policies; they identified four factors that determine the dividend policies of Saudi companies: previous dividend payments, profitability, cash flow and life cycle (maturity). However, agency cost had no impact on dividend policy. Finally, in relation to Zakat (an Islamic tax), the authors highlighted that Zakat

plays a pivotal role in a Saudi company's dividend decisions (Al-Ajmi and Abo Hussain, 2011). Managers are not just reluctant to reduce or cut dividend payments when the company encounters unfavourable economic conditions that affect its performance, but they also tend to raise dividend payments to reduce the Zakat base and, in the end, the amount of Zakat that is due. This result contrasts with those of Uddin and Osman (2008), who reported that Zakat is not a significant determinant of a company's dividend policy for three reasons: (1) it is a levy on the net current value of assets held over one year, so the required amount of Zakat would be considered a fixed cost for the next financial year; (2) Zakat is charged separately to both the company and its investors. Therefore, investor wealth would not be affected by a current dividend payment because an investor's Zakat is calculated based on net wealth held for one year; and (3) the Zakat rate is 2.5%, which is considered a sufficiently low rate that it should not significantly affect a company's or investor's preferences regarding dividends.

Alzomaia and Al-Khadhiri (2013) conducted a study examining different factors that influence companies' dividend decisions in the Saudi context. The study used a regression model with dividend per share (DPS) as a dependent variable for 105 non-financial companies listed on the Saudi Stock Exchange over the period 2004–2010. The results are similar to those of the three previous studies, all agreeing that profitability is an essential determinant of dividend decisions in Saudi-listed companies. The authors also highlighted that companies tend to consider the previous year's dividend when determining their level of dividend payment; they argued that the Saudi stock market endorses signalling theory, explaining that 'their [profitability and last year's dividend payments] positive relationship with dividend policy show[s] that the companies [are] willing to pay more dividends when experiencing an increase in their level of profitability with high consideration of the level of last year['s] dividends' (Alzomaia and Al-Khadhiri, 2013, p.191).

A more recent study by Al-Kayed (2017) included a panel regression of a sample of Saudi-listed companies consisting of six Islamic banks and six conventional banks to identify the factors that determine banks' dividend payment decisions. In addition, the author examined whether the determinants of the dividend decision were the same for both types of banks. The study, which covered the period between 2011 and 2014, found that profitability, the last year's dividend and leverage had a significant

influence on Islamic banks' dividend payment decisions, while profitability, liquidity, leverage, growth and last year's dividend had a significant effect on the dividend policies of conventional banks. Moreover, Al-Kayed indicated that conventional banks paid more stable and higher dividends compared with Islamic banks[45]. In contrast to Al-Malkawi, Twairesh and Harery (2013) and Alzomaia and Al-Khadhiri (2013), Al-Kayed (2017, p.126) observed that 'management in both Islamic and conventional banks are not using their dividends to signal information to the market'.

Al-Qahtani and Ajina (2017) examined the impact of ownership structure on a company's dividend policy by using three types of ownership structures: managerial, family and institutional ownerships. Their sample included 100 non-financial listed companies on the Saudi Stock Exchange for the period 2012–2015. The results indicated that the level of dividend payments increased with managerial ownership, whereas the distribution level of dividends decreased with families and institutional investors ownership structures. Moreover, profitability was a dominant determinant of dividend payment decisions (Osman and Mohammed, 2010; Al-Ajmi and Abo Hussain, 2011; Al-Malkawi, Twairesh and Harery, 2013; Alzomaia and Al-Khadhiri, 2013; Al-Kayed, 2017). In line with Osman and Mohammed (2010), company size and leverage were found to have an impact on dividend policy, and in contrast with Osman and Mohammed (2010) and Al-Malkawi, Twairesh and Harery (2013), growth opportunities were found to impact dividend policy (Al-Qahtani and Ajina, 2017).

Based on the studies conducted in the Saudi Arabian market, there is a consensus among Saudi researchers that profitability has a significant impact on companies' dividend payment decisions. This finding supports Lintner's (1956) position, which shows the vital role of a company's earnings in determining its level of dividend payment. The degree of the influence of Zakat on dividend payment decisions in Saudi companies remains to be a conservational topic among researchers. The review of the literature on Saudi dividend payment decisions revealed that all previous Saudi studies were based on regression models and secondary data.

[45] The author noted that although the Islamic banks were more profitable, they paid out low dividends compared to conventional banks: 'This can be due to the juvenility and higher growth opportunities available for Islamic banks' (Al-Kayed, 2017, p.125).

Alternatively, the current study aims to provide a full picture of dividend phenomena in the Saudi context. To do so, the present study employs both a survey questionnaire and interview approaches to obtain the views of managers who are actively engaged in determining their companies' dividend payment decisions and strategies.

Table 3-1 displays previous studies of the listed companies in the Saudi Arabian Stock Exchange, analysing the various factors affecting the dividend payment decisions of companies.

Table 3-1: Studies of Determinants of Dividend Payment Decisions in the Kingdom of Saudi Arabia

Study	Sample	Observations	Method	Main Findings
Osman and Mohammed (2010)	14–37 financial companies and 37–105 non-financial companies listed on the Saudi Stock Exchange from 1989–2004	413 for financial companies and 1,057 for non-financial companies	Tobit and probit regression models with a dividend yield as a dependent variable	Profitability, size, business risk, ownership structure, age and leverage had a significant impact on the dividend policies of non-financial companies. Profitability, size and business risk were the only three determinants of dividend policy for financial companies. Agency costs, asset tangibility and growth opportunities were not highly influential on dividend policies for either type of company. The determinants of the company's probability to pay dividends were similar to the factors determining the level of dividend payment.
Al-Ajmi and Abo Hussain (2011)	54 listed companies on the Saudi Stock Exchange from 1990–2006	708	Linter model and logit regression model, with the dividend per share as a dependent variable	Profitability, previous dividend payments, cash flow and life cycle (maturity) all determined the dividend policies of Saudi companies. Saudi companies did not follow a regular dividend payout. Zakat (Islamic tax) played a role in a company's dividend payment decision. Agency costs did not affect dividend payments.
Al-Malkawi, Twairesh and Harery (2013)	69 non-financial companies listed on the Saudi Stock Exchange over the period 2005–2011	483	A logit regression model, with the likelihood of paying dividends as a dependent variable	Profitability, maturity and company size were the three influential factors for a company's possibility of paying dividends. Business risk and leverage were negatively correlated with a company's dividend decisions. Ownership structure, growth opportunities and asset tangibility were not crucial in the company's dividend policy. Supported signalling theory.
Alzomaia and Al-Khadhiri (2013)	105 non-financial listed companies between 2004 and 2010	665	The multiple regression model, with dividend per share as a dependent variable	Profitability and the previous year's earnings were the most influential factors when companies determined the level of dividend payment. Supported signalling theory.
Al-Kayed (2017)	6 Islamic banks and 6 conventional banks listed on the Saudi Stock Exchange from 2011–2014	Not reported	A multiple regression model, with the dividend yield ratio as a dependent variable	Profitability, the previous year's dividends and leverage were the only three factors affecting dividend policies for Islamic banks. Profitability, liquidity, leverage, the previous year's dividend and growth opportunities had a significant effect on the dividend policies of conventional banks. Did not support signalling theory.
Al-Qahtani and Ajina (2017)	100 non-financial listed companies on the Saudi Stock Exchange from 2012–2015	400	A regression model, with the rate of dividend distribution as a dependent variable	The ownership concentration did not influence the dividend payment decisions. A significant positive relationship was found between managerial ownership and the dividend payout ratio. A negative relationship was found between family ownership and the dividend payout ratio. A negative relationship was found between institutional investor ownership and the dividend payout ratio. Agency costs had no impact on dividend payments.

Note: The table presents an overview of studies that have investigated dividend payment decisions in Saudi-listed companies.

3.5.2 Dividend Announcements and Share Price Reaction in Saudi Arabia

Miller and Modigliani (1961) assumed that the market is perfect and information is available to all participants in the market (both inside and outside participants). However, Al-Malkawi, Rafferty and Pillai (2010) noted that this proposition is not applicable on the Saudi market, where there appears to be an information gap between managers (insiders) and shareholders (outsiders).

The Saudi stock market is quite different from those of developed countries because of two essential characteristics: (1) no tax is paid on dividends[46], or capital gains, and (2) most companies finance their ventures with bank loans instead of other market sources (Osman and Mohammed, 2010; Al-Malkawi, Twairesh and Harery, 2013; Al Qudah and Badawi, 2015). Some research findings suggest that the implications of some corporate dividend theories will be different in Saudi Arabia compared to other countries because of the specific features of Saudi Arabia's financial and tax systems, which may run counter to Miller and Modigliani's (1961) assumptions (Uddin and Osman, 2008; Al Qudah and Badawi, 2015).

In addition, other studies have explored the impact of dividends on a company's share price. For example, Uddin and Osman (2008) examined the extent to which dividends affect shareholder value in the Saudi Stock Exchange, which is a tax-free economy (no taxes are paid by companies or investors on dividends); they employed an event study using the market- adjusted model with the exclusion of the market parameters (β and α). The study used the Tadāwul All Share Index (TASI) as a proxy to calculate the expected return because of the shortage of available data. Uddin and Osman chose a window period of 61 days (AD = 0, -30 before and +30 after) for 28 Saudi-listed companies that declared 178 dividends announcements from 2001 to 2005. The empirical findings reveal that the value of the market-adjusted abnormal return (MAAR) on the AD was only 0.05% and not significant[47]. The CARs result increased from 0.25 on day -30 to 1.40 on the AD, but then, this value decreased over the next 30 days and

[46] The only exception from this is the 5% withholding tax on dividends received by non-resident shareholders. This was detailed in Chapter 2.

[47] Most MAAR values were positive during the pre-announcement window, whereas most MAAR values were negative during the post-announcement window. The MAAR values were significant on days +5, +4, +3, -2, -3 and -5. The MAAR values five days before the announcement date were higher than their values on the announcement day; this may be due to information leakage to the market before the company made the announcement (Uddin and Osman, 2008).

reached -2.20 on day +30. The authors also divided the primary sample, which included 178 dividend announcements, into three sub-samples: dividend increase, divided decrease and first-time dividend announcement. For the stocks that announced increasing dividends, the market value of the stock declined by approximately 1.68%, and after a period, the investors recovered from this by receiving a cash dividend. In this case, the dividend announcement did not convey any information about the company's future cash flow. It was found that a dividend reduction announcement led to a decrease in the market value of approximately 4.19% during the period under examination. According to this result, an announcement of declining dividends signals that the company's cash flow will decrease in the future. The last case of dividend announcements included first-time company dividend announcements, from which investors gained approximately 1.77% of market value after the dividend AD and about 13.72% of the return comprising the dividend received. However, Uddin and Osman asserted that despite the positive signal given by an initial dividend announcement about the company's future operating performance, this information is somewhat weaker and not clear to investors; these insights are based on the fluctuation seen in these companies' stock values over the post-announcement period. The result is in line with Miller and Modigliani's suggestion regarding dividend irrelevancy and the information content of dividend announcements (Uddin and Osman 2008). Moreover, Uddin and Osman (2008, p.93) noted the following:

> The effect of [a] dividend announcement is not very significant in the Saudi stock market. Shareholders gain nearly 1 percent of value over the five-day period before announcements of dividend but lose the gained value over the next five-day period following the announcement

Using an empirical approach, Al Qudah and Badawi (2015) examined the implementation of signalling theory in the Saudi stock market as an emerging market compared to developed markets[48]. The sample included 47 companies that declared first-time dividend announcements, with a total of 47 dividend announcements in the third quarter of 2013. The authors used an event study with the single market model[49] to

[48] The Saudi stock market has unique features, especially because it is a tax-free economy. Additionally, it is characterised by family-concentrated ownership, and the level of information asymmetry in this market is high (Al Qudah and Badawi, 2015).

[49] The estimation period of 100 days before the dividend announcement had been made was used to calculate the market parameters β and α in the market model.

calculate the abnormal returns (ARs) and cumulative average abnormal returns (CAARs) of the 21-day window period (AD = 0, -10 before and +10 after). The tested signalling hypothesis implies that dividend announcements convey information to investors and provide a positive relationship between dividend changes and a company's share price. The result indicates that a company's share price is unresponsive to dividend announcements in the Saudi stock market[50]. This supports the findings of Uddin and Osman (2008), which imply that dividend announcements do not have an impact on the share prices of Saudi listed companies.

In contrast to the two studies listed above, Chaabouni (2017) found a signalling effect of dividend announcements and their positive reflection in share prices in the Saudi stock market. The author used an event study methodology with the market-adjusted model[51] to calculate the ARs and CAARs for an event window of 21 days (-10, +10) to determine whether there is a relationship between abnormal returns and share prices. The sample included 10 dividend announcements by 10 listed companies[52] that announced dividend payments during the period 2014–2015. The result indicates that the value of AAR was 0.0092 on the announcement day and was statistically significant[53]. Likewise, the CAAR values were recorded as significant and positive, particularly in the post-announcement period. The findings indicate that the stock price immediately responded positively to the announcement of the dividend. This shows that information about dividends reflects the prices of stocks. This result is contrary to the two previous studies conducted on the Saudi stock market by Uddin and Osman (2008) and Al Qudah and Badawi (2015), which indicated that dividend announcements do not signal any significant information to outsiders.

[50] In this study, the authors used both parametric (t-test) and non-parametric (generalised sign test) tests to examine whether the AR differed significantly from zero. The results from the two test types revealed that the AR did not significantly differ from zero (Al Qudah and Badawi, 2015).
[51] The estimation period of 120 days before the announcement date was used to estimate the market parameters β and α in the market model.
[52] These 10 companies must have at least 130 trading days before the announcement and 10 trading days after the announcement to be included in the sample.
[53] There was a significant positive AAR on days -5, -6 and -8 prior to the announcement day. This implies that the market reacted prior to the day the company made its actual announcement. This may be explained by the leakage of information related to the dividend announcement. Similarly, the majority of AAR values over the post-announcement window period varied significantly from zero (except days +2, +5, +6 and +9), confirming that the share price reflects—immediately and for a few days after the announcement day—the information content of the dividend announcement (Chaabouni, 2017).

Overall, the three studies published on the Saudi stock market provide mixed evidence on the share price response to dividend announcements. Some of these studies' findings also provide an outdated view of the implementation of signalling theory in the Saudi market[54]. Moreover, most of the study samples were relatively small[55] and, thus, can provide only a partial view of the relationship between dividend announcements and returns in the Saudi stock market; indeed, they may be considered too small to draw such conclusions. The current thesis employs a larger sample of observations—280 dividends announced by 99 listed companies over eight years (2011–2018), to study whether share price reflects the information contained in the announcements of dividend change levels for Saudi-listed companies. These findings are reported in Chapter 7.

The previous studies examining the signalling effects of changes in dividend payment levels in Saudi-listed companies are shown in Table 3-2.

[54] Especially the study of Uddin and Osman (2008), which was carried out prior to the significant development stages the market has passed through over the past 10 years since the establishment of the Saudi Stock Exchange Company in 2007. Moreover, in 2008 and 2015, new investment laws regarding foreign investors were issued, causing non-resident investors to pay withholding tax (i.e., 5% on dividends).

[55] The number of dividend announcement observations is 178 in Uddin and Osman (2008), 47 in Al Qudah and Badawi (2015) and 10 in Chaabouni (2017).

Table 3-2: Previous Studies Investigating Signalling Theory in the Saudi Arabian Stock Market

Study	Sample	Observations	Method	Main Findings
Uddin and Osman (2008)	28 companies listed on the Saudi Stock Exchange over the period 2001–2005.	178 dividend announcements	Event study using the adjusted market returns model to calculate the MAARs and CARs	Investors in the Saudi stock market lost market value of 2.20% after the dividend announcement. The results are consistent with Miller and Modigliani's research study, which noted that dividend payment policies do not affect company value. Does not support signalling theory, which holds that an increase in dividends does not signal useful information about the company's future earnings. A dividend decrease conveys negative information regarding the company's future prospects. In contrast, dividend initiation provides a weak signal about the company's performance because of fluctuation in the abnormal return value over the post-announcement period.
Al Qudah and Badawi (2015)	47 companies listed on the Saudi stock market for the third quarter of 2013.	47 dividend announcements	Event study using the market model to calculate the ARs and CAARs	Does not support signalling theory, which propagates that dividend changes do not convey information and that share prices do not react to announcing changes in dividend levels. An insignificant AR indicates that dividend announcements do not affect a company's share price in the Saudi Stock Exchange. Investors cannot utilise signalling theory when assessing a company's future prospects in the Saudi market because of market characteristics.
Chaabouni (2017)	10 companies listed on the Saudi Stock Exchange for 2014–2015.	10 dividend announcements	Event study using the market model to calculate the AARs and CAARs	Significant AAR on the announcement date, indicating that dividend announcements affect a company's share price on the Saudi Stock Exchange. The results of most CAARs were significant and positive, which supports signalling theory for the Saudi Stock Exchange.

Note: The table presents an overview of the previous studies that have investigated the signalling effects of dividend changes in Saudi-listed companies

3.6 Chapter Summary

In all the studies reviewed in this chapter, Lintner's theoretical model plays a prominent role in explaining the behaviours related to companies' dividend payment decisions. In particular, most managers determine the level of dividends to be paid depending on the company's earnings (stability of the earnings level and the current and future earnings) and the previous year's dividends. Moreover, the evidence from prior research findings shows that the determinants of dividend payment decisions are similar among most developed and developing countries because differences may arise from the level of importance managers attach to different factors that affect dividend policy (Baker and Powell, 2012; Baker and Kapoor, 2015; Baker and Jabbouri, 2016; Baker, Kilincarslan and Arsal, 2018).

The most important theories on dividend policy have also been reviewed, although the current thesis focuses more closely on signalling theory. There is considerable support for the signalling hypothesis, which implies that dividend changes act as a signalling device to convey information to the market regarding the company's future performance. In particular, an increased dividend level provides positive signs of a company's earnings, while decreased dividend payments signal negative information about its earnings (Baker and Powell, 1999; Dhanani, 2005; McCluskey, Burton and Power, 2007; Baker and Kapoor, 2015; Baker and Jabbouri, 2016; Baker, Kilincarslan and Arsal 2018).

A detailed discussion of the empirical framework for the current thesis is outlined in the following chapter (Chapter 4), including the theoretical framework, the conceptual framework, the research philosophy and the three different research methods employed (i.e., survey, interview and an event study).

Chapter 4
Research Methodology

4.1 Introduction

The foundation for understanding and investigating dividends in a Saudi context was laid in Chapters 2 and 3. Chapter 2 provided an overview of Saudi Arabia's environment, along with its history, economic growth and stock market structure, as well as the principal regulations that affect companies operating in the Kingdom and have a direct effect on Saudi dividend policy, such as Zakat and Income Tax. Specifically, Chapter 3 examined the literature on the major aspects of the current study and detailed the conceptual framework for the dividend phenomenon.

The primary purpose of the current thesis is to examine dividend payment decisions in Saudi Arabia, particularly the critical factors that affect dividend policy and the impact of dividend announcements on Saudi companies' share prices. To investigate the dividend phenomenon, it is essential to determine which research strategy or plan will address the purpose of the thesis, including the convergence of its philosophy, research designs and practical methods (Creswell, 2014). This chapter addresses the research methodology and methods, as well as describing the philosophical assumptions that support the theoretical framework used in the current thesis. The chapter also describes and justifies the chosen research methods in the investigation process and the rationale for the logical sequences of the quantitative and qualitative methods used in the study.

This chapter is divided into the following sections. Section 4.2 describes the theoretical framework underpinning the current research study, while Section 4.3 presents the conceptual framework for the current thesis. Section 4.4 explains the philosophical assumptions and various research paradigms operating behind any study in the social sciences. The research assumptions of the present thesis are discussed in Section 4.5, while Section 4.6 provides the research design for the current study. Section 4.7 sets out the various testing methods used in this study. Section 4.8 concludes the chapter.

4.2 Theoretical Framework

As previously mentioned in Chapter 3, prior research studies do not agree on why corporations pay dividends to shareholders. Graham and Dodd (1934) believed that the fundamental reason for the existence of a company was to provide dividends to its shareholders, which would affirm the views in the literature on the value of the dividend policy for the valuation of a company (cited in McCluskey, 2005, p. 43). On the other hand, in 1961, Miller and Modigliani defined dividends as irrelevant, which remains a contentious proposition.

Miller and Modigliani's position of irrelevancy proposes that the dividend policy is unrelated to the valuation of a company's stock under the restrictive conditions of perfect markets, rational investors and absolute certainty. In addition, their theory argues that investors are indifferent toward cash dividends or retained earnings (Miller and Modigliani, 1961). This means that dividend announcements do not impact a company's valuation. Therefore, if one or more market imperfection assumptions do not hold, dividend policy would be applicable to the valuation of the company. In some capital markets, such as emerging markets, the presumption that information is available to all market participants at no cost may be violated (information asymmetry). This situation seems to characterise Saudi Arabia, according to Chapters 2 and 3, which suggests that the information content of dividend announcements is a subject worth investigating in the present thesis. The signalling function of a dividend announcement is especially essential when a company's information is not accessible to all market investors – a situation that is typical of Saudi Arabia.

According to signalling theory, managers use an unexpected change in the level of the dividend payments to transmit information to investors about a firm's prospects. The dividend signalling hypothesis means that the stock price of a company responds to the information content of dividend announcements, along with all news released during the time of the dividend announcement (Pettit, 1972). The stock market response to dividend information content represents the market incorporating the news into the share price (Pettit, 1972).

The efficient market hypothesis (EMH), as defined by Fama (1970, p. 383), posits 'a market in which prices always fully reflect available information' at any time. The author also divided the EMH into three categories based on the types of information incorporated into the share price. First, there is the weak form of the EMH, which

indicates that the share price represents the historical data on the market, including historical prices and details about trading volumes. This version of the EMH means that no investor can earn an abnormal return using past market data (such as historical dividend news) in the analysis of an investment decision. Second, there is the semi-strong form of the EMH, which states that the share price incorporates the historical information, as well as the public information (i.e., current earnings, recently published financial statements, current dividend announcements and earnings reports). Thus, share prices adjust quickly and without bias to integrate any new information published on the market. According to this version of the EMH, it is not helpful to use the public data in evaluating the shares of the company, because the data are available to all market participants at the same time and instantaneously incorporated into share prices upon disclosure. Finally, the strong form of the EMH stipulates that share prices reflect all available public data, along with private information that is been held by the company's managers and other insiders.

To evaluate the efficiency of the Saudi stock market with regard to dividend news and define the forms of the EMH that characterise share prices, the present thesis includes an eight-year event study of all Saudi-listed companies that declared dividends between 2011 and 2018. If the event study shows a significant abnormal return on the date of dividend announcements, it would imply that the dividend news signals information about a company's future prospects and that the market is efficient because the share price reacts quickly to the newly released information. On the other hand, if the findings show a significant abnormal return on the days before the dividend declaration day, it might mean that the dividend news was leaked to the public beforehand but that the market is efficient in reacting quickly to the news. In contrast, if the results show a significant abnormal return on the post-announcement period, this may imply that the market takes some time to absorb the new data and integrate them into the share price, calling the semi-strong form of the EMH into question.

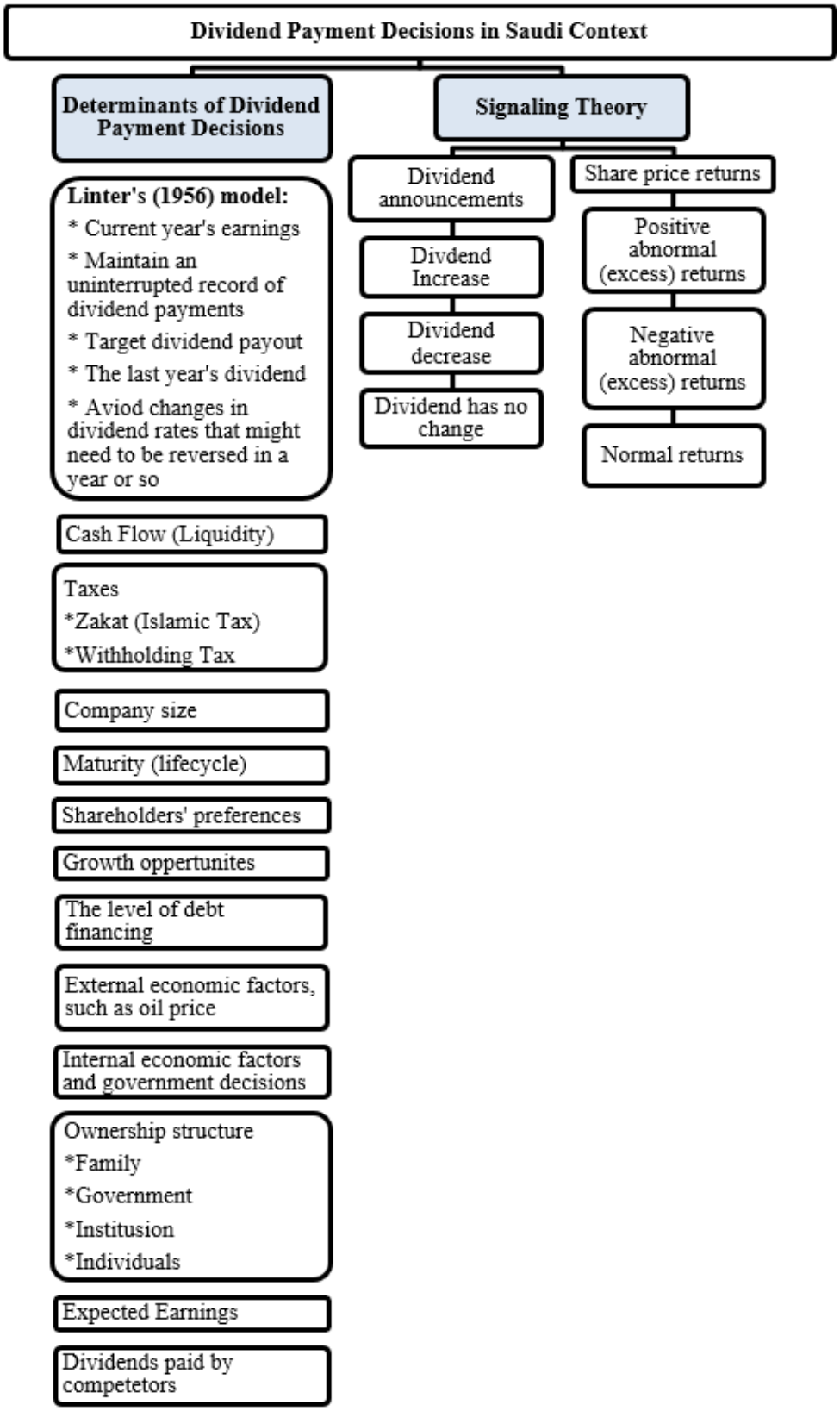
4.3 Conceptual Framework

A conceptual framework is described as 'a network, or a "plane", of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena' (Jabareen, 2009, p.49). A visual presentation of the dividend phenomenon and a number of related topics to be explored in the current thesis can be seen in Figure

4-1. Based on the determinants of dividend payment decisions that have been described by previous empirical studies in the Western and Eastern regions and the limited number of published works focusing on a Saudi context (Chapter 3), the left side of the figure shows various factors that affect or may affect Saudi companies' dividend payment decisions. Signalling theory, shown on the other side of the model, represents the theoretical structure (Section 4.1 in the current chapter), which compliments the first section of the present thesis and the conceptual framework mentioned in Figure 4-1.

This combination between the determinants of dividend payment decisions and signalling theory should enable more in-depth insights into the subject under investigation. The following sections describe the philosophical assumptions and various research approaches used to examine this conceptual framework.

Figure 4-1: The Conceptual Framework of the Current Thesis



Note: This figure presents the conceptual framework of the current thesis regarding dividend payments decision based on a review of the literature (Chapter 3), including several factors that affect dividend decisions and the signalling potential of such decisions.

4.4 Philosophical Assumptions and Research Paradigms

The *research philosophy* concept represents a set of beliefs and assumptions about how knowledge is developed (Saunders, Lewis and Thornhill, 2019). According to Saunders, Lewis and Thornhill (2019), a well-considered and consistent set of assumptions will form a reliable research philosophy and serve as the foundation for a researcher's methodological choice, research strategy, data collection techniques and analysis procedures. As such, a researcher can design a cohesive project in which all research components are integrated (Saunders, Lewis and Thornhill, 2019).

To conduct any academic research in the accounting and finance areas, determining a contestable and defendable perspective on theory, methodology and change are important (Laughlin, 1995). Various sets of philosophical assumptions exist behind any research. Business research is defined concisely by Sekaran and Bougie (2016, p.2) as 'a systematic and organised effort to investigate a specific problem encountered in the work setting, which needs a solution'. The philosophical assumptions that the researcher adopts have clear consequences regarding how the researcher attempts to explore and gain information about the social world; consequently, academics' philosophical beliefs are likely to drive them to adopt specific methodologies (Burrell and Morgan, 2016).

Johnson *et al.* (2006) noted that any research must constantly adapt the specific methodological standards supported by prior philosophical assumptions. According to the authors, recognising that previous knowledge-constituting assumptions are an inevitable part of any research is critical because no areas remain for the researcher that is not governed by some structuring philosophical logic. However, as has long been acknowledged, adopting any set of knowledge-constituting assumptions is always problematic, as there is no single unquestionable framework of ontological and epistemological assumptions that can be used to defend and regulate any research (Johnson *et al.*, 2006).

There are three research approaches that researchers can use in conducting any research project—the qualitative, quantitative and mixed-methods approaches. The qualitative research approach is defined as follows:

> An approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. (Creswell, 2014, p.4)

The quantitative research approach is described as:

> An approach for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analysed using statistical procedures. (Creswell, 2014, p.4)

Finally, mixed-methods research and is explained as follows:

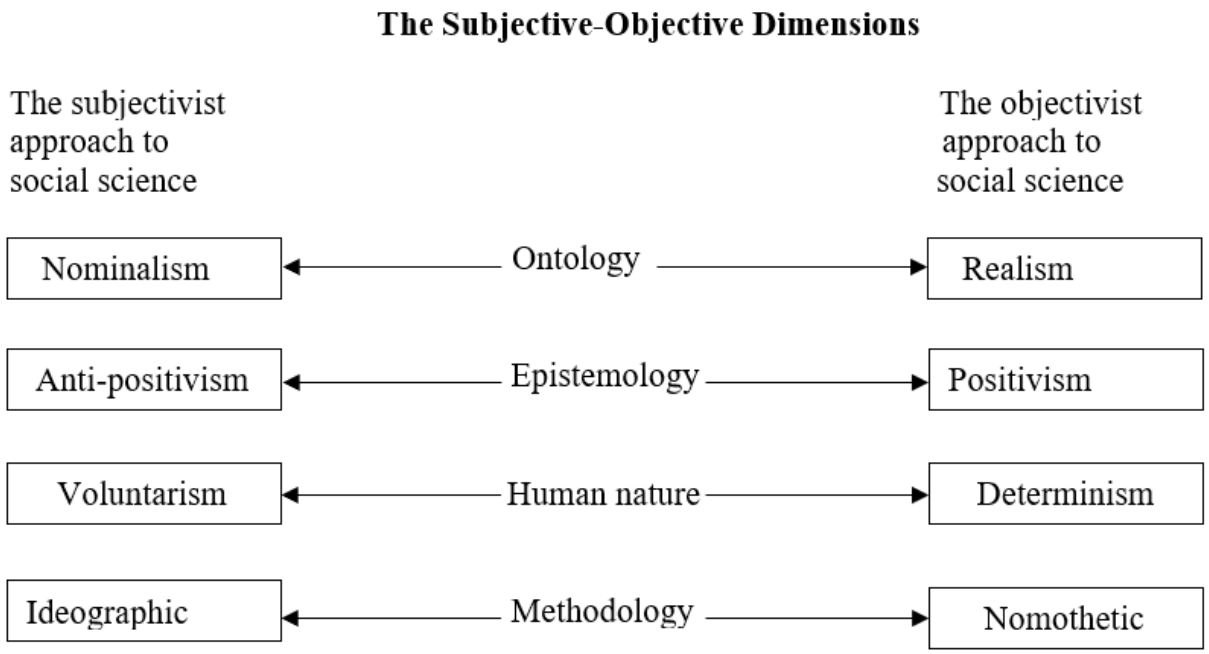
> An approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using a distinct design that may involve philosophical assumptions and a theoretical framework. This core assumption of this form of inquiry is that the combination of qualitative and quantitative approaches provides a more complete understanding of a research problem than either approach alone. (Creswell, 2014, p.4)

This thesis attempts to discover what determines the dividend decisions of Saudi companies and the impact of these decisions on these companies' share values. A mixture of quantitative and qualitative methods (mixed methods) is considered an appropriate research approach with which to address these issues for several reasons that are outlined in this chapter.

Burrell and Morgan (1979; 2016) have contributed the most to creating a philosophical framework to understand a wide diversity of approaches to social science in academic research (Hopper and Powell, 1985; Chua, 1986; Laughlin, 1995). These authors constructed a two-by-two matrix centred on two bipolar continuums. The first proposed alternative approaches to social science, varying from subjectivist to objectivist, while the second included various assumptions about the nature of society, spanning from the 'sociology of regulation' to the 'sociology of radical change' (Laughlin, 1995). Burrell and Morgan (2016) proposed that social science research can be grouped into one of four categories based on assumptions relating to ontology, epistemology, methodology and human nature. They argued that researchers should be aware of their work's philosophical assumptions; in particular, they must clarify their perception of reality and how to attain knowledge about it (Khan, 2011). The four philosophical

assumptions that underlie social science are defined in Figure 4-2; they are addressed in more detail in subsequent sections of this chapter.

Figure 4-2: Assumptions about the Nature of Social Science



Source: Burrell and Morgan (2016, p.3)
Note: This figure shows the subjective-objective dimension's two approaches and their assumptions regarding any social science.

4.4.1 Ontology

Denscombe (2010, p.118) defined ontology as 'the nature of social phenomena and the beliefs that the researcher holds about the nature of social reality'. According to Burrell and Morgan (2016), the essence of ontological assumptions relates to whether reality exists externally to the individual, out there in the world, or internally, as a result of the individual's consciousness. That is, ontology relates to whether reality occurs independently of individuals (objective nature) or is produced as a product of an individual's mind (subjective nature). In other words, ontological assumptions aim to answer the question of 'what is' (Scotland, 2012). Researchers' ontological assumptions influence how they perceive and investigate their research objects; in business and management, these objects include companies, managers, individual work lives and corporate events and artefacts (Saunders, Lewis and Thornhill, 2019). According to Saunders, Lewis and Thornhill (2019), researchers' ontologies shaped their

perceptions of the business and management environment and, consequently, their selection of topics for their study project.

Burrell and Morgan (2016) explained how researchers perceive reality from two extreme positions—nominalism and realism. The nominalist (conventionalist) position views the social world as 'external to individual cognition [and]… made up of nothing more than names, concepts and labels which are used to structure reality' (Burrell and Morgan, 2016, p.4). In contrast, the realist position perceives the social world as 'external to individual cognition [and]… a real world made up of hard, tangible and relatively immutable structures' (Burrell and Morgan, 2016, p.4).

4.4.2 Epistemology

After determining the researcher's view of the nature of reality, the next step is to determine how to obtain knowledge about the world and convey it to people. The term *epistemology* is defined as 'the ways that humans create their knowledge about the social world', which 'involves philosophical debates about the basis on which we can claim to have knowledge' (Denscombe, 2010, p.119). According to Burrell and Morgan (2016), epistemological assumptions seek to respond to questions about how the world should be understood and how that interpretation should be communicated as knowledge to others; specifically, epistemology considers whether knowledge is something to be gained (positivism) or something to be learned personally (anti-positivism). Moreover, 'epistemological assumptions are concerned with how knowledge can be created, acquired and communicated, in other words, what it means to know' (Scotland, 2012, p.9).

Burrell and Morgan (2016) classified the researcher's approach to obtaining knowledge into two extreme positions—positivism and anti-positivism. The positivist position is based on 'the idea of using scientific methods to gain knowledge, and it regards the observation and measurement of the properties of objects as crucial to the way we find out about social reality' (Denscombe, 2010, p.119). In addition, this position is related to the quantitative research approach, which focusses on the regularities and interactions between components studied in the social sciences. In comparison, the anti-positivism stance focusses on the idea that 'the social world is essentially relativistic and can only be understood from the point of view of the individuals who

are directedly involved in the activities which are to be studied' (Burrell and Morgan, 2016, p.5). From this perspective, the position of anti-positivism is linked to qualitative research, and social sciences are regarded as a subjective rather than objective form of enquiry.

In general, the two divergent epistemological assumptions enable researchers to employ a variety of research approaches. However, it is critical to acknowledge the implications of epistemological assumptions for a researcher's method selection and the strengths and limitations of the subsequent study findings (Saunders, Lewis and Thornhill, 2019).

4.4.3 Human Nature

After deciding on the ontological research assumption of the world's reality and the epistemological approach to knowledge acquisition, the next stage is to state the relationship between humans and their surroundings. The assumption of human nature investigates whether individuals are regulated and treated as objects of their environment or unaffected by the external world (Burrell and Morgan, 2016).

From the point of view of the subjective–objective framework, Burrell and Morgan (2016) proposed that views on human nature can be classified into extremist perspectives, varying from determinism to voluntarism. The determinist position considers humas and human activities as 'completely determined by the situation or environment in which [they are] located', whereas the voluntarist position assumes that humans are 'completely autonomous and free-willed' (Burrell and Morgan, 2016, p.6). Social scientists are situated somewhere between the two extreme positions and take an intermediate view that enables them to study the effects of both situational and voluntary influences on human behaviour (Burrell and Morgan, 2016).

4.4.4 Methodology

Various ontological, epistemological and human nature frameworks can influence researchers' approaches when conducting studies, reflecting on the methodologies they should adopt (Scotland, 2012; Burrell and Morgan, 2016). The methodology is defined as 'the strategy, plan of action, process or design lying behind the choice and use of

methods and linking the choice and the use of methods to desired outcomes' (Crotty, 1998, p.3). Therefore, the methodology determines why, what, where, when and how to obtain and interpret the data (Scotland, 2012).

Methodologies can be classified into ideographic or nomothetic approaches, depending on the subjective-objective dimension of the researcher's study, according to Burrell and Morgan (2016). An *ideographic* approach focusses on 'the importance of the subjective experience of individuals in the creation of the social world' (Burrell and Morgan, 2016, p.3). Centred on this philosophical proposition, knowledge can be collected using qualitative methodological approaches to help researchers understand social environments and address the question of research in depth through personal experience. Conversely, a *nomothetic* approach centres on 'an analysis of relationships and regularities between the various elements which it comprises' (Burrell and Morgan, 2016, p.3). Based on the philosophical assumption that social reality is objective and external to human beings, knowledge may be acquired via the quantitative research approach, allowing the researcher to interpret social phenomena and test the relationship between observable social elements.

4.4.5 The Nature of the Social Structure

Once the four research assumptions (ontology, epistemology, methodology and human nature) have been established, it is important for researchers to determine their view of the nature of society. In 2016, Burrell and Morgan introduced two contrasting points of view, plotted on a continuum, about the nature of society—specifically, the sociology of regulation and the sociology of radical change. The authors illustrate the sociology of regulation as follows:

> It is sociology which is essentially concerned with the need for regulation in human affairs; the basic questions which it asks tend to focus upon the need to understand why society is maintained as an entity. It attempts to explain why society tends to hold together rather than fall apart (Burrell and Morgan, 2016, p. 17)

In comparison, the sociology of radical change is described on the other end of the continuum:

> It is a sociology which is essentially concerned with man's emancipation from the structures which limit and stunt his potential for

> development. The basic questions which it asks focus upon the deprivation of man, both material and psychic (Burrell and Morgan, 2016, p. 17)

While the sociology of regulation emphasises the status quo in the community, the sociology of radical change seeks to explore significant change and conflict within societies. Burrell and Morgan (2016) explained the extreme perspectives on how society operates and the variety of positions a researcher can take in understanding the nature of society; these are listed in Table 4-1.

Table 4-1: Regulatory-Radical Change Dimension

The Sociology of Regulation is concerned with:	The Sociology of Radical Change is concerned with:
(a) The Status Quo	(a) Radical Change
(b) Social Order	(b) Structural Conflict
(c) Consensus	(c) Modes of Domination
(d) Social Integration and Cohesion	(d) Contradiction
(e) Solidarity	(e) Emancipation
(f) Need Satisfaction	(f) Deprivation
(g) Actuality	(g) Potentiality

Source: Burrell and Morgan (2016, p.18)
Note: This table depicts two opposing viewpoints on the nature of society and the various characteristics of each view.

4.4.6 Paradigms

Research paradigm relates to researchers' views about the ontological and epistemological philosophical assumptions that underpin their research methodology and methods (Denscombe, 2010; Scotland, 2012). The term *paradigm* is defined as 'a set of basic and taken-for-granted assumptions which underwrite the frame of reference, mode of theorising and ways of working in which a group operates' (Saunders, Lewis and Thornhill, 2019, p.140). Burrell and Morgan (2016) designed a two-by-two matrix that generated four paradigms based on the convergence of various assumptions about social science (subjective–objective dimension) and the nature of society (regulatory–radical change dimension). Figure 4-3 illustrates the four independent paradigms of Burrell and Morgan (2016), in which scientists can view the social environment in various ways depending on their assumptions about the nature of societies (the vertical

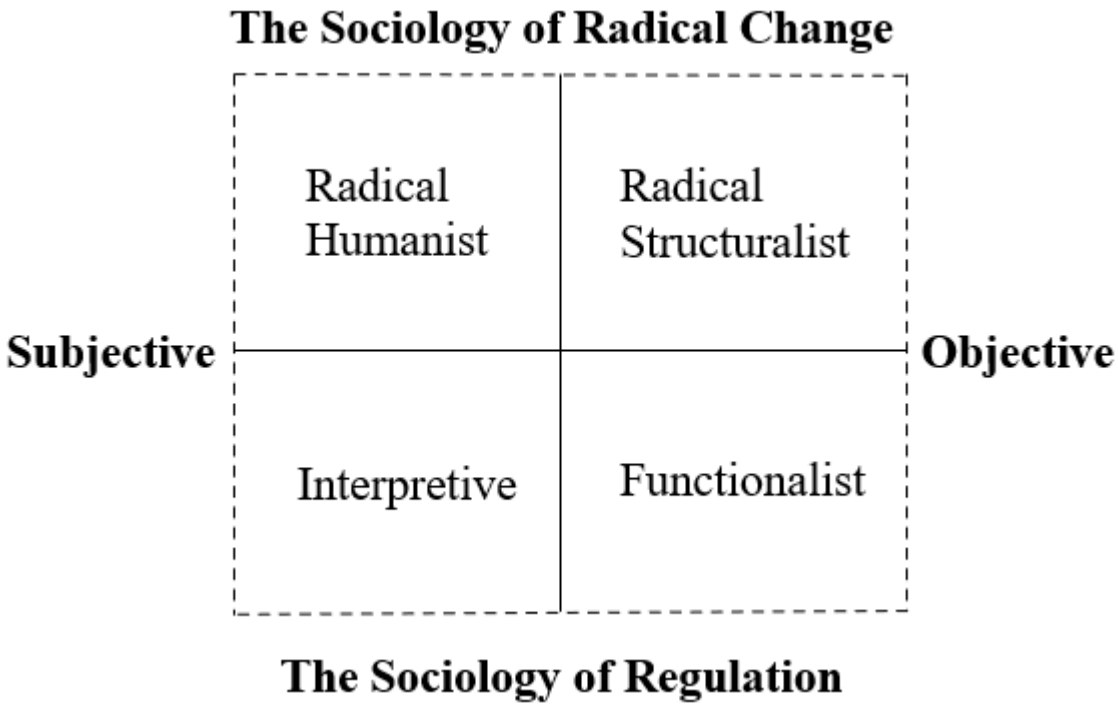
axis) and the social sciences (the horizontal axis). The authors' four sociological paradigms include the radical humanist, radical structuralist, interpretive and functionalist paradigms.

The functionalist paradigm reflects a stance embedded in the sociology of regulation and addresses its research topic from an objectivist viewpoint. The functional theories have been described as 'static in the sense that they are concerned with explaining the status quo' (Burrell and Morgan, 2016, p.14). The paradigm's purpose is to investigate logical explanations for phenomena in the social world using natural science methods. Burrell and Morgan (2016) argued as follows:

> The functionalist approach to social science tends to assume that the social world is composed of relatively concrete empirical artefacts and relationships which can be identified, studied and measured through approaches derived from natural sciences (Burrell and Morgan, 2016, p. 26)

The functionalist paradigm views the social world from an objective, realist ontological perspective. It is based on a positivist epistemology and nomothetical methodology, along with a determinist view of the natural human being. It focusses on 'providing explanations of the status quo, social order, consensus, social integration, solidarity, need satisfaction and actuality' (Burrell and Morgan, 2016, p.26). A problem-oriented strategy characterises the paradigm, granting realistic answers to specific concerns.

Figure 4-3: Four Paradigms in the Analysis of Social Theory



Source: Burrell and Morgan (2016, p.22).
Note: This figure demonstrates the relationship between the four paradigms of sociology, which are categorised as a radical humanist, radical structuralist, interpretive and functionalist.

The interpretive paradigm is rooted in the sociology of regulation and searches for the social world subjectively from the individual's viewpoint. According to Burrell and Morgan (2016), the interpretive model can be characterised as:

> A concern to understand the world as it is to understand the fundamental nature of the social world at the level of subjective experience. It seeks explanation within the realm of individual consciousness and subjectivity, within the frame of reference of the participant as opposed to the observer of action (Burrell and Morgan, 2016, p. 28)

The paradigm considers the following assumptions: a subjective perception of the social environment, a nominalist ontological stance, an anti-positivist epistemological perspective, a voluntarist position on human nature and an ideographic methodological approach to studying the social world. It reflects on people's daily experiences from the viewpoint of human consciousness and their involvement in the social environment. In addition, the interpretive paradigm centres on 'the nature of the status quo, social order, consensus, social integration and cohesion, solidarity and actuality' (Burrell and Morgan, 2016, p.31).

The radical humanist paradigm focusses on radical change sociology and explores the subject from a subjectivist point of view. Burrell and Morgan (2016) claimed that the radical humanist paradigm concerns the intervention of ideological superstructures in the consciousness of the human individual, thereby preventing true human fulfilment. This paradigm is similar to the interpretive paradigm in that it approaches the social environment from a perspective that appears to be one of nominalist ontology, anti-positivist epistemology, a voluntarist view of human nature and an ideographic methodology (Burrell and Morgan, 2016). However, the radical humanist paradigm differs from the interpretive one because it draws on the sociological perspective of radical change in society, attempting to eliminate the constraints of modern social structures. The researchers stated that 'the radical humanist places most emphasis upon radical change, modes of domination, emancipation, deprivation and potentiality' (Burrell and Morgan, 2016, p.32). A critical view of the status quo of existing social life, considering society to be anti-human, characterises the paradigm (Burrell and Morgan, 2016).

The radical structuralist paradigm reflects a stance centred on the sociology of radical change and adopts an objectivistic sociological viewpoint. The radical structuralist paradigm is characterised by the belief that modern society is shaped by fundamental contradictions that produce radical change through political and economic crises (Burrell and Morgan, 2016). This paradigm is similar to its functionalist counterpart because it involves the same presumptions of an objective viewpoint on reality, a realistic ontology, a positivist epistemology, a nomothetic methodology, and a deterministic perspective of human nature; nevertheless, the radical structuralist paradigm is different in that it concentrates on analysing radical change in society. In addition, although the radical humanist and radical structuralist paradigms both have the same concern of studying radical change in modern society, they are distinct: The radical humanist paradigm explores the individual's consciousness as the foundation of the radical criticism of society, whereas the radical structuralist paradigm emphasises structural relationships in a realistic social environment (Burrell and Morgan, 2016). Burrell and Morgan (2016, p.32) reported that 'radical structuralism is committed to radical change, emancipation, and potentiality, in an analysis which emphasises structural conflict, modes of domination, contradiction and deprivation'.

Burrell and Morgan's proposed paradigms are based on mutually incompatible approaches to research that provide different perspectives on the social world. The

authors state that the four paradigms are essentially substitutes, in that researchers can function sequentially in various paradigms over time. However, at any given point, researchers should not adopt more than one paradigm because they necessarily reject the premises of all other paradigms by embracing one paradigm's assumptions.

Researchers use Burrell and Morgan's four paradigms and the conceptual assumptions that underlie the paradigms while conducting research (Hopper and Powell, 1985; Chua, 1986; Laughlin, 1995; Saunders, Lewis and Thornhill, 2019). However, academics have criticised Burrell and Morgan's proposed paradigms for several reasons. For example, it is argued that their suggested four paradigms are analytically distinct and strive to follow rigid dichotomies either by claiming that human beings are regulated by their social environment (determinism) or by being independent and voluntary (voluntarism)[56] (Hopper and Powell, 1985; Chua, 1986; Saunders, Lewis and Thornhill, 2019). It has been stated that 'the use of mutually exclusive dichotomies and derivation of paradigms that cannot be synthesised fails to locate philosophical attempts to overcome such unsatisfactory dichotomies' (Chua, 1986, p.626). Furthermore, this framework includes a highly relativistic notion of scientific reality and purpose; paradigms should not be chosen and tested for rigorous scientific explanations (Chua, 1986). Given these issues, Chua (1986) provided an alternative classification [57] of Burrell and Morgan's proposed framework that is rooted in three philosophical assumptions about knowledge, assumptions about physical and social beings and the relationship between theory and human activities in the real world[58].

Chua (1986) asserted that the introduction of these assumptions tends to resolve the problem of the Burrell and Morgan framework, which is that alternative worldviews and their underlying assumptions are taken as mutually incompatible dichotomies in an effort to connect the opposite ends of a continuum; the new assumptions address

[56] In this regard Habermas (1978) noted that 'while individuals do act and shape meanings, they may still live within structures of domination in society' (cited in Chua, 1986, p. 626).
[57] Hopper and Powell (1985) found that the distinction between the radical humanist and radical structuralist models is not well endorsed in sociology; thus, they merge the two paradigms into one radical model. The authors, therefore, split research on the organisation and social sciences of accounting into three main groups— functional, interpretive and radical.
[58] According to Chua (1986), beliefs about knowledge can be split into related sets of assumptions as epistemology and methodology. The author defined epistemological assumptions as what is to be considered appropriate reality by understanding the requirements and mechanisms for testing a statement of truth, whereas methodological assumptions suggest that the investigation methods are considered suitable for gathering credible proof. The assumptions regarding physical and social truth include ontology, human intention and rationality and order/conflict of society (Chua, 1986).

this issue. The author also states that following alternative approaches will represent the prevailing themes under discussion in the social sciences, clarifying that 'this set of assumptions is used to assess the strengths and weaknesses of alternative perspectives in accounting' (Chua, 1986, p.606). Based on these three philosophical assumptions, Chua (1986) provided two alternative worldviews in accounting research—namely, the interpretive and critical approaches.

Laughlin (1995) criticised Burrell and Morgan's (1979; 2016) bipolar dualism in terms of the simplicities latent in their framework and the way in which it restricts the available study approaches. Thus, the author combined Burrell and Morgan's five philosophical assumptions into three broad categories that can be appropriately labelled *theory, methodology* and *change*; Laughlin (1995) indicated that every researcher should make choices on how these categories will be approached before undertaking any accounting research[59]. The three dimensions are defined by Laughlin (1995) as follows: *theory* reflects the degree of theorisation before performing a study; *methodology* refers to the nature of the human sciences used for a research project and the function of the individuals in the process; and the *change* choice relates to the researcher's behaviour to sustain the current situation being studied, as well as perspectives on the potential need to do more in this regard. The author considered each of the three choices on continuums varying from low to high and made a case for selecting the midpoint of each, which is known as 'middle-range thinking'[60]. Habermas' (1984; 1987) view of middle-range thinking is described as follows:

> Habermas, with his complex theoretical and methodological model, provides the most complete example of 'middle-range thinking' to empirical research in not only accounting but also other social dimensions. It has a more balanced approach to the social world, maintaining that current configurations are not all inappropriate with the supply of various models to allow some judgements on this issue to be made. Already, the literature in the

[59] Laughlin (1995) explained that generally defined, the theory choice entails determining a view on the nature of reality (Burrell and Morgan's ontology), what comprises historical or present knowledge and how it refers to the current research emphasis (Burrell and Morgan's epistemological assumption). The methodological choice includes taking a stand on an amalgam of the nature and function of the researcher in the discovery phase (Burrell and Morgan's human nature assumption) and the degree of theoretical formality in determining the nature of discovery methods (Burrell and Morgan's methodology). Finally, the option of change requires taking a stance about whether the inquiry is deliberately oriented toward modifying the phenomenon being studied (Burrell and Morgan's presumption of society).

[60] Laughlin (1995) indicated that the classifications 'high,' 'medium' and 'low' are often imprecise, undefinable or unobservable.

> accounting area is starting to use and adapt Habermas'[s] insights in empirical research in accounting, but this literature has only scratched the surface of this important endeavour (cited in Laughlin, 1995, p. 84)

The moderate position adopted by researchers in investigating a particular phenomenon inherently gives them greater flexibility in terms of potentially maintaining the status quo while recognising that change is necessary (Laughlin, 1995).

In a recently published book by Saunders, Lewis and Thornhill (2019), an alternative classification of Burrell and Morgan's proposed framework is presented, focussing on the three main research philosophy assumptions of ontology, epistemology and axiology. The authors defined them as follows: *ontology* refers to the assumptions researchers make about the realities they experience during their research; *epistemology* refers to what researchers perceive as valid knowledge for their research and *axiology* refers to the extent and manner in which researchers' values influence their research process. These three assumptions have resulted in the development of five key paradigms (philosophies) in business and management research—positivism, critical realism, interpretivism, postmodernism and pragmatism—all of which are based on these three research philosophical assumptions. According to Saunders, Lewis and Thornhill (2019, p.143):

> Pragmatists seek to overcome dichotomies such as objectivism–subjectivism in their research, and as such are quite likely to engage in multi-paradigmatic research. Critical realists, who are less objectivist than positivists, embrace 'epistemological relativism', which may include more subjectivist as well as objectivist research, ranging from radical structuralism to radical humanism.

In comparison with Burrell and Morgan's four paradigms, which contain mutually contradictory assumptions, and thus, cannot be combined, Saunders, Lewis and Thornhill's five paradigms can be viewed in terms of philosophical affinity rather than ambiguity. They should be treated with caution and reflexivity (Saunders, Lewis and Thornhill, 2019).

4.5 Philosophical Assumptions Underpinning the Current Thesis

In consideration of the discussion in Section 4.2 and following the research objectives set out in Section 1.3 of Chapter 1, this section summarises the philosophical

assumptions of the current thesis. The section justifies the use of both quantitative and qualitative research methods by demonstrating the author's specific standpoint on the nature of social science and the nature of society. It explicitly points out the ontological and epistemological assumptions supporting the use of the mixed-methods strategy to investigate dividend payment decisions and their influence on Saudi companies' share prices.

The current thesis states that Saudi Arabia's business environment is a reality in which it impacts both companies and individuals. The listed companies that announce the payment of dividends operate in an environment that is controlled by the country's laws, legislation and guidelines imposed by governmental entities. This encourages an objective mode of knowledge that dictates the specific essence of the laws, regularities and relationships surrounding a phenomenon (dividends) determined by social facts (Lee, 1992). However, the Saudi listed companies are managed by individuals who provide recommendations to the board of directors, and then the board decides the payment of the dividend. Accordingly, to understand the nature and meaning of social events, it is important to consider the interpretative process and uncover the motivations, causes and aims that lead individuals to behave in the manner they do (Lee, 1992). Consequently, there are realistic (objective) and nominalist (subjective) ontological aspects of Saudi companies' dividend policies. The research into causal relationships in Saudi Arabia is acknowledged as an initial step in the interpretation of a phenomenon; however, a generalised understanding of reality in Saudi society is oversimplified and should only be seen in light of the role played by people in shaping this reality (McCluskey, 2005).

Centred on assumptions about the ontological status of the researcher, the investigation of this thesis is focused on both positivistic and anti-positivistic approaches to gaining knowledge. Throughout this study, the determinants of dividend payment decisions, including the Zakat (Islamic tax) factor and the relationship between dividend announcements and the share prices of Saudi companies, are examined with quantitative methods (positivism). In particular, questionnaire surveys and the event study methods are used in the investigation. The investigation of the dividend decision-making process and company managers' opinions on the interaction between the dividend announcement and share price includes, however, researching individual behaviour

(using semi-structured interviews), which essentially suggests that the current study is focused on an epistemological aspect of anti-positivism.

The next step in this thesis, after determining the researcher's ontological and epistemological assumptions, is to outline the relationship between human beings and their world (human nature is outlined in Section 4.3.3). The current thesis is based on both deterministic and voluntaristic positions on studying the dividend phenomenon in the Saudi business environment. By embracing a deterministic approach, the dividend policy relies on the assumption that it will be influenced by some aspects of the environment, such as economic, cultural, political and regularity factors. However, the current thesis assumes that dividend policy is not solely impacted by the external environment but rather on the free-will of the board of directors at the Saudi listed companies (voluntarist). In accordance with the nature of Saudi companies' dividend policy and the relationship with the external environment, the current study is not inclined to either of the two extreme viewpoints; instead, it is placed between those two positions (Burrell and Morgan, 2016).

As stated in Section 4.4.4, the researcher's ontological, epistemological and human life views affect the methodologies used throughout the inquiry (Burrell and Morgan, 2016; Scotland, 2012). The current thesis employs both nomothetic (positivist) and ideographic (anti-positivist) approaches to social research in such a way that knowledge can be obtained about the dividend phenomenon in Saudi Arabian society. The nomothetic methodology (positivistic) approach is used. Specifically, a survey questionnaire research method is adopted to examine the reaction of the Saudi stock market to dividend news, as well as the causal relationships between the various (cultural, political, economic and other) factors influencing a company's dividend payment decisions. In addition, an event study is used to measure the abnormal return on and around the date of the dividend announcement event to investigate the relationship between dividend announcements and a company's share price. However, the ideographical methodology (anti-positivist) is utilised to obtain the Saudi managers' perspectives on the various determinants of dividend payment decisions and the impact of these decisions on the market, including investors and share prices, and thus achieve a deep understanding of the dividend phenomenon. McCluskey (2005, p. 91) stated the following:

> Despite the fact that quantitative and qualitative methods constitute alternative strategies for research, they are not viewed as mutually exclusive, but as two extremes of a continuum. Quantitative data provide breath [breadth] to a study, while qualitative methods provide depth

Based on Burrell and Morgan (2016), Saudi society has a concern related to the sociology of regulation, which is subjected to specific laws and traditions. However, it is also understood that given the rapid development in various aspects of life, such as economic diversification, technology, culture and global openness, Saudi society is also willing to change (sociology of radical change) Thus, even though the current research project initially examines the status quo, it also reflects the unavoidable shift through the various research phases. As stated in Chapter 2, various events significantly influence the Saudi market environment. For example, the declaration of Saudi Vision 2030, in 2016, centred on Saudi economic growth and diversification, which will ultimately impact the efficiency and profitability of companies as a result of their contribution to economic development. Moreover, the introduction of foreign investment in 2015, as well as the various growth phases experienced by the Saudi Stock Exchange (for example, the new structure adopted by the market in 2017), represent attempts to improve transparency and include more accurate sector performance details. All these adjustments may affect Saudi companies' dividend payment decisions. Consequently, the current thesis is located in the middle position of the framework of Laughlin (1995), who noted that 'the medium position holds open the possibility that the status quo should continue while also keeping open that change is required' (Laughlin, 1995, p. 84). Adopting this stance, this thesis investigates the status quo of dividend payment decisions and their signalling role concerning company share price. The study also supports the suggestion by McCluskey that the stance is 'implying an investigation of the status quo but [maintains] openness to the possibility of carefully considered refinement during the conduct of empirical work' (McCluskey, 2005, p. 100).

Based on the above discussion of the philosophical assumptions underpinning the current thesis, both the functionalist and interpretive paradigms are employed to perform the empirical investigation and answer the research questions. This position was endorsed by Chua (1986), Lee (1992) and Laughlin (1995), who claimed that the researcher could choose to work concurrently within various paradigms. Under the

functionalist paradigm, two quantitative research methods are used, the questionnaire survey and the event study. The questionnaire survey helps researchers to examine a wide range of companies and obtain a comprehensive understanding of the dividend payout decisions that have been taken by the sample companies. The event study offered the opportunity to reflect on some of the more important results of the survey and interview, specifically the dividend's role in the Saudi context as a signalling tool and the relationships between dividend announcements and companies' share values (McCluskey, 2005). On the other hand, the interpretative paradigm representing the interview approach is used to help the researcher follow up with the survey findings and ask open-ended questions to obtain further information that is used to enhance and enrich these findings. As for the event analysis, the interview contains details that would help in performing the event study because the researcher faced a lack of resources (i.e., the absence of a reliable Saudi database). The interview also reports the opinions of finance managers on the relationship between the dividend payment and the share valuation of the company and whether dividend announcements are separated from earnings or are published simultaneously to allow for an examination of the data from the event study.

In summary, while the structure of the four paradigms of Burrell and Morgan (2016) is recognised, the researcher does not adopt these paradigms as mutually exclusive. Instead, the researcher uses more than one paradigm to serve the current study's purpose by various means, with different outcomes (Chua, 1986; Lee, 1992). This stance highlights the fact that both quantitative and qualitative methods are needed in the examination of dividend phenomenon in the Saudi environment. The questionnaire survey and the event study are quantitative approaches that view the social environment from an objective perspective, as well as relist ontological and positivist epistemological viewpoints; thus, this thesis utilises a functionalist paradigm. However, interviews are considered a qualitative approach to perceiving the social world from a subjective viewpoint, and they involve adopting the nominal ontological position and an anti-positivist epistemological stance; hence, an interpretative paradigm is applied in the current thesis.

Table 4-2 outlines the current thesis's various philosophical assumptions and the paradigms that follow to answer the research questions.

Table 4-2: Summary of the Philosophical Assumptions Underpinning the Current Thesis

Research main purpose	Investigates the dividend payment decisions in Saudi-listed companies
Research questions	What determines the dividend payment decision of Saudi-listed companies? How does the Zakat (Islamic tax) impact a company's dividend payment decisions? What is the relationship between a company's dividend announcements and its share returns in the Saudi stock market?
Methodology	Nomothetic (positivist) and Ideographic (anti-positivist)
Paradigm	Functionalist and interpretive
Data collection methods	Questionnaire survey + Semi-structured interviews + Event study
Participants	Saudi financial managers listed firms + companies listed on the stock exchange of Saudi Arabia
Type of results	Mixed (qualitative + quantitative)

Note: The key aim of the current study and the three research questions that should be addressed through empirical investigation are outlined in this table. The methodology, paradigms, data collection methods, participants in research and the type of results produced in this thesis are also presented.

The next section sets out the research design and describes the rationale behind implementing the three research methods.

4.6 Research Design

Explicitly articulating the research design for a particular project is important. Greene, Caracelli and Graham (1989) described the mixed-methods design as that consisting of at least one quantitative method for collecting numerical data and one qualitative method for collecting textual information; no method is implicit in any specific paradigm of inquiry[61]. The main purpose of combining qualitative and quantitative research components in mixed-methods design is to expand and strengthen the study's findings and thus contribute to the available literature and answer the research questions posed (Schoonenboom and Johnson, 2017).

[61] There are a variety of potential reasons for combining methods in research, but a comprehensive answer to the question of mixing methods cannot be found (Schoonenboom and Johnson, 2017). There are, for example, five mixed research methods according to Greene, Caracelli and Graham (1989), namely triangulation, complementarity, development, initiation and expansion.

The current thesis adopts a sequential[62] triangulation, equal-status[63], mixed-methods research design comprising three distinct phases: quantitative, followed by qualitative and then quantitative again (Schoonenboom and Johnson, 2017). Greene, Caracelli and Graham (1989) noted that the key proposition of triangulation as a design strategy is that because all research methods are rooted in biases and restrictions, using only one method to assess a particular phenomenon will unavoidably yield biased and restrictive findings; however, when two or more methods with biases are used for the same purpose, where the findings of one converge with or corroborate those of the other, the validity and credibility of the findings increases[64].

The research design of the current thesis is as follows: (1) quantitative data collection via a questionnaire survey, (2) qualitative data collection via semi-structured interviews and (3) quantitative data collection via a market-based event study. Analysis of the quantitative dataset obtained in the first phase provides a general understanding of and a basic grounding in the dividend policy in a Saudi context. These findings facilitate the analysis of the interviews in a sequence that helps to expand and elaborate on the quantitative data obtained in the first phase. In the final quantitative phase, findings of the first and second phases, as well as the secondary data collected, are used to undertake an event study. For example, the event study objectively examines whether the perceptions expressed via both the survey and interviews (regarding whether dividend payment decisions convey information to the Saudi market's participants) are statistically relevant for a wide range of companies listed on the Saudi market over a span of eight years.

The rationale for adopting this mixed-methods design is that the quantitative data collected in the first phase and their subsequent analysis provide a general understanding of the research problem, especially because no survey-based studies have been conducted on dividend policy in the Saudi context to date. The qualitative data and their analysis complement and explain the statistical data by exploring participants' views

[62] The quantitative element precedes the qualitative element or vice versa in sequential design (Schoonenboom and Johnson, 2017).

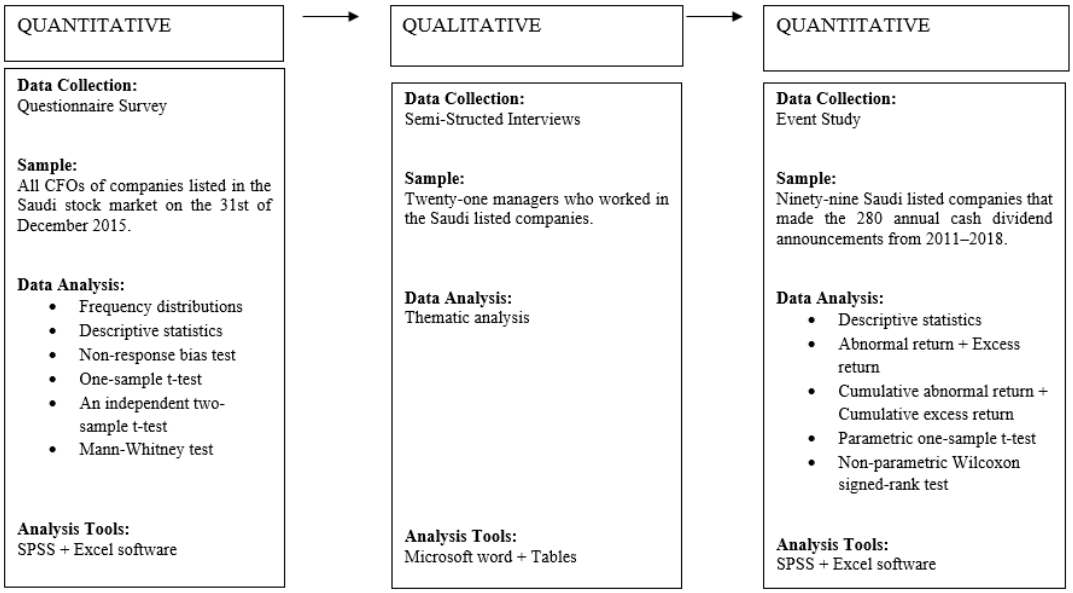
[63] Research designs for equal-status or interactive mixed-methods are practicable, and when both the qualitative and quantitative elements, techniques and thoughts are of equal value, they take charge of the research process in alternation. They are in constant interaction, and the findings they generate are combined during and at the end of the research process (Schoonenboom and Johnson, 2017).

[64] Greene and McClintock (1985) state that the statement on triangulation allows for two or three methods to be used deliberately to test the same empirical phenomenon and, hence, concurrently (simultaneity) and separately (sequentially) to maintain their counteracting biases.

in more depth. The event study objectively examines the information content of dividend announcements and the relationship between dividend payment decisions and a company's share value. According to Bryman (2007), combining quantitative and qualitative research results can provide insights that would not be individually obtained from these results; therefore, even if the integration of two sets of findings is not planned at the start of a project, considering that the findings may propose interesting contrasts or complement each other may be beneficial. Regarding the current research, the use of three research methods and the integration of the three sets of findings was considered right from the beginning of the research design process and throughout the analysis and interpretation steps of the three sequentially employed research methods.

Figure 4-4 demonstrates the sequential triangulation research design adopted in the current thesis. The symbols and abbreviations included in this figure are extracted from the widely used Morse (1991) mixed-method notation framework. The components of the mixed research design are indicated as QUAN for the quantitative method and QUAL for the qualitative method. The capital letters were used to highlight the priority of both methods in the current thesis subject inquiry. The arrow ($\longrightarrow$) signs demonstrate that the mixed-method components are applied sequentially (Morse, 1991; Schoonenboom and Johnson, 2017).

Figure 4-4: The Sequential Triangulation Equal-Status Mixed-Methods Research Design



Note: This table depicts the type of study design embraced by the current thesis, including the method of data collection, sample, data analysis and analytical instruments. QUANTITATIVE and QUALITATIVE reflect the quantitative and qualitative research methods, respectively, and the capital letters refer to the importance of applying the three approaches (Questionnaire, Interviews and Event study) in the current investigation. The arrows demonstrate the sequential implementation of the three mixed-methods.

4.7 Research methods

As previously mentioned, the current research attempts to investigate the dividend payment decisions of listed Saudi companies. The researcher employs a mixed-methods approach in the study, using quantitative and qualitative methods. Using mixed-methods (questionnaire survey and semi-structured interviews) in the current study represents an attempt to follow the lead of studies in Europe, the UK and the US. As early as the 1950s, Lintner (1956) interviewed 28 financial managers and sought their views regarding the dividend behaviours of companies. Brav *et al.* (2005) employed surveys and interviews in their study to provide more evidence on the dividend payment phenomenon. They noted that 'the survey and field interviews provide a benchmark describing where academic and real-world dividend policies are consistent and where they differ' (Brav *et al.*, 2005, p. 474). In addition to the survey and interview tools, the researcher employs an event study to objectively examine the dividend information content's effect on the value of a company's shares (McCluskey, 2005; Khan, 2011). The justification for this approach, using the event study, is that the

impact of an event is immediately reflected in stock price. Thus, the economic effects of an event can be determined by observing stock values for a relatively short period (MacKinlay, 1997).

4.7.1 Quantitative Research Method: Survey Questionnaire

The questionnaire is a general concept that encompasses all data methods in which the same collection of questions is asked in the same order to each individual (Saunders, Lewis and Thornhill, 2019). The authors have also shown that the researcher may distribute the questionnaire to respondents via interview, telephone, manual, mail and online methods. Gillham (2008) highlighted the benefits of using the survey questionnaire, such as low cost in terms of both time and money, responses to closed questions that can be analysed straightforwardly, the absence of interviewer bias and the ease of quickly collecting information from a widespread sample. Thus, generalisations with a reasonably high response rate can be reached by carrying out statistical tests that enable rigorous conclusions to be drawn (McCluskey, 2005). There are, however, some drawbacks to using the questionnaire, such as the low response rate, issues with motivating respondents and the fact that question wording can have a significant impact on answers (Gillham, 2008).

As reported in Chapter 3, little is currently understood about Saudi Arabia's dividend payment policies. The few non-survey studies that have been conducted were based on purely mathematical and theoretical approaches, such as regression analysis and Linter's model (Uddin and Osman, 2008; Osman and Mohammed, 2010; Al-Ajmi and Abo Hussain, 2011; Al-Malkawi, Twairesh and Harery, 2013; Alzomaia and Al-Khadhiri, 2013; Al-Qudah and Badawi, 2015; Al-Qahtani and Ajina, 2017; Al-Kayed, 2017; Chaabouni, 2017). Furthermore, the results of these Saudi studies are considered to be quite outdated because the Saudi economy and stock market have changed significantly, which may affect the listed companies and their dividend payment decisions. Saudi Arabian managers' stances on dividends have not been documented via the survey questionnaire in the published literature. In light of the absence of a Saudi dividend survey, it was therefore considered that a questionnaire survey (by hand and by email) should be employed to gather perspectives on different areas of dividend

payment decisions among managers of all companies listed on the Saudi stocks in 2015.

Because no prior questionnaire survey studies on dividend payment decisions were conducted in the Saudi Arabian region, the current research study is considered the first to investigate the dividend topic in the Saudi context with a large sample of listed companies. The sizeable sample facilitates more robust bases for comparison with other investigations from different nations and enables researchers to generalise the findings with a greater degree of confidence (McCluskey, 2005). The current study also statistically explores whether managers' attitudes about the dividend topic vary between companies that are entirely Saudi owned and non-Saudi/foreign-owned companies. The analysis is also performed for sub-groups: based on (i) dividend payments versus non-dividend paying companies and (ii) dividend-changed versus dividend-unchanged companies. This more disaggregated analysis will allow us to determine whether these features influence the responses of the managers sampled. According to the literature reviewed in Chapter 3, the current thesis is the first to apply this kind of evaluation to dividend research using a Saudi-based questionnaire survey and various characteristics in the data analysis.

The following actions have been implemented to help ensure that the participants in the questionnaire survey were provided with appropriate and valid questions, as well as to increase the response rate:

- The Dublin City University Research Ethics Committee approved the proposed research instrument[65], and a pilot test of the survey questionnaire was conducted on June 7, 2016. This questionnaire was sent to 50 individuals, including financial managers, chief executives and academics, and 16 responses were received. Considering these responses, additional questions were added (eleven in total)[66], and some questions were modified (eight in total)[67] for clarification purposes. Also,

[65] The required documents were submitted to the DCU Research Ethics Committee by email on 08/04/2016, including the application form, the plain language statement and the questionnaire survey. On 25/04/2016, approval was received to distribute the survey among the listed Saudi companies.

[66] The eleven questions that were added to the final version of the survey were 3, 5 and 11 in Section 1; 23, 24 and 25 in Section 2; 34 and 35 in Section 3; and 40, 45 and 46 in Section 4. The questionnaire has increased clarity and adequately covers dividend phenomenon from all angles after the addition of the new questions (see Appendices B-1 and B-2 for the two final questionnaire versions in the English and Arabic).

[67] The eight questions that were modified and added to the final version of the survey were 4 and 6 in Section 1; 19 In Section 2; 28 in Section 3; and 41, 42, 43 and 44 in Section 4. The amendments were

the respondents stated that both each question and the entire questionnaire were quite brief and that it took them no longer than 10–12 minutes to finish the questions.

- Two final versions of the questionnaire (one in English and one in Arabic) were distributed to each recipient. The managers were permitted to choose which version they wished to complete. Both versions had been verified by a chief executive officer (CEO) of a real estate investment company, two PhD students from Trinity College, Dublin, and a PhD student from Dublin City University. All verifications confirmed the accuracy of the translation.
- The questionnaire was completed anonymously. The managers were assured that neither they nor their companies would be identified in any published work. They were notified that they were participating voluntarily in the survey and that they could withdraw from the study at any point. It was hoped that they would report anonymously to ensure that the answers to the questions were correct and reliable.
- A summary report on the survey findings was offered to encourage managers to complete the survey and improve the response rate.

4.7.1.1 Survey Construction Process

The questionnaire survey was framed with the existing literature (see Chapter 3), drawn from Arab and Western regions. It was drafted based on previous survey studies that were based on an updated instrument employed for data-gathering purposes in well-developed markets, such as the US (e.g., Baker, Farrelly and Edelman, 1985; Baker and Powell, 2000; Baker, Veit and Powell, 2001), the UK (Dhanani, 2005), Ireland (e.g., McCluskey, Burton and Power, 2003), Canada (e.g., Baker *et al.*, 2007) and Norway (e.g., Baker, Mukherjee and Paskelian, 2006). Several studies have also used survey instruments to collect data from emerging market countries, including Middle Eastern (e.g., Naser, Nuesibeh, and Rashed, 2013) and Southeast Asian nations (e.g., Baker and Powell, 2012; Baker and Kapoor, 2015), regarding dividend decisions. The Zakat questions in Section 4 of the survey were formalised using published articles that mentioned the dividend payment decision and its relationship to Zakat in

added to enhance the understanding of the content of some questions and make them suitable for Saudi Arabian culture, such as changing the statement in Question 6 in Section 1 from 'Does your company or your parent company' to 'Does your company or any of its affiliate/subsidiary companies'.

Saudi Arabia (Uddin and Osman, 2008; Al-Ajmi and Abo Hussain, 2011). This approach facilitated comparisons with the results reported in previous studies conducted in both developed and developing markets.

4.7.1.2 Survey Sample Selection

The sample of the current study covers all the Saudi companies listed on the Saudi Stock Exchange as of December 2015 (171 companies)[68]. The sample included companies from a range of sectors, a variety of ownership structures and a mix of company characteristics to facilitate a comparative analysis between non-dividend payers and dividend payers, as well as between dividend-changed versus dividend-unchanged companies. The survey was sent to financial managers who were assumed to have an adequate level of information about the dividend payment process in their companies.

4.7.1.3 Structure of the Questionnaire

The final draft of the questionnaire is a six-page document. The first page introduces the research briefly and provides instructions for the participants to use in completing the survey. The following four pages are each divided into distinct sections that cover the dividend topic from various angles. The final page includes a box requesting certain details about respondents in case they would like to receive a summary report on the findings.

The first section of the questionnaire contained eleven closed questions and sought general information about the managers and their companies. The other three sections included closed questions that used the five-point Likert scale (‘strongly disagree’, ‘disagree’, ‘uncertain/neutral’, ‘agree’ and ‘strongly agree’). Each of the three sections also included one open-ended question inviting respondents to add further comments that they felt would be helpful in understanding managers’ perspectives on dividends. The second section of the questionnaire (Questions 12 to 25) sought the managers’ views on factors that Saudi companies should consider when determining their dividend payment policies. Section 3 (Questions 26 to 36) sought details regarding the

[68] The sample companies list was taken from the Capital Market Authority (CMA) and reviewed with the Tadāwul website.

managers' attitudes on whether a dividend is considered a signal by the Saudi stock market regarding the future prospects of the company and whether there is a relationship between a company's dividend announcements and its share returns. The final section (Questions 37 to 46) examined the impact of Zakat and taxation policies on the dividend payment policies of Saudi companies.

4.7.1.4 Administering the Questionnaire

The chief financial officers (CFOs) were contacted via email, asking their permission to distribute the questionnaire survey. The email contained a clear description of the research project, along with the DCU ethical standards. After the participant's approval was obtained, the two versions of the questionnaire, along with a cover letter, were distributed via email and/or by hand directly to the companies' managers in April 2017. Two follow-up reminders were sent in May and June 2017. Specifically, 171 CFOs were invited, and 82 completed the survey. This reflects a response rate of 48 percent.

4.7.1.5 Questionnaire Data Analysis

The survey responses were coded and manually entered into an Excel spreadsheet, which was then uploaded into the most recent version of SPSS. The frequency distributions for each question were tabulated for all the responses, and the descriptive statistics that were extracted. The ordinal variables for the survey used the following coding: 1 = strongly disagree, 2 = disagree, 3 = uncertain/neutral, 4 = agree and 5 = strongly agree.

Several statistical analyses were then used to test the respondents' views on the determinants of dividend payments, the market's or shareholders' reaction to dividend announcements and the influence of Zakat and other taxes on companies' dividend policies. First, a one-sample t-test was employed to examine the null hypothesis, which was that the mean response for different statements would be uncertain/neutral (3). Second, an independent two-sample t-test was used to determine the groups' responses to the questions were affected by their companies' ownership structures, whether a

dividend had been paid and whether the dividend had changed or remained the same[69]. Third, the Chi-square test was utilised to determine whether there were substantial variations in answers to the questionnaire between early and late respondents at a 5 percent level (for more information on the non-response bias test, see Chapter 5, Section 5.3).

The results of these tests are presented in nine tables for the entire sample, as well as for different groups of companies according to those companies' ownership structures, such as whether a dividend had been paid in the past 12 months and whether any dividend payout had changed over the last year. The mean scores and standard deviations for various statements are also reported in these tables. In addition, cases in which significant differences emerged between the sub-groups are highlighted[70].

4.7.2 Qualitative Research Method: Semi-Structured Interview

Saunders and Lewis (2012) defined the term 'semi-structured interview' as a data collection approach in which the interviewer discusses certain issues using pre-determined questions, with the order in which themes are addressed and the questions are placed differing. The interviewer can opt to omit these themes and questions and ask additional questions if necessary. The goals of conducting the interviews in the current thesis were to expand on the survey results and obtain more detailed explanations regarding dividend payment decisions and related issues, such as Zakat and taxation, as well as dividends as a signalling tool. Relatively few Saudi-reported dividend studies have focused on mathematical and theoretical approaches, as illustrated in Section 4.7.1. The attitudes of managers toward dividend payment decisions in Saudi Arabia have not been analysed via interviews in any publication that the researcher is aware of. Interviews are generally qualitative methods that allow the researcher to ask more complex questions and obtain a deeper understanding of phenomena, which might otherwise be difficult. Therefore, it was agreed to consider the data obtained from

[69] To guarantee that the independent two-sample t-test test was suitable for survey data, a non-parametric (Mann-Whitney) test, which is not dependent on a normal distribution, was performed, and the p-values were compared to determine whether there were substantial variations between the two test results (see Chapter 5; Appendices C-2, C-3 and C-4).
[70] The survey findings from various statistical tests are reported in Chapter 5 (Section 5.4).

interviewing companies' managers (face-to-face and by telephone) and seeking their views on the dividend topic in a Saudi context. As a result, the current research study is regarded as the first to investigate the dividend topic in a Saudi context by conducting interviews with the managers of the companies listed on the Saudi Stock Exchange who are involved in setting a company's dividend policy.

4.7.2.1 The Importance of Interviews

The semi-structured interviews will be used to enhance and enrich the survey results. O'Gorman and Maclntosh (2014) have indicated that useful advantages are created by using semi-structured questions in interviewing so that interviewees are allowed to express their opinions in their own way. Semi-structured questions also enhance data reliability and comparability and enable interviewees to reply to questions in language that is natural to them. The survey was used in the current thesis to seek data with which to identify various factors that influence the decisions of companies about dividends; conducting interviews with managers was considered useful in determining how such factors affect the size of the dividend to be paid. Specifically, one section of the questionnaire focussed on the Zakat problem and its relation to the dividend payment decisions of firms because there is little in the literature on this issue. It was thought that the interviews would allow the researcher to obtain management insight into whether dividends are important to the share value of the firms and signal details about companies' prospects, as well as how they are viewed by investors.

4.7.2.2 Formulation of the Interview Questions

In the current thesis, an interview guide was prepared beforehand, which included a list of the topics that the researcher intended to discuss with the interviewees (Saunders, Lewis and Thornhill, 2019). The interview guide helps the researcher to focus on the interview topics and cover all relevant themes (O'Gorman and Maclntosh, 2014). The content of the questions in the interview guide focused on information obtained from the literature review (Chapter 3) and the findings of the questionnaire survey (Chapter 5).

Approval to conduct the interviews was obtained from the Dublin City University Research Ethics Committee[71]. A pilot interview with the CEO of a real estate company was conducted to ensure the clarity of the interview guide for the interviews (Appendix B-5). The interview guide was used with the plain language statement (Appendix B-3) and the participant consent form (Appendix B-4) in conducting the final interviews with the financial managers.

The English and Arabic languages were both used for the interview and interview guide, depending on the interviewee's preference. There were no translation issues, because the guiding document for the interviews was written in both Arabic and English and the translation was verified by practitioners and academics, who have validated the accuracy of translation for questionnaire survey[72]. To protect participants' anonymity, real names were removed; each interviewee was assigned a code (L1 to L21) to distinguish one interviewee from another. Each interview lasted about 45 to 60 minutes.

The interview guide was comprised of four sections (see Appendix B-5), covering three aspects of dividend policy: factors that a company considers when determining the required dividend amount to be paid to its shareholders, managers' perceptions of the relationship between dividend announcements and company share price and an examination of whether Zakat has any influence on dividend payment decisions. The first section of the interview guide covered background information about the interviewee and the company where they worked.

4.7.2.3 Interview sample selection

In this study, financial managers of Saudi-listed companies were chosen as interview subjects because they can contribute to the collection of useful and reliable data relevant to the current research questions and objectives regarding dividend-setting policies in their companies. Their selection was also because, as financial managers, they

[71] On 05/05/2017, the documents required to obtain approval were emailed to the DCU Research Ethics Committee (REC), consisting of the application form, participant informed consent form, plain language statement for the interview and interview guide. The REC approval letter for conducting the interviews was received on 30/06/2017.
[72] The details regarding the accuracy of translation are explained in this Chapter (Section 4.7.1).

are expected to deal with dividend payment decisions, which means they are knowledgeable about their companies' dividend policies. Consequently, they can provide interesting insights into the three research questions addressed in this thesis. A group of 21 managers[73] was selected from across various sectors based on their willingness to participate in an interview that sought to explore aspects of the dividend decisions made by Saudi companies in depth[74].

4.7.2.4 the conducting of the Interviews

The interviews took place between December 2017 and January 2018 in various cities in Saudi Arabia[75], either face to face or by telephone, depending on the interviewee's preference (17 were face-to-face, and four were by phone).

It was challenging to reach the financial manager level when soliciting interviews due to their position and the sensitive information they had about their companies. The researcher accessed the interviewees through personal networking with family and friends. Furthermore, some respondents to the questionnaire (in Chapter 5) attached their business cards, which helped the researcher to contact and invite others to join the interviews. Telephone calls were made to each manager who indicated his/her agreement to engage in the process; such managers were provided with an overview of the study topic, with its objectives and the type of data that the researcher intends to collect. Confidentially was guaranteed for all interviewees, and they were assured that no personal information about the participants or their companies would be published.

Managers were later contacted via email, verifying the interview details regarding the date, time and location, as well as informing the interviewees that the interviews would be recorded on the tape but not before they had given their consent to record the

[73] Twenty managers from the same sample completed the questionnaire (Chapter 5) and were followed up in an interview to obtain further explanations regarding the dividend phenomenon in practice. One manager did not participate in the survey sample, though there were no significant differences between his answers to the interview questions and the other 20 managers'.

[74] It was decided that 21 managers, as a sample size for interviews, would be sufficient because the researcher has reached data saturation, the level at which further data collection offers few, if any, new perspectives into research questions and objectives (Saunders, Lewis and Thornhill, 2019).

[75] Twenty interviews were located in the capital city of Saudi Arabia, Riyadh, which is where most companies' head offices are located. One interview was conducted in AlMadina AlMonawara, where the relevant company's head office is located.

interview (see the consent letter in Appendix B-4). Most respondents accepted the audio-recording of the interviews; 19 interviews were taped, and two were not taped, because the managers declined a request to use the recorder. In these cases, the researcher carefully wrote down notes and the interviewees' answers during the interviews and made detailed notes directly after every interview.

Prior to each interview, some background information was collected about each company (i.e., dividends paid, capitalisation, industry sector and other related information) from published financial reports, which provided an understanding of the current situation of the selected companies and helped to build a good relationship with the interviewees. Every meeting began with the researcher officially introducing herself and supplying a short description of the study goals, during which the participant was prompted to comment on the various aspects of the dividend topic. The guarantee of confidentiality was affirmed during each interview, and participants were reassured that they did not need a prior theoretical understanding of the dividend topic to answer the questions. This strategy promoted a comfortable environment for the interviews.

4.7.2.5 Interview analysis

A qualitative thematic analysis was used to analyse the data obtained by conducting the interviews. It helps to identify the themes repeating within the data to organise and describe these data (Braun and Clark, 2006). These authors describe what can be identified as a theme and state that 'a theme captures something important about the data in relation to the research question, and represents some level of patterned response or meaning within the data set' (Braun and Clark, 2006, p. 82). The current researcher determined the themes based on whether they represented a significant feature of the research questions. The findings (Chapter 6) reported the number (or percentage) of managers who addressed the themes during the interviews. Microsoft Word and tables were utilised to help organise the data and thus conduct the thematic analysis. Braun and Clark (2006) provide a 'practical-steps' guide to conducting the various processes of thematic analysis, which is demonstrated in detail Table 4-3.

Table 4-3: Phases of Thematic Analysis

Phase	Description of the process
Familiarising yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
Generating initial codes	Coding interesting features of data in a systematic fashion across the entire dataset, collating data relevant to each code.
Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
Reviewing themes	Determining whether the themes work in relation to the coded extracts (Level 1) and the entire dataset (Level 2), generating a thematic 'map' of the analysis.
Defining and naming themes	Ongoing analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions and names for each theme.
Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, the final analysis of selected extracts, relating the analysis back to the research question and literature, producing a scholarly report of the analysis.

Source: (Braun and Clarke, 2006, p. 87)
Note: This table outlines the six significant steps in performing thematic analysis.

In the current thesis, the process of applying the thematic analysis began at the end of all of the interviews. First, the interviews' tapes were transcribed and reviewed repeatedly with the original audio files to ensure the accuracy of the data collection. Although this step required time, it was also important that the researcher became familiar with the data collection. Second, because the study was performed in English, all the transcripts and notes of the interviews were translated from Arabic into the English[76]. Every interview's final translation document was checked with the original tape files to validate the correctness. This would allow coding, categorising and extracting quotes from the data more quickly. Third, after the researcher repeatedly read and familiarised herself with the data, codes[77] were produced to arrange the data into meaningful groups. Fourth, the various codes were encapsulated into sub-themes and overarching themes, reflecting aspects of the research topic[78]. Fifth, all the themes and sub-themes were checked to determine if those themes or sub-themes could be separated or grouped into the final set, which was used to create the thematic analysis map

[76] All the transcripts of interviews were translated by VANAN online translation services and double-checked by the researcher with the original recorder.
[77] 'Codes identify a feature of data that appear interesting to the analyst' (Braun and Clarke, 2006, p. 88).
[78] An example of the tables used to perform the thematic data analysis is provided in Appendix B-6.

(see Figure 6-1 in Chapter 6). Sixth, the last collection of subjects and sub-themes was then defined and specified with appropriate names. Finally, the results were written and reflected on the entire data-collection story (Chapter 6).

4.7.3 Event Study Methodology

One of the well-known tools for use in assessing the impact of company events on share price performance is the event study method. It is defined as 'an empirical investigation of the relationship between security prices and economic events' (Strong, 1992, p.533). Many researchers have used this method to measure the effect of a particular event (e.g., dividend announcements, earnings announcements, stock splits and acquisitions/mergers) on a company's value (Fama *et al.,* 1969; Brown and Warner, 1980, 1985; MacKinlay, 1997; McCluskey *et al.,* 2006; Uddin and Osman, 2008; Al-Yahyaee, Pham and Walter, 2011; Liu and Chi, 2014; Al Qudah and Badawi, 2015; Anwar, Singh and Jain, 2017). By calculating whether or not an event impacts a company's share price, proponents of this approach argue that inferences can be drawn about the usefulness of information about the event to investors (MacKinlay, 1997).

According to supporters of this approach, the event study method allows the researcher to examine the information content of dividend announcements and its effect on a company's market value (signalling theory). The key requirement when using the event study method to test the applicability of the signalling hypothesis in the stock market is that the company's stock price reacts immediately to the company's dividend announcements (MacKinlay, 1997). Another necessary condition is that the dividend dates are available and relatively high-frequency data can be secured. In the current study, an event study based on a previously proposed conceptual framework is performed for Saudi-listed companies to examine whether dividend announcements convey any information to Saudi investors through the observation of the company's share price performance for the period of time around the dividend news.

4.7.3.1 Event Study Methodology Procedures

No specific guidelines are defined when performing an event study; nonetheless, some prevalent guidelines exist for conducting such an analysis (MacKinlay, 1997). The

current study follows the common procedures suggested by MacKinlay (1997) and McWilliams and Siegel (1997), and they involve the following steps:

Step 1: Identify the event of interest that signals any new information to the stock market.

Step 2: Specify the theory that explains the market reaction to the announced information and define the event hypothesis.

Step 3: Select the companies that announced the event being studied and determine the event dates.

Step 4: Determine the length of the event window, which allows the impact of the announced information on the company's share price to be captured; a number of days on either side of the event date are used in order to determine (i) if the market reacted earlier because the news leaked or (ii) if the market needed time to evaluate the impact of the news.

Step 5: Determine the extent of the estimation window, which could be over 120 days. This is the period over which the beta risk[79] of the share is calculated.

Step 6: Set different criteria for inclusion and exclusion from the sample. For example, companies' required data must be available for the purpose of calculating the abnormal stock returns (for more information on the criteria for including and excluding in the sample, see Section 7.3, in Chapter 7).

Step 7: Choose the appropriate model subject to the availability of data to calculate abnormal returns that are supposed to reflect the price changes that might have occurred if the announcements had not taken place.

Step 8: Apply statistical tests to examine the significance of abnormal returns.

[79] Beta is a term that expresses the relationship between a company's stock return and a financial market index, such as the Tadāwul All Share Index (TASI). It is a measure of the company's return fluctuations in relation to the total market return fluctuations. A beta greater than 1 means that the volatility in the stock of the company is greater than the volatility of the market return, and a beta less than 1 means that the volatility in the stock of the company is less than the fluctuation in the market return. High-beta stocks are supposed to be riskier but provide higher return potential; low-beta stocks pose less risk but also lower returns. The beta for the sample companies in the current study range from the smallest value of 0.01 to the highest value of 1.87, whereas the alpha range is between 0.00 and 0.01 over the event period (For more details, see Chapter 7).

Step 9: Conduct a further analysis with sub-categories and a shorter event window to provide more explanations for the effect (or lack of effect) of the event under examination (Uddin and Osman, 2008; Anwar, Singh and Jain, 2017). The findings obtain in this step can act as a robustness check for the original results.

Step 10: Conclude and report the results of the event study.

4.7.3.2 Data Sample and Sources

As mentioned above, the current thesis includes an event study, using the general process suggested by MacKinlay (1997) and McWilliams and Siegel (1997). The event that was studied is the annual cash dividend announcements over eight years, from January 2011 to December 2018, for all Saudi Arabian companies listed on the Saudi Stock Exchange.

The dataset that must be collected to study the effect of dividend announcements on the company's share price is comprised of the following: all companies that announced annual cash dividends, dividend announcement dates, dividend per share (DPS), earning per share (EPS) dates and stock price information. Multiple sources were used to collect the required data, including the Eikon database, Bloomberg, Tadāwul, Argaam and companies' websites.

The collected data were entered into Excel worksheets and used to calculate descriptive statistics such as mean, median, standard deviation, maximum and minimum. They were also useful for calculating abnormal returns, including the actual and expected returns.

4.7.3.3 Data Analysis

Three types of analysis were conducted in the current study to obtain an in-depth understanding of the effect of the announcement of cash dividends on share price performance. First, all companies included in the sample were analysed for a 41-day event window (-20, +20). Second, a similar analysis was conducted for a smaller, 11-day event window (-5, +5). Finally, the companies were divided into sub-groups, including dividend increase (DI), dividend decrease (DD) and dividend no change (DNC), to allow a more detailed investigation of the relationship between a change in the level

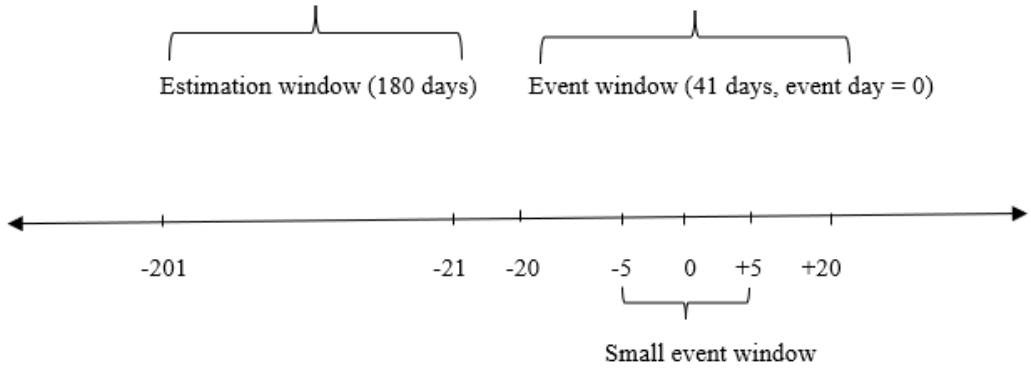
of a dividend (if any) and the unexpected share return (for more information on the current study's three analysis levels, see Section 7.2, in Chapter 7).

4.7.3.4 The Event Window and the Estimation Window

An event window is defined as a period during which the stock return (actual return) is affected by the event that has been announced. It is important to examine the period around the event day to assess the stock price performance and its reaction to the announced event. In this regard, MacKinlay (1997) reports that in the real world, an event window is extended to a number of days after the event occurred to observe the impact of the announcement event on the company's stock price; this news might be released after the market has closed on a specific day. Furthermore, in some cases, leakage of information related to the announcement may occur before the announcement date, which can be examined by observing the stock returns in the period prior to the event date (MacKinlay, 1997). In the current study, returns for a 41-day window (including the announcement date) around the announcement date were investigated (event day = 0, pre-event = t-20 and post-event = t+20). Furthermore, a smaller event window was used to obtain a better understanding of the abnormal returns (if any) associated with the announcement of cash dividends (event day = 0, smaller pre-event = -5 and smaller post-event = +5).

Another important window that must be determined to calculate abnormal returns is the estimation window, which is used as a period before the event window to calculate the expected stock returns without the influence of the announced event. In the present study, 180 trading days were used as the estimation period prior to the event window to measure the expected returns (from day t-201 to day t-21). Figure 4-5 shows the estimation window and the event window.

Figure 4-5: Timeline for event study



Note: The figure indicates the three types of windows used in an event analysis. The estimation window last for 180 days before the incident happens. The two windows on and around the event are the large event window (41 days) and the short event window (11 days).

4.7.3.5 The Calculation Process

The first step in measuring abnormal returns is the calculation of actual stock returns, and according to Strong (1992), there are two ways to calculate actual daily returns, by using discrete returns or logarithmic returns. The current thesis uses the same calculations with a discrete return method to ensure comparability with other Saudi research studies (Uddin and Osman, 2008; Al-Qudah and Badawi, 2015; Chaabouni, 2017) discussed in Chapter 3, Section 3.5.2. The actual return is computed for each company's stock during the window period (41 days) using the following discrete returns formula:

$$R_{it}=(P_{it}-P_{it-1})/ P_{it-1} \qquad [4.1]$$

where R_{it} is the actual daily return of stock (i) on a date (t), P_{it} is the closing stock price of a stock (i) on a date (t) and P_{it-1} is the closing stock price of a stock (i) on a date (t-1).

The focus of the current thesis is on the daily returns data instead of the weekly or monthly data for various reasons. First, daily returns lead to lower standard deviations than monthly returns (Brown & Warner, 1980). Second, the use of daily data increases the power of the event study because the daily data allow the investigator to accurately identify the date of the event and the past information concerning the date of the event (Brown & Warner, 1980). However, there are some issues associated with the use of

daily returns data, such as the non-normal distribution and the non-synchronous or thin trading (Brown & Warner, 1980). Nevertheless, Brown and Warner (1980, p. 211) note that 'in the absence of problems such as non-normality and non-synchronous trading, all of the methods for measuring abnormal performance are potentially more powerful with daily data'. To diminish the daily data complicities in the current thesis, the size of the sample stocks has been increased (280 dividend announcement events) to converge the performance of daily returns with a normal distribution (Brown and Warner, 1985). In the same context, Brown and Warner (1985) noted that using daily stock returns to perform the event study was more powerful than using monthly data. The authors also reported that daily data are considered to have a normal distribution when the data are cross-sectional and the sample size is large and that the use of either the market-adjusted return or the ordinary least squares market model in estimating the expected return will tend to give similar results when both daily and monthly return data are analysed.

Various models can be utilised to estimate the expected return for any stock at any time, such as the constant mean return model[80], the multi-factor model (market and industry indexes)[81], the market model, the market-adjusted return model[82] and economic models, including the capital asset pricing model and the arbitrage pricing theory (APT)[83]. In the current study, the market model was considered the best method with which to calculate the abnormal return. The market model suggests a linear relationship between a stock's expected return and the market index (Khan, 2011). The

[80] While the constant mean return model is the simplest, it also provides similar results to those of more complex models. This lack of sensitivity to the model used could be due to the abnormal variance (MacKinlay, 1997).
[81] The benefits of using a multi-factor model for event studies are usually minimal. The limitation of this model is the empirical fact that the marginal explanatory ability of factors additional to the market factor is low, and thus, the variance of an abnormal return is not significantly reduced (MacKinlay, 1997).
[82] The use of the market-adjusted return model should be limited to situations in which it is difficult to estimate the market parameters ($\alpha=0$ and $\beta=1$) due to a lack of required information (MacKinlay, 1997).
[83] MacKinlay (1997) claimed that the results of using the CAPM model were subject to certain constraints imposed by this model, while this type of sensitivity can be avoided by using a low-cost model (market model). Regarding the APT model, MacKinlay (1997) stated that the most important factor in this model acts as a market factor and any additional factors add relatively little explanatory power; thus, the benefits of using an APT-motivated model as compared to the market model are limited. The author stated that 'the main potential gain from using a model based on the APT is to eliminate the biases introduced by using the CAPM. However, because the statistically motivated model also eliminates these biases for event studies, such models dominate' (MacKinlay, 1997, p. 19).

advantage of using this model was explained clearly by MacKinlay (1997), who noted the following:

> The market model represents a potential improvement over the constant mean return model. By removing the portion of the return that is related to the variation in the market's return, the variance of the abnormal return is reduced. This, in turn, can lead to an increased ability to detect the event effect (MacKinlay, 1997, p. 18)

In addition to the market model, the market-adjusted model was employed in the current thesis. The two methods were discussed by Brown and Warner (1985), who reported that the market model and market-adjusted returns are comparable in power and, as predicted, much more effective on a daily, rather than on a monthly, basis. Moreover, Brown and Warner (1985, p. 16) report that 'in the presence of non-synchronous trading, OLS [Ordinary Least Squares] estimates of market model β are biased and inconsistent'; thus, the current thesis employs the market-adjusted returns with an estimated β of 1 for all stocks and an α of zero to calculate the excess returns and double-check the results obtained from the market model (McCluskey *et al.,* 2006).

In summary, to compute the expected return, two calculation methods are employed: the market model and the market-adjusted returns. First, the market model benchmark (Strong, 1992) is used to estimate the expected return on each stock and the market portfolio by using the following formula:

$$E(R_{it})=\alpha_i+\beta_i[R_{mt}]+e_t \qquad [4.2]$$

where $E(R_{it})$ is the expected return on stock (i) on a date (t), R_{mt} is the return on the market portfolio on a date (t) (return on Tadāwul All Share Index [TASI]), α_i and β_i are the market model parameters of stock (i)'s return over the estimation window and e_t is an error term equal to zero.

Like the calculations of daily stock returns, the daily market returns are computed using the discrete return as follows:

$$R_{mt} = (I_t - I_{t-1})/ I_{t-1} \qquad [4.3]$$

where I_t is the market index on day t and I_{t-1} is the market index on day t-1 (Uddin and Osman, 2008).

The second measure used to obtain the expected return is the market-adjusted returns; to calculate, the excess returns were used as a robustness test to ensure that the results obtained from the abnormal returns were not related to any errors in the beta risk estimate. For excess returns, the β equals 1, and α equals 0 for all sample shares, and the difference between the actual daily returns of shares and market returns is the excess return (Strong, 1992), which is calculated as follows:

$$ExR_{it}=R_{it}-R_{mt} \qquad [4.4]$$

where ExR_{it} is the excess returns of stock (i) on date (t), R_{it} is the actual daily returns of stock (i) on date (t) and R_{mt} is the return on the market portfolio on date (t) (return on TASI).

The abnormal return on each of the 41 days for each stock can be calculated by subtracting the expected return $E(R_{it})$ from the actual return (R_{it}) as follows:

$$AR_{it}=R_{it}-E(R_{it}) \qquad [4.5]$$

where AR_{it} is the abnormal return of stock (i) on date (t), R_{it} is the actual return of stock (i) on date (t) and $E(R_{it})$ is the expected return of stock (i) on the same day i.

Here, AR will be aggregated for certain companies on specific days across all firms under examination and then over a particular period. This enables the researcher to draw a general conclusion regarding the event in question because similar events impact multiple companies in the market (Liu and Chi, 2014). The aggregate AR is computed as follows[84]:

$$AAR_t=\left(\sum_{i=1}^{N} AR_{it}\right)/N \qquad [4.6]$$

$$CAAR\ (t_1, t_2) = \sum_{T=t_1}^{t_2} AAR_t \qquad [4.7]$$

where AAR_t is the average abnormal return for each date/time (t) during the event period for all companies, $CAAR_{(t1, t2)}$ is the cumulative average abnormal return for (t_1= -20, t_2= +20) during the event period for all companies and N is the number of observations in the sample.

[84] Excess return calculations are like an abnormal return measure in terms of average and cumulative returns, so the existing equations are utilised in computing the excess returns. The median, instead of the mean, is used in both Equations 4.6 and 4.7 to apply the non-parametric test.

To test the current research hypothesis (see Section 7.2 in Chapter 7 for more detail on these hypotheses), both parametric and non-parametric tests are used when the data may not fit a normal distribution[85] (Brown and Warner, 1980; McCluskey *et al.*, 2006). The following are the two main research hypotheses built on previous theoretical and empirical structures used to evaluate the validity of dividend signalling information.

H1: A company's share price reacts to the announcement of a cash dividend during the event window.

H2: A company's share price reacts in the same direction as the announcement of a change in dividend payment levels during the event window.

The second hypothesis is divided into three sub-hypotheses according to the direction of change in the dividend level.

H2.1: There is a significant positive reaction in terms of the share price at the time of the announcement of an increase in the dividend payment level.

H2.2: There is a significant negative reaction in terms of the share price at the time of the announcement of a decrease in the dividend payment level.

H2.3: There is no significant reaction in terms of the share price at the time of the announcement of no change in the dividend payment level.

4.8 Chapter Summary

This chapter describes the methodology and methods used for the current study. A review of the philosophy of science is provided, which takes account of the four primary philosophical paradigms of Burrell and Morgan (2016). After describing the various philosophical assumptions, the adoption of both functionalist and interpretive paradigms in the current study was determined to be the most appropriate because the

[85] Two types of statistical tests were conducted to test the significance of average abnormal (excess) returns, as well as cumulative average abnormal (excess) returns, using a one- or two-tailed t-test and a Wilcoxon signed-rank test. Khan (2011, p.116) state that 'for estimating the significance level, a one-tailed t-test was used for the DI category which had the alternative hypothesis that unexpected returns are greater than zero. Similarly, a one-tailed t-test was used for the DD group which had an alternative hypothesis that unexpected returns were less than zero. On the other hand, a two-tailed t-test was used for DNC events because in this instance, the alternative hypothesis was that unexpected returns were not equal to zero'.

study involves multiple methods that can help observe the dividend topic from several viewpoints. The chapter also identifies the research design and various processes that were used to carry out this project. The present research adopts a mixed-methods sequence triangulation design comprised of three stages, quantitative and qualitative, followed by quantitative again, to determine the mechanism of dividend determination and the importance of dividend announcements for company share evaluation.

The questionnaire survey approach was chosen primarily to provide a general overview of the dividend phenomenon and various aspects of the Saudi context, as well as the results obtained from a comparatively large sample shown in Chapter 5. The questionnaire was preceded by semi-structured interviews with several managers to obtain an in-depth understanding of the dividend subject and discuss the complications arising from the questionnaire in greater detail (see Chapter 6). An event study method was used last to investigate the information content of the dividend announcements from an objective view, and the findings are reported in Chapter 7.

Chapter 5
Analysis and Results of Questionnaire Survey on the Dividend Payment Decisions

5.1 Introduction

This chapter analyses the views of Saudi Arabian corporate managers regarding the factors that determine company dividend payment decisions. The findings presented in this chapter enhance our understanding of the issues that Saudi managers consider when setting their companies' dividends. The results also provide explanations regarding (1) the determinants of dividend payment decisions in Saudi Arabian companies, (2) the views of Saudi Arabian managers regarding signalling theory, (3) the relationship between dividend announcements and share returns and (4) the role of Zakat (Islamic tax) on companies' dividend payment decisions.

The chapter also statistically tests whether responses regarding these issues differ between companies that are 100% owned by Saudi investors and companies with non-Saudi/foreign ownership. The sample is analysed according to (i) dividend-paying versus non-dividend-paying companies and (ii) dividend-changed versus dividend-unchanged companies to determine whether such characteristics influence the responses of the managers surveyed.

A questionnaire was distributed both by email and in-person to the managers of 171 Saudi companies. The list of sample companies was obtained from the Capital Market Authority (CMA) and cross-checked against the Tadāwul website. Based on 82 usable responses (a 48% response rate), the empirical results highlighted several clear patterns in the dividend policy behaviour of Saudi Arabian companies as well as in cases in which specific differences in views existed across the respondent sub-groups.

The remainder of the chapter is structured as follows: Section 5.2 reports the descriptive statistics for the replies to the questionnaire, while Section 5.3 describes the test that was employed for the non-response bias. Section 5.4 provides the findings in each

of the four distinct parts of the survey for the whole sample as well as for the different sub-groups. Finally, Section 5.5 provides a conclusion of this chapter.

5.2 Descriptive Statistics of the Survey Respondents

The sample consisted of 82 responses. An examination of the answers to the first part of the questionnaire (the final versions of the questionnaire are in English and Arabic are attached to Appendices B-1 and B-2, respectively) showed that many of the respondents had held finance manager or chief financial officer (CFO) positions for a relatively long time – almost 70% of them for more than five years. The experience of most respondents suggests that a great deal of weight can be attached to their opinions since they had been finance managers/CFOs during periods in which several dividend-related decisions would have been made.

Table 5-1 summarises the company characteristics by sector for all the usable responses analysed. From this table, it is clear that the respondents were drawn from companies with a range of different characteristics and operated across various industrial sectors. The table also shows that the number of 100% Saudi-owned companies that responded was almost double the number of companies with foreign participation (54 and 28, respectively). This finding is not surprising because the admission of foreign investors into Saudi Arabia is a relatively recent phenomenon (Capital Market Authority, 2018)[86].

The majority of the respondents' companies pay dividends, and most had changed their dividend payouts in the financial year before the survey took place. A particular feature of the results presented in the table is the large number of companies that do not pay dividends; 21 (25%) of the respondents had payout ratios of zero. This finding was not surprising given the unprecedented levels of relatively low growth in Saudi Arabian industries throughout the period under consideration (Saudi Arabian Monetary Authority, 2017), as this may have encouraged companies to retain cash for investment rather than payout funds to investors (For more details on Saudi economy throughout the study years, please refer to Chapter 2). Notably, 25% of sample

[86] In 2015, for the first time in Saudi Arabia, the CMA issued the rules for Qualified Foreign Institutional Investors (QFIIs) to be listed on the Saudi Arabian stock market. These rules were amended in 2016 and 2017 to ease the investing process for QFIIs and to facilitate listings on the Saudi Stock Market in emerging market indices. Please see Chapter 2 for more details.

companies do not pay dividends, with 14.3% being family-owned business and 10.7% non-family. As shown in Appendix C-1, 14.3% of the family-owned businesses do not pay any dividends; this might be because the family owner may not need a dividend if they are paid a salary as an employee.

Table 5-1: An Analysis of Respondents' Company Characteristics by Sector

Sector	Total	Ownership		Dividend		Dividend Change		Controlled	
		100% Saudi-owned	Mixed	Paid	Not Paid	No	Yes	Non-family-controlled	Family-controlled
Agriculture	6	5	1	5	1	2	4	6	0
Banking	7	4	3	6	1	2	5	7	0
Building & Construction	6	3	3	5	1	1	5	3	3
Cement	8	8	0	8	0	2	6	8	0
Energy & Utilities	1	1	0	1	0	1	0	1	0
Industrial	4	4	0	3	1	1	3	4	0
Insurance	15	3	12	6	9	10	5	13	2
Petrochemical/Industrial	9	6	3	8	1	1	8	7	2
Retail	12	10	2	11	1	9	3	5	7
Other	14	10	4	8	6	9	5	14	0
TOTAL	82	54	28	61	21	38	44	68	14

Note: This table shows the 82 usable responses from companies according to the different stock market sectors. The 82 companies are divided into four sub-groups according to four criteria: 100% Saudi-owned company or mixed ownership company; dividends not paid or dividends paid; dividends unchanged or dividends changed; non-family-controlled or family-controlled. These criteria are a result of the survey responses to the following questions in Section One: 'Which of the following ownership types represents your company?', 'Does your company or any of its affiliate/subsidiary companies pay a dividend in ordinary shares (or common stocks)?', 'Has the level of the dividend changed since the previous year?' and 'Is your company a family/family-controlled business?'

A more detailed analysis of Table 5-1 revealed that companies from most industrial sectors were represented in the sample. The insurance sector had the highest number of respondents (15 replies), while 'Other', which comprised five sectors (multi-investment, real estate development, hotels and tourism, transport, and telecommunications and information technology), came second (12 replies). The retail sector accounted for twelve responses, followed by the petrochemical industry with nine responses and the cement and banking sectors at eight and nine responses, respectively. The agriculture and the building and construction sectors provided the same number of responses (six each), and the industrial sector accounted for four responses. The lowest number of responses received was from the energy and utility sector; both of the listed energy and utility companies responded. This result was not surprising, as the energy and

utility sector included only two listed companies (National Gas and Industrialization Co. and Saudi Electricity Co.). Notably, there were differences in ownership structure among the sectors in which the respondents worked. For three of the sectors (cement, energy and utilities, and industrial), the respondents' companies were 100% Saudi-owned. At the other end of the continuum, 80% of the insurance companies whose managers completed the questionnaire had foreign shareholders.

A majority of the respondents (74.4%) indicated that their companies or affiliate/subsidiary companies paid dividends on ordinary shares. This propensity to pay dividends was not uniform across the different sectors, as only 40% of the insurance companies and 100% of the cement and energy and utilities companies had paid dividends in the year before the survey took place. Just over half of the respondents (53.7%) indicated that their dividend payouts had changed since the previous year. This willingness to alter dividends was especially pronounced in the petrochemical and building and construction sectors, where the economic downturn may have forced these companies to cut all payouts to shareholders in order to conserve cash. Almost half of the respondents (45.1%) noted that the reasons for making dividend payments should be fully explained to shareholders. Those who said this (37 individuals, or 51.4%) highlighted shareholder meetings as an excellent forum in which to explain to the market why particular dividends are set.

5.3 Non-Response Bias

Surveys are a conventional technique used to gather perceptions in business and management research studies; unfortunately, however, they are often plagued by low response rates and non-response bias (Mellahi and Harris, 2016). As explained in Chapter 4 (Section 4.7.1), the current study adopted strategies to secure a reasonable response rate for the survey. First, two distribution methods were used. The first method was via email, and the second was via personal delivery of the instrument. Second, copies of the questionnaire, both in English and Arabic, were offered to each participant so that they could select the version they were more comfortable with. Third, the questionnaire was piloted using a relatively large sample of individuals to ensure that it was not too time-consuming or difficult to answer. Lastly, two follow-up reminders were sent to non-respondents.

The issue of non-response bias often arises in cases when certain groups or types of respondents in the target population fail to complete the questionnaire. As a result, the views obtained may not be consistent with the perceptions of the target population, making it difficult to generalise the findings to an entire population. However, Goyder (1985) noted that a response rate to a completed questionnaire of 30 to 70% should mitigate any problem with bias, as a rate anywhere within this range is considered acceptable in survey methodology.

Linder, Murphy and Briers (2001) note that the literature on non-response issues is often contradictory and sometimes inconclusive. They add that 'nonresponse error exists to the extent that people included in the sample fail to provide usable responses and may be different from those who do' (Linder, Murphy and Briers, 2001, p.44). In this regard, Mellahi and Harris (2016) observed that a likely more critical factor than survey return rates is the validity of the survey audience. The current study surveyed companies' managers who, given their qualifications, knowledge, experience and senior roles within their companies, were the most appropriate individuals to address questions on dividend policy.

The most common method to test for non-response bias is to compare the replies of early and late respondents (Collier and Bienstock, 2007). Usable responses are divided into two groups: those completed before any follow-up reminders are issued and those completed after reminders are sent (by hand or email). Pace (1939) suggests a possible similarity between late respondents and non-respondents; thus, a comparison of their replies with responses from the questionnaires returned early may provide insights into the probability of bias occurring. In the current study, a number of variables were chosen to contribute to the comparison and ascertain whether any significant differences existed between the two respondent groups.

A total of 82 companies returned completed questionnaires. The respondents were divided into two groups: those who replied on or prior to 30 April 2017 (early respondents) and those who responded on or after 1 May 2017 (late respondents). The early group presented 55 questionnaires (67%), and the late group presented 27 questionnaires (33%). A chi-square test was used to compare the mean scores for three selected

questions[87] to establish whether there were any significant differences between the early and late respondents. The three questions used for this test were (1) 'Which of the following ownership types represents your company?', (2) 'Does your company or any of its affiliate/subsidiary companies pay a dividend on ordinary shares (or common stocks)?' and (3) 'Has the level of the dividend changed since the previous year?'.

Table 5-2 details the non-response bias test for the early- and late-responding companies. The chi-square test results indicated no significant differences between the early and late responders for the three selected questions at the 5% level. The p-values were greater than 0.05, indicating that the null hypothesis of no differences between the early and late responses could not be rejected. Specifically, the p-value ranged between 0.262 for the second question and 0.818 for the third question, suggesting high confidence in the $\chi 2$ test result. It appears that the survey findings did not differ between the early and late respondents, thus suggesting that no bias was present. The views expressed may therefore be reflective of the target population.

Table 5-2: Results of the Non-Response Bias Test

Comparison factors	Answer	Early Response	Late Response	χ^2 test (p-value)
Which of the following ownership types represents your company?	100% Saudi-owned company	37	17	0.699
	Mixed company	18	10	
Does your company or any of its affiliate/subsidiary companies pay a dividend on ordinary shares (or common stocks)?	Yes	43	18	0.262
	No	12	9	
Has the level of the dividend changed since the previous year?	Yes	30	14	0.818
	No	25	13	

Note: This table summarises the results from a non-response bias test conducted on the answers supplied by the early and late responders. The two groups (early and late responders) were compared based on the three selected questions at the 5% significance level. These responses to questions include replies about whether the respondents' companies (i) are 100% Saudi-owned companies or Saudi companies with foreign investor participation (mixed ownership companies), (ii) are dividend-paying or non-dividend-paying, and (iii) have recently changed their dividend payout policy.

[87] These three questions were selected because they had already been used as key components in the survey analysis to facilitate comparisons between various sub-groups, which included different ownership structures and company characteristics (e.g., 100% Saudi-owned companies versus mixed ownership, non-dividend payers versus dividend payers, and dividend-changed versus dividend-unchanged companies).

5.4 Survey Findings

In the sample, companies from a range of different sectors with a variety of different ownership structures and a mix of different company characteristics were used to facilitate a comparative analysis between non-dividend payers and dividend payers and dividend-changed versus dividend-unchanged companies. The results displayed in subsequent tables are therefore reported for the whole sample as well as for different groups of companies according to their companies' ownership structures, whether a dividend was paid in the last 12 months, and whether any dividend payout had changed over the past year.

5.4.1 The Determinants of Dividend Policy

Section 2 of the questionnaire was used to identify the different factors that affect Saudi companies' dividend policies. Table 5-3 shows the respondents' opinions regarding 14 factors that determine the dividend payment decisions of Saudi companies. A descriptive analysis (which determined the mean and the standard deviation [SD]) was used to report the extent to which the managers agreed with the different statements that influence companies' dividend policies. In addition, Table 5-4 reports the results of a one-sample t-test that examined the null hypothesis that the mean score for each factor would be equal to 3 (an uncertain/neutral level). The results from Table 5-3 and Table 5-4 show that for the whole sample, respondents agreed with eight factors, disagreed with four factors and were uncertain about two factors that influence their companies' dividend payment decisions.

Table 5-3: The Mean Score and Standard Deviation for the Determinants of Dividend Payment

	Total		100% Saudi-owned company		Mixed ownership		Dividend not paid		Dividend paid		Dividend unchanged		Dividend changed	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
A company should base its current dividend policy on its current earnings.	3.99	1.04	3.96	1.08	4.04	0.96	3.81	1.25	4.05	0.96	3.95	1.11	4.02	0.98
A company should base its current dividend policy on its expected earnings.	2.78	1.27	2.57	1.24	3.18	1.25	2.67	1.20	2.82	1.30	2.61	1.24	2.93	1.28
A company should determine its current dividend policy based on the previous year's dividend.	2.62	1.04	2.48	1.06	2.89	0.96	2.57	0.93	2.64	1.08	2.55	0.98	2.68	1.09
A company should base its current dividend policy on the amount of dividends paid by its competitors.	2.00	0.75	1.87	0.75	2.25	0.70	2.05	0.67	1.98	0.79	1.89	0.65	2.09	0.83
A company should avoid making changes to its dividend payment rates that might have to be reversed in a year or so.	3.11	1.05	3.06	1.05	3.21	1.07	3.10	1.00	3.11	1.08	3.00	1.01	3.20	1.09
A company should strive to maintain an uninterrupted record of dividend payments.	3.83	0.89	3.89	0.79	3.71	1.05	3.43	1.03	3.97	0.80	3.63	0.97	4.00	0.78
A company should base its current dividend policy on the level of debt financing.	3.46	1.12	3.61	1.09	3.18	1.16	3.33	1.20	3.51	1.10	3.42	1.22	3.50	1.05
A company should consider the availability of potential profitable investment opportunities before paying a dividend.	3.61	1.07	3.76	1.08	3.32	1.02	3.33	1.11	3.70	1.05	3.50	1.08	3.70	1.07
A company should consider shareholders' preferences regarding dividends.	3.44	0.93	3.33	0.91	3.64	0.95	3.62	0.97	3.38	0.92	3.47	0.98	3.41	0.90
A company should determine its current dividend policy based on cash flow/liquidity considerations.	4.48	0.57	4.43	0.60	4.57	0.50	4.52	0.51	4.46	0.59	4.55	0.50	4.41	0.62
A company should have a target dividend payout ratio.	3.67	0.92	3.74	0.94	3.54	0.88	3.71	0.78	3.66	0.96	3.61	0.82	3.73	1.00
A company should consider majority government shareholders as a significant determinant of dividend decisions.	2.70	1.03	2.74	1.01	2.61	1.07	3.05	1.07	2.57	0.99	2.71	1.14	2.68	0.93
A company should consider large family shareholders a significant determinant of dividend decisions.	2.62	1.01	2.67	1.10	2.54	0.84	2.57	0.81	2.64	1.08	2.42	0.95	2.80	1.05
A company should consider projections about the future level of the economy/oil prices when making dividend decisions.	3.41	1.03	3.50	1.09	3.25	0.89	3.14	1.06	3.51	1.01	3.11	1.06	3.68	0.93

Note: This table shows the responses to 14 items regarding the determinants of dividend payment decisions. A five-point Likert scale was used for the ordinal variables with the following coding: 1- Strongly Disagree, 2- Disagree, 3- Uncertain, 4 - Agree and 5 - Strongly Agree. A mean score (mean) and an SD are reported.

Table 5-4: The One-Sample T-test for the Determinants of Dividend Payments

	Total	100% Saudi-owned com-pany	Mixed own-ership	Dividend not paid	Dividend paid	Dividend unchanged	Dividend changed
	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)
A company should base its current dividend policy on its current earnings.	0.000*	0.000*	0.000*	0.008*	0.000*	0.000*	0.000*
A company should base its current dividend policy on its expected earnings.	0.121	0.014*	0.456	0.217	0.282	0.058	0.726
A company should determine its current dividend policy based on the previous year's dividend.	0.001*	0.001*	0.558	0.047*	0.012*	0.008*	0.061
A company should base its current dividend policy on the amount of dividends paid by its competitors.	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*
A company should avoid making changes to its dividend payment rates that might have to be reversed in a year or so.	0.349	0.700	0.297	0.666	0.411	1.000	0.220
A company should strive to maintain an uninterrupted record of dividend payments.	0.000*	0.000*	0.001*	0.071	0.000*	0.000*	0.000*
A company should base its current dividend policy on the level of debt financing.	0.000*	0.000*	0.421	0.217	0.001*	0.040*	0.003*
A company should consider the availability of potential profitable investment opportunities before paying a dividend.	0.000*	0.000*	0.107	0.184	0.000*	0.007*	0.000*
A company should consider shareholders' preferences regarding dividends.	0.000*	0.010*	0.001*	0.009*	0.002*	0.005*	0.004*
A company should determine its current dividend policy based on cash flow/ liquidity considerations.	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*
A company should have a target dividend payout ratio.	0.000*	0.000*	0.003*	0.000*	0.000*	0.000*	0.000*
A company should consider majority government shareholders as a significant determinant of dividend decisions.	0.009*	0.065	0.062	0.841	0.001*	0.125	0.029*
A company should consider large family shareholders a significant determinant of dividend decisions.	0.001*	0.030*	0.007*	0.025*	0.012*	0.001*	0.202
A company should consider projections about the future level of the economy/oil prices when making dividend decisions.	0.000*	0.001*	0.148	0.545	0.000*	0.544	0.000*

Note: This table shows the responses to 14 items regarding the determinants of dividend payment decisions. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. A one-sample t-test based on the mean scores was used to test the null hypothesis that the mean scores for the sub-groups are neutral at a level of three. The * representing the p-value (sig) is significant at the level of 0.05 among the sub-groups.

In general, the managers appeared to believe that earnings and cash flow are essential elements in determining the level of dividends paid.

The highest mean score across the entire group, 4.48, represented the managers' agreement with the statement that 'A company should determine current dividend policy based on cash flow/liquidity considerations'. The managers showed a general consensus regarding this statement since it had the lowest SD of 0.57. In the comment box at the end of Section 2 in the survey, the finance manager of a petrochemical industrial company noted:

> The main factor that determines whether a company pays a dividend or not is the ability of the company to continue generating cash flow from operations in a manner that supports the dividend payment decision

This result is highly consistent with data reported for a number of Western (e.g., Baker and Powell, 2000; McCluskey, Burton and Power, 2003; Baker *et al.*, 2007) and Eastern markets (e.g., Chazi, Boubakri and Zanella, 2011; Al-Ajmi and Abo Hussain, 2011; Baker and Powell, 2012; Naser, Nuesibeh and Rashed, 2013; Baker and Kapoor, 2015; Baker, Kilincarslan and Arsal, 2018), in which the role of liquidity in determining dividend policy is highlighted.

The managers seemed to display a high level of agreement with the following three statements: 'Companies should base their current dividend policy on their current earnings' (mean = 3.99; SD = 1.04), 'A company should strive to maintain an uninterrupted record of dividend payments' (mean = 3.83; SD = 0.89) and 'Companies should have a target dividend payout ratio' (mean = 3.67; SD = 0.92). These results are consistent with Lintner's (1956) study, which highlighted that the paramount factor in determining dividend payment decisions is the level of current earnings when US companies start to pay a dividend; this dividend record should not be interrupted in the future, and companies should increase dividends only when such increases can be sustained. The results also suggest that Saudi managers' views are similar to the empirical findings reported in both Western (Baker, Veit and Powell, 2001; McCluskey, Burton and Power, 2003) and Eastern studies (Baker and Powell, 2012; Baker and Kapoor, 2015; Baker and Jabbouri, 2016). However, the respondents disagreed with the statement that 'A company should determine the current dividend policy based on the previous year's dividend' (mean = 2.62; SD = 1.04). This result is inconsistent with that

reported in Lintner's (1956) study, which noted that US companies base their dividend payment decisions on the previous year's dividends. Interestingly, research carried out by Al-Ajmi and Abo Hussain (2011) regarding listed Saudi companies showed that the previous year's dividend is considered an important determinant of dividend payment decisions. This is the opposite of the current study's findings. Differences in the results between the current study and Al-Ajmi and Abo Hussain's (2011) study may be due to the rapidly changing economic conditions mentioned in Chapter Two, including declining oil prices, relatively low growth rates, the announced of Vision 2030 and new laws and structures for the capital market, which are somewhat affected by the performance of the listed companies.

Evidence from Table 5-3 shows that the respondents seemed to agree with the statement that 'A company should consider the availability of potentially profitable investment opportunities before paying a dividend' (mean = 3.61; SD = 1.07). This finding differs from the results reported by Al-Malkawi, Twairesh and Harery (2013), who documented no significant relationships between dividend payment decisions and the availability of investment opportunities in their sample. In their study of 69 non-financial Saudi listed companies, the results from the applied logistic regression model suggested that investment and payout decisions are not linked. Differences between the findings in that study and the current study may be due to the different research methods that were used.

In the current study, managers considered the level of debt financing to be a factor in determining a company's current dividend policy (mean = 3.46; SD = 1.12 for the whole sample). This result is consistent with that of Al-Malkawi, Twairesh and Harery's (2013) empirical study, which reported that the level of debt financing negatively influences the dividend amount that a company wishes to pay its shareholders. If debt levels are high, their sample companies indicated that they would use available cash flow to pay sizeable interest obligations rather than return cash to shareholders in the form of dividends. In contrast, Dhanani's (2005) study reported that UK managers believe that dividend policy does not impact company investment or finance policies. Two reasons for this were given: First, paying dividends is more important than retaining cash to finance potential projects, and second, the amount used to pay dividends is insufficient to finance potential projects; thus, it is better to pay it as a dividend to shareholders and raise the funding from an alternative source.

In the current study, managers agreed with the statement that 'Projections about the future level of the economy/oil price should be taken into consideration when making dividend decisions' (mean = 3.41; SD = 1.03) and the statement about shareholders' preferences regarding dividends influencing payout decisions (mean = 3.44; SD = 0.93). The results of the one-sample t-test for these two statements was <0.05, which permitted rejection of the null hypothesis that the means would be neutral. The results from the current study are consistent with previous research conducted by Baker and Powell (2012) and Naser, Nuesibeh and Rashed (2013) regarding consideration of projections about the future state of the economy in the dividend payment process. Furthermore, the responses regarding consideration of shareholders' preferences in relation to dividends are in line with Baker and Powell (2012) and Dhanani (2005), who reported that companies consider their shareholders' preferences an important element when making dividend payment decisions.

The lowest mean score for the total sample was observed in the suggestion that a company should base its current dividend policy on the dividends paid by its competitors (mean = 2.00; SD = 0.75). This indicated that the managers disagreed with the view that dividends should be based on what other companies pay. This finding is in line with previous results reported by McCluskey, Burton and Power (2003), confirming that managers do not view the dividends paid by their competitors as a determinant of their own current dividend payments. This result was the same for both the 100% Saudi-owned companies and the mixed ownership companies, suggesting that ownership was not a key factor in this response. Table 5-4 shows that the p-value was <0.05 for all the sub-groups, indicating that their responses significantly differed from the neutral level; in fact, the responses across the sub-groups mainly disagreed with this statement. Furthermore, the respondents appeared to disagree with the following two statements: 'A company should consider the opinions of families with significant shareholdings when determining their dividend policy' (mean = 2.62; SD = 1.01) and 'A company should consider the views of majority government shareholders a significant determinant when making dividend decisions' (mean = 2.70; SD = 1.03). In each case, the mean score was close to the neutral value on the Likert scale, and the p-value for the one-sample t-test (< 0.05) allowed the null hypothesis that the mean would be equal to 3 to be rejected.

The survey respondents seemed to have an overall neutral view regarding the following two statements on firms' dividend policies: 'A company should base its current dividend policy on its expected earnings' (mean = 2.78; SD = 1.27) and 'A company should avoid making changes to its dividend payment rates that might have to be reversed in a year or so' (mean = 3.11; SD = 1.05). The p-values for these cases were greater than 0.5, which supported the null hypothesis that the mean scores would be equal to 3.

The values of the independent two-sample t-test compared the differences in mean scores for the different groups (ownership structure; non-dividend-paying and dividend-paying; and dividend unchanged and dividend changed)[88] indicates that there were four cases in which significant differences in the means among the various groups were uncovered. First, responses to the statement that 'A company should base its current dividend policy on the company's expected earnings' were much higher for mixed ownership companies (mean = 3.18; SD = 1.25) than for 100% Saudi-owned companies (mean = 2.57; SD = 1.24; p = 0.042). The 0.042 p-value indicated that the null hypothesis of no significant differences between the two groups regarding the role of expected earnings in determining current dividend policy could be rejected. The managers of 100% Saudi-owned companies did not look at future earnings to ensure that their current dividends could be maintained; instead, they placed more emphasis on the level of current earnings. This result was not surprising, as the survey respondents appeared to agree most strongly – due to it yielding the second-highest mean score in the survey – with current earnings as a determinant

[88] The independent two-sample t-test is based on the assumption of normality, which assumes that data is normally distributed. To ensure that the test was appropriate for the survey data, a non-parametric (Mann-Whitney) test, which is not based on normal distribution, was conducted and the p-values compared to determine whether there were any significant differences between the two tests (the t-test versus the Mann-Whitney test). The results were almost the same, except for two cases in which the differences were significant. While the t-test for the statement 'A company should consider the availability of potentially profitable investment opportunities before paying a dividend' was not significant for the ownership sub-groups (a 100% Saudi-owned company versus a mixed ownership company) (t-test = 0.080), the Mann-Whitney test p-value was 0.043. On the other hand, the p-value for the Mann-Whitney test was greater than 0.05 for the statement 'Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies' for the dividend unchanged versus dividend changed sub-groups; by contrast, the t-test in this instance was 0.047 (See Appendix C-2, Appendix C-3 and Appendix C-4, for details regarding the comparison between the independent, two-sample t-test and the Mann-Whitney test for the different statements).

Second, there was a significant difference (p = 0.027) between the two groups with regard to the statement that 'A company should base its current dividend policy on the amount of dividend paid by its competitors'. The mean score for mixed ownership companies (mean = 2.25; SD = 0.70) exceeded the mean score for the 100% Saudi-owned companies (mean = 1.87; SD = 0.75), which may indicate that although both groups disagree with the notion that there is an industry norm for the dividend, companies with mixed ownership appear to disagree more strongly. It is possible to reject the null hypothesis that the mean scores of both groups would be equal.

Third, there was a difference among the respondents regarding the statement that 'A company should strive to maintain an uninterrupted record of dividend payments'. The non-dividend-paying and dividend-paying companies had different average scores for this statement. The mean score for the dividend-paying companies (mean = 3.97; SD = 0.080) was significantly higher than that of the non-dividend-paying companies (mean = 3.43; SD = 1.03). The 0.037 p-value indicates that it is possible to reject the null hypothesis that the difference in mean scores would be zero. This finding was expected because companies that pay dividends are usually more concerned about their shareholder bases and the need to pay uninterrupted dividends compared to those who have no recent experience in paying a dividend. This result is consistent with a study conducted by Baker, Farrelly and Edelman (1985) on US data and lends some support to the clientele view of dividends: that those shareholders who want dividends tend to invest in dividend-paying shares, and the managers of such firms will therefore strive to ensure that a dividend continues to be paid.

Lastly, the mean score with regard to the statement that 'A company should consider projections about the future level of the economy/oil price when making dividend decisions' was statistically different for dividend-changed companies (mean = 3.68; SD = 0.093) compared to dividend-unchanged companies (mean = 3.11; SD = 1.06). This is relevant in the rapidly changing Saudi economy, given the sharp drop in oil prices during the period prior to the present survey and the rise in local gas and electricity prices. The p-value for the difference in response between the two groups was 0.011, which means that it is possible to reject the null hypothesis that the mean scores for the two groups would be equal.

Table 5-5: The Independent Two-Sample T-test for Determinants of Dividend Payments

	Saudi-owned vs mixed ownership			Dividend not paid vs. paid			Dividend unchanged vs. dividend changed		
	Mean Difference	t	Sig.	Mean Difference	t	Sig.	Mean Difference	t	Sig.
A company should base its current dividend policy on its current earnings.	-0.08	-0.311	0.757	-0.24	0.802	0.429	-0.07	0.323	0.747
A company should base its current dividend policy on its expected earnings.	-0.61	-2.085	0.042*	-0.15	0.494	0.624	-0.32	1.169	0.246
A company should determine its current dividend policy based on the previous year's dividend.	-0.41	-1.780	0.080	-0.07	0.277	0.783	-0.13	0.564	0.574
A company should base its current dividend policy on the amount of dividends paid by its competitors.	-0.38	-2.267	0.027*	0.07	-0.361	0.720	-0.20	1.200	0.234
A company should avoid making changes to its dividend payment rates that might have to be reversed in a year or so.	-0.15	-0.642	0.524	-0.01	0.076	0.940	-0.20	0.880	0.382
A company should strive to maintain an uninterrupted record of dividend payments.	0.18	0.774	0.443	-0.54	2.186	0.037*	-0.37	1.877	0.065
A company should base its current dividend policy on the level of debt financing.	0.43	1.638	0.107	-0.18	0.589	0.560	-0.08	0.312	0.756
A company should consider the availability of potential profitable investment opportunities before paying a dividend.	0.44	1.806	0.076	-0.37	1.340	0.189	-0.20	0.857	0.394
A company should consider shareholders' preferences regarding dividends.	-0.31	-1.417	0.162	0.24	-0.997	0.326	0.06	-0.310	0.758
A company should determine its current dividend policy based on cash flow/liquidity considerations.	-0.14	-1.158	0.251	0.06	-0.480	0.634	0.14	-1.154	0.252
A company should have a target dividend payout ratio.	0.20	0.978	0.332	0.05	-0.278	0.783	-0.12	0.607	0.546
A company should consider majority government shareholders as a significant determinant of dividend decisions.	0.13	0.547	0.586	0.48	-1.782	0.084	0.03	-0.124	0.902
A company should consider large family shareholders a significant determinant of dividend decisions.	0.13	0.601	0.550	-0.07	0.302	0.764	-0.38	1.699	0.093
A company should consider projections about the future level of the economy/oil prices when making dividend decisions.	0.25	1.115	0.269	-0.37	1.376	0.178	-0.57	2.594	0.01*

Note: This table shows the responses to 14 items regarding the determinants of dividend payment decisions. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. The mean differences and t-test values are reported. The independent sample two-tailed t-test based on the mean scores was used to test the null hypothesis that the mean scores for the two sub-groups are equal. The * shows that the p-value (sig) is significant at the level of 0.05 among the sub-groups.

5.4.2 Market Signals

Table 5-6, Table 5-7 and Table 5-8 summarise the extent to which the managers agreed with the signalling theory of dividends in Saudi companies and whether company dividend announcements convey information to investors regarding the future prospects of their companies.

Overall, the average of the managers' responses to these questions (mean = 3.5) suggests that they are aware of the signalling theory of dividends. The respondents agreed with the statement that 'A dividend payment provides a signal for future earnings prospects' (mean = 3.39; SD = 0.93). This result appears consistent with the findings reported in both Western (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999; Baker and Powell, 2000; Baker *et al.*, 2007) and Eastern markets (Chazi, Boubakri and Zanella, 2011; Baker and Powell, 2012; Naser, Nuesibeh and Rashed, 2013; Baker and Kapoor, 2015; Baker and Jabbouri, 2016; Chaabouni, 2017; Baker, Kilincarslan and Arsal, 2018) regarding the signalling power of dividend payment decisions. However, the current study's findings contrast with the results reported in two previous Saudi studies on this topic by Uddin and Osman (2008) and Al-Qudah and Badawi (2015), which confirmed that dividend announcements do not indicate any information regarding a company's future prospects. The differences between the results of former studies and the current study results have two possible explanations. First, the studies were conducted in different periods, and capital market conditions were much more stable when the former studies were conducted (2001–2005 and 2013). As mentioned earlier, economic conditions were not stable at the time that the current study was conducted (due to the decline in oil prices, the announcement of Saudi Vision 2030 and new government regulations). These factors may have affected the use of dividends as a signalling tool by some companies to convey information to outside investors about their performance. Second, in the current survey, a majority (61 listed companies) of the responding managers work in dividend-paying Saudi listed companies. This is in contrast to the samples that were used in the two previous studies by Uddin and Osman (2008) (28 listed companies) and Al-Qudah and Badawi (2015) (47 listed companies). In the current study, the p-value of the one-sample t-test was significant for the whole sample as well as for the replies of the different sub-groups, suggesting that the null hypothesis that respondents' means would equal the neutral score of three (uncertain) can be rejected.

Table 5-6: The Mean Scores and Standard Deviations for the Market and Shareholders' Reactions to Dividends

	Total		100% Saudi-owned company		Mixed company (Saudis and foreigners)		Dividend Not Paid		Dividend Paid		Dividend Unchanged		Dividend Changed	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
The market views dividend announcements entirely independently of earnings announcements.	3.43	1.07	3.46	1.08	3.36	1.06	3.48	1.08	3.41	1.07	3.39	1.00	3.45	1.13
Dividend payments provide a sign of future earnings prospects.	3.39	0.93	3.37	0.94	3.43	0.92	3.43	0.87	3.38	0.95	3.39	0.95	3.39	0.92
In the long term, an increase in dividend payments will usually lead to a rise in share prices.	3.80	0.81	3.76	0.82	3.89	0.79	3.71	0.90	3.84	0.78	3.82	0.83	3.80	0.79
A decrease in dividends will usually lead to a fall in share price.	3.51	0.88	3.41	0.90	3.71	0.81	3.52	0.81	3.51	0.91	3.50	0.92	3.52	0.85
The market reaction to an increase in dividends will depend on how the new figure compares to shareholders' expectations.	3.77	0.67	3.81	0.65	3.68	0.72	3.62	0.74	3.82	0.65	3.71	0.77	3.82	0.58
The market reaction to a decrease in dividends will depend on how the new figure compares to shareholders' expectations.	3.66	0.74	3.72	0.74	3.54	0.74	3.67	0.80	3.66	0.73	3.68	0.81	3.64	0.69
A change in the existing dividend payout ratio is more important than the actual amount of dividends paid.	3.00	0.90	2.96	0.85	3.07	1.02	3.14	0.96	2.95	0.88	3.13	0.93	2.89	0.87
Shareholders perceive dividend payments to be less risky than the profit from capital gains.	3.51	0.74	3.44	0.69	3.64	0.83	3.48	0.75	3.52	0.74	3.47	0.69	3.55	0.79
Shareholders generally use dividend announcements to help assess a company's share value.	3.78	0.75	3.81	0.75	3.71	0.76	3.67	0.58	3.82	0.81	3.66	0.75	3.89	0.75
The market is inefficient, and the reaction to a dividend is sometimes not justified.	3.77	0.89	3.72	0.88	3.86	0.93	3.86	0.96	3.74	0.87	3.74	0.95	3.80	0.85
Shareholders base their expectations about this year's dividend on the previous year's dividend.	3.37	0.66	3.28	0.66	3.54	0.64	3.33	0.58	3.38	0.69	3.29	0.52	3.43	0.76
Shareholders base their expectations about this year's dividend on trends within the sector.	3.63	0.81	3.65	0.83	3.61	0.79	3.67	0.97	3.62	0.76	3.66	0.91	3.61	0.72
Shareholders base their expectations about this year's dividend on last year's earnings.	3.17	0.54	3.11	0.57	3.29	0.46	3.29	0.46	3.13	0.56	3.24	0.49	3.11	0.58
Shareholders base their expectations about this year's dividend on forecast earnings.	3.26	0.58	3.24	0.64	3.29	0.46	3.24	0.44	3.26	0.63	3.32	0.53	3.20	0.63

Note: This table shows the responses to 14 statements regarding the signalling effect of a dividend announcement. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. Mean scores and SDs are reported.

Table 5-7: The One-Sample T-test for the Market and Shareholders' Reactions to a Dividend

	Total	100% Saudi-owned company	Mixed owner-ship	Dividend not paid	Dividend paid	Dividend un-changed	Dividend changed
	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)
The market views dividend announcements entirely independently of earnings an-nouncements.	0.001*	0.003*	0.086	0.056	0.004*	0.020*	0.011*
Dividend payments provide a sign of future earnings prospects.	0.000*	0.005*	0.020*	0.035*	0.003*	0.014*	0.008*
In the long term, an increase in dividend payments will usually lead to a rise in share prices.	0.000*	0.000*	0.000*	0.002*	0.000*	0.000*	0.000*
A decrease in dividends will usually lead to a fall in share price.	0.000*	0.002*	0.000*	0.008*	0.000*	0.002*	0.000*
The market reaction to an increase in dividends will depend on how the new figure compares to shareholders' expectations.	0.000*	0.000*	0.000*	0.001*	0.000*	0.000*	0.000*
The market reaction to a decrease in dividends will depend on how the new figure compares to shareholders' expectations.	0.000*	0.000*	0.001*	0.001*	0.000*	0.000*	0.000*
A change in the existing dividend payout ratio is more important than the actual amount of dividends paid.	1.000	0.749	0.713	0.505	0.665	0.391	0.390
Shareholders perceive dividend payments to be less risky than the profit from capital gains.	0.000*	0.000*	0.000*	0.009*	0.000*	0.000*	0.000*
Shareholders generally use dividend announcements to help assess a company's share value.	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*
The market is inefficient, and the reaction to a dividend is sometimes not justified.	0.000*	0.000*	0.000*	0.001*	0.000*	0.000*	0.000*
Shareholders base their expectations about this year's dividend on the previous year's dividend.	0.000*	0.003*	0.000*	0.016*	0.000*	0.001*	0.000*
Shareholders base their expectations about this year's dividend on trends within the sector.	0.000*	0.000*	0.000*	0.005*	0.000*	0.000*	0.000*
Shareholders base their expectations about this year's dividend on last year's earnings.	0.005*	0.159	0.003*	0.010*	0.073	0.005*	0.200
Shareholders base their expectations about this year's dividend on forecast earnings.	0.000*	0.008*	0.003*	0.021*	0.002*	0.001*	0.037*

Note: This table shows the responses to 14 statements regarding the signalling effect of a dividend announcement. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. SDs are reported. A one-sample t-test based on the mean scores was used to test the null hypothesis that the mean scores for the sub-groups would be neutral at a level of three. The * represents a significant p-value (sig) at the level of 0.05 among the sub-groups

The managers seemed to agree with the notion that the market is not efficient and reactions to dividends are sometimes unjustified (mean = 3.77; SD = 0.89). In the comments at the end of the third section of the questionnaire, some respondents indicated their agreement with the notion that dividends convey important information but suggested that this might not be reflected in a share price reaction since some do not consider the Saudi stock market efficient in its responses to dividend news. The CFO of a Saudi real estate investment and development company said:

> I must note here that the market is not efficient, and the shareholders are not sophisticated. Therefore, the market sometimes reacts positively to a mere dividend declaration, regardless of the dividend amount that has been announced

The CFO of a bank reported:

> The market, which is usually not deep enough (i.e., lacks institutional investors), normally has a preference for receiving cash dividends (which can be received now) rather than waiting for an increase in the value of the stock (which can take some time). Moreover, a less fluid market will always prefer cash over price appreciation

The Saudi market is generally characterised by a high level of information asymmetry and high levels of ownership concentration, in addition to an inefficient market (Onour, 2009; Al-Malkawi, Twairesh and Harery, 2013; Asiri and Alzeera, 2013; Al-Qudah and Badawi, 2015; Syed and Bajwa, 2018).

The respondents agreed with two statements: 'An increase (or decrease) in the dividend payment will usually lead to a rise (or fall) in the share price'. These statements had mean scores (SDs) of 3.80 (0.81) and 3.51 (0.88), respectively. This result is consistent with Baker *et al.*'s (2007) and Baker, Kilincarslan and Arsal's (2018) findings regarding managers in Western countries. Moreover, the results from the current study are consistent with results obtained from Eastern countries (Baker and Powell, 2012; Baker and Kapoor, 2015; Baker and Jabbouri, 2016). The managers in the current study also expressed relatively high levels of agreement with the statement that 'Shareholders generally use dividend announcements as information to help in assessing a company's share value' (mean = 3.78; SD = 0.75). This view is consistent with the findings of both Western (Baker, Farrelly and Edelman, 1985; Baker and Powell, 1999; Baker *et al.,* 2007; Baker, Kilincarslan and Arsal, 2018) and Eastern countries

(Baker and Powell, 2012; Baker and Jabbouri, 2016). The p-value from the one-sample t-test was significant for both the whole sample and the different sub-groups (0.000) and did not support the null hypothesis that the respondents' mean score would be neutral. The variations in the level of agreement between the statement regarding using dividend announcements to assess a company's share and the statement that dividend announcements provide a signal for a company's future prospects are explored further in the interviews with the managers reported in Chapter 6. As explained earlier, this difference in the level of agreement may be due to different views about market efficiency.

The two statements mentioned previously – referring to the market's reaction to an increase (or decrease) in dividends depending on shareholders' expectations – seemed to elicit agreement from the managers, with mean scores of 3.77 and 3.66, respectively. The financial manager of a multi-investment company noted:

> An increase or decrease in the share price of the company is due to speculators in the market sometimes relying on false rumours and spreading these rumours among the shareholders. Therefore, the rise and fall in the share price is due to the shareholders' desire to receive immediate dividends regardless of the company's position and performance

This finding highlighted the important role played by shareholders' expectations in determining the market's response to dividend news. The respondents also appeared to agree with the statement that 'Shareholders base their expectations regarding this year's dividend on trends within the sector'. This statement had a mean score of 3.63 and an SD of 0.81. Again, this finding was surprising since the responses in the previous section suggested that the dividend policies of competitors were not seen as determinants of companies' dividend decisions. The results in the current section seem to suggest that, while managers do not believe that their companies look at the dividends paid by their competitors, they are aware that shareholders pay particular attention to sector trends. The managers agreed with the following three statements regarding shareholders' expectations of the current year's dividend: 'Shareholders base their expectations of this year's dividend on the previous year's dividend' (mean = 3.37 SD = 0.66), 'Shareholders base their expectations of this year's dividend on last year's earnings' (mean = 3.17; SD = 0.54), and 'Shareholders base their expectations for this year's dividend on forecast earnings' (mean = 3.26; SD = 0.58). The result from the

one-sample t-test was significantly far from neutral, allowing the null hypothesis that the mean scores for the three statements would be equal to 3 to be rejected. However, regarding the statement 'Shareholders base their expectations about this year's dividend on last year's earnings', the mean scores for 100% Saudi-owned companies, dividend-paying companies and dividend-changed companies were neutral (3.0).

The managers agreed with the statement that 'Shareholders perceive dividend payments to be less risky than potential profit from capital gains' (mean = 3.51). This result was expected because managers believe that most existing shareholders in the Saudi Stock Exchange prefer immediate returns (dividends) to long-term gains from re-invested profits. In the comment box at the end of this section, the finance manager of a retail company provided a possible explanation for this result and stating that 'Shareholders are more interested in sustainable dividend payments, even if they are small payments'. This result contrasts with the findings of Baker, Farrelly and Edelman (1985) and McCluskey, Burton and Power (2003), which revealed mixed views regarding the risk of dividends compared to capital gains.

On the other hand, the managers seemed to be more neutral about the following statement: 'A change in the existing dividend payout ratio is more important than the actual amount of dividend paid' (mean = 3.00; SD = 0.90). This finding is consistent with previous studies conducted by Baker, Farrelly and Edelman (1985), Baker and Powell (1999) and McCluskey, Burton and Power (2003), which also revealed uncertainty regarding this issue.

The managers agreed with the following statement: 'The market views dividend announcements entirely independently of earnings announcements' (mean = 3.43). There was considerable variation among the respondents' views on this issue, as indicated by the SD of 1.07. According to the manager of an agricultural company, 'The market does not distinguish between earnings announcements and dividend announcements because, if the company earns profits, it should distribute dividends to shareholders'. The p-value of the one-sample t-test was significantly different from the neutral value of 3; the managers' views for the total sample regarding this issue were more inclined to agree, while the respondents from the sub-groups (mixed ownership companies and dividend-paying companies) had mixed views.

The overall impression emerging from Table 5-8 is that there were no significant differences in the responses across the various sub-categories of respondents. The lowest p-value in testing the difference between the respondent categories was 0.091, while most p-values were higher than 0.50. This was surprising due to the possibility that managers in companies with foreign investors might have been more sensitive to the signalling view of dividends; they also might have been very concerned about how their firms' share prices would react to news of a dividend change for fear that their non-Saudi investors might sell their stakes. However, this difference does not seem to have been present among the responses.

Table 5-8: The Independent Two-Sample T-test for the Market and Shareholders' Reactions to a Dividend

	Saudi-owned vs. mixed ownership			Dividend not paid vs. paid			Dividend unchanged vs. dividend changed		
	Mean Difference	t	Sig.	Mean Difference	t	Sig.	Mean Difference	t	Sig.
The market views dividend announcements entirely independently of earnings announcements.	0.10	0.426	0.672	0.07	-0.244	0.809	-0.06	0.254	0.800
Dividend payments provide a sign of future earnings prospects.	-0.06	-0.270	0.788	0.05	-0.228	0.821	0.00	-0.040	0.968
In the long term, an increase in dividend payments will usually lead to a rise in share prices.	-0.13	-0.718	0.476	-0.13	0.552	0.585	0.02	-0.113	0.911
A decrease in dividends will usually lead to a fall in share price.	-0.30	-1.565	0.123	0.01	-0.074	0.942	-0.02	0.115	0.908
The market reaction to an increase in dividends will depend on how the new figure compares to shareholders' expectations.	0.13	0.839	0.406	-0.20	1.106	0.277	-0.11	0.707	0.482
The market reaction to a decrease in dividends will depend on how the new figure compares to shareholders' expectations.	0.18	1.079	0.285	0.01	-0.055	0.956	0.04	-0.287	0.775
A change in the existing dividend payout ratio is more important than the actual amount of dividends paid.	-0.11	-0.485	0.630	0.19	-0.804	0.427	0.24	-1.224	0.225
Shareholders perceive dividend payments to be less risky than profit from capital gains.	-0.20	-1.088	0.282	-0.04	0.256	0.800	-0.08	0.440	0.661
Shareholders generally use dividend announcements to help assess a company's share value.	0.10	0.568	0.572	-0.15	0.939	0.352	-0.23	1.377	0.172
The market is inefficient, and the reaction to a dividend is sometimes not justified.	-0.14	-0.634	0.529	0.12	-0.501	0.619	-0.06	0.292	0.771
Shareholders base their expectations about this year's dividend on the previous year's dividend.	-0.26	-1.720	0.091	-0.05	0.284	0.777	-0.14	1.004	0.318
Shareholders base their expectations about this year's dividend on trends within the sector.	0.04	0.220	0.827	0.05	-0.188	0.852	0.05	-0.241	0.810
Shareholders base their expectations about this year's dividend on last year's earnings.	-0.18	-1.496	0.139	0.16	-1.246	0.220	0.13	-1.044	0.300
Shareholders base their expectations about this year's dividend on forecast earnings.	-0.05	-0.365	0.716	-0.02	0.194	0.847	0.12	-0.870	0.387

Note: This table shows the responses to 14 statements regarding the signalling effect of the dividend announcement. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. SDs are reported. An independent sample two-tailed t-test based on the mean scores was used to test the null hypothesis that the mean scores for the two sub-groups would be equal. The * shows that the p-value (sig) is significant at the level of 0.05 among the sub-groups.

5.4.3 Zakat/ Taxation

As explained in Chapter 2, there are two taxation systems in Saudi Arabia: one based on Zakat for domestically owned companies, and a different (corporate) tax regime for companies with foreign participants. The survey questions covered both of these regimes.

Table 5-9 shows that overall, the CFOs were uncertain about the role of Zakat in their companies' dividend decisions. However, Table 5-10 reports that the p-value of the one-sample t-test differed significantly from the neutral level of 3 for the respondents from the 100% Saudi-owned companies and the dividend-paying companies. The managers of these sub-groups believe that Zakat does not have an impact on the companies' dividend decisions. As explained in Chapter 2, these findings were expected because companies with Saudi partners are obliged to pay Zakat. There was a significant difference in the respondents' views when the responses were split into companies that paid a dividend versus those that did not. The p-value from Table 5-11 for the difference in responses between these two groups was 0.015, allowing rejection of the null hypothesis that the mean scores for the responses to this issue would be equal. The managers of companies that do not pay dividends have a more neutral view with a mean score of 3.29, while the managers of companies that made a payout disagree with the Zakat issue (mean = 2.62). These findings suggest that dividend-paying companies are aware of the impact of the payment and believe that Zakat does not have an impact on their decision to pay out some of the earnings in the form of a dividend. The highest mean score (and the greatest level of agreement) among the total sample was found in the statement that 'Zakat should not be a strategic consideration affecting the dividend payment due to its low rate (2.5%)'; this statement had a mean score of 3.65 and an SD of 1.01

Table 5-9: The Mean Score and Standard Deviation for the Influence of Zakat and Tax on a Company's Dividend Policy

	Total		100% Saudi-owned company		Mixed ownership		Dividend Not Paid		Dividend Paid		Dividend Unchanged		Dividend Changed	
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Zakat plays a pivotal role in the company's dividend decisions.	2.79	1.09	2.69	1.06	3.00	1.12	3.29	1.01	2.62	1.07	2.74	1.03	2.84	1.14
The company can avoid or reduce its Zakat by distributing earnings.	2.78	1.13	2.65	1.14	3.04	1.10	2.76	1.00	2.79	1.18	2.61	1.05	2.93	1.19
The company should avoid paying a dividend and pay Zakat instead.	2.15	0.82	2.20	0.86	2.04	0.74	2.57	0.98	2.00	0.71	2.13	0.93	2.16	0.71
Zakat should not be a strategic consideration affecting dividend payment due to its low rate (2.5%).	3.65	1.01	3.63	1.01	3.68	1.02	3.43	0.93	3.72	1.03	3.61	1.00	3.68	1.03
Management should determine the annual dividend based on their perception of the tax status of the non-resident shareholders.	2.90	1.12	3.19	1.08	2.36	0.99	2.81	0.93	2.93	1.18	2.79	1.07	3.00	1.16
Non-resident shareholders in high tax brackets are attracted to low dividend-paying companies.	2.89	0.65	2.94	0.66	2.79	0.63	2.90	0.62	2.89	0.66	2.79	0.62	2.98	0.66
Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies.	3.27	0.65	3.26	0.68	3.29	0.60	3.33	0.73	3.25	0.62	3.42	0.68	3.14	0.59
The imposition of dividend withholding tax reduces dividend payments to non-resident shareholders.	3.46	0.92	3.35	0.93	3.68	0.86	3.76	0.77	3.36	0.95	3.50	0.89	3.43	0.95
Non-resident shareholders prefer returns from dividends rather than from capital gains.	3.27	0.93	3.37	0.92	3.07	0.94	3.10	1.18	3.33	0.83	3.16	1.03	3.36	0.84
The taxes (i.e., corporate tax, dividend tax, or capital gains tax) are not a factor in setting resident shareholders' preferences for dividend.	3.12	0.95	3.19	0.97	3.00	0.90	2.95	0.97	3.18	0.94	3.03	0.97	3.20	0.93

Note: This table shows the survey responses to 10 items regarding the influence of Zakat and tax on a company's dividend policy. A five-point Likert scale was used for the ordinal variables with the following coding: 1- Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. Summary statistics (e.g., means and SDs) are reported.

Table 5-10: The One-Sample T-test for the Influence of Zakat and Tax on a Company's Dividend Policy

	Total	100% Saudi-owned company	Mixed ownership	Dividend not paid	Dividend paid	Dividend unchanged	Dividend changed
	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)	One-sample T-test (Mean vs. 3)
Zakat plays a pivotal role in the company's dividend decisions.	0.088	0.034*	1.000	0.208	0.008*	0.124	0.360
The company can avoid or reduce its Zakat by distributing earnings.	0.083	0.027*	0.865	0.268	0.165	0.027*	0.706
The company should avoid paying dividends and pay Zakat.	0.000*	0.000*	0.000*	0.058	0.000*	0.000*	0.000*
Zakat should not be a strategic consideration affecting dividend payment due to its low rate (2.5%).	0.000*	0.000*	0.002*	0.047*	0.000*	0.001*	0.000*
Management should determine the annual dividend based on their perception of the tax status of non-resident shareholders.	0.432	0.214	0.002*	0.358	0.666	0.233	1.000
Non-resident shareholders in high tax brackets are attracted to low dividend-paying companies.	0.129	0.537	0.083	0.493	0.180	0.044*	0.822
Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies.	0.000*	0.007*	0.018*	0.049*	0.003*	0.001*	0.135
The imposition of dividend withholding tax reduces dividend payments to non-resident shareholders.	0.000*	0.008*	0.000*	0.000*	0.004*	0.001*	0.004*
Non-resident shareholders prefer returns from dividends rather than from capital gains.	0.011*	0.005*	0.691	0.715	0.003*	0.350	0.006*
Taxes (i.e., corporate tax, dividend tax and capital gains tax) are not a factor in setting resident shareholders' preferences for dividends.	0.247	0.168	1.000	0.825	0.139	0.868	0.152

Note: This table shows the survey responses to 10 items regarding the influence of Zakat and tax on a company's dividend policy. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. A one-sample t-test based on the mean scores was used to test the null hypothesis that the mean scores for the sub-groups are neutral at a level of three. The * representing the p-value (sig) is significant at the level of 0.05 among the sub-groups.

Table 5-11: The Independent Two-Sample T-test for the Influence of Zakat and Tax on a Company's Dividend Policy

	Saudi-owned vs. mixed ownership			Dividend not paid vs. paid			Dividend unchanged vs. dividend changed		
	Mean Difference	t	Sig.	Mean Difference	t	Sig.	Mean Difference	t	Sig.
Zakat plays a pivotal role in the company's dividend decisions.	-5.69	-1.227	0.225	0.67	-2.561	0.015*	-0.10	0.434	0.666
The company can avoid or reduce its Zakat by distributing earnings.	-5.69	-1.492	0.141	-0.03	0.094	0.925	-0.32	1.318	0.191
The company should avoid paying a dividend and pay Zakat.	-4.24	0.920	0.361	0.57	-2.464	0.020*	-0.03	0.148	0.883
Zakat should not be a strategic consideration affecting dividend payment due to its low rate (2.5%).	-7.31	-0.206	0.837	-0.29	1.212	0.233	-0.07	0.341	0.734
Management should determine the annual dividend based on their perception of the tax status of non-resident shareholders.	-5.55	3.478	0.001*	-0.12	0.494	0.624	-0.21	0.854	0.396
Non-resident shareholders in high tax brackets are attracted to low dividend-paying companies.	-5.73	1.067	0.291	0.01	-0.122	0.904	-0.19	1.321	0.190
Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies.	-6.55	-0.181	0.857	0.08	-0.491	0.627	0.28	-1.998	0.049*
The imposition of dividend withholding tax reduces dividend payments to non-resident shareholders.	-7.03	-1.580	0.120	0.40	-1.937	0.059	0.07	-0.335	0.739
Non-resident shareholders prefer returns from dividends rather than from capital gains.	-6.44	1.377	0.174	-0.23	0.835	0.411	-0.20	0.984	0.328
Taxes (i.e., corporate tax, dividend tax, and capital gains tax) are not a factor in setting resident shareholders' preferences for dividends.	-6.19	0.858	0.395	-0.23	0.934	0.357	-0.17	0.845	0.401

Note: This table shows the survey responses to 10 items regarding the influence of Zakat and tax on a company's dividend policy. A five-point Likert scale was used for the ordinal variables with the following coding: 1 - Strongly Disagree, 2 - Disagree, 3 - Uncertain, 4 - Agree and 5 - Strongly Agree. The independent sample two-tailed t-test based on the mean scores was used to test the null hypothesis that the mean scores for the two sub-groups would be equal. The * representing the p-value (sig) is significant at the level of 0.05 among the sub-groups.

This finding confirms the above assertion that Zakat does not have an impact on the decisions of Saudi dividend-paying companies. This conclusion is consistent with the results reported in another study (Uddin and Osman, 2008). However, Al-Ajmi and Abo Hussain (2011) provided evidence that Zakat plays a pivotal role in companies' dividend payment decisions. Their study considered the impact of Zakat on dividend payments from a purely theoretical perspective (i.e., the definition of Zakat and its calculation and relationships with other items in financial statements), whereas the current study focused on empirical data from a large sample of companies.

The managers were neutral regarding the notion that companies can avoid or reduce their Zakat by distributing their earnings (mean = 2.79; SD = 1.13). However, the SDs for this mean score largely suggested a level of uncertainty among the respondents. These results were different when the whole sample was split into sub-groups, especially for respondents from 100% Saudi-owned companies (mean = 2.65; SD = 1.14) and companies that had not changed their dividends (mean = 2.61; SD = 1.05), since those respondents appeared to disagree more with the statement. As explained in the previous section, Saudi companies that are obliged to pay Zakat are likely more familiar with this issue. The managers disagreed with the statement that 'A company should avoid paying a dividend in order to pay Zakat'. This result showed significant differences in managers' views between non-paying and dividend-paying firms with mean scores of less than 3.00 for this statement, but the response from the latter group was more negative. For the non-dividend-paying sub-group, the mean was 2.57 with an SD of 0.98, while for the dividend-paying sub-group, the mean was 2.00 with an SD of 0.71. The difference between these two means was significant, with a p-value of 0.020. Again, this result is not surprising because companies that already pay dividends understand the influence of Zakat on their dividend decisions compared to companies that do not pay dividends to their shareholders.

Furthermore, there were significant differences in responses to the statement about whether management should determine the annual dividend of their company based on their perception of the tax status of their non-resident shareholders (i.e., whether they pay income tax). The managers from 100% Saudi-owned firms seemed unsure about this statement (mean = 3.19; SD = 1.08), while managers in companies with foreign investors tended to disagree with it (mean = 2.36; SD = 0.99); this difference is reflected in the p-value of 0.001. This result may be explained by the fact that the

managers have a poor understanding of the tax system (particularly, the withholding tax of 5% on disbursements) and seemed not to focus on the tax status of the non-resident shareholders as a factor in determining annual dividend payment decisions. Again, the differences between the managers' views regarding the role of withholding tax are explored more in their interviews, which are covered in Chapter 6. Each manager explained the reasons for their views in the comment box that was provided at the end of each section of the survey. The CFO of a real estate investment and development company confirmed that 'Taxable shareholders consider the tax factor when making investment decisions, and therefore, the tax should not affect the decision regarding the payment of dividends'. The finding for this issue is consistent with a previous study by McCluskey, Burton and Power (2003), which reported that knowledge of the tax status of each company's shareholders is a challenge for managers. The mean score for the statement that 'The imposition of a dividend-withholding tax reduces the dividend payment to non-resident shareholders' (mean score = 3.46; SD = 0.92) was the second-highest mean score in the table. The managers agreed that withholding tax does affect the dividends that are paid to non-resident shareholders. The CFO of a real estate investment and development company noted that 'the withholding tax does not affect dividend decisions but certainly affects the actual amount that is paid to foreign shareholders'.

The managers were neutral or in agreement regarding the two statements about non-resident shareholders in high (or low) tax brackets being attracted to low (or high) dividend-paying companies. Consistent with findings from previous studies conducted by Baker, Farrelly and Edelman (1985) and McCluskey, Burton and Power (2003), the managers seemed to be uncertain regarding the notion of non-resident shareholders in high tax brackets being attracted to low dividend-paying companies (mean = 2.89; SD = 0.65). By contrast, the managers agreed about non-resident shareholders in low tax brackets being attracted to high dividend-paying companies (mean = 3.27; SD = 0.65). The result from the one-sample t-test significantly differed from the neutral level, which allows for rejection of the null hypothesis that the mean score of the statement would be neutral. The findings revealed a significant difference in the perceptions of companies with unchanged dividends and companies that altered their dividends regarding the statement that 'Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies' (the mean scores were 3.42 and 3.14,

respectively). The p-value of 0.047 allows for rejection of the null hypothesis that there would be no differences in the respondents' views. This result suggests that companies that both pay high dividends and do not change their dividend-paying levels are more attractive to non-resident shareholders in low tax brackets.

The managers appeared to believe that non-resident shareholders prefer returns from dividends rather than from capital gains (mean = 3.27; standard division = 0.93). The p-value of the one-sample t-test was significantly different from the neutral level of three. This finding confirms what was found in the signalling section, especially when the managers agreed with the statement that 'Shareholders perceived dividend payments to be less risky than the potential profit from capital gains'.

Even though there is no tax for resident shareholders, the survey respondents were unsure regarding the statement that 'Taxes (i.e., corporate taxes, dividend taxes or capital gains taxes) are not a factor in resident shareholders' preferences for a dividend' (mean = 3.12; SD = 0.95). The managers seemed to be unclear regarding the impact of tax on shareholders' preferences, perhaps because they have a poor understanding of how taxation is applied to dividend income or because the tax regime in Saudi Arabia has recently changed (see Chapter 2 for details). The finance manager of a retail company asserted that 'foreign investment and the imposition of the tax is a new concept in Saudi Arabia to comment on with certainty'.

5.5 Chapter summary

A number of conclusions can be drawn regarding current views on dividend payment decisions among managers in Saudi Arabia. First, managers appear to agree on factors that influence their companies' dividend decisions, such as cash flow, current earnings, maintaining an uninterrupted record of dividend payments, having a target dividend payout ratio, the availability of profitable investment opportunities, shareholders' preferences regarding dividends, the level of debt financing and projections of the future level of the economy/oil prices. They believe that these factors should be considered when making dividend decisions. However, managers disagree with the assertion that dividend decisions should be based on the dividends paid by competitors, the previous year's dividend, family-dominated share registers or government majority shareholders. Furthermore, managers appear unsure about factors such as expected

earnings and whether a company should avoid making changes to its dividend payment rates that might need to be reversed in a year or so.

Second, the survey findings were consistent with Lintner's (1956) research respondents. In particular, the three statements that yielded the second-, third- and fourth-highest levels of agreement indicated that companies should base their current dividend payments on the current year's earnings, maintain an uninterrupted record of dividend payments and have a target dividend payout ratio. However, the respondents in the current study disagreed with the statement that 'Companies should base their current dividend payments on the previous year's dividend', which is not in line with Lintner's (1956) study.

Third, regarding signalling theory, the respondents appeared to agree with three fundamental aspects of the following view of dividends: dividend payments provide a sign of future earnings prospects, an increase (or decrease) in the dividend payment will usually lead to a rise (or fall) in the share price, and shareholders generally use dividend announcements to help them assess a company's share value. Consequently, the survey findings support the signalling effects of dividend announcements on the Saudi stock market. This result is in line with findings reported in both Western (Baker and Powell, 1999; Baker and Powell, 2000) and Eastern markets (Chaabouni, 2017) and thus supports the theoretical framework of signalling theory that asserts that dividends convey information about a company's future prospects to outside investors. However, the current study's findings contrast with previous Saudi data-based studies conducted by Uddin and Osman (2008) and Al Qudah and Badawi (2015), which reported that dividend payments do not signal any information to outside investors regarding a company's profitability. The differences between those results and the current study's findings may be due to the periods and samples that were examined, which were mentioned in the signalling section.

Finally, the survey findings regarding taxation and Zakat indicate that managers of Saudi listed companies do not support the view that Zakat is a factor in determining dividend payment decisions. The findings from the current study regarding Zakat appear to contradict those reported by Al-Ajmi and Abo Hussain (2011), who noted that Zakat plays a pivotal role in a company's dividend payment decisions; however, the Zakat evidence in the current study supports the findings of Uddin and Osman (2008),

which confirmed that Zakat is not an essential factor in determining dividend decisions. Furthermore, survey participants were unwilling to reflect on the tax factor since the concept of taxation in Saudi Arabia is relatively recent, and managers in listed-companies might be unaware of taxes. The following chapter, which includes information from interviews with 21 managers, would examine these matters further.

The next chapter will examine the inconsistencies that are apparent in some of the survey findings through interviews with some of the managers, while Chapter 7 will investigate the signalling issue by analysing an event study.

Chapter 6
Analysis and Results of Semi-Structured Interviews Conducted on the Dividend Payment Decisions

6.1 Introduction

The current chapter reviews the findings from interviews that were conducted with managers of Saudi Arabian–listed companies in order to answer the three main research questions[89]. In particular, the questionnaire survey results from the previous chapter are discussed in greater depth, and a more detailed explanation of the previous findings is presented. Thus, the current chapter builds on the results from Chapter 5 while attempting to explore any issues that were unclear from the questionnaire findings. Additionally, the interviews concentrated on information collected from the literature review (Chapter 3) regarding the different aspects of the dividend phenomenon.

As noted in the analysis and conclusion of Chapter 5, there are some contradictions in the survey findings. For example, although the respondents appeared to agree highly that shareholders use dividend data as a tool to assess a company's share price, they less agreed on the use of dividend announcements by insider managers to signal information to outside investors. In the current chapter, this level of agreement is investigated through interviews in order to ascertain the reasons for any variations uncovered in the questionnaire responses. Furthermore, the interviews are also used to explore the issue of the withholding tax due to the differences that emerged in the previous chapter between the views of managers in 100% Saudi-owned companies and those in mixed-ownership companies. Moreover, the interviews provide additional insights on the Zakat issue and its relationship with companies' dividend payment policies. The questionnaires in Chapter 5 were limited on this issue because there was little in the literature to draw upon when framing the questions.

[89] The three research questions, as stated in Chapter 1, are: 1. What factors determine the dividend payment decisions of companies listed on the Saudi stock exchange? 2. How does the Zakat (Islamic tax) impact a company's dividend payment decisions? 3. What is the relationship between a company's dividend announcements and share returns in the Saudi stock market?

The remainder of this chapter is structured as follows: Section 6.2 describes the sample selection for the interviews. Section 6.3 presents the results from the interview analysis. The findings in this section are divided into four main themes and discussed in depth using a thematic analysis approach. Section 6.4 summarises the chapter.

6.2 Description of the Sample Selection

Table 6-1 presents details of the interview sample and the characteristics of the different managers, including the sector to which the participant's company belonged, its ownership structure, whether dividends were paid by the company in prior years and the managers' qualifications and years of experience. The sample covered almost the entire range of market sectors, including materials, energy, health care equipment and services, insurance, media and entertainment, banks, retailing, capital goods and real estate management and development. The interviewees' companies had one of two different ownership structures: 100% Saudi-owned or mixed-ownership companies (Saudi and foreign partners). This provided different perspectives on the Zakat and withholding tax systems mentioned in Chapter 2. There were managers from sixteen 100% Saudi-owned companies and five mixed-ownership companies in the final sample. As mentioned in Chapter 5, the admission of foreign companies is a relatively recent phenomenon in Saudi Arabia, and this explains why three-quarters of the interviewees worked for 100% Saudi-owned companies.

The interviewees' positions in their companies included the following: finance managers; chief executive officers (CEO); general manager of finance and information technology; group financial director, executive vice president for finance and information technology; and compliance manager. Eight participants were certified public accountants (CPA), one was a certified financial analyst (CFA), two were certified management accountants (CMA), one had a certified financial manager (CFM) qualification, three were certified internal auditors (CIA), and one had a chartered insurance institute (CII) certification.

Table 6-1: Characteristics of the interviewees

Interviewee Code	Sector	Ownership	Dividend Paid	Qualifications	Experience (Years)
L 1	Materials	100% Saudi	Yes	MBA and CPA	7
L 2	Materials	100% Saudi	Yes	MBA, CPA and CFA	8
L 3	Energy	100% Saudi	Yes	Bachelor of Commerce	37
L 4	Materials	100% Saudi	Yes	Bachelor of Accounting and CMA	8
L 5	Health care equipment and services	100% Saudi	Yes	Bachelor of Science in Cost Accounting and Management and CPA	7
L 6	Insurance	Mixed owner-ship	Yes	Master of Science in Finance	19
L 7	Media and entertainment	100% Saudi	Yes	Bachelor of Commerce and CIA	7
L 8	Materials	100% Saudi	Yes	Bachelor of Accounting	8
L 9	Banks	Mixed owner-ship	Yes	Bachelor of Accounting and CPA	5
L 10	Retailing	100% Saudi	Yes	Bachelor of Commerce	10
L 11	Health care equipment and services	100% Saudi	Yes	Bachelor of Accounting and CPA	8
L 12	Capital goods	100% Saudi	Yes	Bachelor of Commerce	7
L 13	Materials	Mixed owner-ship	Yes	Master of Chemical Engineering	3
L 14	Capital goods	100% Saudi	Yes	Bachelor of Commerce and CIA	10
L 15	Materials	Mixed owner-ship	Yes	Bachelor of Commerce	8
L 16	Real estate management and develop-ment	100% Saudi	Yes	Bachelor of Accounting Finance and CPA	23
L 17	Materials	100% Saudi	Yes	Bachelor of Accounting and CPA	25
L 18	Materials	100% Saudi	Yes	Bachelor of Accounting	2
L 19	Energy	100% Saudi	Yes	Master of Accounting, CPA, CMA, CIA and CFM	8
L 20	Insurance	Mixed owner-ship	No	Bachelor of Accounting and CII	19
L 21	Materials	100% Saudi	Yes	Bachelor of Marketing	12

Note: This table summarises the various characteristics of the interviewees and their companies. The participants were coded from L1 to L21. The data in this table were drawn from the interviewees' answers to the following questions: 'What sector does the company belong to?' 'Is your company 100% Saudi owned, or does it have a mixed-ownership structure?' 'Has your company paid a dividend in any previous year?' 'What is your academic qualification?' and 'How long have you been a CFO?' In the Qualifications column, the abbreviations represent the following: MBA (Master of Business Administration); CPA (certified public accountant); CFA (certified financial analyst); CMA (certified management accountant); CIA (certified internal auditor); and CII (chartered insurance institute).

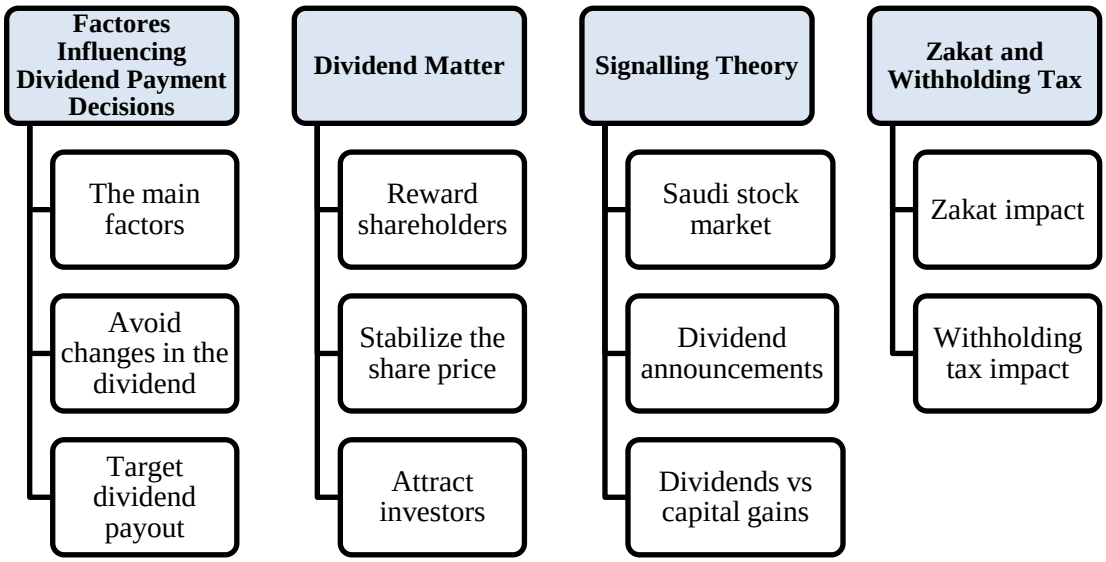
The academic qualifications of the interviewees included postgraduate studies: two held a Master of Business Administration (MBA) degree; one had a Master of Science in Finance; one had a Master of Chemical Engineering; one had a Master of Accounting. There were also a number of interviewees who held undergraduate degrees in various majors: six had Bachelor of Commerce qualifications; eight held Bachelor of Accounting degrees; one held a Bachelor of Science in Cost Accounting and Management; one had a Bachelor of Marketing. The length of the managers' experience ranged from two to 37 years. The overall interviewee characteristics suggested that they were well educated, had good levels of experience and were appropriate participants for an interview about perceptions of dividend payment decisions. The interviewees worked at a total of 20 companies that had paid dividends to their shareholders in the years prior to the year in which the interviews were conducted

6.3 Interview Findings

After all of the transcripts were read several times, and the thematic analysis was conducted (for more information on the analysis processes, see Chapter 4, Section 4.7.2.5), four main themes were captured from the analysis of the 21 interviews[90]. These were divided into several sub-themes or categories. Figure 6-1explains the main themes of the interviews and highlights the different sub-themes that emerged from the interview analysis. The first theme relates to the factors that affect dividend payment decisions. The second focuses on the importance of dividend payment policies for Saudi-listed companies. The third relates to the information content of dividend announcement decisions and the relationship between these announcements and share returns. The fourth covers the issue of Zakat (Islamic tax) and the impact of withholding tax (5% on the dividends paid to non-resident shareholders) on Saudi company dividend decisions. The following sub-sections discuss the interviewees' responses to these four themes and sub-themes in greater detail.

[90] An example of the analytical table used to conduct the thematic analysis for each interview is presented in Chapter 4, Appendix B-6.

Figure 6-1: The four main themes from the thematic analysis of the interviews



Note: This figure outlines the four major themes and a number of sub-themes resulting from the analysis of interview data.

6.3.1 Factors Influencing the Dividend Payment Decisions of Saudi-Listed Companies

The first theme answers the first research question concerning the determinants of Saudi companies' dividend payment decisions. The interviewees indicated that there were many factors that affected dividend decisions in the Kingdom. Moreover, they suggested that most of these were not unique to one industry in Saudi Arabia but could be generalised across almost all market sectors[91]. The only exception to this generalisation is related to banking and insurance. An analysis of the interviewees' responses indicated that the factors that influenced dividend decisions in the banking and insurance sectors were different in some ways from those in other sectors because of the specialised nature of financial companies' annual reports and disbursement requirements. The issue of technical reserves among financial companies tended to play an important role in determining whether a dividend could be paid.

The majority of the interviewees (90%) agreed that future investment opportunities were one of the determinant factors of dividend payments to shareholders. Thus, they

[91] The one exception to this generalisation is Zakat, which will be explained in Section 6.3.4 of the current chapter.

viewed dividends as a residual once all other commitments were met. For example, interviewee L17, the CFO of a materials company, indicated that:

> The most important factors are the availability of liquidity that is not related to any operational commitments, working capital or investment expenses in the company or any future expansions in required projects. The remaining cash after financing these elements is free cash, and it will be distributed to shareholders depending upon the earnings

This perception is in line with the results from the questionnaire survey in Chapter 5, confirming that managers' views regarding potential investment opportunities are the same as the interview findings.

Respondents to the questionnaire survey in Chapter 5 agreed (mean = 3.61, standard deviation = 1.7) that capital investment requirements were taken into account when determining dividend payment policies. Furthermore, the interview findings are in line with previous research by Khan, Burton and Power (2011), who reported that Pakistani companies' future growth is an important factor in deciding dividend payment policies. These academics agreed with the current respondents that company investment and dividend policies were linked. For example, L13, the CFO of a materials company, stated that:

> The company's need for liquidity to finance current or future investment plans should always be considered, and, depending on the company and its strategies, there will be claims for cash, especially to finance the company's future opportunities, which are either in the form of expansion or replacement of worn-out assets or construction of new plants. This [company] determines how much cash the company must save to meet its expansion plans; the rest goes to a statutory reserve or will be paid to shareholders

However, the interview results regarding the link between investment opportunities and dividend decisions contradict the findings of Al-Malkawi, Twairesh and Harery (2013), who found no relationship between dividend payment policies and future growth prospects in Saudi companies.

As mentioned in Chapter 5, the differences between the previous study and the current investigation may arise from different research methods and economic conditions (i.e., the drop in oil prices and the announcement of the Saudi Vision 2030). Al-Malkawi, Twairesh and Harery's (2013) result was only supported by a minority of the

individuals interviewed for the current thesis. Specifically, only 10% of the interviewees did not believe that future investment opportunities were a factor in deciding whether or not to pay dividends. This minority claimed that if the company can raise equity and external debt financing to fund a new investment project, it can pay dividends, and the investment decision will not affect dividend payment policies. This perception supports the Modigliani and Miller (1961) theorem, which distinguishes dividend policy from investment and financing policies. Meanwhile, the previous group (90%) supported a residual theory of dividend policy. L3, a financial consultant at an energy company, noted that

> We, as a company, make sure to pay a dividend even if we have plans for future investment opportunities. The company can take loans to finance these projects. Also, we must not rely only on capital. We must take loans to make investments that will generate more revenues

This result is in line with the findings reported by Dhanani (2005), who suggested that UK managers separate dividend policy from investment and financing decisions because they do not view the dividend amount as significant in terms of financing potential investment opportunities.

A total of 15 managers reported that current year earnings are another important factor in determining the amount of dividend payments. L10, a financial manager of a retailing company, noted that 'The value of earnings achieved this year determines how much the company will pay as a dividend to its shareholders'. This result is similar to the survey results presented in Chapter 5, which indicated that current earnings were the second most important factor influencing policies on dividend distributions. Further, the finding is consistent with previous research by Al-Ajmi and Abo Hussain (2011) and Khan, Burton and Power (2011), who confirmed the role of a company's current earnings in determining the current level of dividend payments. Moreover, the finding that current earnings are a key factor influencing a company's dividend decision is similar to the pioneering research findings of Linttner (1956).

The remaining six managers did not seem to support the notion that current earnings determine a company's dividend payment. Rather, they claimed that it is possible to have earnings in the books without having the liquidity needed to make dividend disbursements (i.e., when the company's activity depends on payments in future

instalments). L16, the CFO of a real estate company, stated that 'The company's profits do not mean that it's able to pay dividends to shareholders, but the company should have sufficient liquidity in order to be able to pay dividends'. Seven of the 21 interviewees also mentioned the previous year's earnings as an important factor in determining the current dividend payment level. For example, interviewee L11, the CFO of a healthcare company, argued, 'As long as the company has earnings from previous years (retained earnings), there won't be an impact from the current earnings. The company will be able to make dividend payments even if [these payments] exceed the [current] earnings'.

In terms of cash flow (liquidity), the interviewees (81%) generally appeared to consider the availability of cash flow when making dividend distribution decisions. L16, the CFO of a real estate company, said, 'The existence of sufficient liquidity in the company is an important factor in dividend distribution because the board of directors cannot decide to pay [out] any amount of [the] earnings when the company's liquidity is low'. This result is in line with the survey findings that were reported in Chapter 5, which showed that the cash flow (liquidity) factor; was one of the determinants of dividend payment policies. Moreover, the result is consistent with Al-Ajmi and Abo Hussain (2011) study, who reported that cash flow influences Saudi Arabian companies' decisions to pay dividends. However, the current finding contradicts that of an Irish study conducted by McCluskey, Burton and Power (2007), whose respondents did not support cash flow as a determinant of dividend payments to shareholders because of the company's ability to obtain funds from many sources.

Nineteen percent of the interviewees[92] in the current study reported that they did not view cash flow as an important factor in the distribution of earnings. They suggested that if the company has a strong financial position (i.e., a large amount of retained earnings) and access to external funds, it could pay a dividend to shareholders irrespective of the cash balance in the financial statements. L3, a financial consultant of an energy company, argued that 'It is not cash flow that matters in deciding to pay a dividend; it is whether there are retained earnings in the [financial statements] because the company can borrow to get cash and distribute earnings'. According to L20, a

[92] The interviewees who did not support cash flow as a determinant in dividend payment decisions included L3, a financial consultant at an energy company; L4, the CFO of a materials company; L18, a financial manager of a materials company; and L19, the CFO of an energy company.

manager at an insurance company, 'It is not liquidity that affects the company's decision to pay a dividend or not; insurance companies are commonly called lucrative companies because they have a large amount of cash available [yet their dividends are relatively low]'.

Nine of the 21 interviewees referred to the company's obligations to lenders, suppliers and regulators as a factor that has a sizeable effect on the decision to distribute profits. L2, the finance director of a materials company, spoke about this:

> The company's obligations, especially if there are large debts which must be paid by a specific date, determine the priorities; priority is, of course, given to paying the debts before the earnings are distributed to the shareholders, or there are attempts to implement a balance between them

The agreement among the interviewees regarding lender constraints is consistent with the findings of McCluskey, Burton and Power (2007) and Khan, Burton and Power (2011). Interviewees from bank and insurance companies reported that they were required to meet certain ratios determined by regulators and officials (the Saudi Central Bank [SAMA] and the Basel Committee on Banking Supervision) before a decision about a dividend distribution could be made. Banks are required to maintain a minimum level of capital according to the capital adequacy ratio[93] rules imposed by the Basel committee before making any financial decisions, including dividend payments to shareholders. L9, a CFO of a bank, confirmed this:

> The capital adequacy ratio is a very important factor which should not be less than a certain ratio determined by regulators and officials. The ratio should not be too high or too low, but it should be balanced in a way that allows the company to grow, pay dividends and fulfil the minimum limit determined by the regulators

Polate and Al-khalaf (2014) studied the effect of dividend payout on the capital adequacy ratios of Saudi Arabian–listed banks. They reported results similar to those of the current study's finding that dividend payment decisions have an impact on banks' capital adequacy ratios. The interviewees indicated that insurance companies were

[93] The capital adequacy ratio measures the strength of a bank's financial position to counter any unexpected future events that might affect the bank's credit exposures, such as liquidity and various economic conditions (Bank for International Settlements, 2004).

required to have a minimum solvency margin[94] level, which is determined by the regulator (Saudi Arabian Monetary Authority) at the time of a dividend payment. They argued that if a company had earnings to distribute to shareholders in the form of cash, and if this cash payout might affect the company's solvency margin, then the authority or regulator would not approve these dividends. Furthermore, they agreed that the dividend payment decision should not affect a company's solvency, which reflects its ability to fulfil its cash flow obligations. L6, a finance manager at an insurance company, supported this point of view, noting that 'The important and determining factor in dividend payment policies is the solvency margin, which must be strong in order to use the realised earnings and pay dividends'.

Seven of the 21 interviewees mentioned a new factor during the interviews that was not mentioned in the survey findings in Chapter 5: the company's board of directors, when formed of major shareholders, indirectly influences the decision to pay dividends. These shareholders have a significant impact on decision-making and affect dividend payment policies. L7, the CFO of a media and entertainment company, stated, 'shareholders put pressure on some companies when there is a large representation of the main shareholders in the board of directors; they [want] to distribute dividends from retained earnings'. Moreover, the absence of a clear dividend policy may allow the board of directors to influence dividend decisions. However, the remaining interviewees did not seem to support the view that the board of directors was a factor in making dividend payment decisions. They indicated that the board of directors does not affect the dividend payment decision; while it makes a recommendation for distribution, it has to be approved by the shareholders at the annual general meeting because the board is essentially appointed by the shareholders. L2, a financial manager of a cement company, discussed the board's role:

> As the board of directors, we make initial dividend allocations during the year, on, let's say, a semi-annual basis, or sometimes every quarter in which case we distribute quarterly. These decisions are all internal decisions of the board of directors and are confirmed at the time of the annual general meeting that seeks shareholder approval on the periods in which it will be distributed

[94] The solvency margin reflects the company's financial ability to meet its debt obligations and measures the increase in the company's cash-convertible assets compared to its liabilities (Saudi Arabian Monetary Authority, 2004).

Sixteen of the 21 interviewees believed that shareholder preferences had an impact on the decision-making regarding dividend payments. Three managers ranked shareholder preferences as the main factor, while 13 managers viewed it as an additional factor in the process of earnings distribution decisions. L16, the CFO of a real estate company, noted that:

> The type of shareholders in the company and their preferences, especially the big shareholders, whether they are individual or institutional shareholders, is one of the main factors influencing dividend payment policies

The managers indicated that their companies seek to distribute dividends and maintain their shareholder base. They further noted that the largest population of investors in the Saudi market includes individual investors who seek cash from dividends. According to L9, the CFO of a bank, 'There is a difference between the investor who takes the cash to spend directly and [the] investor who takes the dividends and reinvests them in the company'. L3, a financial consultant at an energy company, discussed this difference:

> Because most investors, especially small investors, are living off the distribution of the earnings, [they want large dividends]; unlike investors in large companies who are more interested in the long-term investment. As a company, we do both; we invest, and we distribute earnings

Overall, the majority of interviewees (16 of 21 managers) viewed shareholder preferences as an important point to consider when framing dividend payment policies. They reported that they try as much as possible to satisfy shareholders' expectations and requirements. Moreover, managers attempt to maintain a balance between the dividends paid to shareholders and money retained in the company to reinvest for the sake of the shareholders. Ultimately, managers want to create value and maximise the share price of a company for the shareholders, as they are the owners of the company. This finding is similar to those reported by Dhanani (2005), who found that UK companies view shareholder preferences as an important factor in setting their dividend policies. However, the level of agreement regarding this shareholder-preferences factor differs between the findings of the current chapter and those of the questionnaire survey chapter, which reported that respondents were less supportive of the view that shareholder preferences influenced company dividend payment policies. A majority of those who completed postal questionnaires—like the five remaining interviewees—did not

support this view. Instead, they argued that a dividend decision was not a goal in itself; it was a result of the company's business performance, and managers need to focus more on a company's performance and its future investment plans in order to generate earnings that support the company's financial position. L14, an Executive Vice President of Finance and IT in a capital goods company, argued, 'The most important point is to focus on the performance of the company and its future investments; it is not a requirement that a company must pay a dividend'. The results from the current study support the findings of Khan, Burton and Power (2011), who reported that some of their interviewees did not view shareholder requirements as an important factor in dividend payment decisions.

Almost half of the interviewees indicated that internal and external economic conditions, as well as government decisions, could have a significant impact on a company's dividend payment policies. Furthermore, the impact of these conditions varied among different sectors in the Saudi stock market. According to the managers, the following internal economic conditions and government decisions might affect dividend disbursements: an increase in the price of energy; the imposition of fees on people who perform Umrah[95]; an increase in the government tariffs on retail stores; an increase in labour costs; a decrease in governmental capital expenditure projects; and the blocking or granting of export licences.

The interviewees from cement companies agreed that government expenditures on capital projects had a significant influence on their companies' earnings distributions. For example, L2, the finance manager of a materials company, stated that 'The cement sector, basically depends on the size of projects within a country. However, no big projects took place [in Saudi Arabia during] 2016, nor in 2017, which affected our sales volume, and decreased earnings and dividends'. Moreover, increases in the price of energy affected the cement sector in particular. Heavy fuel oil (HFO) (which is used in the manufacturing of cement), ordinary fuel (gasoline) (which is used to transport cement from factories to the point of sale), diesel (which is used in the operation of generators as an alternative to electricity when running the machines), the factory and

[95] Umrah is an Islamic term for a minor pilgrimage that Muslims can perform to worship to Allah any time in the year when they visit Mecca (the holy city of Muslims) in Saudi Arabia. Some managers suggested that if any fee for Umrah increased, individual shareholders would want dividends to increase as well so that the higher fee could be covered.

the housing are all affected by government decisions. L17, the CFO of a materials company, discussed the effect of increased fuel prices:

> Our company was not significantly affected by the rise in electricity prices; it is fuel prices that affected us a lot, like HFO. We recycle energy from our power plant, and we run diesel generators, which are large; the diesel generator's size is half that of a room. We have approximately 12 generators that are running these for the plant, housing and everything

The last internal economic factor that might affect cement sector profitability is the government decision to block or allow the exportation of cement to other countries. The interviewees from the cement sector stated that when the export of cement is suspended, all companies compete with each other inside the country, and when demand falls, the companies automatically lower the selling price. This affects earnings and dividends because the decreased selling price of cement means decreased sales. L21, a compliance manager at a materials company, said that 'Increases in energy costs, such as when subsidies are removed, when orders are cancelled because of the sovereign or government decisions, or when there are orders to halt exports or to resume them again, can affect many things in the business'.

In relation to the bank sector, government expenditures on expansionary projects could indirectly affect the decision to distribute dividends based on the effect of such projects on the bank's growth rate (the increase in the capital and financial position). L9, the CFO of a bank, reported that 'The economic status of the country and its planned projects for expansion and growth affected the bank's growth rate positively because the bank will help and support the country by lending lots of money'.

An external economic condition that was mentioned by several interviewees as possibly affecting companies' dividend payment policies was the price of oil; again, the interviewees suggested that the effect of this factor varied over different sectors. L19, the CFO of an energy company, stated, 'As we are considered a global company, we are affected by the external economy (oil prices and the demand for oil) more than the Saudi economy in general because a large part of our business is related to oil'. Moreover, managers from the petrochemical sector viewed oil prices as a factor influencing earnings distribution such that a decrease in oil prices leads to a decline in the company's sales and, therefore, a decrease in earnings. Furthermore, L16, the CFO of a real estate company, indicated that 'The economic environment, whether internal

(sovereign or governmental decisions of the state), or external (high and low oil prices), has a significant impact on their company's revenues, and therefore on dividends'. These findings are consistent with the results from Chapter 5, which confirmed that future projections about the country's economy impact company policy about earnings distributions. Furthermore, the current study agrees with previous research conducted by Baker and Powell (2012) on Indonesian companies regarding the important role that economic variables play in a company's dividend payment policies. Overall, the dividend policies of companies in the materials, energy and real estate sectors seemed to be influenced most by internal and external economic variables, whereas companies from the insurance and retailing sectors appeared to be less influenced by these economic conditions. L5, the finance manager at a healthcare company, spoke about this issue:

> There are sectors that are not affected by internal and external economic conditions, while there are sectors that are influenced by increases in the price of fuels and gasoline, for example. This also affects costs and will affect the achieved revenue and dividend payment policies in the future. The increase in labour costs may also affect company revenues

All the interviewees' responses appeared to support Lintner's model (1956) of maintaining an uninterrupted record of dividend payments. This finding is consistent with the survey results, which reported a high level of managerial agreement regarding the consistency in earnings distribution policies. L5, the CFO of a healthcare company, reported that:

> The company, as a listed company in the market which has shareholders, should maintain a pattern of dividend payments. Our company pays dividends consistently, even if it's not a fixed amount, but it's regular every year

This result is consistent with findings reported by Lintner (1956) and McCluskey, Burton and Power (2007), confirming that managers strive to maintain an uninterrupted record of dividend payments.

Moreover, in the current study, managers noted that continuity in dividend payment levels depends on many factors, including a company's performance (current earnings), future investment opportunities, liquidity, retained earnings and economic situation. L17, the CFO of a materials, company discussed this continuity:

> The continuity in dividend payment level is related to the company's performance and its expectations for the future. The company might implement a cut in dividends [if] the current results of the company and its future plans [are poor]; these are probably the most important factors that affect the company's ability to continue paying dividends

L13, the CFO of a materials company, further confirmed this:

> Continuity of paying dividends depends on three factors: first, the company is supposed to achieve an average level of return for its shareholders. Second, the company's ability to borrow for investment financing. Finally, the company should maintain a reasonable dividend level

Seventeen of the 21 managers agreed that the company should avoid making changes to its dividend payment level as much as possible to maintain the stability of the share price in the market, to reward shareholders and keep them interested in the company and to avoid a decrease or a cut in the dividend amounts. Compared to their responses to the survey, in which the respondents reported that they were unsure about the consistency of the dividend payment level, the interview findings were more emphatic. This variation in the findings between the two methods may be attributed to the nature of the interview research approach, which enables the interviewees to discuss the issues in-depth and provide more explanation than in the questionnaire survey. L4, the CFO of a materials company, noted that 'Basically, the company tends to keep the dividends rate constant because this reflects positively on the share price of the company'. Similarly, L9, the CFO of a bank, reported that:

> There should be stability and consistency in the payout ratio. We distribute a dividend to shareholders after taking into consideration the previous year's dividend, the current year's earnings, the expected growth rate for the next year, and the capital adequacy ratio. All the previous points provide a clear vision of the current dividend so as not to give a high value of dividends and then not pay them in the following year, or pay very little dividends, which affects investors. There should be stability regarding the dividends payout

L16, the CFO of a real estate company, agreed with this:

> In our company, we try hard to maintain consistent dividend payments; however, sometimes, it depends on the existence of cash flow and whether we have an investment plan that requires liquidity. And of course, we explain the reasons for not paying dividends to our shareholders

Five of the 21 interviewees disagreed with the need to maintain the stability of dividend payments and claimed that the dividend disbursement was not a goal in itself but was the result of the company's performance. L10, the finance manager at a retailing company, expressed such a position:

> The consistency in the dividend payment is not the main thing for the company. It depends more on the company's performance and making earnings in addition to the company's conditions regarding liquidity and the company's obligations

An observation from the interviews that the managers agreed with was that Saudi-listed companies did not maintain a constant dividend payout level, particularly during the period when the current research was conducted (2015 to the beginning of 2018). This period of time was associated with a recession in the Saudi economy caused by various factors: the announcement of Saudi Vision 2030, mentioned in Chapter 2; a decrease in oil prices; and the political situations in neighbouring countries. L17, the CFO of a materials company, spoke about this issue:

> It's difficult to achieve consistency in dividend payment policies in Saudi Arabia now, in the current situation, because of internal and external economic variables. These factors affect you and even the market and demand, which all affect you as a company. Because in the end, the dividend payment is based on the availability of liquidity and earnings, which means that dividend payment is associated with the performance of the company. The stability and continuity of paying dividends [will] depend on the company's performance [particularly if] the economy is unstable

Moreover, some managers argued that the stability of the dividend payment decision depends on the type of industry, retained earnings, current earnings, future plans, availability of capital and liquidity. For example, L19, the CFO of an energy company, noted that:

> The stability of dividend payments differs between industries; there are stable and technological industries. Our company belongs to the technology sector; you might find that income is higher or lower in some years. It is not stable like for the retail companies. Sometimes even the retail companies' [earnings] are not stable

The result from the current study regarding the instability of dividend payment policies is in line with previous studies conducted in Saudi Arabia (Al-Ajmi and Abo Hussain, 2011) and Pakistan (Khan, Burton and Power, 2011).

Over half of the interviewees (57%) supported the idea that companies should set a target dividend payout ratio in a way that does not affect company performance and obligations. In addition, they argued that a target payout ratio helps to determine the level of funds that must be available to pay cash dividends. Furthermore, the managers noted that the target payout ratio of any company depends on several factors, including its current earnings, retained earnings, future investment projects and the company's age and size. L20, the CFO of an insurance company, noted that:

> Having a target dividend payout ratio depends on the future plans of the company and that the value of the dividends that will be paid must not affect its strategy for the future. Moreover, the bigger the company and the more it's known in the market, the more likely it will have a target payout ratio [based on its] ability to pay a dividend

This result is in line with the survey findings, according to which 57% of respondents agreed that the company should set a target for dividends paid in the future.

The remaining interviewees (43%) disagreed with this statement. They claimed that having a target payout ratio could place great pressure on management to achieve the target, which might lead them to manipulate the numbers to support a specific distribution of dividends. Further, they argued that having a target payout rate could affect the company's performance in a negative way; for instance, it might sometimes force the company to borrow from the bank and distribute that cash as dividends to shareholders. L16, the CFO of a real estate development company, raised concerns about target payout ratios:

> Having a target payout ratio puts pressure on the company to influence the results in order to achieve a certain number, which is always unhealthy for companies because the company sets a target number for dividend distributions and after that, it will be obliged to achieve it. The company should link the dividend payment to earnings or the company's performance

6.3.2 The Relevance of Dividend Payment Policies to Saudi-Listed Companies

The second theme emerging from the interviews relates to why Saudi companies pay a dividend to their shareholders. First, a majority of the interviewees explained that their companies distribute earnings to reward current shareholders and keep them investing in the company. L2, the finance manager of a materials company, said, 'We

have 25% of the company's shareholders have held their shares since the company was established, and they are very loyal to our company'. Second, some interviewees reported that they pay dividends in order to attract new investors. L1, a financial manager of a materials company, said that 'Paying dividends could open up doors for new investors to invest in this company because the company reputation is already known, and its core business, dividend payments and management also are known in the market'. Third, some participants expressed the view that the company pays dividends to maintain the stability of the company's share price. L4, a finance manager of a materials company, reported that 'As long as there is stability in the dividends' value on one side and stability in the dividends system (periodic dividends), the share price of the company in the market will be stable'.

Fourth, several managers suggested that companies tend to distribute earnings to support and enhance the perception of the company's shares. For example, L18, a financial manager of a materials company, noted that 'The company's policy for earnings distribution affects the reputation or the position of the company in the market.' This view is consistent with Shao, Kwok and Guedhami (2010), who found that national culture[96] is an important component in the preservation of public image; specifically, conservative societies place greater priority on protecting one's public image. According to the authors, because conservative managers are more concerned with public image, higher dividend payouts are interpreted in conservative countries to be evidence of a manager's excellence, which is assumed to be reflected in the company's performance.

6.3.3 Signalling Theory

It is important to understand the managers' views of the Saudi stock market and the news that a dividend payment generates (see Chapter 2 for more details about the Saudi Stock Exchange). Fifteen of the 21 interviewees seemed to agree with the statement that the Saudi Stock Exchange is not efficient and that reactions to dividend announcements are sometimes unjustified. They stated that the inefficiency of the market was due to different external and internal variables. First, internal variables within the

[96] 'Members of conservative societies believe that individual interests should be reconciled with group interests. Thus, among other features, family security, self-discipline and public image are emphasized in conservative societies' (Shao, Kwok and Guedhami, 2010, p.1393).

market and country included ownership concentration, small companies, rumours or word of mouth, speculators, large investors and government decisions. Second, external variables from outside the country included changes in oil prices and the world economy. L17, CFO of a cement company, spoke about the efficiency of the market:

> The market is still not efficient, although there is transparency and disclosure. But in some companies, you can find a group of institutions or families who own the largest portion of the company's shares, which might affect market efficiency; as a result of the big impact that those shareholders have on the company's decisions [share prices may become predictable]

Similarly, Al Qudah and Badawi (2015) reported that several listed companies in the market were owned by families or governmental institutions, which led to a concentration of ownership. Another interviewee, L16, the CFO of a real estate company, commented on the effect of economic factors:

> The economic environment, whether internal (sovereign decision of the state), or external (high or low oil prices), affects the price of the company's share, and the company has nothing to do with it. In Saudi Arabia, economic factors have a significant impact on the price of the company's share, especially the rise or fall of oil prices

However, the managers agreed that the Saudi Stock Exchange had developed considerably compared to previous years, so its efficiency may have improved. The interviewees suggested that even investors and regulations have evolved.

The Saudi Stock Exchange is considered to be at the forefront compared to other Middle Eastern and African stock markets. However, when compared to the well-developed markets of the UK and USA, the interviewees agreed that there is still a major gap. According to L13, the CFO of a materials company, 'The Capital Market Authority is developing the market and there will be a balance between the application of governance to small companies and their survival in the market'.

Three of the 21 interviewees did not seem to support the idea that the Saudi stock market is inefficient and expressed an opposite view to the one mentioned above. They claimed that there is no efficient market in the world, and in the Saudi market, the regulator applies strict procedures regarding disclosure and transparency. L11, the CFO of a health care company, noted that 'In general, the Saudi Stock Exchange is an efficient market and information is available to everyone; and the Capital Market

Authority is very strict in its supervision of the market compared to other Arab countries'. The three managers had mixed views on Saudi Stock Exchange efficiency. They stated that it is unfair to judge the market based on atypical situations that may have occurred[97]. L3, a financial consultant in a retail company, observed that 'The Saudi stock market is 70% efficient, and the remaining 30% is due to speculators, and external influences, such as the world economy and oil prices; this 30% does not affect the efficiency of the market in general'. According to these managers, the Saudi Stock Exchange is not inefficient; rather, it is shareholder behaviour that drives the market (market makers). L20, a financial manager at an insurance company, stated, 'Our share price at one point reached 290 riyals even though we had losses'. All three interviewees agreed that the market reaction to some company news is unpredictable. For example, companies sometimes take a certain course of action and expect a certain reaction, but then the market reaction is unexpected and surprises the company managers[98].

Overall, the mixed views on market efficiency might suggest that different companies' shares react differently to market news. Furthermore, the shareholder base in the company appears to affect the company managers' perceptions of market efficiency because different types of investors have different reactions, and these reactions are reflected in the company's share price.

In response to the core question of signalling theory regarding the use of dividends to convey information to outside investors, 71% of the interviewees reported that dividends only act as a weak signal or indicator of a company's future prospects due to rapid changes in Saudi Arabia's economic situation; this was particularly prominent from 2015 onwards because of factors such as oil price shocks, new laws and the recession. L4, the CFO of a materials company, said, 'Dividend distribution is perceived as a signal about the company's future performance but in a very limited way (around

[97] The managers suggested that a group of people who are the main shareholders or leaders of the market dominate the activity. Another group of followers simply mimic them in buying and selling shares in the market. They said that the Capital Market Authority strictly deals with this type of behaviour by shareholders and imposes penalties and fines on people involved in any manipulation of the stock market.

[98] The interviewees divided investors in the Saudi stock exchange into three types: First, speculators, who enter orders three or four times a day and do not own a share for long. Second, short-term investors, who sell their shares and benefit from the increase in the value of the share before the date of the Annual General Meeting and the announcement of the approval of the earnings distribution figures. Third, long-term investors, who focus on the dividend distribution, the growth of the company itself, and the actions of the board of directors and executive management to determine company stability and goals.

10%), because of other factors that affect the company, such as the general economic conditions of the country'. These findings are consistent with those of Naser, Nuesibeh and Rashed (2013), who reported that managers of companies listed on the Abu Dhabi securities exchange do not perceive dividends as a signalling device. The authors argued that dividend payment policies are affected by external factors, such as the global financial crisis, and therefore do not provide a strong signal.

According to the managers in the current study, it is difficult to separate dividends from other factors affecting the company. For example, SABIC is one of the most profitable and influential companies in the petrochemical sector. This sector has a significant impact on the movement of the stock market. Although SABIC has paid relatively stable dividends consistently over the long term, its share price rises and falls as a result of changing oil prices. Hence, companies cannot rely only on dividends to convey information to investors because economic conditions are volatile. L18, a financial manager of a materials company, addressed this issue:

> The cement sector was almost stable for more than 22 years, and suddenly, it began to be affected about two years ago from the beginning of the adjustment of the employment situation[99], which impacted the cement companies; their profits began to decline, and competition increased, which resulted in an imbalance between supply and demand

The results from the interviews explain the low level of agreement with the survey responses reported for a similar question in Chapter 5: whether Saudi companies use dividends as a signalling tool to convey information about a company's future prospects to outside investors (mean = 3.39, standard deviation= 0.93). To summarise the finding on this topic from the previous chapter, dividends can be used as an indicator of a company's future prospects but not to a large extent due to various economic variables (oil prices, new government regulations and economic recession cycles), which were also thought to influence equity returns. However, the interviewees believed that companies could use dividends to signal information about the company's performance, financial strength and future investment projects when the behaviour of these economic variables is stable. For example, L5, a financial manager at a health care company, noted that:

[99] The Saudi government implemented a new expat fee for foreign employees and their relatives, effective from July 2017, for more information, see Chapter 2, Section 2.4.

> If economic conditions are stable, then dividends give an indication about the company's future prospects, [especially if] the company belongs to a stable sector, and it does not have a history of income and revenue fluctuations

In comparison, 29% of the interviewees appeared to support the view that the signalling effect of dividends does convey information regarding the company's future prospects to all investors; however, information signalled by dividends would not be discerned by short-term speculators, for instance. L9, the CFO of a bank, stated that

> Dividends are one of the most important tools to convey information to investors according to the type of investor because long-term investors understand, for example, why the bank paid a certain value of dividends and not more or less, in contrast to short-term investors who, in most cases, think about how much cash they will get into their pockets

Similar results have been reported in many countries, including the US (Baker, Farrelly and Edelman, 1985), Canada (Baker *et al.*, 2007), India (Baker and Kapoor, 2015), Morocco (Baker and Jabbouri, 2016) and Turkey (Baker, Kilincarslan and Arsal, 2018).

A majority of the interviewees in this study linked the efficiency of dividends as a signalling tool with the company's ownership structure (the type of shareholders). They indicated that using dividends to convey information about the company depends on the message that shareholders have received about the reason for changes to the dividend payment level and whether or not they are justified. As mentioned above, the interviewees identified three types of investors: speculators, short-term investors and long-term investors. Speculators do not care about changes in the dividend payment level. Instead, they are more concerned about changes in the company's share price. However, short-term and long-term investors consider changes to dividends and the reasons for them (although long-term investors care more about changing in dividends). L5, a financial manager at a healthcare company, spoke about these differences in priorities:

> When dividends decrease, short-term investors will sell their shares because the share price will decrease. In contrast, long-term (strategic) investors may keep their shares because they know that there may be a future plan for the company

On the same theme, L16, the CFO of a real estate and development company, added the following:

> If our company has big investment projects in the coming years and investors understand that the company reduced dividends to focus on investment, then they will consider the decline in dividends as a positive signal about the company's future prospects. However, if the investors get a different message, for example, the company has a financial deficit, and this is why its dividends decline, they will consider the reduction in dividends as a negative signal about the company's performance

Almost all of the managers (20 out of 21) appeared to agree that dividends are an important tool for an investor to evaluate a company's share value.

> Everyone in the stock market understands and reacts to the announcement in a different way, which means that if the announcement was positive, the investor considers that the investment in the company is good, so he buys more shares. However, if the announcement was negative, it means that the investor considers his investment in the company is not good, and he sells his shares because of the fear of loss (L9, bank CFO)

The managers reported that, in the Saudi Stock Exchange, both types of shareholders (short-term and long-term shareholders) rely significantly on dividends to assess a company's share price, but long-term shareholders rely more on dividend data and use them in combination with other evaluation tools, such as a company's financial statements. L6, a financial manager at an insurance company, noted that

> There are many tools that help the shareholder to estimate the value of the company's share, such as company financial statements and productivity figures, but dividends remain the most important element in evaluating the value of the company's share

This result supports the findings from the survey approach presented earlier (Chapter 5), which showed a high level of managerial agreement with the view that investors use dividends as an important tool in assessing a company's share value (mean = 3.78, standard deviation = 0.75). Additionally, the findings of the current study are consistent with the results from numerous studies on developed markets (Baker, Farrelly and Edelman, 1985; Baker *et al.,* 2007) as well as on developing markets (Baker and Kapoor, 2015; Baker and Jabbouri, 2016; Baker, Kilincarslan and Arsal, 2018), which found that dividends play a prime role in evaluating a company's share price. However, the current results contradict the findings of Miller and Modigliani (1961), who

reported that dividend policy is irrelevant when valuing a company's share price under perfect market conditions. The only interviewee who disagreed with using dividends as a tool to assess a company's share value was L1, a financial manager of a materials company, who argued that 'Investors buy and sell based on peoples' talk and rumours, which significantly affect the share price of the company as well as market efficiency'. The difference between the opinion of this manager and the other 20 managers may be due to the type of investor base that his company attracted, which may have had a significant effect on whether dividends were used to assess the company's share price.

The interviewees expressed differing views on whether an increase in a dividend payment usually leads to a rise in share price, and a decrease in a dividend payment usually leads to a decline in share price. More than half (57%) of the managers agreed that changes in dividend amounts affected the company's share price. They attributed this to market forces; specifically, they noted that when a company systematically pays dividends, its share price increases or remains fixed. This would cause shareholders to submit orders to buy shares, and then, when demand increases, prices would rise automatically due to the law of supply and demand.

> In the Saudi market, it is true that an increase in the profit distribution usually leads to a rise in the share price. The reason for the rises and falls in the share price is shareholder behaviour. Usually, the shareholder in developing or emerging markets is more concerned with profit distribution rather than the growth and expansion of the investment. Therefore, the demand for the share is high, and the price rises due to the increase in dividends. However, if there are no long-term distributions, the investor's interest in the share decreases; thus, its price falls. It is a matter of the supply and demand for a company's shares (L8, finance manager at a materials company)

Similar findings were obtained from the survey research method used in Chapter 5, which reflected the positive and negative effects of changes to the dividend payment level on the company's share price. However, 24% of the interviewees provided an opposing view regarding the relationship between changes in dividends and share price. They noted that such a reaction might occur in a balanced market but not in the Saudi Stock Exchange due to its characteristics (the market size and number of daily trading transactions are small) and the presence of unsophisticated investors. Sometimes, companies declare high dividends, but the share price drops.

In addition to market characteristics, the type of investor as well as economic conditions could affect the company's share price more than changes in the dividend payment level. L15, a finance manager at a materials company, summarised this issue, saying, 'The majority of investors in the Saudi Stock Exchange are not sophisticated investors and sometimes when we declare the dividend payment decision, the company's share price declines'. The remaining interviewees (19%) suggested that the share price response to a dividend change was not symmetrical. They supported the view that positive news, such as an increase in dividends, has an impact on a company's share price if the reason for the increase is that the company has future expansions plans, suggesting an increase in future assets and income.

In comparison, negative news (a cut to or decrease in dividends) does not impact a company's share price for various reasons, such as investor inertia or the length of time over which a company did not pay dividends.

> The effect of a decrease in dividends on the share price depends mainly on the type of shareholders. When the dividends decrease, the short-term investor will get rid of the shares, which means that he will sell his shares because the share price will decrease. The strategic [long-term] investor will keep the shares because he has a clear vision that the company is moving forward to the future (L5, finance manager at a health company)

The lack of consensus among the interviewees regarding the effect of changes in dividend payment levels on a company's share price may be explained by the fact that each company has a different ownership structure or shareholder base, which has a significant influence on the company's share price. According to the participants, if the majority of a company's ownership structure consists of long-term shareholders, fluctuations in the share price will be very limited compared to an ownership structure comprised of short-term shareholders, which leads to more fluctuations in the share price. This issue will be empirically investigated in a large sample from the Saudi Stock Exchange through an event study in Chapter 7.

Fifteen out of 21 interviewees agreed that companies announce their earnings separately from dividends. L13, the CFO of a materials company, reported that:

> Companies listed on the Saudi Stock Exchange are required to declare their results every quarter. The declaration of earnings and dividends should be made by the board of directors of the

> company and the annual general meeting of shareholders, which can decide to pay dividends at a later date. So, there is a difference between the declaration of earnings and the declaration of dividend payments in the Saudi Stock Exchange

These results are similar to those reported by McCluskey, Burton and Power (2007), who found that the market distinguishes between the announcement of earnings and the announcement of dividends. However, six managers stated that the market does not separate earnings announcements from dividends announcements, including L10, a finance manager at a retail company:

> When the company declares the results, it also issues the board of directors' report. In the board of directors' report, the company gives its impression of whether they are going to pay dividends or not. It is almost all made clear at the same time (earnings and dividends)

Perhaps the differences between the two views of announcements can be explained by the fact that each company endorses a particular dividend policy that fits its situation or condition—such as paying dividends quarterly or yearly—which sometimes leads the company to publish its financial statements and pay dividends at the same time. This type of multi-signal news results in both earnings and dividends being announced on the same day. In comparison, a company that declares its earnings quarterly and pays dividends annually may separate the two announcements. To summarise, the majority of Saudi managers support the view that there is a separation between dividend and earnings announcements, while, in contrast, a small number of managers disagreed with this view. This will be investigated in Chapter 7 as part of an event study of the Saudi Stock Exchange.

The majority of Saudi financial managers who participated in the current study (81%) indicated that shareholders prefer dividend payments over returns from capital gains. These preferences depend mainly on the type of shareholder being considered (i.e., long-term vs short-term shareholders).

> The shareholder surely considers the earnings from dividends less risky than earnings from capital gains, particularly long-term investors who invest for the dividends; he considers the dividends less risky compared to capital gains. The earnings from the capital gains may be larger than the dividends, but it depends on the vision of the shareholder (L10, finance manager at a retail company)

These findings support the bird-in-the-hand theory, which states that shareholders prefer current dividends over promises of future increases in share prices (Gordon, 1959).

The remaining interviewees (19%) stated that the preference for dividends over capital gains depended on many factors, such as the situation of the company that investors are choosing to invest in, the shareholders' need for liquidity and shareholder preferences. For example, if a company's situation is stable, it makes continuous earnings, and it expects to increase its dividends. The investor will take the earnings, and the value of the share price will increase in the future. The decision also depends on the shareholder's liquidity needs; if no dividend is paid, the shareholder will have to sell shares, which may be problematic. Overall, shareholders in the Saudi stock market perceive dividend payments as less risky than the returns from capital gains.

6.3.4 Zakat and Taxation

Regarding the issue of Zakat, the interviewees were divided: One group did not support the view that Zakat influences a company's dividend policies, whereas the other group held the opposite opinion, seeing Zakat as a factor that affects a company's policies regarding earnings distributions. The first group represented 81% of the interviewees, reporting that Zakat was not the main driver of the decision about whether to pay dividends. L16, a CFO of a real estate development company, expressed the following opinion:

> Zakat does not affect the decision to pay dividends at all because there is another important factor, which is that I want to perform my religious obligation. Zakat is something evident, and it must be paid; it is a relationship between you and your God before being a relationship between you and the shareholders

Interviewees clarified that Zakat payments depend on religious and cultural considerations; specifically, Saudi investors are required to fulfil the Zakat duty. These investors emphasised the issue of whether the company pays the sum of Zakat attributed to realised profits before payment of dividends. This finding is consistent with that of Dez-Esteban, Farinha and Garca-Gómez (2019), who found that a country's culture and religious background influence the decision-making process of listed companies in Islamic nations. The authors noted, '[W]hat directs financial decisions is not value creation, but to follow the guidelines for appropriate religious behaviour' (Díez-

Esteban, Farinha and García-Gómez, 2019, p.38). Moreover, Algumzi (2017) found that Islamic rules and values affect Saudi management practises, guiding Saudi managers in their business activities. Saudi cultural norms are extremely reliant on context, and therefore, Saudi Arabia is considered a high-context culture.

The interviewees claimed that Zakat affects two main aspects of dividend distribution—namely, the date of the dividend payment and the total earnings available for payment to investors. However, they did not consider Zakat to be an influencing factor in a company's decision to distribute earnings. In this regard, L20, a finance manager at an insurance company, reported that 'Zakat plays a direct role in determining the value of dividends because it decreases earnings, but it does not affect the decision to pay dividends to shareholders'. Meanwhile, L2, a financial manager at a materials company, pointed out that 'Zakat does not affect the company's decision to distribute earnings. However, Zakat affects the date of dividend distribution'. In the Zakat system, dividends are added to the retained earnings when calculating the Zakat base in case the company declares dividends and does not pay them to shareholders until the end of the year. However, if the company announces and pays the dividends before the year end, the retained earnings are reduced by the amount of dividend paid during the year, and as a result, the amount of Zakat will also decrease[100].

The managers confirmed that although there is a positive effect of lower Zakat on dividends paid, this is not a reason to pay dividends; the more dividends the company pays, the less Zakat it is responsible for. Nevertheless, in the findings, managers were not affected by Zakat in deciding how to pay a dividend, in contrast to the position of other taxes in non-Muslim nations, where tax concerns could be considered by executives. The respondents offered two reasons why firms should not factor Zakat into their decision to pay dividends even though the payment of dividends minimises the sum of Zakat due. First, Zakat is paid before dividends are paid out[101]; it is an expense for a company regardless of whether the company has a loss [102]. Therefore, it appears

[100] See Section 2.6 in Chapter 2 for more detail on including dividends in or removing them from the retained earnings while measuring the Zakat base.
[101] Given that the Zakat calculation for the current year focusses on the previous year's balance sheet, the Zakat due at the start of the current fiscal year is considered a fixed expense (Uddin and Osman, 2008).
[102] As mentioned in Section 2.4.1 in Chapter 2 and according to the executive regulation for the collection of Zakat, the net adjusted profit will be added to the Zakat base, whereas the net adjusted loss will be deducted from the Zakat base. Companies should pay Zakat to the Zakat pool or base even if they have losses (General Authority of Zakat and Tax, 2019a).

to be an ‘established reality’ in company decision makers’ minds and not something that can be changed or that affects other decisions. Second, setting the sum of Zakat irrespective of the Zakat rate depends on religion (2.5%). In the findings, there was a shared opinion among the managers that a company primarily had a duty to God to pay Zakat before the distribution of earnings. Therefore, consideration of Zakat when deciding whether to pay dividends was perceived as disrespectful and morally incorrect.

The second group of interviewees (19% of the total) believed that Zakat affects dividend payment policies because it is considered a significant cash outflow, which is the main factor in deciding whether or not to pay a dividend. Some companies adopt practices that allow them to reduce or not pay the Zakat by distributing earnings and decreasing retained earnings, which are critical items in calculating the Zakat base. This practice varies from one company to another, according to the company’s size and management style. If a company is conservative, meaning that it is non-aggressive in making company decisions regarding future investments, it might pay a large amount of Zakat, which can be up to 50% of the company’s expenses based on the size of the company’s assets at the end of the year. Furthermore, if the company is small, it may tend to distribute the majority of its retained earnings in order to avoid paying Zakat. The situation of paying dividends and Zakat is complex and differs from one company to another according to the size of the entity and its management style, as noted by L9, a bank CFO:

> The role of Zakat is very important, and the effect of Zakat on the dividends paid depends on how after paying Zakat are we able to maintain a certain level of earnings that meets the minimum required capital adequacy ratio and the desired growth rate; the remaining amount will be paid as dividends to the shareholders

The contradiction between the two groups regarding the issue of Zakat can perhaps be explained by different points the interviewees made, such as the size and age of the company and its management strategy for financing its investments. For example, mature companies with a high level of retained earnings may view Zakat differently than companies with high-growth opportunities. A mature company with a large amount of retained earnings might not choose to keep those earnings in the company because

they will be subject to Zakat payment; thus, the company might distribute its earnings to shareholders. On the other hand, a company with a high growth rate might choose to retain earnings in order to finance future expansion projects, regardless of having to pay Zakat on these retained earnings. Further, large companies may have a bigger value of Zakat than small companies; for instance, some companies do not pay a large amount of Zakat based on the volume of their business. These differences may lead companies to consider different types of dividend policies to avoid or reduce the amount of Zakat due.

As mentioned above, the current study distinguishes itself from other studies by investigating the relationship between dividends and Zakat payment policies. Two prior studies provided conflicting results regarding the Zakat issue based on the theoretical lenses that were employed (i.e., the definition of Zakat and the Zakat base). The current study uses data obtained from financial managers who are knowledgeable on this issue. The first study that investigated the impact of Zakat on dividend policies was carried out by Uddin and Osman (2008), who reported similar findings to the current study. They found that Zakat does not affect dividend policies because it is a fixed cost paid for religious reasons, and neither companies nor shareholders gain any benefit from a change in dividend policies because of Zakat payments. However, the results from the current study indicate that changes in the date of the dividend payment can reduce the retained earnings, which is a critical item in the Zakat base. The second study, conducted by Al-Ajmi and Abo Hussain (2011), reported that Zakat is considered an important factor in a company's dividend payment policies because companies are faster to respond to an improvement in economic conditions but unwilling to reduce their dividends when the country's economic conditions are undesirable. This is partially attributed to the efforts of the company to reduce the Zakat base, which would rise as companies hold more profit than is required to support growth (Al-Ajmi and Abo Hussain, 2011). This result is different from the opinion expressed by the participants in the current study that the Zakat factor is not significant in a company's decision about whether or not to pay a dividend. Instead, the participants stated it might affect the date of the dividend payment and the amount of earnings available to be distributed.

The last aspect of this theme is the tax factor. As mentioned in Chapter 2, Saudi Arabia does not impose a tax or Zakat on dividends, unlike the US and the UK. There is an

exception to this law: non-resident shareholders need to pay a withholding tax of 5% on dividends received from companies in the Kingdom of Saudi Arabia. All of the interviewees asserted that the withholding tax does not impact companies' dividend policies because the number of non-resident shareholders is small; thus, the non-resident tax should not affect a company's dividend payment policies. L16, the CFO of a real estate development company, noted that 'Non-resident shareholders do not affect the decisions of the company, and their shares are very few'. However, the withholding tax might affect the amount of dividends that are paid to non-resident shareholders. Twelve of 21 managers agreed that the withholding tax reduces the amount of dividends that are transferred to non-resident shareholders because the company is obliged to deduct the 5% tax and pay it to the General Authority of Zakat and tax on behalf of non-resident shareholders. However, seven managers reported that the withholding tax does not impact the dividends that are paid to non-resident shareholders because it is considered to be a low rate compared to the taxes levied by the non-resident shareholder's home country.

Furthermore, the withholding tax might affect non-residents' investment decisions in the Saudi Stock Exchange, although the managers indicated that the tax system in the Kingdom of Saudi Arabia is attractive to foreign investors. Two managers said that the effect of the withholding tax on reducing the amount of dividends paid to non-resident shareholders depends on many factors, such as the investor's situation, the availability of other investment opportunities and the condition of the Saudi Stock Exchange. L10, a financial manager at a retail company, held this view:

> The effect of the withholding tax on the value of dividends that are transferred to non-resident shareholders depends on the effect of the tax on a shareholder and his conditions. Maybe after the 5% deduction, the amount remains as the best investment to him. Also, what other investment opportunities are available to him?

To the best of the researcher's knowledge, there are no academic studies on the effect of the withholding tax on dividends in the Saudi Arabian stock exchange. One possible reason for this is that the introduction of foreign investors is relatively new, as mentioned in Chapter 2, Section 2.5.2. Until recently, non-resident shareholders as individuals were only allowed to invest in the Saudi Stock Exchange through investment funds. However, qualified foreign investors, who are now permitted to buy and sell shares in Saudi companies, are still considered to have a relatively minor influence in

terms of all of the shares of Saudi-listed companies. L9, the CFO of a bank, summarised this situation:

> The market is still not open to individual foreign investors so they must join investment funds to enter the market, while the foreign companies, the ownership that they have in our company is less than 1%. So, there are foreign companies that invest in our company and withstand paying 5% because they think that what they receive is logical. They think that the dividends that they get are enough to absorb the 5%

6.4 Chapter Summary

This chapter has provided some insight into dividend payment policies in Saudi Arabian–listed companies from the point of view of managers. In addition, it has provided more explanation for the survey findings reported in Chapter 5. Several conclusions can be drawn from the interview findings. First, there are various important factors that Saudi-listed companies take into consideration when deciding on the level of dividend payout: future investment opportunities, liquidity, shareholder preferences, current earnings, internal and external economic conditions, the company's obligations (i.e., the level of debt financing), the board of directors, the need to maintain an uninterrupted recorded of dividend payments, the presence of a target payout ratio and avoidance of changes to the dividend payment levels.

Second, regarding the signalling effect of a dividend announcement on the company's share price, the interview respondents expressed mixed views on some significant aspects that constitute signalling theory. Furthermore, the managers had mixed views on the impact of changes to dividends on the company's share price because of the instability of economic conditions and how the type of shareholders that structure the company might react to changing news on dividends. In general, the majority of the interviewees supported signalling theory in the Saudi Stock Exchange under the condition of economic stability. Signalling theory will be examined in a larger context in this thesis for all Saudi-listed companies that announced dividends between 2011 and 2018 in an event study to determine the relationship between the dividend announcements and the company share price.

Finally, respondents did not support that the Zakat was a factor in the decisions of payment dividends, instead; it affected when companies distribute their dividends and the sum of profits available to pay shareholders. Overall, managers perceived Zakat

payment as a fixed expense and religious obligation. These findings are consistent with the survey results, which showed that the respondents disagreed that Zakat was a factor in dividend payment policies. As for the withholding tax, the respondents indicated that this tax would not impact a company's payout decision; rather, it influences non-resident shareholders' dividend payments and their investments in the Saudi market.

Chapter 7
Share Price Reaction to the Dividend Announcements of Saudi-Listed Companies

7.1 Introduction

The current chapter examines the share price reaction to companies' dividend announcements (DAs) on the Saudi Stock Exchange. Specifically, this chapter investigates the extent to which the theory about the information content of dividends applies in the Saudi context and whether the findings from this chapter agree or disagree with the results from prior studies carried out on the Saudi stock market about the applicability of the dividend signalling effect. It also examines whether the findings from a Saudi context are similar to the results from other countries. Thus, the current chapter will study the stock market's reaction to annual DAs by Saudi companies to see if unexpected returns are positive (negative) for companies that increase (decrease) their dividend payments (Pettit, 1972). This chapter will also test to see if the companies with announcements of no change in their dividend level earn, on average, only normal returns (Aharony and Swary, 1980).

An analysis of the Saudi market's response to DAs may provide an objective lens into the dividend signalling effect, which may support the findings reported from both the survey approach (Chapter 5) and the interview approach (Chapter 6). The findings from both these chapters suggest that dividends play a significant role within the Saudi context.

The remainder of this chapter is structured as follows: Section 7.2 briefly outlines the research methodology and describes the various hypotheses to be examined. Information on data and sample collection will be given in Section 7.3, whereas Section 7.4 details the method used to calculate the abnormal dividend returns and cumulative dividend returns. Section 7.5 provides the findings from the event study. Finally, Section 7.6 summarises the chapter.

7.2 Research Approach and Hypotheses

Chapter 4 discussed in detail the research method that has been used to study the effect of DAs on companies' share prices. The current section provides a brief overview of the chosen research approach and the various hypotheses to be tested.

An event study methodology is used to compare the stock returns on the event date with the expected returns in the absence of the event; these expected returns are calculated over an estimation period that is determined before the event date. Corrado (2011) notes that if the actual stock returns on the event date are statistically different from the expected returns, this might indicate that the event impacts the share price. Further, he suggests that in an efficient market, the event may have information content; a response to the event by rational shareholders may indicate that the event is a signal about a company's future prospects and contains 'news' impounded into the share price. One of the difficulties with discerning whether an event such as a dividend payment acts as a signal is isolating the single piece of information that the stock market is responding to. A lot of news about a company tends to be disclosed at the same time; thus, attributing any share price reaction to one specific event or piece of information is problematic (Strong, 1992). This is especially problematic for news about dividends, which tends to be disclosed at the same time that the details about corporate earnings are published (Aharony and Swary, 1980). However, this is less of an issue in the current Saudi investigation.

The findings from Chapters 5 and 6 noted that most Saudi-listed companies announced their dividend and earnings news separately. In addition, an inspection of the companies' announcement dates for the earnings per share (EPS) and dividend per share (DPS) appears to support the findings reported from Chapters 5 and 6 about the separation in the declaration of dividend and earnings announcements. Consequently, this chapter will focus on examining the impact of relatively 'pure' DAs on share price; any confounding events, such as the announcement of earnings, will be excluded.

The main goal for using an event study methodology to assess a company's DAs is to examine the extent to which signalling theory characterises the Saudi stock market of a key corporate announcement. In particular, the impact of cash DAs on share price performance is investigated; this can be measured by calculating the abnormal returns

(ARs). To achieve the above research goal, the following two main hypotheses have been established based on previous theoretical and empirical frameworks that have been used to test the applicability of signalling theory:

H1: A company's share price reacts to the announcement of a cash dividend during the event window.

H2: A company's share price reacts in the same direction with the announcement of a change in dividend payment levels during the event window[103].

Three levels of analysis are under consideration in the current chapter. The first and second levels are used to test H1 by applying two different event windows—a long and short period—to study stock price reactions to cash DAs. A long window of 41 days is applied to investigate the stock price reaction for 20 days before and 20 days after the dividend news. If news of a dividend leaks before the official disclosure date, a response may occur beforehand. Alternatively, the market may need time to digest the dividend news, justifying the 20-day post-announcement window. A shorter window of 11 days is also considered—five days before and five days after the dividend news—to explore in greater detail the actual share price response on the event date and to uncover any reasons for the reaction (if any) to the dividend's increase, decrease or lack of change. Also, the purpose for using a smaller event window is to control for information leakages and after-hours announcements (Dasilas, Lyroudi and Ginoglou, 2008).

The third level of analysis is used to test H2. For this hypothesis, the sample is divided into thirds, and sub-hypotheses are examined according to the change in dividend payment level. The change in the dividend payment level is calculated by subtracting the current DPS from the previous DPS.

H2.1: There is a significant positive reaction in the share price at the time of the announcement of an increase in the dividend payment level.

H2.2: There is a significant negative reaction in the share price at the time of the announcement of a decrease in the dividend payment level.

[103] H2 is divided into three sub-hypotheses in the third level of analysis according to the direction of changes in the dividend level.

H2.3: There is no significant reaction in the share price at the time of the announcement of no change in the dividend payment level.

7.3 Data Sample Description

As described in Chapter 4, the sample includes all companies listed on the Saudi Stock Exchange that announced cash dividends from 1 January 2011 to 31 December 2018. This examination period was chosen to cover the timespan when the surveys and interviews were conducted and to facilitate a comparison with the results obtained from the other two research methods. Furthermore, the eight-year period represents the different stages of the economic cycle in the Saudi economy, that is, recession, boom, oil price fluctuations and changes in various government regulations[104]. Consequently, the findings should not be specific to any stage of a company's performance.

To calculate the change in dividend payment level, the focus of the current study was on the DPS data instead of the total dividend or dividend yield; this was done for two reasons. First, the Tadāwul directed companies to declare dividend figures in the form of DPS rather than the total amount of dividends. Second, in line with the work of the previous dividend policies that have been studied (Watts, 1973; DeAngelo, DeAngelo and Skinner, 1992; Lonie *et al.*, 1996; McCluskey *et al.*, 2006), the DPS was used; these studies used the DPS to examine the information content of dividends, and the current thesis employs a similar measure that enables a comparison between the results from the present study and findings from the existing literature[105]. Moreover, using annual rather than interim dividend data reflects the statistical analysis and survey results of managers' views, which provided evidence that company managers tend to determine their dividend policy on an annual basis[106] (Lintner, 1956; Watts, 1973; DeAngelo, DeAngelo and Skinner, 1992; McCluskey, Burton and Power, 2003).

[104] For more information on the Saudi economy, see Chapter 2. In particular, several decisions on the Saudi stock market impacted the listed companies and their performance in the long term, such as the introduction of foreign investment for the first time in 2015 and the increase in the number of listing companies, which positively affected companies' annual dividend announcements (from 40 total dividend announcements in 2011 to 56 in 2018).

[105] The earnings per share (EPS) was also used to exclude any confounding events that might have occurred on the same day as the dividend announcement date. The information on the EPS amounts and dates were collected from Bloomberg and compared with similar data published on the Tadāwul website.

[106] Lintner (1956, p.103) reports that 'dividends were uniformly considered in terms of annual periods'.

Similarly, the interviewed managers' results (Chapter 6) revealed that Saudi managers appear to decide dividend payment decisions as an amount or rate on a yearly basis[107].

Data regarding the amounts and dates for the annual DPS[108] were collected from the Tadāwul website and double-checked with another available source, such as Eikon database[109]. In addition, the collected information was compared with the source of dividend amounts and dates in the companies' annual reports, which are published at the end of the financial year, ensuring that the correct information was used. The inclusion criteria for companies in the sample were as follows:

- Daily market closing share prices and daily market closing index prices had to be available for calculating the AR. The closing prices of shares and index data were obtained from the Tadāwul website and cross-checked with the Argaam database[110].
- The shares of the selected companies had to be traded in the market for 201 days prior to the DA date to calculate the expected returns of a stock.
- Companies should not have had any other announcements around the cash DA date, such as earnings news, stock dividends, merger or acquisition disclosures or any type of information that might affect the company's share price in the event window. The data concerning confounding events were available from Eikon database and double-checked with the data published on the Tadāwul website.
- Companies had to announce more than one annual cash dividend to ensure that the sample did not focus on dividend initiation[111] but instead on dividend change announcements.

[107] For example, L2, the finance director of a materials company, notes that 'there is an expected budget for the company that determines for example the expected net income in the new year and accordingly determines the main income because the expected company budget is prepared before the year. Based on this budget, the dividends are related to expected income and I can determine the expected pay out'. On the same matter, L15, a finance manager of a materials company, reports that 'the year of dividends payment comes after the year of the decision'.

[108] The sample companies' dividend payment dates for the 2011–2018 period according to the Tadāwul website are shown in Appendix D-1.

[109] The information in Eikon database is similar to the Tadāwul's data website regarding the dividend announcements.

[110] The website Argaam is owned by the investment firm Argaam, which is based in Saudi Arabia and which launched the product Argaam.com in 2007; it offers its users historical data and financial updates on macroeconomics and stock market conditions in Saudi Arabia (Argaam, 2015).

[111] Dividend initiation is the first time a company pays a dividend to its shareholders. The present study does not focus on dividend initiations because although investors perceive the initiation of the dividend

Table 7-1 presents data on the DA types over the time frame of the study. A total of 99 listed companies made a total of 687 DAs from 2011 to 2018. As mentioned in the above selection criteria, the current study focuses on the annual DAs, which totalled 400. Any other announcements of quarterly or semi-annual dividends were excluded from the sample to focus on annual dividend payments. For example, during the sample years, 194 semi-annual DAs, 37 DAs three times annually, 52 DAs four times annually and four DAs five times annually were excluded from the final sample.

Table 7-1: Dividend Announcement Details from 2011–2018

Year	Number of DAs	Annual DA	Semi-annual DA	DAs three quarters per annum	DAs four quarters per annum	DAs five times per annum
2011	74	40	26	5	3	0
2012	78	47	23	3	5	0
2013	83	48	25	4	5	1
2014	91	53	23	8	6	1
2015	88	48	26	3	11	0
2016	86	53	23	1	9	0
2017	91	55	23	7	6	0
2018	96	56	25	6	7	2
Total	687	400	194	37	52	4

Note: This table shows the types of dividend announcements (DAs) over the sample period.

Applying the above four inclusion criteria, the total population of 400 DAs was reduced to 280 pure cash DAs after excluding the following confounding events around the time of the DA date: EPS releases (45 events), scrip (share) DAs (34 events) and dividend initiation (17 events). Furthermore, any company whose share price had traded for less than 201 days prior to the date of the DA was removed from the sample (24 events). These 280 dividend announcements were spread relatively evenly across the eight years being studied; however, there were slightly more DAs in 2017 and 2018 because the economy recovered and more companies started to declare a dividend.

Table 7-2 shows the background information of the sample companies that made the 280 annual cash DAs, here based on their market sector categorisations; the sample characteristics are described in terms of the number of companies, the number of DAs,

as a sign of positive information, the nature of the information is not entirely clear to them (Uddin and Osman, 2008).

the volume of shares traded and the market capitalisation of the companies as of 31 December 2018[112]. The table also provides descriptive statistical information about the sample companies' raw returns, such as standard deviation and mean values.

Several observations can be drawn from Table 7-2. First, the final sample companies represent nearly all the different Saudi market sectors[113] (19 out of 20) throughout the sample time frame, including energy, materials, capital goods, commercial and professional, transportation, consumer and durables apparel, consumer services, media and entertainment, retailing, food and staples retailing, food and beverages, healthcare equipment and services, pharmaceuticals, biotechnology and life sciences, banks, diversified financials, insurance, utilities, real estate investment trusts (REITs) and real estate management and development. The largest number of companies (24) came from the materials sector, while banks were second with 10 companies. At the other end of the spectrum, several industries, such as the commercial and professional, pharmaceuticals, biotechnology and life sciences sectors, had only one firm in the sample. Given the variety of industries represented, it is evident that the results of the current study are not limited to specific sectors.

Second, the statistical data of the daily actual (raw) returns of the sample companies over the period 2011 to 2018[114] are shown in Table 7-2. The performances of the different sectors over the study period varied widely. The media and entertainment sector, for example, performed the best; investors received an average daily raw return of 0.37%, while the consumer durables and apparel sector had the lowest mean daily raw returns of -0.02%. There were 18 positive daily raw returns, on average, compared with only one sector with daily raw returns less than zero. Positive returns outnumbered negative returns throughout the study period, indicating that the Saudi stock

[112] Appendix D-2 provides more details about the 99 sample companies over the study period 2011–2018. The table contains the following information for each company: close price, issued shares, net income, shareholders' equity, earnings per share, price to earnings ratio, book value and price to book value.

[113] There was a total of 20 sectors in the Saudi stock market over the sample period of 2011−2018; the sample companies reflect 19 out of 20 sectors. The only exception is the telecommunication services sector, which contains four listed companies, two companies with no data available about DA dates and amounts and two companies with DAs more than once throughout a year.

[114] The actual (raw) daily returns of a stock are calculated as the closing price of a stock on a specific date minus the closing stock price on the previous day divided by the closing price of a stock on the previous day.

market generally displayed an upward trend in prices from 2011–2018[115]. The standard deviation values varied across the sample companies throughout the event period, ranging daily from a low of 1.28% per day for the bank sector and reaching a high of 4.25% for the consumer services sector. These standard deviation values reflect the variability of the mean daily share of raw returns earned by the sample companies in different market sectors from 2011–2018; these numbers are not atypical for an emerging market such as the Saudi Stock Exchange (Uddin and Osman, 2008)[116].

Third, Table 7-2 also shows that companies in the materials sector made the vast majority of DAs (70). In contrast, the one company in the REIT sector had the lowest number of DAs (1)[117] over the sample period. The 280 total DAs represent 70% of the total annual DAs (400)[118] made by the listed companies over the sample period; consequently, the investigation of the current study covers the large number of annual DAs declared by Saudi-listed companies over the eight-year study period.

Finally, a closer inspection of Table 7-2 reveals that the market capitalisation, as well as the share volume traded of sample companies' equities, varied based on their market sector grouping; the banking sector had some of the largest companies based on market capitalisation (SAR 459.9 billion), while firms in the commercial and professional sector were typically smaller (SAR 1.0 billion). The total value of market capitalisation was SAR 862.9 billion for the sample companies (99). Regarding the total number of shares traded, the banking sector had the most active companies (14.8 million shares). In contrast, the media and entertainment sector and the pharmaceuticals, biotechnology and life sciences sector had the least active firms (0.1 million shares).

[115] Chapter 2 discussed in detail the different developmental stages that the Saudi stock market went through during the study period.
[116] Uddin and Osman's (2008) findings show that investors in Saudi stock can sometimes overreact to news regarding dividends that enable investors to earn cash profits, causing these investors to lose their earnings over a span of 61 days covering the dates for pre- and post-dividend announcements.
[117] The only company that announced annual cash dividend in the REIT sector was listed on the stock exchange in 2017 and reported one DA this year, but for two reasons, this DA was omitted from the sample study: 1) it traded for less than 201 days before the date of the DA, and 2) this DA is the first in the company's history since it was listed in 2017. However, in 2018, the company declared a dividend, and all criteria are applied to it, which allow this DA to be included in the sample.
[118] For more information on dividend announcement details, see Table 7.1 in Section 7.3.

Table 7-2: Background Information about the Sample Companies

Sector	Mean Return	SD of Returns	Number of Companies	Number of DAs	The Traded Volume (Million Shares) on 31 December 2018	Market Capitalisation (SAR Billion) on 31 December 2018
Energy	0.0018	0.0236	4	16	1.1	32.3
Materials	0.0008	0.017	24	70	14.0	84.7
Capital goods	0.0007	0.0199	8	24	3.9	6.4
Commercial and professional	0.0026	0.032	1	3	0.2	1.0
Transportation	0.0008	0.0274	4	10	0.9	5.6
Consumer durables and apparel	-0.0002	0.0162	3	6	0.8	1.8
Consumer services	0.0011	0.0425	3	5	2.2	5.7
Media and entertainment	0.0037	0.0255	2	4	0.1	7.0
Retailing	0.0006	0.0274	5	9	0.8	11.8
Food and staples retailing	0.0011	0.0147	1	5	0.7	6.3
Food and beverages	0.0009	0.0181	9	28	6.8	71.5
Healthcare equipment and services	0.0018	0.0197	6	18	1.7	21.6
Pharmaceuticals, biotechnology and life sciences	0.0018	0.0213	1	6	0.1	3.5
Banks	0.0005	0.0128	10	22	14.8	459.9
Diversified financials	0.0011	0.0221	3	15	1.8	30.7
Insurance	0.0027	0.0262	7	17	6.4	20.6
Utilities	0.0018	0.0159	2	9	0.7	65.2
REITs	0.001	0.0233	1	1	2.5	0.2
Real estate management and development	0.0007	0.0218	5	12	7.5	27.1
TOTAL			99	280	66.8	862.9

Note: This table shows the sample companies according to the different stock market sectors from 2011–2018. Mean and SD refer to the average and standard deviation of the daily raw returns of shares. The table also reports the number of companies and the dividend announcements (DAs) that were made by various industries, the volume of shares traded and the market capitalisation of each sector on 31 December 2018.

Overall, the sample companies (99) represented most of the Saudi stock market's activity based on the following statistics: 52% of the total number of Saudi-listed companies in 2018, 70% of the total number of DAs throughout the sample period and 47% of the total value of the Saudi stock capitalisation in 2018[119]. Therefore, the

[119] The total market capitalization of the Saudi Stock Exchange on 31 December 2018 was SAR 1,858.95 billion (Saudi Stock Exchange, 2018a).

empirical findings based on the chosen sample appear to represent the impact of DAs on the shares of all listed companies on the Saudi Stock Exchange.

To investigate the effect of DAs on the share price of the company, it is important to determine the change in dividend payment level to apply the third-level analysis. In this analysis, the naïve dividend expectations model used by Aharony and Swary (1980) is used to help classify the dividend payment level change into different sub-groups. The naïve model indicates that the anticipated dividend would not differ from year to year (Aharony and Swary, 1980). This model is described by the following equation:

$$E(D_{it}) = D_{it-1} \qquad [7.1]$$

where $E(D_{it})$ is the expected DPS for company i in the current year and D_{it-1} is the actual DPS paid for the same company i in the previous year t-1. Based on the dividend naïve model, the change in DPS from one period to another is calculated as follows:

$$\Delta DPS_{it} = DPS_{it} - DPS_{it-1} \qquad [7.2]$$

where ΔDPS is the unexpected change in DPS for company i in the current year t, DPS_i is the actual DPS paid for company i in the current year t, and DPS_{it-1} is the actual DPS paid for company i in the previous year t-1.

The explanation for the dividend naïve model assumption comes from the companies' reluctance to adjust dividend assertions, which indicates that managers do not modify dividend payments until they have a reason to predict a substantial improvement in the company's future prospects (Aharony and Swary, 1980).

To perform the third level of analysis in the current study, the total sample of 280 DAs was divided into three sub-groups to double-check the findings from the analysis of the first two levels. The details for these sub-groups are reported in Table 7-3. This table shows that most companies increased their dividend level, with a total of 162 dividend increases (DI). In contrast, the smallest group of dividend changes relates to a dividend decrease (DD) of 33. However, 85 company-years were associated with no change in the dividend payment level over the eight-year period.

Table 7-3 Sample Classification According to Changes in the Dividend Payment Level

Year	Changes in Dividend Level			Total
	Dividend Increase (DI)	Dividend Decrease (DD)	No Changes in Dividend/Did Not Change (DNC)	
2011	16	3	6	25
2012	22	3	10	35
2013	19	4	13	36
2014	17	3	15	35
2015	17	4	10	31
2016	24	6	13	43
2017	23	7	10	40
2018	24	3	8	35
Total	162	33	85	280

Note: This table shows the final sample of 280 dividend announcements (DAs) divided into three sub-groups according to changes in the dividend payment news.

7.4 Abnormal (Excess) Returns and Cumulative Abnormal (Excess) Returns Calculations

This section briefly discusses the different equations used in the calculation process of the abnormal (excess) returns and cumulative abnormal (excess) returns (for more information, see the event study section in the methodology chapter). Abnormal return (AR) can be determined for every 41 days of each stock by extracting from the actual return (Rit), the expected return E(Rit), as follows:

$$AR_{it} = R_{it} - E(R_{it}) \qquad [7.3]$$

where R_{it} is the actual return of stock i on day t and $E(R_{it})$ is the expected return of stock i on the same day i.

The daily (R_{it}) is then calculated over a 41-day period for each stock by using the below discrete returns[120] equation:

$$R_{it} = (P_{it} - P_{it-1})/P_{it-1} \qquad [7.4]$$

[120] As described in the methodology chapter, the current thesis employs a discrete return approach to compare with other research results (Uddin and Osman, 2008; Al Qudah and Badawi, 2015; Chaabouni, 2017).

where R_{it} is the actual daily return of stock (i) on a date (t), P_{it} is the closing stock price of stock (i) on date (t), and P_{it-1} is the closing stock price of stock (i) on date (t-1).

To compute the $E(R_{it})$, two mathematical methods are mainly applied: the market model and market-adjusted model. First, the market model (Strong, 1992) is employed to measure the $E(R_{it})$ on each stock and the market portfolio for 180 days over the estimation window prior to the event period, that is, dayt-201 to dayt-21, without the occurrence of an event from the following equation:

$$E(R_{it}) = \alpha_i + \beta_i [R_{mt}] + e_t \qquad [7.5]$$

where $E(R_{it})$ is the expected or normal return on stock (i) on date (t), R_{mt} is the return on the market portfolio at date (t) (return on Tadāwul All Share Index [TASI])[121], α_i and β_i are the market model parameters of the return of stock (i) over the estimation window, and e_t is an error term equal to zero. The second measure for achieving the expected return is market-adjusted returns; to determine this, the excess returns with the intention of using them as a robustness test to ensure that the outcome of the AR was not linked to an error in the beta risk calculation. The beta is considered for excess returns to be equal 1 and the value of α 0 for all sample stocks, and the difference between the actual daily returns of the shares and market returns is the excess return (Strong, 1992), which is calculated as follows:

$$ExR_{it} = R_{it} - R_{mt} \qquad [7.6]$$

where ExR_{it} is the excess returns of stock (i) on date (t), R_{it} is the actual daily returns of stock (i) on date (t), and R_{mt} is the return on the market portfolio on date (t) (return on TASI).

[121] As mentioned in Chapter 4, Section 4.7.3.5, the daily market returns are calculated using the discrete return as follows: $R_{mt} = (I_t - I_{t-1})/ I_{t-1}$, where I_t is the market index on day t and I_{t-1} is the market index on day t-1 (Uddin and Osman, 2008).

7.5 Empirical Findings

7.5.1 Share Price Reaction Surrounding the 41-Day Event Window

Table 7-4 records the relevant data on AR and excess returns calculated for the sample companies over the 41-day event window surrounding the DA dates. The data show the mean values[122] and the standard deviation around the mean values for the entire sample of dividend changes. A one-sample, two-tailed test was employed to examine hypothesis H1, which states that a company's share price reacts to the announcement of a cash dividend during the event window. In particular, the average abnormal return (AAR) and the average excess return (AExR) are not equal to zero. In addition to a one-sample t-test, Table 7-5 reports the results of a non-parametric Wilcoxon signed-rank test, which was used to investigate whether the median values are equal to zero. The reason for reporting median values is to overcome any data outliers that may bias the reported average values.

Table 7-4 reveals several observations. First, there is a significant positive share price response to DA news on day t0 (McCluskey *et al.*, 2006; Anwar, Singh and Jain, 2017; Chaabouni, 2017). Throughout the event period, there are 24 days with positive AR and 17 days with negative AR over the event period. However, the largest mean AR of 0.51% was documented on day t0, and this was highly significant with a p-value of 0.00. Similarly, the AExR[123] on the announcement day of 0.52% was the highest and most statistically significant. Thus, the first hypothesis (H1) can be accepted, namely that a company's share price reacts to the announcement of a cash dividend during the event window.

The acceptance of this hypothesis implies that the findings support the notion that dividends seem to signal good news to outside investors on the day of the announcement; this might explain the significant positive AR that investors gain from their ownership of the sample companies' shares. Further, because 58% of the events are related to dividend increases, it is not surprising that the AAR is positive.

[122] The mean values contain average abnormal returns (AARs) and average excess returns (AExRs).
[123] As discussed in Chapter 4, the use of an excess returns analysis alongside abnormal returns (ARs) analysis is to validate the obtained results. In particular, the excess return results indicate that the findings of the AR are not mainly based on the estimated risk, although when each share has a beta estimate value equalling one, similar findings are produced.

The results from the current study are similar to Chaabouni's (2017) result for the Saudi market; they are also similar in character to the findings of Anwar, Singh and Jain (2017) for an Indian sample and of McCluskey *et al.* (2006) for Irish data; these researchers find significant returns on the day of DAs. In relation to market efficiency, the results support the semi-strong form of the efficient market hypothesis, which is that on average, the capital market is effectively responding to new dividend news. Nearly all the price adjustments took place on the announcement date, or t0 (Aharony and Swary, 1980).

Second, regarding the 20-day pre-announcement period before the official disclosure of the dividend information, three statistically significant ARs are uncovered; there seem to be news leaks prior to the date of a DA (Chaabouni, 2017). For example, the market reaction to dividend news as measured by the AR was positive and significant on day t-10, day t-16 and day t-20, with mean values of 0.28%, 0.31% and 0.24%, respectively. The pattern of the excess returns on the pre-announcement days is similar to that reported for the AR over the same period. In particular, the excess returns were positive and statistically significant on day t-10. Such positive returns indicate that stock price movements represent, in effect, the upcoming dividend signal and that the market expects the news to be favourable. It also suggests that the betas are close to one.

Table 7-4 Share Price Performance Around the 41-Day Event Window for a Parametric Test

Day	Abnormal Returns			Excess Returns		
	MEAN	SD	P-Value	MEAN	SD	P-value
t-20	0.0024	0.0180	0.026*	0.0025	0.0187	0.027*
t-19	-0.0006	0.0166	0.566	-0.0007	0.0168	0.509
t-18	-0.0002	0.0149	0.798	-0.0003	0.0148	0.775
t-17	-0.0005	0.0154	0.569	-0.0005	0.0155	0.619
t-16	0.0031	0.0153	0.001*	0.0027	0.0156	0.004*
t-15	0.0012	0.0149	0.162	0.0011	0.0152	0.247
t-14	0.0001	0.0144	0.886	0.0000	0.0152	0.960
t-13	0.0012	0.0150	0.189	0.0011	0.0152	0.232
t-12	0.0013	0.0165	0.179	0.0014	0.0165	0.148
t-11	0.0008	0.0187	0.492	0.0005	0.0189	0.657
t-10	0.0028	0.0174	0.007*	0.0028	0.0176	0.009*
t-9	0.0008	0.0248	0.587	0.0008	0.0246	0.601
t-8	-0.0011	0.0191	0.339	-0.0008	0.0195	0.509
t-7	-0.0001	0.0150	0.886	-0.0002	0.0151	0.785
t-6	-0.0002	0.0168	0.864	0.0001	0.0172	0.955
t-5	0.0013	0.0186	0.246	0.0016	0.0188	0.168
t-4	0.0004	0.0163	0.660	0.0000	0.0170	0.992
t-3	-0.0010	0.0155	0.289	-0.0008	0.0153	0.404
t-2	0.0018	0.0316	0.343	0.0019	0.0317	0.317
t-1	0.0008	0.0242	0.566	0.0009	0.0247	0.522
t 0	0.0051	0.0211	0.000*	0.0052	0.0213	0.000*
t+1	0.0017	0.0201	0.167	0.0017	0.0199	0.158
t+2	-0.0009	0.0151	0.308	-0.0010	0.0148	0.269
t+3	-0.0009	0.0142	0.307	-0.0008	0.0146	0.380
t+4	-0.0008	0.0159	0.419	-0.0004	0.0157	0.640
t+5	-0.0011	0.0150	0.238	-0.0006	0.0143	0.503
t+6	-0.0001	0.0170	0.940	0.0002	0.0177	0.860
t+7	-0.0003	0.0154	0.761	-0.0007	0.0156	0.427
t+8	-0.0009	0.0143	0.282	-0.0011	0.0151	0.208
t+9	-0.0004	0.0175	0.712	-0.0004	0.0177	0.711
t+10	0.0009	0.0190	0.413	0.0010	0.0195	0.383
t+11	-0.0003	0.0160	0.760	-0.0004	0.0172	0.720
t+12	0.0001	0.0171	0.920	-0.0003	0.0173	0.754
t+13	-0.0009	0.0173	0.366	-0.0012	0.0180	0.260
t+14	0.0003	0.0178	0.771	0.0001	0.0181	0.927
t+15	0.0010	0.0140	0.246	0.0009	0.0141	0.262
t+16	0.0003	0.0184	0.807	0.0000	0.0181	0.969
t+17	0.0015	0.0170	0.133	0.0011	0.0169	0.272
t+18	0.0005	0.0145	0.545	0.0007	0.0147	0.455
t+19	0.0001	0.0138	0.939	0.0000	0.0140	0.960
t+20	0.0007	0.0154	0.458	0.0008	0.0156	0.410

Note: This table illustrates the abnormal and excess returns for the 99 sample companies that announced 280 dividend payments for 41 days around the dividend announcement (DA) date (Day t0). SD relates to the standard deviation, while p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed t-test.

Third, it is evident from Table 7-4 that there are 10 positive ARs and 10 negative ARs in the post-announcement period, but none of them are statistically significant. There appears to be a quick response from the Saudi market to the information included in the DA, and the share prices reflected the dividend news immediately on the event day (day t0), with the maximum AR occurring on that day. This is evidence that no shareholders can make a gain over the normal returns by using information about dividends after dividends day t0 (Uddin and Osman, 2008; McCluskey *et al.*, 2006). Again, the findings from the analysis of excess returns in the post-announcement period provided a similar scenario to the AR results, indicating that the Saudi market seems to be of a semi-strong form and efficient when it comes to the announcements of dividend information (McCluskey *et al.*, 2006).

Finally, Table 7-4 also shows that, during the event window, the standard deviation values varied throughout the sample, suggesting a high level of sample volatility. The standard deviation for the AR ranged from a low of 0.013 on day t+19 to a high of 0.0316 on day t-2. Some of this variability may be because of the fact that the sample includes firms that increased, decreased and did not change their dividends. Once the total sample is split into the three sub-groups, a clearer picture of the market reaction may emerge. We may also be able to indicate whether the market responds to all three dividend changes equally or whether the dividend cuts elicit a more strident investor response because of disappointment over the news that the firm cannot maintain its previously determined disbursement policy[124].

Table 7-5 presents the results of a non-parametric Wilcoxon signed-rank test; the findings were the same as the results obtained from applying a one-sample, two-tailed t-test for the median abnormal and excess returns on the day of DAs t0, which were

[124] A smaller event window of 11 days (five days before the event day and five days after the event day and where t0 is the event day) was also studied to gain a better understanding and confirm the results obtained from a wider event window (-20 days and +20 days). Appendix D-3 presents the related data of abnormal returns (ARs) and excess returns for the smaller event period in terms of mean, SD and p-value by employing a one-sample, two-tailed t-test. The mean abnormal (excess) returns on day t0 = 0.50% (0.52%), on day t-1 = 0.24% (0.09%) and on day t+1 = 0.15% (0.17%), suggesting that shareholders earned, on average, positive abnormal (excess) returns of about 1% (1%) when they purchased the stock one day before the announcement of dividend change and disposed of it one day after the dividend disclosure (Anwar, Singh and Jain, 2017). The results from applying this window indicate that there are no information leaks of the dividend news before the official disclosure date and that the market reacts immediately to information that impounded in dividends on the day of announcements. The beta varies from the lower value of -0.01 to the highest value of 1.83 for the sampled companies in the current study, whereas the alpha is close to 0.00 for the narrower event period.

positive and significant. However, in the period after the DA, in particular, day t+3, the abnormal and excess returns were negative and significant for the Wilcoxon signed-rank test, while the results from a t-test for the same day were negative but not significant, suggesting that the Saudi market responded to the dividend news even a few days after the disclosure of the change in dividends (Chaabouni, 2017). In the 20 days prior to the DAs, the findings from both tests are generally the same; in particular, the AR on day t+16 is statistically significant and positive (0.13%), indicating that there are some information leaks to the market before the actual DA (Uddin and Osman, 2008; Chaabouni, 2017)[125].

[125] Appendix D-4 presents the related data of abnormal returns (AR) and excess returns for the smaller event period in terms of the median, SD and p-value by employing a non-parametric Wilcoxon signed-rank test. Shareholders earned median positive abnormal (excess) returns of = 0.24% (0.28%) on day t_0. However, the findings from applying a narrower window reveal that the market reacts immediately and even a few days after the announcement date of dividend changes. Shareholders lost a total negative abnormal (excess) returns of -0.36 % (-36%) on day t+2 and day t+3 after the official date of dividend announcements. On the other side, the findings from a non-parametric test for a shorter window support those obtained from a parametric test, confirming that there are no information leaks before the announcement of dividend news.

Table 7-5 Share Performance Around the 41-Day Event Window for a Non-parametric Test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-Value	Median	SD	P-value
t-20	0.0004	0.0180	0.189	0.0006	0.0187	0.198
t-19	-0.0004	0.0166	0.325	-0.0008	0.0168	0.242
t-18	-0.0007	0.0149	0.259	-0.0015	0.0148	0.164
t-17	-0.0009	0.0154	0.164	-0.0010	0.0155	0.167
t-16	0.0013	0.0153	0.009*	0.0004	0.0156	0.062
t-15	-0.0001	0.0149	0.873	-0.0004	0.0152	0.868
t-14	-0.0013	0.0144	0.121	-0.0014	0.0152	0.111
t-13	-0.0007	0.0150	0.942	-0.0009	0.0152	0.860
t-12	-0.0003	0.0165	0.947	-0.0002	0.0165	0.754
t-11	-0.0009	0.0187	0.442	-0.0012	0.0189	0.283
t-10	0.0002	0.0174	0.163	0.0003	0.0176	0.205
t-9	-0.0003	0.0248	0.966	-0.0007	0.0246	0.790
t-8	0.0001	0.0191	0.444	-0.0010	0.0195	0.406
t-7	-0.0014	0.0150	0.430	-0.0006	0.0151	0.334
t-6	-0.0007	0.0168	0.658	-0.0009	0.0172	0.756
t-5	0.0000	0.0186	0.932	-0.0004	0.0188	0.893
t-4	0.0001	0.0163	0.619	-0.0006	0.0170	0.882
t-3	-0.0008	0.0155	0.129	-0.0008	0.0153	0.161
t-2	-0.0009	0.0316	0.609	-0.0011	0.0317	0.664
t-1	0.0008	0.0242	0.176	0.0006	0.0247	0.168
t-0	0.0024	0.0211	0.001*	0.0028	0.0213	0.000*
t+1	-0.0012	0.0201	0.748	-0.0004	0.0199	0.623
t+2	-0.0016	0.0151	0.076	-0.0023	0.0148	0.050*
t+3	-0.0014	0.0142	0.026*	-0.0013	0.0146	0.043*
t+4	-0.0010	0.0159	0.126	-0.0008	0.0157	0.163
t+5	-0.0006	0.0150	0.218	-0.0006	0.0143	0.230
t+6	-0.0002	0.0170	0.555	-0.0001	0.0177	0.570
t+7	-0.0019	0.0154	0.073	-0.0021	0.0156	0.024*
t+8	-0.0010	0.0143	0.069	-0.0018	0.0151	0.033*
t+9	-0.0013	0.0175	0.266	-0.0014	0.0177	0.231
t+10	-0.0008	0.0190	0.205	-0.0015	0.0195	0.161
t+11	-0.0005	0.0160	0.511	-0.0003	0.0172	0.390
t+12	-0.0005	0.0171	0.979	-0.0010	0.0173	0.568
t+13	-0.0009	0.0173	0.130	-0.0014	0.0180	0.109
t+14	-0.0007	0.0178	0.659	-0.0010	0.0181	0.592
t+15	0.0008	0.0140	0.348	0.0006	0.0141	0.347
t+16	0.0001	0.0184	0.932	0.0006	0.0181	0.992
t+17	0.0015	0.0170	0.131	0.0005	0.0169	0.547
t+18	-0.0002	0.0145	0.979	-0.0003	0.0147	0.871
t+19	0.0004	0.0138	0.847	-0.0001	0.0140	0.864
t+20	-0.0012	0.0154	0.557	-0.0017	0.0156	0.564

Note: This table shows the median abnormal and excess returns for the 99 sample companies that announced 280 dividend payments for 41 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on the analysis of a two-tailed Wilcoxon test.

7.5.2 Share Price Reaction Around the 41-Day Event Window for the Dividend Increase Announcements

Table 7-4 and Table 7-5 showed the results of the first analysis level, which examines the share response for the whole sample of DAs for a wider window. However, the signalling hypothesis implies that the share price reacts differently based on the direction of dividend change announcements (Pettit, 1972; Aharony and Swary, 1980). In particular, an increase in the dividend level causes significant positive AR, a decrease in the dividend level leads to significant negative AR, and dividends with no change in the payment level are associated with normal returns (Aharony and Swary, 1980). Thus, this section examines the information content hypothesis for the three DA subgroups: the announcements of the DI group; the announcements of the DD group; and the announcement with the dividend did not change group (DNC).

The information content hypothesis suggests that an increase in dividends reflects good news and should correlate with an anticipated statistically significant positive return. Table 7-6 and Table 7-7 present the results of the DI group for the 41-day event window. Table 7-6 reflects a number of results. First, the mean AR was positive at 0.73% and significant at the 0.00 level on the day of DAs (t0). The analysis of the excess returns confirms this finding because the AExR on day t0 is large and positive at 0.76% with a p-value of 0.00. Therefore, the hypothesis (H2.1) that there is a significant positive reaction in the share price at the time of the announcement of an increase in the dividend payment level can be accepted (Uddin and Osman, 2008).

As discussed in the literature review chapter, this result is in line with the propositions of the information content hypothesis, which argues that the announcement of a dividend increases signals good news to the market and is associated with an increase in a company's share prices, as well as significant positive AR[126]. The findings obtained in Table 7-6 seem to support this scenario in the Saudi Stock Exchange.

[126] A one-tailed t-test focused on the one-directionality pattern is used in the analysis of the information content of the dividend increase announcements, predicting that the announcement of dividend increases affects a company's share price positively and causes a significant positive abnormal return.

Table 7-6: Share Price Performance Around the 41-Day Event Window for Dividend Increase Companies Using a Parametric Test

Day	Abnormal Returns			Excess Return		
	MEAN	SD	P-Value	MEAN	SD	P-value
t-20	0.0021	0.0169	0.054	0.0021	0.0178	0.069
t-19	-0.0010	0.0186	0.243	-0.0013	0.0188	0.185
t-18	0.0006	0.0156	0.300	0.0004	0.0154	0.381
t-17	0.0002	0.0162	0.447	0.0002	0.0162	0.437
t-16	0.0028	0.0151	0.009*	0.0022	0.0155	0.038*
t-15	0.0023	0.0159	0.035*	0.0021	0.0159	0.043*
t-14	-0.0009	0.0142	0.206	-0.0011	0.0154	0.175
t-13	0.0000	0.0142	0.489	-0.0001	0.0145	0.450
t-12	0.0017	0.0186	0.128	0.0017	0.0185	0.128
t-11	0.0012	0.0209	0.226	0.0007	0.0209	0.345
t-10	0.0014	0.0176	0.155	0.0015	0.0179	0.152
t-9	0.0018	0.0269	0.198	0.0016	0.0271	0.228
t-8	-0.0014	0.0216	0.203	-0.0010	0.0221	0.281
t-7	0.0005	0.0138	0.320	0.0001	0.0141	0.468
t-6	-0.0004	0.0145	0.368	-0.0002	0.0152	0.436
t-5	0.0022	0.0205	0.090	0.0026	0.0211	0.056
t-4	-0.0003	0.0163	0.414	-0.0010	0.0170	0.235
t-3	-0.0008	0.0153	0.244	-0.0006	0.0155	0.317
t-2	0.0012	0.0380	0.349	0.0014	0.0381	0.322
t-1	0.0008	0.0293	0.372	0.0007	0.0301	0.377
t 0	0.0073	0.0232	0.000*	0.0076	0.0232	0.000*
t+1	0.0032	0.0217	0.033*	0.0032	0.0216	0.032*
t+2	-0.0014	0.0160	0.128	-0.0014	0.0158	0.131
t+3	-0.0009	0.0158	0.243	-0.0006	0.0163	0.306
t+4	-0.0011	0.0152	0.186	-0.0005	0.0157	0.345
t+5	-0.0015	0.0155	0.115	-0.0008	0.0149	0.243
t+6	-0.0006	0.0168	0.311	-0.0009	0.0179	0.260
t+7	0.0000	0.0167	0.492	-0.0009	0.0167	0.241
t+8	-0.0021	0.0135	0.027*	-0.0024	0.0150	0.020*
t+9	-0.0005	0.0179	0.363	-0.0007	0.0184	0.320
t+10	0.0012	0.0199	0.222	0.0014	0.0209	0.200
t+11	0.0002	0.0163	0.432	0.0002	0.0182	0.454
t+12	0.0001	0.0163	0.475	-0.0004	0.0167	0.371
t+13	-0.0003	0.0172	0.416	-0.0006	0.0182	0.327
t+14	-0.0001	0.0184	0.484	-0.0004	0.0188	0.382
t+15	0.0020	0.0152	0.052	0.0016	0.0150	0.091
t+16	0.0004	0.0191	0.385	-0.0003	0.0188	0.424
t+17	0.0019	0.0184	0.100	0.0013	0.0183	0.179
t+18	-0.0004	0.0145	0.355	-0.0001	0.0151	0.467
t+19	0.0000	0.0138	0.494	0.0002	0.0138	0.425
t+20	0.0017	0.0159	0.086	0.0017	0.0159	0.087

Note: This table shows the abnormal and excess returns for the 162 announcements with an increase in the dividend payment level for 41 days around the dividend announcement (DA) date (Day t_0). SD relates to the standard deviation, while the p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on the analysis of a one-tailed t-test.

Second, turning to the pre-announcement period, which relates to the 20 days prior to the announcement of dividend-increasing news, there were 14 days with positive ARs, but only two days (day t-15 and day t-16 with mean values of 0.23% and 0.28%, respectively) were statistically significant and six days with negative ARs and no statistical significance. The findings from the excess returns were similar to those obtained from the AR; particularly, the excess returns were positive and statistically significant on day t-15 (mean 0.21% with a p-value of 0.04) and day t-16 (mean 0.22% with a p-value of 0.04). As with the whole sample of dividend change announcements, the market predicts that the forthcoming dividend news will be optimistic, on average, which explains the positive returns on the shares price movements. In addition, the findings indicate that some information might be leaked to the stock market before the announcement of a dividend increase, especially on day t-15 and day t-16.

Third, in the post-announcement period, Table 7-6 reports that the AAR for the 18 days from the dividend declaration is positive nine times and negative nine times but is never significant. The two remaining days indicate significant mean abnormal (excess) returns of 0.32% (0.32%) on day t+1, the day immediately following the announcement, showing that good information is incorporated in share prices soon after dividend releases. Also, on day t+8, the values of mean abnormal (excess) returns of -0.21% (-0.24%) are negative and statistically significant, which reflects that the stock market takes one week after the announcement day to digest the dividend increase news[127].

The findings from using a non-parametric Wilcoxon signed-rank test are demonstrated in Table 7-7; as with the results of the t-test, the median abnormal (0.34%) and excess returns (0.41%) on the day of dividend disclosure t_0 are positive and significant. This supports that the stock price positively reflects the effect of the news of a dividend increase. However, in the period after the DA, in particular, day t+1, the abnormal (excess) returns are positive but not significant for the Wilcoxon signed-rank test,

[127] A smaller event window of 11 days was also applied to support the results obtained from a wider event window. Appendix D-5 shows the relevant details of the abnormal returns (ARs) and excess returns for the smaller event period in terms of the mean, SD and p-value by using a one-sample t-test. The mean abnormal (excess) returns are statistically significant and positive on day t_0 = 0.71 % (0.76%) and on day t+1 = 0.28% (0.32%), suggesting that shares prices reflect the good news immediately on the day of dividend announcements and even one day after the dividend disclosure. The results from applying this window indicate that there are no information leaks of the dividend news before the official disclosure date and that the market reacts immediately to information of increased dividends on the day of announcement.

while the results from the t-test for the same day are positive and statistically significant. Nevertheless, both tests agreed that the market reacts to the news releases on day t0 and can still react even one week after the announcement of a dividend increase.
For the 20 pre-announcements days, the findings from both tests are generally the same in terms of there being some information leaks to the market before the actual DA (Uddin and Osman, 2008; Chaabouni, 2017). However, the median excess return is positive (0.23%) and significant on day t-14, while the mean abnormal (excess) returns are positive and statistically significant on day t-15 and day t-16[128].

Overall, the findings from this section seem to be in line with the results from more developed stock markets, such as Lonie *et al.* (1996) for UK data and McCluskey *et al.* (2006) for the Irish market, as well as other developing markets, such as Uddin and Osman (2008) for Saudi-listed companies and Al-Yahyaee, Pham and Walter (2011) for the Omani market, which suggests that the market reacts positively and share prices move upwards as a result of the good news signalled from dividend increase announcements. Also, these results support that the Saudi stock market is of a semi-strong form and efficient based on its response to dividend increase change information (McCluskey *et al.,* 2006).

[128] Appendix D-6 shows the median of abnormal returns (ARs), excess returns and the p-value after employing a non-parametric Wilcoxon signed-rank test for the shorter event period. As with a parametric test, there is a quick market response to the dividend increase news on the announcement day; the median abnormal (excess) returns are positive at 0.37 % (0.41%) and statistically significant. In contrast to the mean findings, the median values of abnormal (excess) returns are not significant on day t+1, suggesting that most of the market reaction to the dividend increase news occurs on day t0. For the pre-announcement period, as with the parametric test, the median values are not significant, which indicates that dividend news is not leaked before the official announcement day.

Table 7-7: Share Price Performance Around the 41-Day Event Window for Dividend Increase Companies Using a Non-parametric Test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-value	Median	SD	P-value
t-20	0.0004	0.0169	0.218	0.0000	0.0178	0.279
t-19	-0.0009	0.0186	0.362	-0.0007	0.0188	0.236
t-18	-0.0004	0.0156	0.737	-0.0011	0.0154	0.455
t-17	-0.0002	0.0162	0.950	0.0001	0.0162	0.995
t-16	0.0016	0.0151	0.057	0.0004	0.0155	0.264
t-15	0.0005	0.0159	0.388	0.0000	0.0159	0.350
t-14	-0.0015	0.0142	0.102	-0.0023	0.0154	0.042*
t-13	-0.0006	0.0142	0.689	-0.0010	0.0145	0.486
t-12	-0.0002	0.0186	0.897	-0.0001	0.0185	0.681
t-11	-0.0002	0.0209	0.926	-0.0005	0.0209	0.710
t-10	-0.0008	0.0176	0.950	-0.0009	0.0179	0.994
t-9	-0.0001	0.0269	0.909	-0.0005	0.0271	0.877
t-8	0.0002	0.0216	0.794	-0.0006	0.0221	0.740
t-7	-0.0011	0.0138	0.934	-0.0003	0.0141	0.716
t-6	-0.0008	0.0145	0.834	-0.0012	0.0152	0.810
t-5	-0.0001	0.0205	0.810	-0.0005	0.0211	0.907
t-4	-0.0004	0.0163	0.865	-0.0007	0.0170	0.449
t-3	-0.0008	0.0153	0.310	-0.0010	0.0155	0.334
t-2	-0.0011	0.0380	0.331	-0.0016	0.0381	0.472
t-1	0.0011	0.0293	0.110	0.0010	0.0301	0.145
t-0	0.0034	0.0232	0.000*	0.0041	0.0232	0.000*
t+1	0.0005	0.0217	0.244	0.0013	0.0216	0.214
t+2	-0.0022	0.0160	0.156	-0.0023	0.0158	0.164
t+3	-0.0014	0.0158	0.083	-0.0009	0.0163	0.139
t+4	-0.0010	0.0152	0.310	-0.0002	0.0157	0.493
t+5	-0.0005	0.0155	0.383	-0.0003	0.0149	0.537
t+6	-0.0005	0.0168	0.274	-0.0006	0.0179	0.206
t+7	-0.0003	0.0167	0.344	-0.0014	0.0167	0.097
t+8	-0.0014	0.0135	0.038*	-0.0022	0.0150	0.019*
t+9	-0.0018	0.0179	0.476	-0.0014	0.0184	0.301
t+10	-0.0007	0.0199	0.361	-0.0019	0.0209	0.214
t+11	0.0003	0.0163	0.994	0.0000	0.0182	0.889
t+12	-0.0003	0.0163	0.670	-0.0008	0.0167	0.962
t+13	-0.0003	0.0172	0.618	-0.0003	0.0182	0.680
t+14	-0.0010	0.0184	0.528	-0.0015	0.0188	0.425
t+15	0.0014	0.0152	0.093	0.0016	0.0150	0.164
t+16	0.0000	0.0191	0.786	0.0008	0.0188	0.899
t+17	0.0017	0.0184	0.058	0.0008	0.0183	0.263
t+18	-0.0004	0.0145	0.638	-0.0007	0.0151	0.584
t+19	0.0007	0.0138	0.764	0.0005	0.0138	0.491
t+20	-0.0001	0.0159	0.607	-0.0003	0.0159	0.509

Note: This table shows the median abnormal and excess returns for the 162 announcements with an increase in the dividend payment level for 41 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed Wilcoxon test.

7.5.3 Share Price Reaction Surrounding the 41-Day Event Window for the Dividend Decrease Announcements

The results throughout the 41-day event window[129] for the DD sub-group companies are presented in Table 7-8 and Table 7-9. Based on the discussion in the literature review chapter (Chapter 3), the announcement of a decrease in the dividend payment signals bad news about the company's performance, which negatively affects the company's share price. Therefore, the signalling information hypothesis indicates that abnormal (excess) returns on the announcement date should be below zero for companies lowering their dividends. Table 7-8 and Table 7-9 show that the results tend to slightly confirm this argument in the Saudi context, with negative but not statistically significant mean abnormal (excess) returns of -0.08% (-0.17%) on the announcement day of a dividend decrease. Similarly, the median abnormal (excess) returns on day t_0 are negative at -0.28% (-0.22%), confirming the findings from the parametric test. Consequently, sub-hypothesis H2.2, which argues that there is a significant negative reaction in the share price at the time a decrease in the dividend payment level is announced, is rejected at the 5% significance level.

[129] As with Tables 7.6 and 7.7 for the DI sub-group, a one-tailed t-test is used to evaluate the single-direction significance of the expected effect on share prices for the announcements.

Table 7-8: Share Price Performance Around the 41-Day Event Window for Dividend Decrease Companies Using a Parametric Test

Day	Abnormal Returns			Excess Return		
	MEAN	SD	P-value	MEAN	SD	P-value
t-20	0.0056	0.0220	0.076	0.0058	0.0225	0.074
t-19	-0.0012	0.0106	0.253	-0.0007	0.0104	0.354
t-18	-0.0010	0.0153	0.358	-0.0008	0.0145	0.372
t-17	-0.0022	0.0132	0.176	-0.0018	0.0137	0.224
t-16	0.0044	0.0183	0.088	0.0040	0.0183	0.111
t-15	-0.0009	0.0102	0.309	-0.0020	0.0111	0.159
t-14	0.0049	0.0138	0.024*	0.0044	0.0141	0.043*
t-13	0.0058	0.0184	0.039*	0.0059	0.0178	0.033*
t-12	-0.0022	0.0119	0.145	-0.0024	0.0123	0.135
t-11	0.0008	0.0107	0.332	0.0008	0.0116	0.351
t-10	0.0043	0.0154	0.058	0.0039	0.0162	0.088
t-9	0.0010	0.0128	0.324	0.0004	0.0129	0.429
t-8	0.0001	0.0129	0.487	-0.0006	0.0144	0.409
t-7	-0.0046	0.0137	0.032*	-0.0050	0.0150	0.033*
t-6	0.0006	0.0228	0.437	0.0004	0.0228	0.464
t-5	-0.0022	0.0134	0.180	-0.0019	0.0134	0.214
t-4	0.0068	0.0159	0.010*	0.0061	0.0165	0.020*
t-3	-0.0031	0.0115	0.064	-0.0024	0.0116	0.119
t-2	-0.0006	0.0114	0.382	-0.0007	0.0122	0.380
t-1	0.0020	0.0129	0.190	0.0012	0.0129	0.291
t 0	-0.0008	0.0135	0.376	-0.0017	0.0144	0.257
t+1	-0.0033	0.0220	0.196	-0.0040	0.0213	0.148
t+2	-0.0021	0.0121	0.164	-0.0023	0.0115	0.129
t+3	0.0001	0.0094	0.476	-0.0002	0.0095	0.463
t+4	-0.0003	0.0096	0.438	-0.0008	0.0086	0.308
t+5	-0.0018	0.0121	0.205	-0.0011	0.0110	0.293
t+6	-0.0020	0.0135	0.203	-0.0019	0.0132	0.205
t+7	-0.0041	0.0098	0.011*	-0.0031	0.0103	0.044*
t+8	-0.0026	0.0122	0.118	-0.0017	0.0117	0.205
t+9	-0.0034	0.0095	0.023*	-0.0034	0.0101	0.029*
t+10	-0.0033	0.0115	0.052	-0.0036	0.0120	0.049*
t+11	0.0013	0.0115	0.263	0.0017	0.0116	0.207
t+12	-0.0025	0.0151	0.171	-0.0031	0.0148	0.118
t+13	-0.0021	0.0163	0.233	-0.0025	0.0168	0.200
t+14	-0.0016	0.0171	0.300	-0.0020	0.0172	0.254
t+15	-0.0022	0.0114	0.138	-0.0016	0.0128	0.233
t+16	0.0026	0.0150	0.164	0.0025	0.0152	0.179
t+17	-0.0007	0.0110	0.365	0.0003	0.0130	0.449
t+18	0.0026	0.0171	0.193	0.0034	0.0176	0.140
t+19	0.0011	0.0101	0.260	-0.0001	0.0132	0.488
t+20	-0.0028	0.0135	0.114	-0.0035	0.0134	0.070

Note: This table shows the abnormal and excess returns for the 33 announcements of a decrease in the dividend payment level for 41 days around the dividend announcement (DA) date (Day t_0). SD relates to the standard deviation, while the p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed t-test.

Table 7-9: Share Price Performance Around the 41-Day Event Window for Dividend Decrease Companies Using a Non-parametric Test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-value	Median	SD	P-value
t-20	0.0033	0.0220	0.221	0.0025	0.0225	0.235
t-19	-0.0004	0.0106	0.865	0.0005	0.0104	0.879
t-18	0.0000	0.0153	0.714	-0.0024	0.0145	0.598
t-17	-0.0021	0.0132	0.257	-0.0008	0.0137	0.376
t-16	0.0012	0.0183	0.321	-0.0010	0.0183	0.48
t-15	-0.0023	0.0102	0.330	-0.0030	0.0111	0.161
t-14	0.0013	0.0138	0.131	-0.0007	0.0141	0.242
t-13	0.0017	0.0184	0.416	-0.0001	0.0178	0.386
t-12	-0.0013	0.0119	0.526	-0.0015	0.0123	0.416
t-11	0.0010	0.0107	0.304	0.0007	0.0116	0.598
t-10	0.0037	0.0154	0.367	0.0022	0.0162	0.448
t-9	0.0005	0.0128	0.741	-0.0007	0.0129	0.701
t-8	0.0015	0.0129	0.574	0.0014	0.0144	0.728
t-7	-0.0024	0.0137	0.048*	-0.0023	0.0150	0.059
t-6	0.0000	0.0228	0.741	-0.0004	0.0228	0.586
t-5	-0.0032	0.0134	0.264	-0.0031	0.0134	0.339
t-4	0.0034	0.0159	0.070	-0.0006	0.0165	0.264
t-3	-0.0017	0.0115	0.427	-0.0005	0.0116	0.611
t-2	-0.0018	0.0114	0.688	-0.0017	0.0122	0.701
t-1	0.0000	0.0129	0.574	-0.0020	0.0129	0.796
t-0	-0.0028	0.0135	0.837	-0.0022	0.0144	0.623
t+1	-0.0029	0.0220	0.264	-0.0055	0.0213	0.166
t+2	-0.0016	0.0121	0.386	-0.0028	0.0115	0.235
t+3	-0.0009	0.0094	0.922	0.0001	0.0095	0.852
t+4	-0.0004	0.0096	0.448	-0.0014	0.0086	0.469
t+5	-0.0011	0.0121	0.348	-0.0005	0.0110	0.501
t+6	0.0011	0.0135	0.823	0.0007	0.0132	0.755
t+7	-0.0045	0.0098	0.020*	-0.0039	0.0103	0.053
t+8	-0.0010	0.0122	0.330	-0.0025	0.0117	0.503
t+9	-0.0031	0.0095	0.075	-0.0023	0.0101	0.073
t+10	-0.0023	0.0115	0.270	-0.0026	0.0120	0.214
t+11	-0.0013	0.0115	0.851	0.0001	0.0116	0.979
t+12	-0.0027	0.0151	0.339	-0.0020	0.0148	0.214
t+13	-0.0045	0.0163	0.189	-0.0035	0.0168	0.177
t+14	-0.0018	0.0171	0.636	-0.0005	0.0172	0.701
t+15	-0.0009	0.0114	0.249	-0.0013	0.0128	0.197
t+16	0.0024	0.0150	0.492	0.0016	0.0152	0.386
t+17	0.0000	0.0110	0.796	0.0004	0.0130	0.936
t+18	0.0005	0.0171	0.675	0.0000	0.0176	0.598
t+19	0.0008	0.0101	0.268	0.0002	0.0132	0.936
t+20	-0.0046	0.0135	0.030*	-0.0054	0.0134	0.025*

Note: This table indicates the median abnormal and excess returns for the 33 announcements with a decrease in the dividend payment level for 41 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank test examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed Wilcoxon test.

In the 20-day period prior to the announcements of dividend cuts, the average abnormal (excess) returns are statistically significant and positive on days t-4, t-13 and t-14, whereas they are negative on day t-7. Regarding the 20 days after the disclosure of dividend decrease news, the mean abnormal (excess) returns are less than zero and significant at the 5% level on days t+7 and t+9. The results of the non-parametric test report that the median abnormal (excess) returns on days t-7 and t+7 are negative and significant. Here, it is evident from the parametric and non-parametric tests that the Saudi shareholders take one week before and after the announcements of dividend decreases to respond, and they earned negative mean (median) ARs on day t-7 of -0.46% (-0.24%) and day t+7 of -0.41% (-0.45%). Also, the Saudi market either anticipates this cut in dividends or needs some time to take into account the dividend cut information into the stock price[130].

In brief, the findings in Table 7-8 and Table 7-9 do not appear to confirm the hypothesis of the dividend information content because no statistically significant response from the market is found on the day when the dividend decrease is disclosed to the public. Such an observation could indeed clarify the general findings obtained from Table 7-4 and Table 7-5, where the stock market response to the whole sample of dividend change news was statistically significant and positive on day t0. Clearly, the positive and unanticipated returns regarding the good information of the dividend increase are not dissipated by a reaction from the stock market to dividend decreases because no such adverse response has been uncovered. In contrast, the AR is negative and significant on day t+7, indicating that shareholders in the Saudi market need a longer time to respond to dividend decrease news. A possible explanation for the absence of any reaction to a dividend decrease may be the lack of a significant financial analysis or that the company's press releases is not sufficient to convince shareholders that the cuts in dividends really are an investment-related decision, not a portent of poor performance results (Ghosh and Woolridge, 1989).

[130] The findings from applying a smaller event window of 11 days are provided in Appendix D-7 and Appendix D-8, which report the relevant details of the abnormal returns (AR) and excess returns for the smaller event period in terms of the mean, median, SD and p-value by using a one-sample t-test and the Wilcoxon signed-rank test. The mean and median abnormal (excess) returns are negative but not statistically significant on day t0, which supports the results that were obtained from a wider event window.

7.5.4 Share Price Reaction Surrounding the 41-Day Event Window for the Dividend Did Not Change Announcements

The findings for the DNC sub-group companies are shown in Table 7-10 and Table 7-11 over the 41-day event period. Again, according to Chapter 3, when companies decide not to change their dividend payment level, no new information is signalled to the outside market. Therefore, the signalling information hypothesis suggests that only normal returns on the announcement date are expected when no changes are made to the dividend level[131]. Table 7-10 and Table 7-11 show that the results seem to support this statement in the Saudi context, showing that the mean abnormal (excess) returns of 0.32% (0.34%) are positive on the announcement day of dividend no change but not statistically significant. Similarly, the median abnormal (excess) returns on day t0 are positive at 0.10% (0.22%), confirming the findings from the parametric test. Consequently, sub-hypothesis H2.3, which claims that there is no significant reaction in the share price at the time of the announcement of no change in the dividend payment level, can be accepted at the 5% significance level.

In the 20-day pre-announcement period, the mean abnormal (excess) returns are statistically significant and positive on day t-10 at 0.48% (0.49%), whereas the median abnormal (excess) returns are also significant and negative on day t-17 at -0.22% (-0.27%). Regarding the 20 days after the announcement of DNC news, the mean AR is positive in 13 cases and negative in seven cases but not statistically significant for all occasions.

Similarly, the AExRs are positive on 14 days and negative on six days, but none of these days are at significant levels. The findings from the non-parametric test provide similar results about the insignificance of median abnormal (excess) returns on the 20-day post-announcement period[132].

The following section provides a graphical overview of the cumulative average returns to better present the conclusions drawn in this chapter for the sample companies in the three sub-groups (DI, DD and DNC).

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[131] In this case, a two-tailed t-test is used to examine if the mean and median values are statistically significant at the 5% level; this is done because of the two-sided nature of the anticipated effect on the share prices of the announcements.

[132] The findings from employing a smaller event window of 11 days are shown in Appendix D-9 and Appendix D-10 with the relevant details of abnormal returns (AR) and excess returns for the smaller event period in terms of the mean, median, SD and p-value by using a one-sample t-test and the Wilcoxon signed-rank test. The mean and median abnormal (excess) returns are positive but not statistically significant on day t0, supporting the results that were obtained from a wider event window. Similarly, for the pre- and post-announcement periods, the mean and median values are insignificant for all occasions.

Table 7-10: Share Price Performance Around the 41-Day Event Window for the Dividend No Change Announcements Using a Parametric Test

Day	Abnormal Returns			Excess Return		
	MEAN	SD	P-Value	MEAN	SD	P-value
t-20	0.0017	0.0184	0.406	0.0019	0.0188	0.344
t-19	0.0006	0.0145	0.681	0.0006	0.0145	0.698
t-18	-0.0015	0.0133	0.292	-0.0012	0.0137	0.419
t-17	-0.0014	0.0146	0.380	-0.0012	0.0147	0.460
t-16	0.0030	0.0145	0.057	0.0032	0.0147	0.049*
t-15	0.0001	0.0143	0.940	0.0001	0.0152	0.933
t-14	0.0002	0.0148	0.907	0.0006	0.0151	0.708
t-13	0.0014	0.0150	0.384	0.0016	0.0152	0.342
t-12	0.0019	0.0140	0.202	0.0025	0.0136	0.095
t-11	-0.0002	0.0169	0.906	0.0001	0.0171	0.958
t-10	0.0048	0.0175	0.013*	0.0049	0.0176	0.012*
t-9	-0.0011	0.0244	0.686	-0.0006	0.0234	0.801
t-8	-0.0011	0.0160	0.537	-0.0004	0.0156	0.822
t-7	0.0005	0.0175	0.777	0.0009	0.0167	0.604
t-6	0.0001	0.0184	0.980	0.0004	0.0184	0.836
t-5	0.0009	0.0162	0.617	0.0008	0.0158	0.636
t-4	-0.0008	0.0163	0.651	-0.0005	0.0170	0.785
t-3	-0.0008	0.0171	0.670	-0.0005	0.0163	0.792
t-2	0.0038	0.0223	0.119	0.0039	0.0223	0.113
t-1	0.0005	0.0151	0.761	0.0012	0.0150	0.459
t 0	0.0032	0.0192	0.132	0.0034	0.0189	0.106
t+1	0.0009	0.0157	0.586	0.0010	0.0152	0.530
t+2	0.0004	0.0140	0.796	0.0003	0.0141	0.833
t+3	-0.0013	0.0123	0.318	-0.0012	0.0128	0.378
t+4	-0.0006	0.0190	0.789	-0.0002	0.0180	0.912
t+5	-0.0003	0.0149	0.867	0.0001	0.0145	0.960
t+6	0.0018	0.0186	0.365	0.0031	0.0187	0.132
t+7	0.0005	0.0146	0.758	0.0005	0.0153	0.746
t+8	0.0019	0.0162	0.296	0.0016	0.0162	0.378
t+9	0.0010	0.0189	0.621	0.0013	0.0188	0.515
t+10	0.0021	0.0190	0.308	0.0021	0.0191	0.313
t+11	-0.0018	0.0171	0.340	-0.0022	0.0169	0.238
t+12	0.0011	0.0193	0.594	0.0010	0.0193	0.647
t+13	-0.0018	0.0179	0.348	-0.0018	0.0181	0.362
t+14	0.0018	0.0169	0.330	0.0019	0.0169	0.292
t+15	0.0005	0.0126	0.734	0.0007	0.0128	0.594
t+16	-0.0009	0.0184	0.646	-0.0003	0.0179	0.886
t+17	0.0016	0.0160	0.366	0.0010	0.0157	0.547
t+18	0.0014	0.0136	0.333	0.0011	0.0126	0.443
t+19	-0.0004	0.0151	0.808	-0.0005	0.0148	0.753
t+20	0.0001	0.0150	0.975	0.0007	0.0157	0.701

Note: This table shows the abnormal and excess returns for the 85 announcements with no change in the dividend payment level from the last year for 41 days around the dividend announcement (DA) date (Day t0). SD relates to the standard deviation, while the p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed t-test.

Table 7-11: Share Price Performance Around the 41-Day Event Window for the Dividend No Change Announcements Using a Non-parametric Test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-value	Median	SD	P-value
t-20	-0.0006	0.0184	0.942	0.0004	0.0188	0.960
t-19	0.0000	0.0145	0.804	-0.0020	0.0145	0.698
t-18	-0.0015	0.0133	0.188	-0.0028	0.0137	0.256
t-17	-0.0022	0.0146	0.048*	-0.0027	0.0147	0.043*
t-16	0.0009	0.0145	0.171	0.0005	0.0147	0.159
t-15	-0.0007	0.0143	0.751	-0.0009	0.0152	0.815
t-14	-0.0022	0.0148	0.084	-0.0013	0.0151	0.300
t-13	-0.0014	0.0150	0.984	-0.0012	0.0152	0.981
t-12	-0.0002	0.0140	0.663	0.0009	0.0136	0.663
t-11	-0.0036	0.0169	0.057	-0.0035	0.0171	0.093
t-10	0.0011	0.0175	0.084	0.0017	0.0176	0.085
t-9	-0.0007	0.0244	0.751	-0.0023	0.0234	0.908
t-8	-0.0020	0.0160	0.171	-0.0019	0.0156	0.250
t-7	-0.0009	0.0175	0.701	-0.0010	0.0167	0.808
t-6	-0.0008	0.0184	0.734	0.0001	0.0184	0.988
t-5	0.0018	0.0162	0.601	0.0012	0.0158	0.663
t-4	0.0004	0.0163	0.956	0.0000	0.0170	0.925
t-3	-0.0013	0.0171	0.354	-0.0007	0.0163	0.419
t-2	-0.0001	0.0223	0.535	0.0003	0.0223	0.599
t-1	-0.0005	0.0151	0.932	0.0002	0.0150	0.741
t-0	0.0010	0.0192	0.158	0.0025	0.0189	0.085
t+1	-0.0024	0.0157	0.737	-0.0019	0.0152	0.991
t+2	-0.0002	0.0140	0.424	-0.0012	0.0141	0.319
t+3	-0.0020	0.0123	0.102	-0.0023	0.0128	0.181
t+4	-0.0011	0.0190	0.254	-0.0015	0.0180	0.185
t+5	-0.0007	0.0149	0.429	-0.0023	0.0145	0.389
t+6	-0.0002	0.0186	0.588	0.0000	0.0187	0.370
t+7	-0.0025	0.0146	0.482	-0.0013	0.0153	0.471
t+8	0.0003	0.0162	0.925	-0.0008	0.0162	0.801
t+9	0.0005	0.0189	0.960	-0.0007	0.0188	0.798
t+10	-0.0005	0.0190	0.953	-0.0005	0.0191	0.935
t+11	-0.0018	0.0171	0.219	-0.0015	0.0169	0.104
t+12	-0.0007	0.0193	0.887	-0.0018	0.0193	0.663
t+13	-0.0016	0.0179	0.174	-0.0022	0.0181	0.112
t+14	-0.0001	0.0169	0.721	0.0000	0.0169	0.695
t+15	0.0012	0.0126	0.921	0.0012	0.0128	0.757
t+16	-0.0006	0.0184	0.535	0.0004	0.0179	0.692
t+17	0.0004	0.0160	0.873	-0.0013	0.0157	0.737
t+18	0.0001	0.0136	0.815	-0.0001	0.0126	0.953
t+19	-0.0006	0.0151	0.628	-0.0014	0.0148	0.399
t+20	-0.0012	0.0150	0.705	-0.0026	0.0157	0.676

Note: This table indicates the median abnormal and excess returns for the 85 announcements with no change in the dividend payment level from the last year for 41 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank test examines the null hypothesis that the median is different from zero. * indicates significance at the 5% level based on a two-tailed Wilcoxon test.

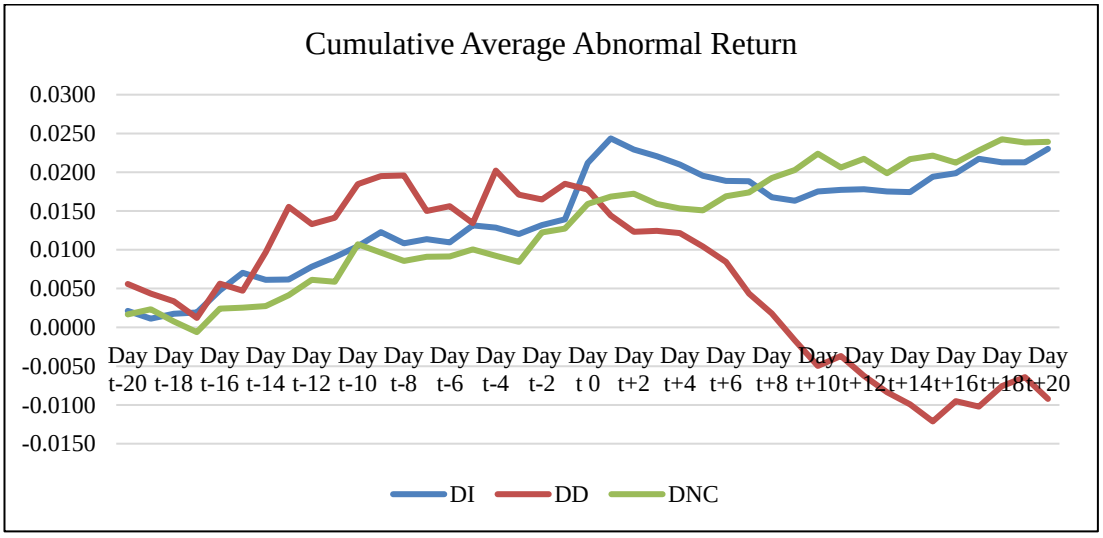
7.5.5 Diagrammatical Analysis of Cumulative Abnormal (Excess) Returns

In line with the previous literature (e.g., Aharon and Swary, 1980; Uddin and Osman, 2008; Chaabouni, 2017), the current study employs graphic descriptions of the cumulative returns to help explain trends in the dividend payment sub-groups' performance more precisely. As discussed in Section 4.7.3.5 in Chapter 4, cumulative average (median) ARs (CAARs) and cumulative average (median) excess returns (CAExRs) for each dividend payment sub-group (DI, DD and DNC) are calculated based on equation 4.7. Figure 7-1 and Figure 7-2 show the CAARs and CAExRs over the 41-day event window for the three dividend payment groups.

A number of observations can be drawn from Figure 7-1. First, in the pre-announcement period, the most apparent pattern in CAARs was observed for the DD category, where an upward price trend—when compared with the other three categories—is evident. However, after the announcement of a dividend decrease, the stock price starts to fall, reaching its lowest point on day t+15. From the general behaviour of the CAARs for these dividend-decreasing companies, it is obvious that they may indicate a potential decrease in future earnings because of the amount of time of the downward price movement after the disclosure of DD information (Uddin and Osman, 2008).

Second, the DNC group shows almost a steady positive movement in stock price, especially from day t-1 to day t+20. The rise in the stock price may be related to the removal of any uncertainty on the day that no dividend adjustment was announced; thus, the resulting decrease in the market discount rate applied to potential corporate earnings flows would contribute, in turn, to an increase in share price (Lonie *et al.*, 1996). Third, in general, the DI group displays a positive trend throughout the 41-day event window, reaching its highest point on day t+1 after the date of DA (t+1), when the CAAR is 2.44%. The positive reaction of the market to DI news may signal good information about a company's future earnings, and after the dividend news is disclosed, shareholders can earn an AR (Abbas, 2015). Figure 7-1 supports that there is a leak of information prior to the official disclosure of dividend change news for the three groups (DI, DD and DNC) because of the positive ARs that occurred beforehand. Finally, there are no significant CAARs throughout the whole event window for all three dividends change groups.

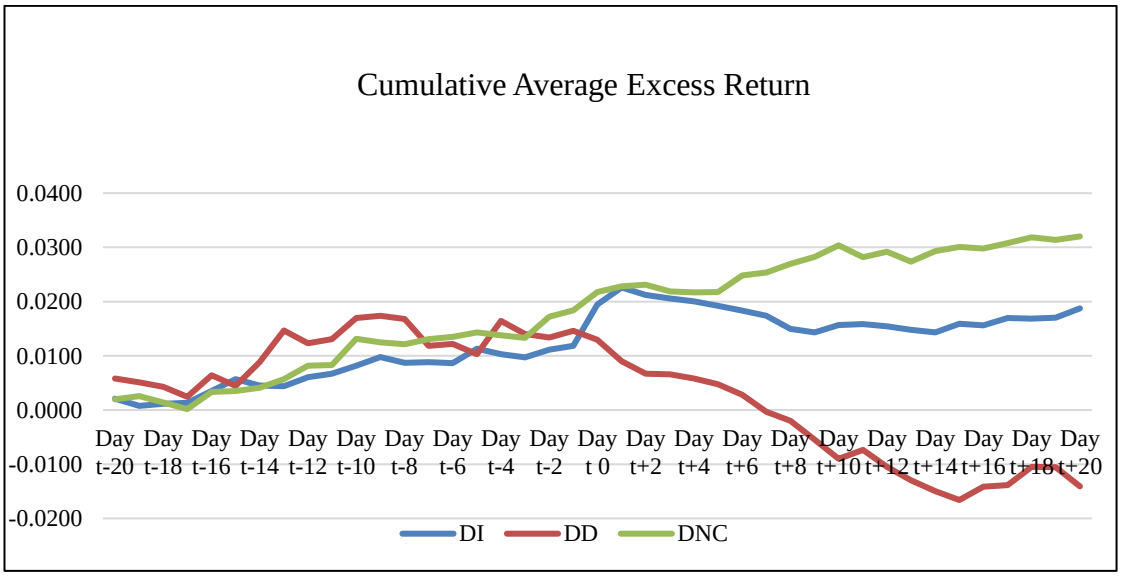
Figure 7-1: Cumulative Abnormal Returns for the Three Dividend Change Groups Using a Parametric Test



Note: The figure shows the cumulative average abnormal returns (CAARs) for a window of 41 days for each type of (DI, DD and DNC) dividend payment group.

Figure 7-2 displays the CAExRs over the 41-day event window. An analysis of the figure provides a similar image for the CAARs for all dividend changes groups.

Figure 7-2: Cumulative Average Excess Returns for the Three Dividend Change Groups Using a Parametric Test



Note: The figure shows the cumulative average excess returns (CAExRs) for a window of 41 days for each type of (DI, DD and DNC) dividend payment group.

Although the pattern of the CAARs for the DI group in Figure 7-2 is positive before and after the announcement date, the DI group fluctuates over the event period. The patterns of the DD and DNC groups are somewhat similar for the CAARs and CAExRs in relation to the increase in the returns before the announcement date. Likewise, in the post-announcement period, the stock price reacts negatively for the DD companies and positively for the DI and DNC companies. Again, as with Figure 7-1, Figure 7-2 confirms the argument of information leakage in the Saudi market before the announcement day of a dividend change. Furthermore, as with the CAARs, no significant reaction of CAExRs surrounds the event window.

Table 7-12: Cumulative Average Returns Around the 41-Day Event Window for Three Company Groups Using a Parametric Test

Day	Cumulative Average Abnormal Returns						Cumulative Average Excess Returns					
	DI	P-value	DD	P-value	DNC	P-value	DI	P-value	DD	P-value	DNC	P-value
t-20	0.0021	0.894	0.0056	0.686	0.0017	0.917	0.0021	0.897	0.0058	0.675	0.0019	0.903
t-19	0.0011	1.000	0.0044	1.000	0.0023	0.968	0.0008	1.000	0.0051	1.000	0.0026	0.969
t-18	0.0018	0.968	0.0034	1.000	0.0008	1.000	0.0011	0.982	0.0043	1.000	0.0013	1.000
t-17	0.0019	0.992	0.0012	1.000	-0.0006	1.000	0.0013	0.990	0.0025	1.000	0.0002	1.000
t-16	0.0048	0.861	0.0056	0.750	0.0024	0.849	0.0035	0.892	0.0064	0.775	0.0033	0.842
t-15	0.0070	0.887	0.0047	1.000	0.0025	0.994	0.0057	0.894	0.0045	1.000	0.0035	0.993
t-14	0.0061	1.000	0.0097	0.722	0.0027	0.991	0.0045	1.000	0.0088	0.753	0.0041	0.969
t-13	0.0062	0.998	0.0155	0.673	0.0042	0.929	0.0044	1.000	0.0147	0.671	0.0057	0.921
t-12	0.0078	0.918	0.0133	1.000	0.0061	0.903	0.0060	0.918	0.0123	1.000	0.0082	0.876
t-11	0.0091	0.939	0.0141	0.953	0.0059	1.000	0.0067	0.967	0.0131	0.955	0.0083	0.995
t-10	0.0105	0.930	0.0185	0.754	0.0107	0.763	0.0082	0.928	0.0170	0.778	0.0132	0.760
t-9	0.0123	0.911	0.0195	0.941	0.0096	1.000	0.0097	0.922	0.0174	0.977	0.0125	1.000
t-8	0.0109	1.000	0.0196	0.996	0.0086	1.000	0.0087	1.000	0.0168	1.000	0.0121	1.000
t-7	0.0114	0.975	0.0150	1.000	0.0091	0.973	0.0088	0.996	0.0118	1.000	0.0131	0.953
t-6	0.0110	1.000	0.0156	0.963	0.0092	0.997	0.0086	1.000	0.0122	0.979	0.0135	0.979
t-5	0.0131	0.893	0.0135	1.000	0.0100	0.956	0.0113	0.870	0.0103	1.000	0.0143	0.959
t-4	0.0129	1.000	0.0202	0.626	0.0092	1.000	0.0103	1.000	0.0165	0.657	0.0138	1.000
t-3	0.0120	1.000	0.0171	1.000	0.0084	1.000	0.0097	1.000	0.0140	1.000	0.0133	1.000
t-2	0.0132	0.943	0.0165	1.000	0.0122	0.811	0.0111	0.931	0.0134	1.000	0.0172	0.809
t-1	0.0139	0.963	0.0185	0.885	0.0127	0.975	0.0119	0.963	0.0146	0.928	0.0184	0.939
t-0	0.0212	0.652	0.0177	1.000	0.0159	0.843	0.0194	0.638	0.0130	1.000	0.0218	0.834
t+1	0.0244	0.844	0.0144	1.000	0.0168	0.953	0.0226	0.844	0.0090	1.000	0.0228	0.948

t+2	0.0229	1.000	0.0123	1.000	0.0172	0.980	0.0212	1.000	0.0067	1.000	0.0231	0.984
t+3	0.0221	1.000	0.0124	0.994	0.0159	1.000	0.0206	1.000	0.0066	1.000	0.0219	1.000
t+4	0.0210	1.000	0.0122	1.000	0.0153	1.000	0.0201	1.000	0.0058	1.000	0.0217	1.000
t+5	0.0195	1.000	0.0104	1.000	0.0151	1.000	0.0192	1.000	0.0047	1.000	0.0218	0.996
t+6	0.0189	1.000	0.0084	1.000	0.0169	0.908	0.0183	1.000	0.0028	1.000	0.0248	0.847
t+7	0.0189	1.000	0.0043	1.000	0.0174	0.976	0.0174	1.000	-0.0003	1.000	0.0254	0.973
t+8	0.0168	1.000	0.0018	1.000	0.0193	0.908	0.0150	1.000	-0.0020	1.000	0.0269	0.922
t+9	0.0163	1.000	-0.0017	1.000	0.0203	0.949	0.0143	1.000	-0.0055	1.000	0.0283	0.933
t+10	0.0175	0.941	-0.0050	1.000	0.0224	0.895	0.0157	0.932	-0.0090	1.000	0.0304	0.895
t+11	0.0177	0.989	-0.0037	0.926	0.0206	1.000	0.0158	0.992	-0.0074	0.904	0.0282	1.000
t+12	0.0178	0.996	-0.0062	1.000	0.0217	0.944	0.0154	1.000	-0.0105	1.000	0.0292	0.952
t+13	0.0175	1.000	-0.0083	1.000	0.0199	1.000	0.0148	1.000	-0.0130	1.000	0.0274	1.000
t+14	0.0175	1.000	-0.0099	1.000	0.0217	0.910	0.0143	1.000	-0.0150	1.000	0.0293	0.903
t+15	0.0194	0.903	-0.0121	1.000	0.0221	0.977	0.0159	0.922	-0.0166	1.000	0.0301	0.963
t+16	0.0199	0.978	-0.0095	0.851	0.0212	1.000	0.0156	1.000	-0.0141	0.859	0.0298	1.000
t+17	0.0217	0.908	-0.0102	1.000	0.0228	0.921	0.0169	0.934	-0.0139	0.983	0.0308	0.949
t+18	0.0213	1.000	-0.0076	0.850	0.0242	0.928	0.0168	1.000	-0.0105	0.808	0.0319	0.947
t+19	0.0213	1.000	-0.0064	0.935	0.0238	1.000	0.0171	0.990	-0.0106	1.000	0.0314	1.000
t+20	0.0230	0.915	-0.0092	1.000	0.0239	0.997	0.0188	0.916	-0.0141	1.000	0.0320	0.967

Note: This table shows the cumulative average abnormal and excess returns for the 162 announcements with an increase in the dividend payment level, the 33 announcements with a decrease in the dividend payment level and the 85 announcements with no change in the dividend payment level from the last year for 41 days around the dividend announcement (DA) date (Day t_0). The p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. * indicates significance at the 5% level based on a t-test.

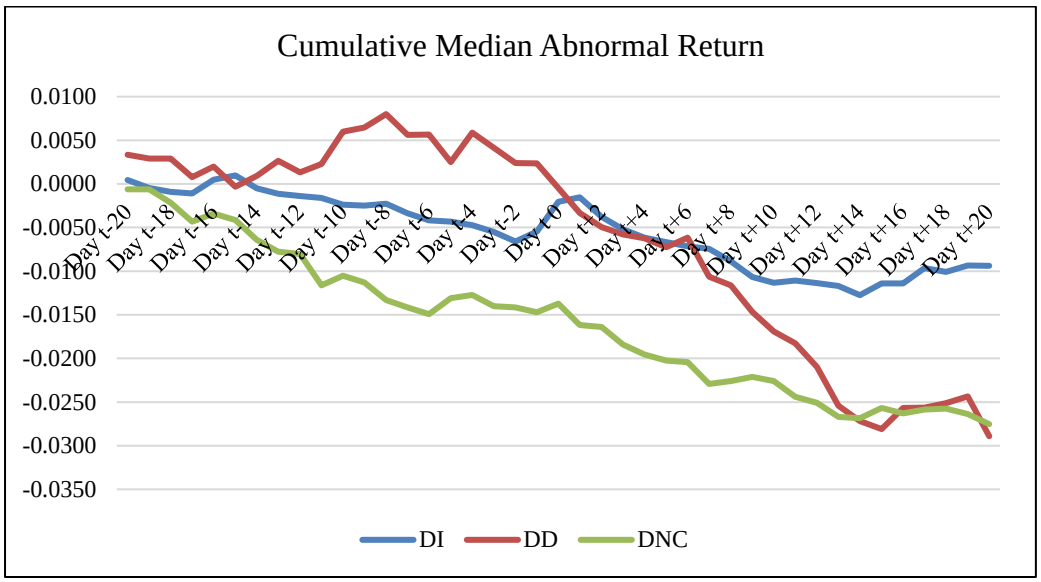
Figure 7-3 and Figure 7-4 show the results after applying the non-parametric (the Wilcoxon signed-rank) test, which provide quite different results when compared with the parametric test. A number of conclusions can be drawn from the two figures. First, in general, the cumulative median abnormal (excess) returns are negative and significant for the three dividends change groups throughout most of the event window. For example, on day t-3, the p-values of the DI, DD and DNC sub-groups are statistically different from zero.

Second, the downwards pattern of DI is notably over the 41-day window; thus, it is apparently difficult to attribute the median of cumulative abnormal returns (CARs) and the median of cumulative excess returns (CExRs) as a reflection of any positive information about future growth in earnings, and the few positive returns might be because of the market's overreaction and profit booking by active short-term traders (Uddin and Osman, 2008).

Third, regarding the DD category, it is clear that both the median CARs and CExRs have a downward trend prevailing in Figure 7-3 and Figure 7-4. For these companies, the general actions of the median CARs indicate a probable decline in future profits because the share prices do not improve as a result of DAs (Uddin and Osman, 2008). On the announcement date (day t_0), the median CARs and CExRs are statistically significant, indicating that the market reacts differently to all three shifts in dividends, and dividend cuts produce a stronger shareholder response because of their dissatisfaction over the news that the company cannot sustain its strategy of disbursement. Fourth, the DNC shows a sloped trend during the time of analysis, as with the DI and DD groups, which may be triggered by investors' uncertainty about the performance of their firms.

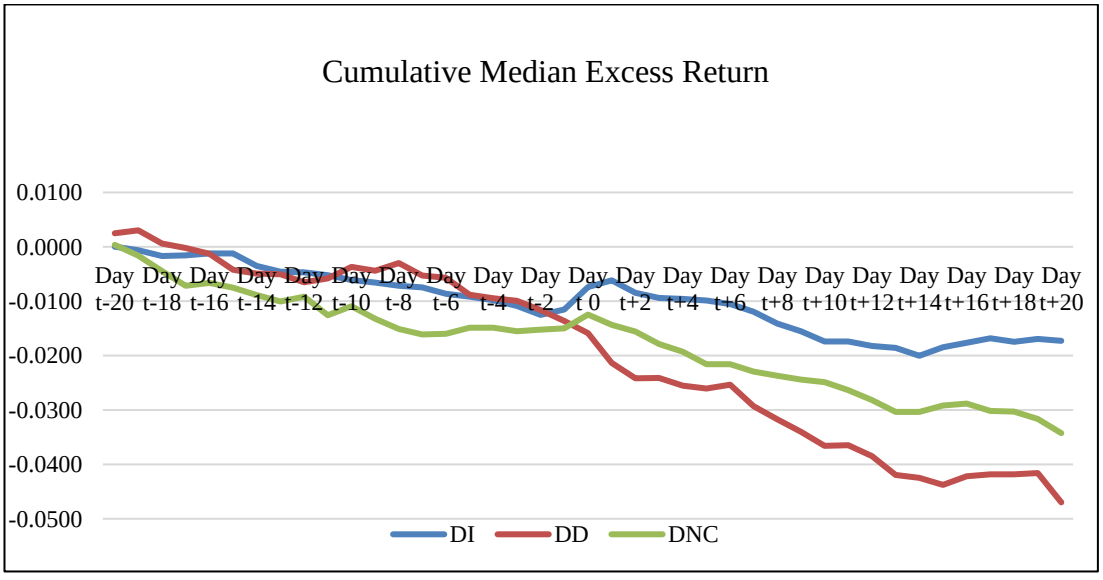
Overall, the parametric and non-parametric tests for the cumulative returns (abnormal and excess) appear to support fluctuations of returns over the event window for the three types of dividend change.

Figure 7-3: Cumulative Median Abnormal Returns for the Three Dividend Change Groups Using a Non-parametric Test



Note: The figure shows the cumulative average abnormal returns (CAARs) for a window of 41 days for each type of (DI, DD and DNC) dividend payment group.

Figure 7-4: Cumulative Median Excess Returns for the Three Dividend Change Groups Using a Non-parametric Test



Note: The figure shows the cumulative average excess returns (CAExRs) for a window of 41 days for each type of (DI, DD and DNC) dividend payment group.

Table 7-13: Cumulative Median Abnormal Returns Around the 41-Day Event Window for Three Company Groups Using a Non-parametric Test

Day	Cumulative Median Abnormal Returns						Cumulative Median Excess Returns					
	DI	P-value	DD	P-value	DNC	P-value	DI	P-value	DD	P-value	DNC	P-value
t-20	0.0004	0.970	0.0033	1.000	-0.0006	0.005*	0.0000	0.558	0.0025	1.000	0.0004	0.932
t-19	-0.0005	0.000*	0.0029	0.006*	-0.0006	0.518	-0.0006	0.002*	0.0030	0.998	-0.0017	0.000*
t-18	-0.0009	0.026*	0.0029	0.494	-0.0021	0.000*	-0.0017	0.000*	0.0006	0.000*	-0.0044	0.000*
t-17	-0.0011	0.236	0.0008	0.000*	-0.0043	0.000*	-0.0016	0.693	-0.0002	0.000*	-0.0071	0.000*
t-16	0.0005	1.000	0.0020	1.000	-0.0034	1.000	-0.0012	0.937	-0.0013	0.000*	-0.0066	0.985
t-15	0.0010	0.986	-0.0003	0.000*	-0.0041	0.001*	-0.0012	0.500	-0.0042	0.000*	-0.0075	0.000*
t-14	-0.0005	0.000*	0.0009	1.000	-0.0064	0.000*	-0.0035	0.000*	-0.0050	0.000*	-0.0088	0.000*
t-13	-0.0011	0.004*	0.0026	1.000	-0.0078	0.000*	-0.0046	0.000*	-0.0050	0.350	-0.0100	0.000*
t-12	-0.0014	0.151	0.0013	0.000*	-0.0080	0.154	-0.0047	0.270	-0.0065	0.000*	-0.0091	1.000
t-11	-0.0016	0.146	0.0023	1.000	-0.0116	0.000*	-0.0052	0.012*	-0.0058	1.000	-0.0126	0.000*
t-10	-0.0024	0.000*	0.0060	1.000	-0.0105	1.000	-0.0061	0.000*	-0.0037	1.000	-0.0109	1.000
t-9	-0.0025	0.343	0.0065	0.997	-0.0113	0.001*	-0.0066	0.020*	-0.0044	0.000*	-0.0132	0.000*
t-8	-0.0023	0.841	0.0080	1.000	-0.0133	0.000*	-0.0072	0.005*	-0.0030	1.000	-0.0151	0.000*
t-7	-0.0034	0.000*	0.0056	0.000*	-0.0142	0.000*	-0.0075	0.104	-0.0053	0.000*	-0.0161	0.000*
t-6	-0.0042	0.000*	0.0057	0.562	-0.0149	0.001*	-0.0086	0.000*	-0.0057	0.009*	-0.0160	0.654
t-5	-0.0043	0.264	0.0025	0.000*	-0.0131	1.000	-0.0092	0.012*	-0.0088	0.000*	-0.0149	1.000
t-4	-0.0047	0.051*	0.0059	1.000	-0.0127	0.936	-0.0098	0.002*	-0.0094	0.000*	-0.0148	0.529
t-3	-0.0055	0.000*	0.0041	0.000*	-0.0140	0.000*	-0.0109	0.000*	-0.0099	0.004*	-0.0155	0.002*
t-2	-0.0066	0.000*	0.0024	0.000*	-0.0141	0.303	-0.0125	0.000*	-0.0116	0.000*	-0.0152	0.910
t-1	-0.0055	1.000	0.0024	0.476	-0.0147	0.012*	-0.0115	1.000	-0.0136	0.000*	-0.0150	0.789
t-0	-0.0020	1.000	-0.0005	0.000*	-0.0137	1.000	-0.0074	1.000	-0.0159	0.000*	-0.0125	1.000
t+1	-0.0015	0.982	-0.0033	0.000*	-0.0162	0.000*	-0.0062	1.000	-0.0213	0.000*	-0.0144	0.000*
t+2	-0.0038	0.000*	-0.0049	0.000*	-0.0164	0.193	-0.0085	0.000*	-0.0242	0.000*	-0.0156	0.000*
t+3	-0.0052	0.000*	-0.0058	0.000*	-0.0184	0.000*	-0.0094	0.000*	-0.0241	0.716	-0.0179	0.000*

t+4	-0.0062	0.000*	-0.0062	0.007*	-0.0196	0.000*	-0.0096	0.225	-0.0255	0.000*	-0.0193	0.000*
t+5	-0.0067	0.013*	-0.0073	0.000*	-0.0203	0.002*	-0.0099	0.081	-0.0260	0.002*	-0.0216	0.000*
t+6	-0.0071	0.022*	-0.0062	1.000	-0.0204	0.244	-0.0105	0.004*	-0.0253	1.000	-0.0216	0.437
t+7	-0.0075	0.094	-0.0106	0.000*	-0.0229	0.000*	-0.0119	0.000*	-0.0293	0.000*	-0.0229	0.000*
t+8	-0.0089	0.000*	-0.0116	0.000*	-0.0226	0.900	-0.0141	0.000*	-0.0317	0.000*	-0.0237	0.001*
t+9	-0.0107	0.000*	-0.0147	0.000*	-0.0221	0.975	-0.0155	0.000*	-0.0340	0.000*	-0.0244	0.002*
t+10	-0.0113	0.003*	-0.0169	0.000*	-0.0226	0.024*	-0.0174	0.000*	-0.0366	0.000*	-0.0249	0.027*
t+11	-0.0111	0.883	-0.0183	0.000*	-0.0244	0.000*	-0.0174	0.500	-0.0365	0.739	-0.0264	0.000*
t+12	-0.0114	0.094	-0.0210	0.000*	-0.0251	0.002*	-0.0182	0.000*	-0.0385	0.000*	-0.0282	0.000*
t+13	-0.0117	0.073	-0.0254	0.000*	-0.0267	0.000*	-0.0185	0.088	-0.0420	0.000*	-0.0304	0.000*
t+14	-0.0127	0.000*	-0.0272	0.000*	-0.0268	0.297	-0.0200	0.000*	-0.0425	0.002*	-0.0304	0.519
t+15	-0.0114	1.000	-0.0281	0.000*	-0.0257	1.000	-0.0184	1.000	-0.0438	0.000*	-0.0292	1.000
t+16	-0.0114	0.506	-0.0257	1.000	-0.0263	0.006*	-0.0176	1.000	-0.0422	1.000	-0.0288	0.927
t+17	-0.0096	1.000	-0.0256	0.594	-0.0259	0.967	-0.0168	1.000	-0.0418	0.980	-0.0302	0.000*
t+18	-0.0101	0.029*	-0.0251	0.998	-0.0257	0.667	-0.0175	0.002*	-0.0418	0.516	-0.0303	0.369
t+19	-0.0093	0.999	-0.0244	1.000	-0.0264	0.005*	-0.0169	0.989	-0.0416	0.888	-0.0316	0.000*
t+20	-0.0094	0.402	-0.0289	0.000*	-0.0275	0.000*	-0.0173	0.071	-0.0470	0.000*	-0.0343	0.000*

Note: This table shows the cumulative average abnormal and excess returns for the 162 announcements with an increase in dividend payment level, the 33 announcements with a decrease in dividend payment level and the 85 announcements with no change in the dividend payment level from the last year for 41 days around the dividend announcement (DA) date (Day t_0). The p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. * indicates significance at the 5% level based on a Wilcoxon test.

7.6 Chapter Summary

This chapter reports how the Saudi exchange market may have reacted to dividend news during an eight-year study period, from a total sample of 280 DAs made by 99 Saudi-listed companies. As stated in the literature review (Chapter 3), although a considerable number of empirical studies have been conducted in developed markets to examine dividend signalling effects, very few comparable studies have been carried out in the Saudi market context. In particular, the chapter reports the findings from testing two main hypotheses and three sub-hypotheses about dividend information content. The results from examining hypothesis H1, that is, a company's share price reacts to the announcement of a cash dividend during the event window, support that the Saudi stock market responds to dividend news, in general, on the announcement date. The ARs for all 280 DAs differ significantly from null on the disclosure day.

The results from examining hypothesis H2.1, that is, there may be a significant positive reaction in the share price at the time of the announcement of an increase in the dividend payment level, confirm that the shareholders earn a significant positive AR on the dividend reporting day, particularly for companies that announced an increase in the dividend level.

The results from examining hypothesis H2.2, that is, there may be a significant negative reaction in the share price at the time of the announcement of a decrease in the dividend payment level, show that the AR is negative but not significantly different from zero. The Saudi market does not seem to react to the announcement of dividend decrease news.

The results from examining hypothesis H2.3, that is, there may be no significant reaction in the share price at the time of the announcement of no change in the dividend payment level, show that the shareholders earn just normal returns on the announcement day and that the AR is not statistically different from zero for the DNC group.

Chapter 8
Conclusion

8.1 Introduction

This study aimed to examine dividend decision making among Saudi Arabian listed companies. It clearly defined and explained the various factors that impact dividend policy and the effect of dividend announcements on a company's stock price. Combining this study's results regarding the various factors that affect dividend payment decisions and the dividend-signalling model of information content provides a richer understanding of dividends within the Saudi context.

There have been relatively few studies on Saudi dividends, and the few studies focused on mathematical analyses and were based on a somewhat small sample of companies and data over a short time span. However, this study is novel because it focused on current Saudi economic conditions, such as the announcement of Saudi Vision 2030, new taxes and declining oil prices, which suggest that a comprehensive analysis of company dividend behaviour is needed. Moreover, the Saudi stock market differs from other countries' stock markets in that Saudi listed securities pay no dividend or capital gains taxes other than the taxation of non-resident investors' dividend income. However, there is a different Islamic tax called Zakat, which is enforced at a constant rate of 2.5% on all companies and individuals. This is focused on the net wealth of Zakat payers (including dividends and other types of income) that has been in their hands for at least one year. This study explored the influence of Zakat on a corporation's dividend decisions using questionnaires, interviews with company executives and an event study approach to investigate dividends in Saudi Arabia.

This chapter presents a summary of the most important elements of this study. In particular, Section 8.2 addresses the effect of the research methods sequence on the entire research process and results, and Section 8.3 outlines the primary findings of the study. Section 8.4 presents the research questions' accomplishments. The contributions and implications of the study are discussed in Section 8.5, and the study's limitations are

considered in Section 8.6. Finally, Section 8.7 describes various ways in which this study can be expanded in the future.

8.2 Research Methods Sequence and its Effect on Overall Research Process and Outputs

The three study methods were chosen in sequence, beginning with the distribution of a questionnaire survey, which enabled the researcher to examine a large variety of organisations and gain a complete understanding of the dividend payment decisions made by the sampled companies. The findings provided a comprehensive insight and essential foundation for various aspects of dividend payment decisions, particularly given the absence of survey-based research on dividend policy in the Saudi context.

The second research method, performed in sequence, enabled the researcher to complement the survey findings by asking open-ended questions to elicit more information to enrich the research findings. Interviews were conducted to identify the causes for any variances found in the questionnaire replies, especially the level of agreement. Also, the interview contained details that helped perform the event study since the researcher lacked resources (i.e., absence of a reliable Saudi database). For example, the interview with the financial managers revealed that dividend announcements are separated from earnings, allowing the researcher to examine the pure dividend announcements without any other published news.

The final research method was the event study, which provided an opportunity to reflect on some of the key findings from the survey and interview, particularly the dividend's role as a signalling tool in the Saudi context and the relationships between dividend announcements and company share prices. The event study also evaluated the information content of dividends based on an objective lens. Combining one qualitative and two quantitative components in a mixed-method research strategy, the findings from the three research methods were triangulated, which increased the findings' accuracy. The primary benefit of triangulation was to prevent biased and constrained findings associated with using a single tool to explore the dividends phenomenon. Triangulation increased the validity of the findings from two or three methods because the employment of multiple approaches allowed for preserving their counteracting

biases. Furthermore, the findings from the three research methods were triangulated, yielding nearly similar results.

8.3 The Study's Key Findings

Several findings of this study reflect the three basic study objectives defined at the beginning of this study: first, to identify the factors that considerably impact the dividend payment decision in companies in Saudi Arabia; second, to evaluate the effect of Zakat on managers' decisions about dividend distributions; and third, to empirically investigate the information content of dividend announcements and the effect these announcements have on a company's stock value. Overall, several interviewees stated that dividend payment policies are relevant to companies listed on the Saudi stock market for many reasons, including compensation of shareholders, a motivation for attracting new investors, strengthening a company's reputation and maintaining a stable share price. Moreover, the interview analysis demonstrated that most listed companies do not follow a consistent dividend payment policy; they are more inclined towards a residual dividend payment policy. Each company chooses the appropriate dividend payment decision that suits its situation and shareholder base. There are many reasons listed companies do not have stability regarding their dividend payment policies, including company age, size, current earnings, retained earnings and potential investment opportunities. The findings of the current study can be categorised into three major groups, as outlined below.

8.3.1 Determinants of Dividend Payment Decisions

First, the results of both the survey questionnaire and interview approaches indicate that managers appear to believe that dividend decisions are influenced by various factors, including cash flow (liquidity), current-year earnings, maintaining an uninterrupted record of dividend payments, maintaining a target dividend payout ratio, the availability of profitable investment opportunities, shareholders' dividend preferences, the company's obligations (i.e., the level of debt) and the economic situations of both the domestic and global level. However, two additional factors were identified in the interview findings, reported in Chapter 6, specifically the board of directors and the avoidance of changes to decisions on paying dividends. The new factor that

emerged from the analysis of the interviews was the board of directors; managers reported that because the board of directors comprised major shareholders, they will indirectly influence the decision to pay dividends. The respondents also suggested that the lack of a consistent dividend policy can provide the board of directors with considerable influence regarding dividend decisions. Moreover, the avoidance of dividend payment changes was mentioned in the survey findings, but the managers were unsure about this. In the interviews, the managers appear to agree that firms should avoid making changes to dividend payment decisions that could not be sustained going forward. According to the interviewees, the reason for not changing the dividend ratio is to sustain the company's share price, satisfy shareholders involved in the company and prevent a decline in dividend amounts. Managers reported that the effects of the various factors on their decision to pay dividends varied among the listed companies based on the companies' conditions, maturity, size and sector. For example, managers noted that the dividend policies on materials, energy and real estate firms were mainly affected by internal and external economic factors (i.e., oil prices and government spending on projects), while firms in the insurance and retail sectors seemed to be less influenced by these economic variables.

Second, the survey and interview findings parallel those of Lintner's (1956) research, particularly regarding current earnings, maintaining an uninterrupted record of dividend payments and the presence of a target payout ratio. Furthermore, the interviewees believed that these companies should not change dividend payout levels. However, the survey results contradict Lintner's findings that dividend payments in the current year are affected by dividends in the previous year.

Third, the survey respondents and interviewees revealed that family-dominated share registers and government majority owners had no effect on whether dividend payments were made. Also, managers did not consider the dividend policies of the competitors when they made decisions about dividend payments; instead, they concentrated on their own company's performance and their shareholders' preferences.

8.3.2 Zakat and Tax

According to the respondents of this study, the Saudi market's special tax systems were not perceived as a significant factor when deciding how much cash to pay as dividends. Most interviewees stated that Zakat does not impact a company's decisions about whether to pay dividends; instead, it may influence a company in selecting a dividend payment date. The respondents indicated that they might change the distribution date to before the end of the year to reduce the Zakat base, but cannot avoid the Zakat payment entirely. Furthermore, managers indicated that the Zakat payment is based on religious and cultural factors, particularly for shareholders in Saudi Arabia. They focused on whether the company pays the Zakat amount due to realised earnings before distribution.

The interviewees provided two explanations for why companies do not consider Zakat when deciding whether to pay dividends, although the dividends paid reduced retained earnings, which, in turn, reduced the amount of Zakat owed. First, Zakat is paid before dividends are disbursed because the balance sheet for the preceding year is indeed the base for Zakat for the current year. The Zakat number is thus considered a fixed expense at the beginning of the current fiscal year. Therefore, it is seen as something 'fixed' in the minds of company decision makers and is not a variable that influences other decisions. Second, religion is the basis for setting the amount of Zakat regardless of the Zakat rate (2.5%). There was a common view among the respondents that a company is responsible to God first and should pay Zakat before distributing earnings. To factor Zakat into decisions about dividend payments or blame Zakat for the non-payment or reduction of dividends was thought to be disrespectful and morally wrong.

Regarding the tax factor and its relationship to dividend payment decisions, the survey respondents appeared to be reluctant to comment on tax issues because the concept of taxation in Saudi Arabia is relatively new. There may be a lack of awareness about tax matters among Saudi managers. However, evidence was obtained from 21 managers regarding withholding tax, and the interviewees agreed that it does not affect a company's payment decisions; instead, it affects the amount of dividends received by non-resident shareholders and their investment decisions in the Saudi Stock Exchange. However, the respondents suggested that the country's tax structure is attractive to international investors.

8.3.3 Signalling Theory

The results from the three research methods offer new findings regarding the current situation for Saudi listed companies, and they acutely demonstrate the dividend signalling model. First, the survey and interview respondents generally agreed with the theoretical framework of dividends as a signalling tool, suggesting that dividends are a means of informing outsiders about a company's potential opportunities. However, the research participants associated dividend performance as a signal to two important factors: the firm's ownership structure (i.e., the various shareholder types) and the state of the economy. Specifically, managers stated that the decision to use dividends to communicate details about a firm depends on shareholders' perceptions of the reasons for adjustments to dividend payment amounts and their judgements of whether such changes are justified. Furthermore, the majority of the interviewees reported that the company's managers do not fully rely on dividends to signal information to outside investors because the effect of economic conditions on a company's share price outweighs the impact of the dividends paid. This explanation may reflect a low level of managerial agreement regarding the use of dividends as a signalling device.

Second, however, outside investors appear to be more supportive of the dividend signalling framework, meaning that they perceive dividend payments as an important signalling tool regarding the company's future prospects. These results confirmed the findings derived from both the survey and interview methods and the event study method regarding the use of dividends as an evaluation tool by investors. In addition, Saudi managers tend to support the signalling hypothesis in the Saudi stock market under economically stable conditions, which is clearly investigated using the event study approach by applying a long event study period (2011–2018), with the goal of not focusing on a single year, in contrast to the survey and interview examination period.

Third, according to the findings of the event study conducted based on Saudi market data, shareholders responded to dividend announcements according to the view that such announcements contained information that was useful to participants in the stock exchange. The abnormal returns for the total sample of dividend announcements (280 DAs) varied significantly from zero on the announcement day. Regarding the 20-day pre-announcement period, it is evident that dividend news leaks to the market prior to

all 280 announcements on day t-16; this leakage tends to be from dividend increase (DI) and dividend no-change news (DNC) firms rather than dividend decrease (DD) announcements[133]. Although the Saudi Stock Exchange is a developing market that is characterised by a high concentration of ownership, dividend nontaxability and high informational asymmetries (Al Qudah and Badawi, 2015), the findings of this study regarding the signalling effect of dividend announcements appear to agree with those reported from developed markets (i.e., for the US by Aharony and Swary, 1980; for the UK by Lonie *et al.*, 1996; and for Ireland by McCluskey *et al.*, 2006). All these prior studies noted that dividend announcements do signal information to investors; in particular, the share price responds significantly to dividend information on the declaration date.

Furthermore, the Saudi stock market seems to follow the semi-strong form of the EMH, which is explained by the immediate share price reaction to dividend news on the day of the dividend announcement (Chaabouni, 2017). The findings showed that, during the post-announcement period, there were no statistically significant abnormal returns (ARs), indicating that the stock market responds quickly, on average, to new dividend announcements. This implies that no investors can receive above-normal market returns by utilising information about dividends after the day of dividend announcements. The majority of price adjustments occurred on the declaration day.

Fourth, an 11-day event window was also examined to understand and corroborate findings obtained from a larger window. This narrower window showed an abnormal return on the day of the dividend announcement, which was positive and statistically significant. When this window was applied, there was no information leakage before the official release date. The market responded quickly to the information contained in dividends on the day of announcements.

Fifth, once the overall sample of dividend announcements was divided into three dividend categories (DI, DD and DNC), different results emerged. For instance, the test findings suggest that the returns from dividend announcements in the Saudi stock market are positive and statistically significant at the 5% level for the 162 DI sub-group

[133] The abnormal returns are positive and significant for the total sample (mean 0.28% and p-value = 0.01) and for the DI companies (mean = 0.028% and p-value = 0.01); in addition, the excess return of 0.32% for the DNC sub-group is positive and statistically different from zero on day t-16.

on the official date of dividend disclosure. For the 33 DD sub-group, the market does seem to respond negatively on the announcement day, but this result is not statistically different from zero. The Saudi market appears to react positively to DNC news on the announcement day, but this result is also not statistically significant. Apparently, the results of these tests show that Saudi shareholders responded one week before and after dividend decreases were announced; they needed a longer time to react to the news of dividend decreases compared to DI and DNC news. One potential reason for the absence of any response to a dividend reduction is that a company's news releases have not been successful at informing shareholders that the decreases in dividends were an investment-related decision or that the company's financial analysis is inadequate rather than indicating weak performance results (Ghosh and Woolridge, 1989).

Sixth, the findings of the application of the market model (the AR) parallel the results obtained from the adjusted-market return (excess return) model, which is based on the assumption that the expected return E(Rit) for all companies is equal to the market return and, therefore, is often used when analysing data for smaller markets, where thin trading may yield biased results (McCluskey *et al.*, 2006).

8.4 The Achievement of Research Questions

Table 8-1summarises the three research methods' key findings and links them with the three main research questions.

Table 8-1: Summary of the Key Findings and the Three Research Questions

Research Questions	Key Findings
RQ1: What determines the dividend payment decision of Saudi-listed companies?	Managers seem to believe that dividend decisions are affected by many factors, including: • Cash flow (liquidity) • Current year earnings • Maintaining an uninterrupted record of dividend payments • Having a target dividend payout ratio • The availability of profitable investment opportunities • Shareholders' preferences regarding dividends • The company's obligations (i.e., the level of debt financing) • Internal and external economic conditions
RQ2: How does the Zakat (Islamic tax) impact a company's dividend payment decisions?	• Executive managers did not appear to consider Zakat to be an influential factor with regard to dividend payment policies as compared to the role of other taxes in non-Muslim countries, which managers may take into account. • Although Zakat payments could affect a company's distribution date and the amount of earnings available to distribute to shareholders, they are a fixed cost based on religious requirements.
RQ3: What is the relationship between a company's dividend announcements and its share returns in the Saudi stock market?	• Saudi Managers appear to use unanticipated changes in dividend payouts to inform shareholders about a company's future performance. • The findings appear to support the idea that a company's stock price reacted to the information contained in dividend announcements on the day of the announcement. • The Saudi Stock Exchange appears to follow a semi-strong form of the EMH, as seen by the fast reaction of share prices to dividend announcements on dividend declaration day.

8.5 Contribution and Implications of the Current Thesis

This study has provided various significant contributions to the academic literature, theory, companies' managers, regulators (policymakers) and investors.

8.5.1 Contribution and Implications for Theory and Academic Literature

This study benefits academics and enriches the literature on dividends through an overarching conceptual and theoretical framework that tests the relationship between the announcement of dividends and company share value and contributes to the literature on the determinants of dividend payment decisions in the Saudi Stock Exchange context. This conceptual structure could be applied to all Saudi economic sectors except for banking and insurance. Also, the conceptual framework could be expanded to other countries—especially those that levy religious taxes.

As reported earlier, dividend payment decisions by Saudi Stock Exchange companies are affected by the following factors: cash flow (liquidity), current year's earnings, the availability of profitable investment opportunities, shareholders' preferences regarding dividends, company obligations (i.e., debt financing level), internal and external economic factor projections, the need to maintain an uninterrupted dividend payment record, having a target dividend payout ratio and avoiding dividend payment level changes.

This study supports the relevance of dividend-signalling theory in developing markets like Saudi Arabia. In particular, the results of this study indicate that Saudi Stock Exchange companies use dividends to communicate information about their future prospects. Such a finding may suggest that policymakers must monitor any dividend news leakage before the announcement date since it may indicate insider trading. Further, policymakers must consider other communication channels between companies and outside shareholders, rather than relying on the dividend to act as a signal. For example, in emerging markets with poor information diffusion, companies might employ

corporate social responsibility (CSR) practices[134] as a productive tool to signal investors about their high quality and capabilities (Su *et al*., 2016).

8.5.2 Contribution and Implications for Managers

The findings of this study demonstrate that dividend decisions on the part of management have possible effects on the capital market and company share performance. While managers reported that they did not use dividend announcements as a signalling tool, investors used these announcements to assess a company's share price. Therefore, the results of this study could be used by managers to understand investors' actions and the market's behaviour towards managers' companies' dividend news; thus, managers might want to increase their levels of information disclosure to ensure the stability of price movements and maintain the trust of investors.

Also, the results suggest that a board of directors comprising major shareholders can to greatly impact decisions and affect dividend payment policies. This may be because of a problem suggested by the interviewees, specifically the lack of a well-established dividend policy that enables the board of directors to make judgments on dividend payments. Thus, the results of this study stress the importance of establishing such a definitive and secure dividend payment strategy on the part of managers to reduce the impact of major shareholders on the decision to pay or not to pay dividends.

Furthermore, the study's findings revealed a substantial connection between investment and dividend decisions on the part of a company. Alternatively, the majority of interviewees reported that the funding of profitable investment projects was granted priority over the distribution of the remaining cash to shareholders. The acknowledgement of this relationship implies that management should justify to shareholders the reasons for any reduction or cancellation of dividends to minimise the volatility of the company share price induced by dividend cuts. Thus, the results urge managers to meet shareholders' needs and requirements while still ensuring a balance between the dividends paid to shareholders and the funds that the company retains for reinvestment purposes to maximise shareholders' value.

[134] Su et al. (2016, p.479) defined CSR practices as 'voluntary actions taken by firms that go beyond the narrow economic, technical and legal requirements of a firm [that] may signal unobserved attributes by stakeholders, such as suppliers, employees and customers'.

There is little evidence to confirm the effect of withholding tax on the decision to pay dividends, and most managers were reluctant to comment on the tax factor. It is stated in Chapter 2 that Saudi Arabia's regulators recently allowed foreign investors to trade in the Saudi stock market, which could have tax implications and influence dividend payment decisions. Consequently, this study's findings advocate that managers dedicate time and resources to improve their knowledge and information about the potential effect of withholding tax on dividend payment and conducting and attending training courses.

8.5.3 Contribution and Implications for Regulators and Investors

According to the interviewees, the Saudi Stock Exchange is seen as being ahead of other Middle Eastern and African stock exchanges. The managers affirmed that the Saudi equity market had evolved greatly regarding both investors and regulations, which could have contributed to greater market efficiency. However, the interviewees noted that there remains a significant gap between the Saudi stock market and the more developed markets in the UK and the US. This study's results, thus, allow policymakers, such as the Capital Market Authority, to understand the existing market situation in Saudi Arabia and, therefore, enforce robust procedures regarding disclosure, transparency and corporate governance. Also, the findings offer a valuable perspective for regulators looking into the market's response to dividend announcements and how quickly the market can absorb news releases and affect the price of a stock.

Also, this study's results can help investors make the right investment decisions and understand a company's share price performance in connection with dividend news.

8.6 Limitations

Although this study is a systematic effort to achieve the objectives and address the questions raised in the Introduction Chapter, several limitations exist. Based on the three study methods, these limitations can be categorised into three groups.

8.6.1 Questionnaire Survey Limitations

Clearly, not all the respondents completed the survey concurrently, which may render the findings inconclusive; however, the rigorous test for nonresponse bias indicated that there were no significant differences between the companies that replied early and those that replied late to the questionnaire. Hence, it was appropriate to draw general conclusions from the survey. Additionally, the survey results showed some variation in the level of agreement regarding views on dividend policy. For instance, while the managers expressed relatively high levels of agreement with the suggestion that dividend announcements may be used as a tool by outside investors to assess a company's share price, they agreed less with the statement that 'managers use dividend policy to signal information about a company's future profitability'. Nevertheless, interviews with the participants could explain many of the complexities raised by the survey responses.

8.6.2 Interview Limitations

There are some limitations to the use of interviews in this study. First, the interviews were conducted with 21 managers, most of whom had completed the survey questionnaire beforehand. Therefore, it is likely that the interview data contain some level of bias. However, this strategy concentrated primarily on obtaining further information and clarifying the dividend phenomenon in Saudi listed companies, particularly to follow up on the respondents' answers and attempt to understand some uncertainty in the survey data.

Second, the number of interviews included in this study was considered to be relatively small. This is typical when implementing such a method because it is difficult to involve all executives in Saudi listed companies since they work in positions that are highly sensitive, and they only have a limited time to grant interviews. Thus, the findings may not be an accurate reflection of the overall population's views on dividends in the Kingdom of Saudi Arabia. However, to achieve a balanced sample in the interviews, this study includes various market sectors, both companies that pay and do not pay dividends, companies that are 100% Saudi owned and mixed-ownership companies and family and non-family companies.

Third, comparisons between this study's findings and earlier Saudi studies are quite limited because no prior studies have investigated the behaviour of dividends of Saudi listed companies using the interview approach. Nevertheless, this study's results from the interviews may be generalised to all Saudi listed companies since these findings are similar to the findings of the prior studies in some developed and developing markets.

8.6.3 Event Study Limitations

This study has some limitations from applying an event study. First, considering the inclusion criteria for companies in the sample (refer to Section 7.3 of Chapter 7 for more details), the number of sample firms (99) is relatively small, and all listed companies are not included in the sample, suggesting that there could be results that have not been exhaustively investigated. However, the sample companies (99) accounted for most of the Saudi stock market's activity based on the following figures: the sample included 52% of the total number of Saudi-listed companies in 2018, 70% of the total number of dividend announcements over the sample period and 47% of the overall Saudi stock capitalisation value in 2018. Thus, the empirical findings based on the selected sample seem to reflect the effect of dividend change news on the share prices of all listed companies.

Second, there were no comprehensive Saudi databases via which to obtain all the data required to conduct the study. Therefore, several sources were needed to collect the data, such as the Eikon database, Bloomberg, the Tadāwul website and the Argaam website. As a result, there were some inconsistencies in the figures and dates among these different sources. However, if there were data discrepancies, the study relied on information from Tadāwul's website, which is more accurate and authoritative than the other sources.

8.7 Recommendations and Future Research

Although this study has certain limitations, it is one of the most extensive examinations of dividends in Saudi Arabia to date. While the findings of this study offer useful information, they can be significantly expanded to many other aspects of dividends.

First, it would be useful to conduct interviews with the General Authority of Zakat and Tax to explore, in greater detail, the impact of Zakat and withholding tax variables on dividend payment decisions by Saudi listed companies. Moreover, due to the lack of research on dividends in Saudi Arabia, this study can be considered a starting point for further research on dividends in the future, especially on Zakat and withholding tax. Second, another potential research opportunity is proposed to explore the joint signal impact of earnings and dividend news on a company's share value, which is beyond the scope of the current study. It is also recommended that the impact of company characteristics, such as size and industry, on share price be examined together with announcements of dividend change.

Third, separate studies should be undertaken in the banking and insurance sectors because the results derived from the interviews imply that, in these sectors, some factors such as liquidity limitedly impact the decision to pay dividends compared to other market sectors. A clear comparison, in this case, should be made between this study's results, which included an examination of all sectors of the market, and any proposed future research that might concentrate on dividend aspects of only the financial sector. Fourth, analyses of the stock market reaction to dividend news could also be extended by examining alternative models of expected returns; future studies could consider whether a three-factor model of Fama and French (1992), which possibly takes account of the Islamic calendar month-of-the-year (Tantisantiwong *et al.*, 2018), might also be undertaken. Finally, the current study may be extended to other emerging markets within a business environment similar to that of Saudi Arabia. Specifically, the basic conceptual framework that was built in Chapter 4 will be particularly helpful for future research on dividends that focuses on the various factors affecting dividend payment decisions and the connection between dividend declarations and share price.

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Appendices

Appendix A: Introduction to the Kingdom of Saudi Arabia

Appendix A-1. An illustration of the order of elements that should be added to the Zakat base

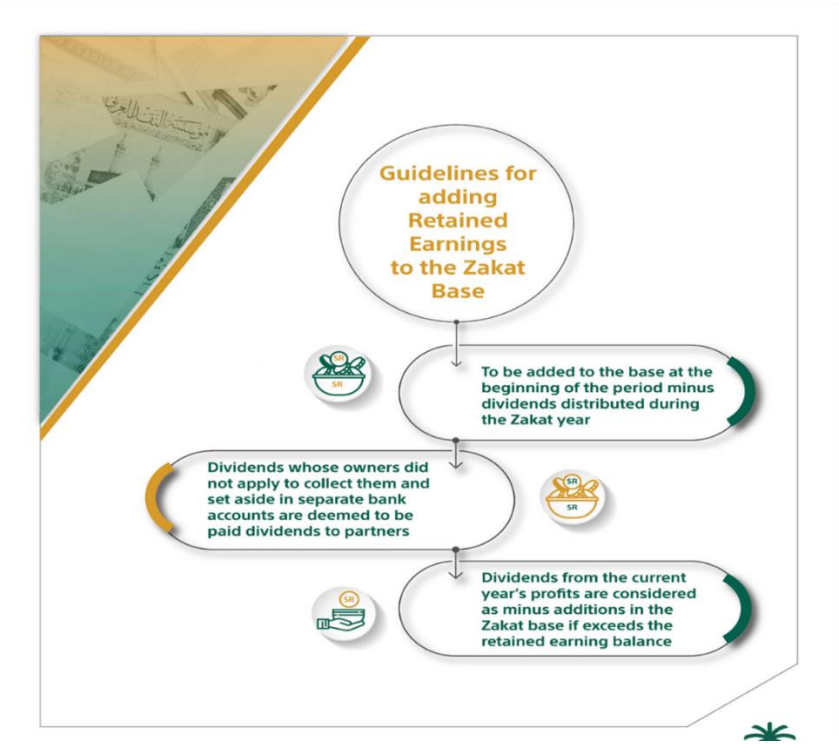
Item	Value (SAR)
Long-term liabilities (not to exceed deductible assets)	6,000
Equity	4,000
Less: Long-term assets	(6,000)
Total	4,000

Source: (General Authority of Zakat and Tax, 2019b, p. 39).

Appendix A-2. An example and diagram of how to add retained earnings to the Zakat base

Example
The opening balance of the retained earnings for the period amounted to SAR 5,000,000. The company distributed cash dividends during the year amounting to SAR 6,000,000. How much should be added to the base?
The balance of the retained earnings shall be added to the base after deducting the cash dividends distributed during the year as follows: The opening balance of the year less cash dividends during the year: 5,000,000 - 6,000,000 = (1,000,000) Saudi Riyals In this case, the amount of cash dividend is more than the balance of the retained earnings during the year, and thus the negative amount is added to the base.

Source: (General Authority of Zakat and Tax, 2019b, p. 46).



Source: (General Authority of Zakat and Tax, 2019b, p. 46).

Appendix A-3. Individual company dividend data for companies listed on the Saudi stock exchange in December 2015

	Name of Sector	Trading Name	Company Name	Dividends Announced in 2015	Number of Announcements 2015
1	Banks and Financial Services	RIBL	Riyad Bank	Yes	2
2		BJAZ	Bank Aljazira	No	0
3		SIBC	Saudi Investment Bank	Yes	1
4		Saudi Hollandi	Saudi Hollandi Bank	Yes	1
5		Saudi Fransi	Banque Saudi Fransi	Yes	3
6		SABB	Saudi British Bank	Yes	2
7		Arab National	Arab National Bank	Yes	2
8		SAMBA	Samba Financial Group	Yes	2
9		AL Rajhi	Al Rajhi Bank	Yes	2
10		AL Bilad	Bank Albilad	Yes	1
11		Alinma	Alinma Bank	Yes	1
12		NCB	National Commercial Bank	Yes	2
13	Petrochemical Industries Sector	Chemanol	Methanol Chemicals Co.	No	0
14		Petrochem	National Petrochemical Co.	Has never announced dividends	0
15		SABIC	Saudi Basic Industries Corp.	Yes	2
16		SAFCO	Saudi Arabia Fertilizers Co.	Yes	3
17		Industrialisation	National Industrialization Co.	Yes	1
18		Alujain	Alujain Corp.	No	0
19		Nama Chemicals	Nama Chemicals Co.	No	0
20		SIIG	Saudi Industrial Investment Group	No	0
21		Sahara Petrochemical	Sahara Petrochemical Co.	Yes	1
22		YANSAB	Yanbu National Petrochemical Co.	Yes	2
23		Sipchem	Saudi International Petrochemical Co.	Yes	1
24		Advanced	Advanced Petrochemical Co.	Yes	4

25		Saudi Kayan	Saudi Kayan Petrochemical Co.	Has never announced dividends	0
26		Petro Rabigh	Rabigh Refining and Petrochemical Co.	Yes	1
27	Cement	HCC	Hail Cement Co.	Yes	1
28		Najran Cement	Najran Cement Co.	Yes	2
29		City Cement	City Cement Co.	Yes	1
30		Northern Cement	Northern Region Cement Co.	Yes	2
31		UACC	Umm Al-Qura Cement Co.	Has never announced dividends	0
32		Arab Cement	Arabian Cement Co.	Yes	2
33		Yamamah Cement	Yamama Cement Co.	Yes	4
34		Saudi Cement	Saudi Cement Co.	Yes	2
35		Qassim Cement	Qassim Cement Co.	Yes	4
36		Southern Cement	Southern Province Cement Co.	Yes	2
37		Yanbu Cement	Yanbu Cement Co.	Yes	2
38		Eastern Cement	Eastern Province Cement Co.	Yes	1
39		Tabuk Cement	Tabuk Cement Co.	Yes	1
40		Jouf Cement	Al Jouf Cement Co.	No	0
41	Retail	A.Othaim Markets	Abdullah Al Othaim Markets Co.	Yes	1
42		Mouwasat	Mouwasat Medical Services Co.	Yes	1
43		EXTRA	United Electronics Co.	Yes	2
44		Dallah Health	Dallah Healthcare Holding Co.	Yes	1
45		Care	National Medical Care Co.	Yes	1
46		Farm Superstore	Saudi Marketing Co.	Yes	1
47		Al Hammadi	Al Hammadi Company Development and Investment	Yes	1
48		SACO	Saudi Company for Hardware	Yes	1

49		SASCO	Saudi Automotive Services Co.	Yes	1
50		Thim'ar	National Agricultural Marketing Co.	Has never announced dividends	0
51		Fitaihi	Fitaihi Holding Group	No	0
52		Jarir	Jarir Marketing Co.	Yes	4
53		Aldrees	Aldrees Petroleum and Transport Services Co.	Yes	1
54		AlHokair	Fawas Addulaziz Alhokair Co.	Yes	1
55		Alkhaleej Trng	Alkhaleej Training and Education Co.	Yes	1
56	Energy and Utilities	Gas & Industrialisation	National Gas and Industrialization Co.	Yes	4
57		Saudi Electricity	Saudi Electricity Co.	Yes	1
58	Agriculture and Food Industries	SAVOLA Group	Savola Group	Yes	4
59		Food	Wafrah for Industry and Development Co.	No	0
60		SADAF Co	Saudia Dairy and Food stuff Co.	Yes	1
61		Almarai	Almarai Co.	Yes	1
62		Anaam Holding	Anaam International Holding Group	No	0
63		H B	Halwani Bros. Co.	Yes	1
64		Herfy Foods	Herfy Food Services Co.	Yes	2
65		Catering	Saudi Airlines Catering Co.	Yes	4
66		NADEC	National Agricultural Development Co.	Yes	1
67		Qassim Agriculture	Qassim Agricultural Co.	Has never announced dividends	0
68		Tabuk Agriculture	Tabuk Agricultural Development Co.	No	0
69		Saudi Fisheries	Saudi Fisheries Co.	No	0

70		Eastern Agriculture	Ash-Sharqiyah Development Co.	No	0
71		Jouff Agriculture	Al-Jouf Agricultural Development Co.	Yes	1
72		Bishah Agriculture	Bishah Agricultural Development Co.	Has never announced dividends	0
73		Jazan Development	Jazan Development Co.	No	0
74	Telecommunication and Information Technology	STC	Saudi Telecom Co.	Yes	4
75		Etihad Etisalat	Etihad Etisalat Co.	No	0
76		Zain KSA	Mobile Telecommunication Company Saudi Arabia	Has never announced dividends	0
77		Atheeb Telecom	Etihad Atheeb Telecommunication Co.	Has never announced dividends	0
78	Insurance	Tawuniya	The Company for Cooperative Insurance	Yes	1
79		METLIFE AIG ANB	MetLife AIG ANB Cooperative Insurance Co.	Has never announced dividends	0
80		Jazira Takaful	Aljazira Takaful Taawuni Co.	Has never announced dividends	0
81		Malath Insurance	Malath Cooperative Insurance and Reinsurance Co.	Has never announced dividends	0
82		MEDGULF	The Mediterranean and Gulf Insurance and reinsurance Co.	No	0
83		ALLIANZ SF	Allianz Saudi Fransi Cooperative Insurance Co.	Has never announced dividends	0
84		SALAMA	Salama Cooperative Insurance Co.	Has never announced dividends	0
85		Walaa Insurance	Saudi United Cooperative Insurance Co.	Has never announced dividends	0
86		Arabian Shield	Arabian Shield Cooperative Insurance Co.	Has never announced dividends	0

87		SABB Takaful	SABB Takaful Co.	Has never announced dividends	0
88		SANAD	Sanad Cooperative Insurance Co.	Has never announced dividends	0
89		SAICO	Saudi Arabian Cooperative Insurance Co.	Has never announced dividends	0
90		WAFA Insurance	Saudi Indian Company for Cooperative Insurance	Has never announced dividends	0
91		Gulf Union	Gulf Union Cooperative Insurance Co.	Has never announced dividends	0
92		ATC	Alahli Takaful Co.	Has never announced dividends	0
93		Al-Ahlia	Al-Ahlia Insurance Co.	Has never announced dividends	0
94		ACIG	Allied Cooperative Insurance Group	Has never announced dividends	0
95		AICC	Arabia Insurance Cooperative Co.	Has never announced dividends	0
96		Trade Union	Trade Union Cooperative Insurance Co.	Has never announced dividends	0
97		Sagr Insurance	Al Sagr Cooperative Insurance Co.	Yes	1
98		U C A	United Cooperative Assurance Co.	No	0
99		Saudi Re	Saudi Re for Cooperative Reinsurance Co.	Has never announced dividends	0
100		Bupa Arabia	Bupa Arabia for Cooperative Insurance Co.	No	0
101		Weqaya Takaful	Weqaya Takaful Insurance and Reinsurance Co.	Has never announced dividends	0
102		ARCCI	Al-Rajhi Company for Cooperative Insurance	Has never announced dividends	0
103		ACE	ACE Arabia Cooperative Insurance Co.	Has never announced dividends	0

104		AXA-Cooperative	AXA Cooperative Insurance Co.	Has never announced dividends	0
105		Gulf General	Gulf General Cooperative Insurance Co.	Has never announced dividends	0
106		Buruj	Buruj Cooperative Insurance Co.	Has never announced dividends	0
107		Al Alamiya	Al Alamiya for Cooperative Insurance Co.	Has never announced dividends	0
108		Solidarity	Solidarity Saudi Takaful Co.	Has never announced dividends	0
109		Wataniya	Wataniya Insurance Co.	Has never announced dividends	0
110		AMANA Insurance	Amana Cooperative Insurance Co.	Has never announced dividends	0
111		Enaya	Saudi Enaya Cooperative Insurance Co.	Has never announced dividends	0
112		Alinma Tokio M.	Alinma Tokio Marine	Has never announced dividends	0
113	Multi-Investment	SARCO	Saudi Arabia Refineries Co.	Yes	1
114		Saudi Advanced	Saudi Advanced Industries Co.	No	0
115		Al Ahsa for Dev.	Al-Ahsa Development Co.	No	0
116		SISCO	Saudi Industrial Services Co.	Yes	1
117		Assir	Asser Trading, Tourism and Manufacturing Co.	Yes	1
118		Al Baha	Al-Baha Investment and Development Co.	Has never announced dividends	0
119		Kingdom	Kingdom Holding Co.	Yes	4
120	Industrial Investment	Takween	Takween Advanced Industries Co.	No	0
121		MEPCO	Middle East Paper Co.	Has never announced dividends	0
122		BCI	Basic Chemical Industries Co.	Yes	1

123		MA'ADEN	Saudi Arabian Mining Co.	Has never announced dividends	0
124		Astraa	Astra Industrial Group	Yes	1
125		AlSorayai Group	Al Sorayai Trading and Industrial Group	No	0
126		SHAKER	Al Hassan Ghazi Ibrahim Shaker Co.	No	0
127		Pharmaceutical	Saudi Pharmaceutical Industries and Medical Appliances Corp.	Yes	1
128		Glass	The National Company for Glass Industries	Yes	2
129		FIPCO	Filing and Packing Materials Manufacturing Co.	Yes	2
130		Maadaniyah	National Metal Manufacturing and Casting Co.	Yes	1
131		Saudi Chemical	Saudi Chemical Co.	Yes	1
132		SPM	Saudi Paper Manufacturing Co.	No	0
133		AlAbdullatif	Al Abdullatif Industrial Investment Co.	Yes	2
134		Saudi Export	Saudi Industrial Export Co.	No	0
135	Building and Construction	ASLAK	United Wire Factories Co.	Yes	2
136		Bawan	Bawan Co.	Yes	4
137		EIC	Electrical Industries Co.	Yes	2
138		MMG	Mohammad Al-Mojil Group	No	0
139		SSP	Saudi Steel Pipe Co.	Yes	2
140		ALKHODARI	Abdullah A. M. Al-Khodari Sons Co.	Yes	1
141		Ceramic	Saudi Ceramic Co.	Yes	1
142		Gypsum	National Gypsum Co.	Yes	1
143		Cables	Saudi Cable Co.	No	0

144		Saudi Industrial	Saudi Industrial Development Co.	Has never announced dividends	0
145		Amiantit	Saudi Arabian Amiantit Co.	No	0
146		Pipes	Arabian Pipes Co.	No	0
147		Zamil Industrial	Zamil Industrial Investment Co.	Yes	3
148		Al Babtain	Al-Babtain Power and Telecommunication Co.	Yes	1
149		SVCP	Saudi Vitrified Clay Pipes Co.	Yes	4
150		MESC	Middle East Specialized Cables Co.	No	0
151		Red sea	Red Sea Housing Services Co.	Yes	1
152	Real Development	Real Estate	Saudi Real Estate Co.	Yes	2
153		Taiba	Taiba Holding Co.	Yes	4
154		Makkah	Makkah Construction and Development Co.	Yes	1
155		Arriyadh Development	Arriyadh Development Co.	Yes	1
156		Emaar E .C	Emaar The Economy City	Never announced dividend	0
157		Jabal Omar	Jabal Omar Development Co.	Never announced dividend	0
158		Dar Al Arkan	Dar Alarkan Real Estate Development Co.	No	0
159		KEC	Knowledge Economy City	Never announced dividend	0
160	Transport	Bahri	National Shipping Company of Saudi Arabia	Yes	1
161		SGS	Saudi Ground Services Co.	Yes	2
162		SAPTCO	Saudi Public Transport Co.	Yes	2
163		Mubarrad	Saudi Transport and Investment Co.	No	0

164		Budget Saudi	United International Transportation Co.	Yes	1
165	Media and Publishing	Tihama	Tihama Advertising and Public Relations Co.	No	0
166		SRMG	Saudi Research and Marketing Group	No	0
167		SPPC	Saudi Printing and Packaging Co.	No	0
168	Hotel and Tourism	ALTAYYAR	Altayyar Travel Group	No	0
169		Al Hokair Group	Abdulmohsen Alhokair Group for Tourism and Development	Yes	2
170		Dur	Dur Hospitality Co.	Yes	2
171		Shams	Tourism Enterprise Co.	No	0

Source: (Saudi Exchange, 2015)

Appendix B: Research Methodology

Appendix B-1. Questionnaire survey instrument in the English language

Dear Sir/Madam……

I am a full-time PhD student at Dublin City University Business School in Dublin, Ireland. I am undertaking a research study on the dividend payment policy of Saudi companies under the supervision of Dr Thomas McCluskey and Prof. David Power. The aim of this research is twofold: first, to investigate Saudi companies' practices, as listed on the Saudi Stock Exchange in December 2015, in setting their dividend payment policies. Second, in this context, it is also important to examine the impact of Zakat and taxation policies enforced by the Saudi government on dividend payment policy for those companies as listed within the timeframe selected for this research.

I would appreciate it if you could help out by completing the attached questionnaire. Completion of the questionnaire should take no longer than ten minutes.

I would like to confirm that your participation in this research study is voluntary, and you can withdraw from participating in the study at any stage. Any opinion which you provide will be treated with strict confidence. Neither you nor your company will be identified in any published work. The data collected will be used only in aggregate to support my research.

If you would like to receive a summary report on the findings, please complete the box on page 6 of the questionnaire and supply your email address.

Finally, many thanks for your time, and I appreciate your cooperation in completing the questionnaire.

Yours Sincerely,

Layla Abaalkhail

Lecturer at Princess Nourah Bint Abdulrahman University
Email: loabaalkhail@pnu.edu.sa

SECTION 1: BACKGROUND INFORMATION

This section aims to collect information about you and your company for analytical purposes only.

1. **I agree to participate in this study.**
   Yes ☐ No ☐

2. **What is your current position in the company?**
   Chief Financial Officer ☐ Other (please specify)……..……

3. **Please indicate how many years you have been in your current position.**
   Fewer than 5 ☐ Between 5 and 10 ☐ Between 10 and 15 ☐ More than 15 ☐

4. **Which of the following ownership types represents your company?**
   100% Saudi-owned company ☐ Mixed company (Saudis and foreigners) ☐

5. **Is your company a family-controlled business?**
   Yes ☐ No ☐

6. **Does your company or any of its affiliate/subsidiary companies pay a dividend in ordinary shares (or common stocks)?**
   Yes ☐ No ☐
   If No, please go to Question 10.

7. **Has the level of the dividend changed since last year?**
   Yes ☐ No ☐

8. **Should the reasons for dividend payments be fully explained to shareholders?**
   Yes ☐ No ☐
   If No, please go to Question 10.

9. **If Yes, please indicate the method you might use to explain to the market why a particular dividend has been set. (Tick one box or several.)**
   Press releases ☐ Shareholder meetings ☐
   Other (please specify)……...

10. **Please indicate the sector that is most relevant to your company's activities.**
    Banking ☐ Petrochemical Industrial ☐ Cement ☐
    Insurance ☐ Energy & Utilities ☐ Building & Construction ☐
    Agriculture ☐ Industrial ☐ Retail ☐
    Other (please specify)……..……...

11. **Who owns the majority of your company's shares? (Tick one box or several.)**
    Government institutions ☐ Private institutions ☐
    Gulf Cooperation Council (GCC) nationals ☐ Foreigners ☐

SECTION 2: DETERMINANTS OF DIVIDEND PAYMENT

This section seeks your views on the factors that a company should consider in setting its dividend payment policy.

A company should	Strongly Agree	Agree	Uncer-tain	Disa-gree	Strongly Disa-gree
Base the current dividend policy on the company's current earnings.					
Base the current dividend policy on the company's expected earnings.					
Determine the current dividend policy based on last year's dividend.					
Base the current dividend policy on the amount of the dividend paid by its competitors.					
Avoid making changes in its dividend payment rates that might have to be reversed in a year or so.					
Strive to maintain an uninterrupted record of dividend payments.					
Base its current dividend policy on its level of debt financing.					
Consider the availability of potentially profitable investment op-portunities before paying a dividend.					
Consider shareholders' preferences regarding dividends.					
Determine the current dividend policy based on cash flow/liquidity consider-ations.					
Have a target dividend payout ratio.					
Consider the majority of its govern-ment shareholders a significant deter-minant of dividend decisions.					
Consider family-dominated share-holders a significant determinant of dividend decisions.					
Consider projections about the future state of the economy/oil prices when making dividend decisions.					
If you have any further comments on the factors that companies should consider in setting their dividend payment policies, please include them here.					

SECTION 3: MARKET SIGNALS

This section seeks your views on how the market/shareholders react to dividends.

Indicator	Strongly Agree	Agree	Un-cer-tain	Dis-a-gree	Strongly Disa-gree
The market views dividend announcements entirely independently of earnings announce-ments.					
Dividend payments provide a signal of future earnings prospects.					
In the long term, an increase in dividend pay-ments will usually lead to a rise in share prices.					
A decrease in dividends will usually lead to a fall in share price.					
The market reaction to an increase in divi-dends will depend on how the new figure compares to shareholders' expectations.					
The market reaction to a decrease in divi-dends will depend on how the new figure compares to shareholders' expectations.					
A change in the existing dividend payout ratio is more important than the actual amount of dividends paid.					
Shareholders perceive dividend payments to be less risky than the profit from capital gains.					
Shareholders generally use dividend an-nouncements to help assess a company's share value.					
The market is not efficient, and the reaction to dividends is sometimes not justified.					
Shareholders base their expectations about this year's dividend on: The previous year's dividend Trends within the sector Last year's earnings Forecast earnings					
If you have any further comments on how the market/shareholders react to dividends, please include them here.					

SECTION 4: ZAKAT AND TAX

This section seeks your views on the influence of Zakat and tax on a company's dividend policy.

Item	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Zakat plays a pivotal role in a company's dividend decisions.					
A company can avoid or reduce its Zakat by distributing its earnings.					
A company should avoid paying a dividend and pay Zakat.					
Zakat should not be a strategic consideration affecting dividend payment due to its low rate (2.5%).					
Management should determine the annual dividend based on their perception of the tax status of the non-resident shareholders.					
Non-resident shareholders in high tax brackets are attracted to low dividend-paying companies.					
Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies.					
The imposition of dividend withholding tax reduces dividend payments to non-resident shareholders.					
Non-resident shareholders prefer returns from dividends rather than from capital gains.					
Taxes (i.e., corporate tax, dividend tax, or capital gains tax) are not a factor in setting resident shareholders' preferences for dividends.					
If you have any further comments on the influence of Zakat or tax on your company's dividend payment policy, please include them here.					

Thank you for completing this questionnaire.

Note

If you would like me to send you a summary report of the results of this survey, please fill out the following information:

Name:

…….....

Address:

……...……...

…….……

Telephone:

……...……...

Email:

…….....

Appendix B-2. Questionnaire survey instrument in the Arabic language

استبيان

المكرم/المكرمة:

.....

أنا طالبة دكتوراه متفرغة للدراسة في كلية إدارة الأعمال في جامعة مدينة دبلن في ايرلندا. أقوم حاليا بإجراء دراسة بحثية تحت إشراف الدكتور توماس مكلوسكي والبروفيسور ديفيد باويرعن سياسة توزيع الأرباح في جميع الشركات السعودية المدرجة في سوق الأسهم السعودي في شهر ديسمبر ٢٠١٥. يهدف هذا البحث إلى استقصاء وجهات النظر حول سياسة توزيع الأرباح في الشركات المدرجة وكشف العوامل التي ينبغي للشركة أن تراعيها في صياغة سياستها المتعلقة بتوزيع الأرباح. وفي هذا السياق، يهدف البحث إلى دراسة تأثير الزكاة والضريبة على سياسات توزيع الأرباح في الشركات السعودية المشمولة في العينة.

سأكون شاكرة لكم مساهمتكم في هذا البحث وذلك من خلال استكمال الاستبيان المرفق الذي لن يستغرق أكثر من عشر دقائق.

كما أود أن أؤكد أن مشاركتكم في هذه الدراسة البحثية هوعمل تطوعي ويمكنكم الانسحاب عن المشاركة في أي وقت شئتم. وسيتم التعامل مع آرائكم، بسرية تامة. كما أود أن أؤكد إلى أنه لن يتم ادراج اسمكم أو اسم الشركة بأي شكل من الأشكال في أي عمل منشور. ونؤكد أن البيانات التي يتم جمعها ستستخدم فقط لدعم البحث.

إذا كنت ترغب في الحصول على تقرير موجز عن النتائج، يرجى استكمال البيانات في الصفحة السادسة (6) من الاستبيان وكتابة عنوان البريد الإلكتروني الخاص بك.

وأخيراً أشكركم على وقتكم وأقدر تعاونكم في ملء هذا الاستبيان.

وتقبلوا فائق الاحترام،

ليلى أباالخيل

محاضر في جامعة الأميرة نورة بنت عبد الرحمن

عنوان البريد الإلكتروني: loabaalkhail@pnu.edu.sa

القسم ١: معلومات أساسية

يهدف هذا القسم إلى جمع المعلومات عنك وعن شركتكم لأغراض تحليلية فقط

١. أوافق على المشاركة في هذه الدراسة
نعم ☐ لا ☐

٢. ما منصبك الحالي في الشركة:
الرئيس/المدير المالي ☐ منصب آخر، يرجى تحديده.....

٣. يرجى بيان عدد السنوات التي قضيتها في هذا المنصب:
أقل من 5 ☐ بين 5 إلى 10 ☐ بين 10 إلى 15 ☐ أكثر من 15 ☐

٤. أي نوع من أنواع الملكية التالية تمثله شركتكم ؟
١٠٠٪ شركة سعودية ☐ شركة مختلطة (سعوديون وأجانب) ☐

٥.هل حصص الملكية المؤثرة في شركتكم تعود لعائلة/ لعوائل؟
نعم ☐ لا ☐

٦. هل توزع شركتكم أو أي من الشركات التابعة لها (شركات متفرعة عن الشركة الأم)، أرباح نقدية على الأسهم العادية؟
نعم ☐ لا ☐
إذا كانت اجابتك "لا" فانتقل إلى السؤال ١٠

٧. هل تغير مستوى توزيع الأرباح منذ السنة الماضية؟
نعم ☐ لا ☐

٨.هل ينبغي للشركة أن تشرح أسباب توزيع الأرباح للمساهمين؟
نعم ☐ لا ☐
إذا كانت اجابتك "لا" فانتقل إلى السؤال ١٠

٩. إذا كانت الإجابة بنعم في السؤال السابق، يرجى الإشارة إلى الطريقة التي قد تستخدمها شركتكم لشرح أسباب تحديد توزيع أرباح معينة. (ضع علامة واحدة أو أكثر)
بيانات صحفية ☐ اجتماعات مع المساهمين ☐
طرق أخرى، يرجى التفصيل هنا.....

١٠. يرجى الإشارة إلى القطاع الأكثر ملائمة لنشاط الشركة الرئيسي:
قطاع مصرفي ☐ صناعات بتروكيماوية ☐ قطاع الإسمنت ☐
قطاع التأمين ☐ قطاع الطاقة والمرافق الخدمية ☐ قطاع البناء والتشييد ☐
قطاع الزراعة ☐ قطاع الصناعة ☐ قطاع التجزئة ☐
قطاع آخر، يرجى التفصيل هنا .....

١١. من الذي يملك أغلبية الأسهم في شركتكم ؟ (ضع علامة واحدة أو أكثر)
مؤسسات حكومية ☐ مؤسسات خاصة ☐
مواطني دول مجلس التعاون ☐ أجانب ☐

القسم ٢: محددات توزيع الأرباح

يهدف هذا القسم إلى فهم وجهة نظركم حول العوامل التي يجب على الشركة مراعاتها عند وضعها السياسات الخاصة بتوزيع الأرباح

يجب على الشركة	موافق بشدة	موافق	غير متأكد	غير موافق	غير موافق بشدة
١٢. بناء سياستها في توزيع الأرباح الحالية حسب أرباح الشركة الحالية.					
١٣. بناء سياستها في توزيع الأرباح الحالية حسب أرباح الشركة المتوقعة.					
١٤. تحديد سياستها في توزيع الأرباح الحالية بناءاً على ما دفعته الشركة العام الماضي من أرباح.					
١٥. بناء سياستها في توزيع الأرباح حسب ما يدفعه منافسوها من أرباح.					
١٦. تتجنب الشركة عمل تغييرات في معدلات توزيع الأرباح حتى لا تضطر إلى أن يكون التغيير عكسي في معدل توزيع الأرباح العام المقبل.					
١٧. تسعى للحفاظ على توزيع الأرباح بشكل غير منقطع.					
١٨. بناء سياستها في توزيع الأرباح الحالية بما يتناسب مع الديون المترتبة عليها.					
١٩. تأخذ في عين الاعتبارتوافر فرص استثمارية مربحة محتملة قبل دفع الأرباح.					
٢٠. تأخذ في عين الاعتبار تفضيلات المساهمين فيما يتعلق بتوزيع الأرباح.					
٢١. تحديد سياستها في توزيع الأرباح الحالية بحسب التدفق النقدي أو السيولة النقدية المتاحة.					
٢٢. يكون لدى الشركة معدل مستهدف لتوزيع الأرباح.					
٢٣. اعتبار الحكومة عنصراً هاماً في قرارات توزيع الأرباح إذا كانت تمتلك غالبية الأسهم في الشركة.					
٢٤. اعتبار العائلة/العوائل التي لها حصص ملكية مؤثرة عنصرا هاماً في قرارات توزيع الأرباح.					
٢٥. تأخذ الشركة بعين الاعتبار التوقعات حول الوضع المستقبلي للاقتصاد/أسعار النفط عند اتخاذ قرارات توزيع الأرباح.					

إذا كان لديك أي تعليقات أخرى على العوامل التي تعتمدها شركتكم في تحديد ووضع سياسة توزيع الأرباح فيرجى ذكرها هنا:

القسم ٣: مؤشرات السوق

يهدف هذا القسم إلى فهم وجهات النظر حول رد فعل السوق /المساهمين، لتوزيع الأرباح

المؤشر	موافق بشدة	موافق	غير متأكد	غير موافق	غير موافق بشدة
٢٦. السوق يفصل تماماً ما بين الإعلان عن الأرباح والإعلان عن توزيع الأرباح.					
٢٧. توزيع الأرباح يعطي مؤشر عن توقعات الأرباح المستقبلية.					
٢٨. الزيادة في توزيع الأرباح تؤدي عادةً إلى الارتفاع في سعر السهم على المدى الطويل.					
٢٩. الانخفاض في توزيع الأرباح يؤدي عادةً إلى الانخفاض في سعر السهم.					
٣٠. إن رد فعل السوق بالنسبة للزيادة في توزيع الأرباح يعتمد على ملاءمة توزيع الأرباح الجديد مع توقعات المساهمين.					
٣١. إن رد فعل السوق بالنسبة للانخفاض في توزيع الأرباح يعتمد على ملاءمة توزيع الأرباح الجديد مع توقعات المساهمين.					
٣٢. التغير في معدل توزيع الأرباح الحالية أكثر أهمية من مبلغ توزيع الأرباح الفعلي المدفوع.					
٣٣. المساهمون يعتبرون توزيع الأرباح أقل مخاطرة من الأرباح الناتجة عن المكاسب الرأسمالية.					
٣٤. بشكل عام، يستخدم المساهمون إعلانات توزيع الأرباح كمعلومات تساعدهم في تقدير قيمة سهم الشركة.					
٣٥. السوق لا يتصف بالكفاءة ورد فعله على توزيع الأرباح في بعض الأحيان ليس مبرراً.					
٣٦. المساهمون يبنون توقعاتهم حول توزيع أرباح هذا العام على: ا. توزيعات أرباح العام الماضي ب. الاتجاهات داخل القطاع ج. أرباح العام الماضي د. الأرباح المتوقعة					
إذا كان لديك أي تعليقات أخرى عن رد فعل السوق / المساهمين لتوزيع الأرباح فيرجى ذكرها هنا:					

القسم٤: الزكاة والضريبة

يهدف هذا القسم إلى فهم وجهة نظركم حول تأثير الزكاة والضريبة على سياسة توزيع الأرباح

العنصر	موافق بشدة	موافق	غير متأكد	غير موافق	غير موافق بشدة
٣٧.تلعب الزكاة دوراً مهماً في قرارات الشركة الخاصة بتوزيع الأرباح.					
٣٨. تستطيع الشركة أن تتجنب دفع الزكاة أو تقليلها من خلال توزيع الأرباح.					
٣٩. يجب على الشركة أن تتجنب توزيع الأرباح وأن تدفع الزكاة.					
٤٠. لا ينبغي للشركة أن ترى معدل الزكاة عاملاً استراتيجياً يؤثر على توزيع الأرباح نظراً لصغر النسبة (2.5%).					
٤١. يجب على إدارة الشركة أن تراعي في توزيع الأرباح السنوية الوضع الضريبي للمساهمين غير المقيمين.					
٤٢. المساهمون غير المقيمين والذين هم من شريحة دافعي الضريبة العالية يفضلون الشركات التي توزع أرباح نقدية منخفضة.					
٤٣. المساهمون غير المقيمين والذين هم من شريحة دافعي الضريبة المنخفضة يفضلون الشركات التي توزع أرباح نقدية عالية.					
٤٤. فرض ضريبة الاستقطاع على الأرباح يقلل من توزيع الأرباح المدفوع إلى المساهمين غير المقيمين.					
٤٥. المساهمون غير المقيمين يفضلون العوائد من توزيع الأرباح أكثر من المكاسب الرأسمالية.					
٤٦. الضرائب (أي ضريبة الشركات، وضريبة الأرباح، أو ضريبة المكاسب الرأسمالية) ليست عاملا مؤثراً في سلوك المساهمين المقيمين.					
إذا كان لديك أي تعليقات أخرى بخصوص تأثير الزكاة أو الضريبة على سياسة توزيع الأرباح الخاصة بشركتكم فيرجى ذكرها هنا:					

شكرا لتعبئة هذا الاستبيان

ملاحظة

إذا كنت ترغب في الحصول على تقرير موجز عن نتائج هذا الاستبيان، يرجى ملء التفاصيل التالية:

الاسم:

.....

رقم الهاتف:

.....

العنوان:

.....

.....

عنوان البريد الإلكتروني:

.....

Appendix B-3. Interview plain language statement

Dublin City University

Plain Language Statement

Research Title: An Empirical Investigation of Dividend Payment Decisions of Companies Listed on the Saudi Stock Exchange

Principal Investigator: Layla Abaalkhail

Lecturer at Princess Nourah Bint Abdulrahman University

Full-time PhD student at Dublin City University Business School

Email: loabaalkhail@pnu.edu.sa

I. Introduction to the Research Study

I am undertaking a research study on dividend payment decisions in Saudi-listed companies under the supervision of Dr Thomas McCluskey and Prof. David Power. The aim of this research is to investigate the practices of Saudi companies, as listed on the Saudi Stock Exchange in December 2015, in setting their dividend payment policies. This study investigates the views of Saudi company managers regarding dividend policies. It seeks to explain (1) the factors that companies should consider when setting a dividend payment policy, (2) the perceptions of the relationship between dividend policy and firm value, and (3) the role of Zakat, tax and tax clienteles in determining payout ratios.

II. Requirements for Involvement in the Research Study

Participants are asked to participate in an interview for 45 to 60 minutes on the topics mentioned in section (I) above. No previous theoretical or academic knowledge on the dividend or taxation system is required from the participants. The main purpose of conducting the interview is to obtain opinions and views on dividend payment decisions for listed companies in Saudi Arabia.

III. Potential Risks from Involvement in the Research Study

Any opinion provided will be treated in strict confidence. Neither you nor your company will be identified in any published work. The data collected will be used only in aggregate to support my research.

IV. Benefits from Involvement in the Research Study

The findings from my research will enrich the research field of dividend payment policies by Saudi companies. The study will provide information on the dividend payment practices of Saudi-listed companies without identifying any company or individual. Results will be published in aggregate form.

V. Arrangements to Protect the Confidentiality of Data

Every effort will be made to respect the participants' anonymity. The data collected will be analysed by the principal researcher alone. Participants' names and interview transcripts will be held by the principal researcher and stored in a secure location in a password-protected file on a computer at Dublin City University (DCU). As you know, the confidentiality of information provided can only be protected within the limitations of the law.

VI. Disposal of Data After a Minimum Period

The interview audiotape will be stored for a minimum of six years and a maximum of 10 years, after which I will dispose of the data and delete all audiotapes from my computer at DCU.

VII. Confirmation That Involvement in the Research Study is Voluntary

I would like to confirm that your participation in this research study is voluntary, and you can withdraw from participating in the research study at any stage.

If participants have concerns about this study and wish to contact an independent person, please contact The Secretary, Dublin City University Research Ethics Committee, c/o Research and Innovation Support, Dublin City University, Dublin 9. Tel 01-7008000

Appendix B-4. Interview participant informed consent form

Dublin City University

Participant Informed Consent Form

I. Research Study Title

I am a full-time PhD student in the Business School, Dublin City University, Ireland. I am undertaking a research study on the dividend payment decisions of Saudi-listed companies under the supervision of Dr Thomas McCluskey and Prof. David Power.

II. Clarification of the Purpose of the Research

The aim of this research is to investigate the practices of Saudi companies, as listed on the Saudi Stock Exchange in December 2015, in setting their dividend payment policies. This study investigates the views of Saudi company's managers regarding dividend decisions. It seeks to explain (1) the factors that companies should consider when setting a dividend payment policy, (2) the perceptions of the relationship between dividend policy and firm value, and (3) the role of Zakat, tax and tax clienteles in determining payout ratios.

III. Confirmation of Particular Requirements as Highlighted in the Plain Language Statement

As stated in the Plain Language Statement, participants in this research will be asked to participate in a face-to-face interview, which the researcher will ask for permission to record (audio only).

Participant – please complete the following (Circle Yes or No for each question)

I have read the Plain Language Statement (or had it read to me)
Yes/No

I understand the information provided
Yes/No

I have had an opportunity to ask questions and discuss this study
Yes/No

I have received satisfactory answers to all my questions
Yes/No

I am aware that my interview will be audiotaped

Yes/No

IV. Confirmation that Involvement in the Research Study is Voluntary

I may withdraw from the research study at any point.

V. Advice regarding the Arrangements to be Made to Protect the Confidentiality of Data, including that Confidentiality of Information Provided, is Subject to Legal Limitations

Every effort will be made to respect the participants' anonymity. The data collected will be analysed by the principal researcher alone. Participants' names and interview transcripts will be held by the principal researcher and stored in a secure location in a password-protected file on a computer at DCU. As you know, the confidentiality of information provided can only be protected within the limitations of the law.

VI. Signature:

I have read and understood the information in this form. The researchers have answered my questions and concerns, and I have a copy of this consent form. Therefore, I consent to take part in this research project

Participants Signature: _____

Name in Block Capitals: _____

Date: _____

Appendix B-5. Interview guide topic

Interview Guide Topics

Section 1: Background Information

- Name of the participant.
- The current position of the participant in the company.
- Length of the participant's experience.
- Qualifications.
- Name of the company.
- Name of the sector that the company belong to.
- Company's turnover, earnings and dividends.

Section 1: Determinants of the Dividend Payments

- The **influencing factors** that Saudi companies should consider when setting their dividend payment decisions.
- A company should **avoid making changes** in its **dividend payment rates** that might have to be reversed in a year or so.
- A company should strive to maintain **an uninterrupted record of dividend payment.**
- A company should have a **target dividend payout ratio.**

Section 3: Market Signals

- The market views **dividend announcements entirely independent** of **earnings announcements**.
- **Dividend payments** provide **a signal** of **future earnings** prospects.
- In the long term, **an increase in dividends** will usually lead to **a rise in share price**, and in the short term, **a decrease in dividends** will usually lead to **a fall in the share price.**
- A change in **the existing dividend payout ratio** is more important than **the actual amount of dividends paid.**

- Shareholders perceive **dividend payments** to be **less risky** than the profit from **capital gains.**
- Shareholders generally use **dividend announcements as information** to help **assess a company's share value.**
- The **Saudi stock market** is **not efficient**, and the reaction to dividend announcements is not always justified.
- **Shareholders** base their **expectations** about **this year's dividend on:**
    a) The previous year's dividend
    b) The trend within the sector
    c) Last year's earnings
    d) Forecast earnings

Section 4: Zakat (Islamic tax) and Tax.

- The **role of Zakat** in the company's **dividend policies.**
- The **Zakat rate** should not be a strategic consideration **affecting dividend payment due** to its **low rate (2.5%).**
- The effect of **withholding tax** (5% on the dividend) **paid by non-resident shareholders** on the company's **dividend policies.**
- **Non-resident shareholders** in **high tax brackets** are attracted to **the low dividend-paying companies,** and the **opposite is also true.**
- **Non-resident shareholders** prefer returns from **dividends** (withholding tax 5%) rather than from **capital gains** (no tax on capital gains in the Saudi market).
- To diversify the country's resources and reduce the budget deficit, Gulf Cooperation Council (GCC) countries are currently studying a proposal of the imposition of a 10% tax on corporate profits. In your opinion, what would the impact be of this tax on the company's dividend payment policies and shareholders' investment policies (tax on the company's profit)?
- If there is **a tax on dividends**, will that have an **impact on resident shareholders'** preferences for dividends?
- **As a company**, will the imposition of **tax on dividends** change the amount of dividends you will pay and why?

- According to the Saudi Vision 2030 and the GCC agreement, Saudi Arabia will impose for the first time **a value-added value tax (VAT**) of 50%. Do you think this type of tax will have either a **direct or indirect effect on the company's dividend payment decision**?

Appendix B-6. An example analytical table for performing the thematic analysis

Company	Sector	Participant position	No. years	Qualifications	Dividend paid /not paid
L2	Cement	Financial manager	8	Bachelor of accounting, MBA, Saudi CPA and CFA	Dividend paid

The Analysis of Interview (2)

Data extract	Coded for	Sub-Theme	Themes
1-Basically, the first factor is the presence of liquidity that would enable the distribution process.	Cash flow (Liquidity)	**The Main Factors**	**Factors Influencing the Dividend Payment Decision**
2-The second element if the company does not engage in expansive and capitalistic projects.	Future investment opportunities		
In 2016, we started implementing our project (the new factory), and it began to withdraw from our liquidity. Last year, we distributed dividends but we did not reach the target payout that we wanted. We could say that we will not distribute until we pay our debts, but we are keen to fund part ourselves and get the rest from outside parties to minimise the cost of financing.	Future investment opportunities		
3-The company's obligations, especially if they are large debts, must be paid by a specific date. Priority is given to fulfilling the debts before distributing earnings to the shareholders, or to attempting to implement balancing between them. But of course, these three elements are the main determinants of the process at large.	Obligations (Debts)		
As you know, the cement sector depends to a large degree on the project sizes within a country, and of course, we have grown greatly accustomed to projects being 80%–90% implemented by the State, but the strategy has changed to making specific internal arrangements. Hence, no big projects occurred in 2016 or 2017, and thus the sales volume was low. We have no distributions. In 2017 there are no distributions.	Government projects	**Other Factors**	
Electricity and water all have a direct impact on business results and therefore have an impact on dividends. Yes, high electricity prices will directly affect the company's dividend decisions. If we talk about fuel, the question is whether to use gas, crude oil or use heavy oil.	Energy prices		

So far for industrial companies, there is no change; there has been no change in fuel prices.	No changes in energy prices for industrial companies		
The number of shareholders we have is about 10 thousand, and about 25% of these shares are owned by entities present since the establishment of the company. They have great loyalty. We also have shareholders from the Gulf states, from Kuwait, for 30 to 35 years. Their shares were inherited from their fathers and grandfathers because we had liquidity. We know the cement industry, and we have no doubtful debts because anything we sell is either cash or in exchange for a bank guarantee. If the customer does not pay us, we liquidate the warranty after offering several opportunities so that we could obtain our money. Then we have cash, and the question is, what should we do with this cash? Hence, if you have no expansions, then you might distribute it to the company's shareholders.	Shareholders Preferences.		
The second element is growth in the company itself. A long-term investor aims to get a certain return. Our company is keen to distribute earnings every year, but once again, we are in the process of building a new plant, and we need liquidity. Two years, 2017 and 2018, did not have distributions.	Continue to pay a dividend every year depending on investment opportunity	**Avoid Making Changes in the Dividend Payment Rate**	
As we've just said, we depend on the availability of liquidity, and of course the availability of liquidity must balance between two things.	Stability of the dividend depends on the availability of liquidity		
Look, in general, I think any shareholder and investor, not a speculator, the shareholder and investor, look for two things: The first thing is stable dividends, regardless of the details. The important thing here is that there are dividends to build his plan upon. The second element is growth in the company itself.	Stable dividend payment increases shareholders loyalty.		
Our company prefers to have a target dividend rate, but it should not affect the performance of the company and the payment of its obligations and reputation with the banks. The company's goal is to return to its original state regarding the value in the distribution of earnings of 3 riyals per share. We have a plan to implement this, but it again depends on the completion of the capital investment expansions as well as the repayment of the debts of the company. Our goal is to go back to what we were, which is as 3 riyals per share. This is our goal. Is there a plan? Yes, there is a plan.	Target dividend payout ratio depends on the company's performance or the payment of its obligations.	**Target Payout Ratio**	

If we weren't keen to provide distributions to the shareholders, as we said, then we would finance the project from our own pockets, and instead of taking about two and a half years to end the project, we could end it in 4 or 5 years. We have no problem with funding from our side. Hence, there are no distributions, but we tried our best to shorten the duration to finish, God willing, to around mid-2019.	Recompense shareholders for their investment in a company	**Reward Shareholders**	**Dividends Matter to a Company**
100 % with this phrase, no efficiency or maturity.	Not efficient	**Characteristics**	**Saudi Stock Market**
100 % with this phrase, no efficiency or maturity.	Not mature		
The market reaction is sometimes unjustified by the distribution of earnings.	Unjustified reaction to dividend announcement.		
Unfortunately, the internal impact on the Saudi stock market is weak compared to the external impact of political problems, such as the events in Iran. When the share comes down, it drops about half a percent. Unfortunately, this is always happening, and there is never any impact or problem that has no effect on the Saudi market directly.	Affected by external (international) events.		
Transparency is there in the market because it is required of companies by force.	Transparency		
Transparency is required from the Capital Market Authority, and any company that does not provide information for investors to make their decision directly and impartially are held accountable. The Capital Market Authority was issuing regulations and issued regulations that are constantly being amended. There is still a guideline that follows governance and committees and these things all develop and improve the market.	Power of regulator		
The only problem in the market so far is its depth, so increase the depth of the market and list companies with strong capital and a large number of shares, and do not bring me any companies.	Market depth.		
How many insurance companies do we have? And they are at operating at a loss as well. Some of them are reducing their capital to cover their losses and return requests for capital increase and return again after two or three years to reduce the capital. Well, these companies are big, but the effect is not significant. On the contrary, these companies have a limited number of shares, meaning one or two or three people can agree. I mean, honestly, I was in a bank, and one of the shareholders came to me and said, 'buy this share in this company'. The price was 40 riyals. He told me that, in a month, it would be 200 riyals.	Speculative companies		

He was from an insurance company; should I believe him? No. He came to me a couple of weeks later and asked if I had entered. I told him that I didn't, and then he said that I desired nothing from you, and he started trying to convince me that he only cared about my benefits.	Rumours or word of mouth.		
So, I started monitoring its market and found out that it was indeed rising until it reached a high price. Investors agreed as a group and entered it and kept selling and buying to raise the price of the stock and then sell. These companies, which they call speculative companies, but when we discuss the petrochemical companies, banks, cement and some other companies such as AlMarai company and Panda, these companies are heavy performance companies. The speculators do not enter these companies, especially if the capital is large and the number of shares is big. The speculators will not approach these companies because, whatever the speculators do with these companies' shares, the companies' shares price will not go up. Heavy movement.	Big investors control particular shares		
In the Saudi stock market, there are three types of investors: 1. Speculators, who enter daily on the company three or four times for buying and selling without staying in long. 2. Short-term investors, who will sell their shares and benefit from the increase in the value of the shares before the date of the general assembly and approval of the distribution of earnings, as the share price will be reduced at the time. 3. Long-term investors, who focus on the following elements: First, distributed dividends independently. Second, the element of growth in the company itself. The third element is the board of directors and the executive management of the company in terms of stability and clear visibility of what goal they plan.	Types of investors		
Raise the market efficiency by increasing the size of the market with large companies that have strong capital and a large number of shares.	Big companies with large capital.	**Market Efficiency**	
In view of the stability of other factors that determine whether or not to distribute earnings (liquidity, availability of investment opportunities, obligations and economic situations), I can say yes; dividend distribution gives an indication of future earnings expectations for the company.	The weak role of dividends as a signal in the existence of other factors	**Dividends are Less Used as a Signalling Tool**	**Signalling Theory**
The outlook for the future is based on expectations of higher interest rates	Factors affecting signalling	**The Efficiency of**	

and forecasts of new projects and capital projects for the company itself. When we talk about the cement industry, there are expectations of an increase in the price of gas, crude oil and heavy oil, all of which are used to burn the materials used to produce and manufacture cement. The prices of these products will affect the cement sector companies.	role	**Dividends Signalling Tool**	
Unfortunately, most of the Saudi market consists of ordinary shareholders (individuals) who assess the company's performance only based on its distributions.	Dividends and the company's share value	**Dividends as an Important Tool Used by the Investor to Evaluate the Company's Share**	
Unfortunately, most of the Saudi market consists of ordinary shareholders (individuals) who assess the company's performance only based on its distributions.	Most investors depend on the dividends to value the company's share price		
Let us differentiate between shareholders who have the experience and the possibility of analysis and those who do not (individuals).	The type of investors	**Factors Affecting Dividends as an Evaluation Tool Used by Investors**	
For example, an individual investor sat in a meeting and company (x) distributed earnings goes with them.	Individual investor		
However, long-term investors begin to strike a balance between the company's dividend and its share price as well as studying the company's financial statements and positions.	Long-term investors		
In the long term, an increase in the dividend payment usually leads to an increase in the share price.	Relationship between an increase in dividends and share price	**The Increase in Dividends Leads to a Rise in a Company's Share Price**	
At the beginning of 2016, the share price of our company was around 38 riyals, and we distributed a small dividend. However, in 2017 there was no distribution, as during the previous three quarters the price went down to about 16 riyals. Throughout these few days, it has risen to 17 riyals because it is based on a state budget.	Relationship between a decrease or cut in dividends and share price	**The Decrease in Dividends Affects Company's Share Price.**	
There are projects, and there is a budget for the establishment of needs. So far, the picture is not clear, but there are positive indicators that all the cement companies will notice. This means that all these indicators help, and all have a direct relationship between the distribution and the price of the stock.	Government expansionary projects	**Other Factors that Affect Share Price**	
Look, I do not know, but my personal expectations are directly related to the long-term investor's decision, even if there is a decline in dividends. If it is a long-term investment, it will be considered 3, 4 or 5 years ahead.	The reaction of the market depends on the type of investors	**The Market Reaction to the Change in Dividend Distribution and**	

As the price value of the company has nothing to do in the process, the demand is slightly increased because there are distributions.		**Shareholders Expectations**	
Let's take our company as an example because the data are available to me. For example, our company during these two years had no dividends, but within 3 or 4 years the project ends and begins its move to the new plant. Work begins there, and this land becomes free, and you can benefit from it and pay off your debts and obligations and begin to generate cash, and you have no other obligations. The process, as it was, was an opportunity for the long-term investor. The price the company reached is almost the same as the book value (our company share price is about 17 riyals). The level of matching of the distributions to the shareholder depends on the long-term analysis. Cement companies, if you try to enter today and exit tomorrow, you will not benefit. On the contrary, you will lose. Let me tell you something.	Cut in the dividend and long-term investors		
Yes. The market separates on the date of the announcement of earnings and the date of commencement of the dividend payment, which is after the General Assembly by a week or ten days, where distribution is approved, and the date of distribution is approved.	Dates of announcements	**The Separation Between Company's Dividend and Earnings Announcements**	
The higher the risk, the higher the earnings, and the investor puts more money in companies, thinking they are stable companies. Or he goes to another company that distributes and has good dividend payments in comparison. He is supposed to balance between the return from dividend payments and the return from capital gains.	Investor and the investing company	**Bird on Hand Theory**	
Market trends are the number one factor that shareholders use to build their expectations about the current year dividends payment.	Trend within the sector	**Factors Considered by Shareholders to Forecast the Current Dividend Payment**	
As a cement sector, if there are big projects, there are big dividends, and this is one. The second element is to see if a company has capital expansions or capital construction.	Investment expansion projects		
Zakat has no effect on the company's decision to distribute earnings.	Zakat is not the main driver of dividends	**Zakat Payment Does Not Affect Dividends Payment**	**Zakat and Withholding Tax**
However, Zakat affects the date of dividend distribution. For example, our company distributed semi-annually, and then we converted from a semi-annual to a quarterly basis, which was an essential goal because we were	Zakat affects the date of dividends payment		

distributing half-year earnings, and the second half we distributed with the General Assembly, which would always come in the first quarter of the following year. Any amounts in the account that I planned or view as distributions I will pay Zakat on. For example, I decided that I would distribute two riyals, so I distributed one permanently without Zakat. The second riyal is the amount set aside and fulfilled in one year. If the second riyal fulfil one year inside the company, then you will pay Zakat on it.			
Zakat has an important role in the date of the distribution of earnings. For this reason, you must read the systems that are in it and try to benefit from the things in them as much as possible, in a way that does not violate this law of God first.	Try to avoid not evade the Zakat payment		
This is because, from the time there is a distribution of earnings. we always receive phone calls from inside or outside the Kingdom from people asking for my opinion on matters that are incompatible with the law of God. So, God comes first.	Shareholders ask the company to pay the due amount of Zakat		
This is because, from the time there is a distribution of earnings. we always receive phone calls from inside or outside the Kingdom from people asking for my opinion on matters that are incompatible with the law of God. So, God comes first.	Zakat is a religious factor		
Changing the dividend distribution from yearly to quarterly is not intended to evade Zakat, so we did one thing within the regulations set by the General Authority for Zakat and Tax.	Practices to avoid paying the Zakat.	**Dividend Payment Does Affect the Zakat Payment**	
If you could distribute earnings before December 21 of the year, there would be no Zakat, so we said make it quadruple and distribute it, and the third quarter make it before the 21st of December, so I still have the fourth quarter, which I must leave for the end of the year to the first quarter of the new year with the General Assembly to give me approval for dividend payment that have been made and give me approval for the new distribution. Hence, I saved money for myself, for you and for the other shareholders. And paying your Zakat is something between you and God.	Distributing earnings reduce the due amount of Zakat (Retrained earnings)		
The amount due of Zakat is paid not from the net income but from the Zakat base. Sometimes, the loans that you take and use in the working capital are part of the Zakat base. If you do not spend the loans for a full year because you are executing a specific project and this project needs to be paid in a certain way according to the percentage of completion, the remaining	Zakat base	**Zakat System**	

amount is a loan on which you pay interest.			
It is 99.9% that the Zakat base is larger than the tax base.	Zakat and tax bases		
There is a Zakat base item for calculating Zakat, which is based on one of two calculation strategies, either the net income or the equity rights. Some companies benefit from the movement that we have done and work with me. Because my net income is less than my equity rights, I benefited you and did not evade Zakat.	Methods of Zakat calculation		
There are many things that the General Authority of Zakat and Tax will do if it is discovered that the company evaded paying the Zakat. First, it will not give you a final Zakat certificate, it will only give you the temporary certificate. For companies that have projects with the state, a temporary Zakat certificate benefits them for one year, and, you know, sometime your dues are delayed more than a year, until you receive a final Zakat certificate. Second, if you are evading or doing anything directly, the General Authority of Zakat and Tax in coordination with the Ministry of Labour and the Ministry of Commerce can stop all your services. Third, and most importantly, the General Authority of Zakat and Tax has the right to look back 5 years if they suspect that there is something unclean, or fishy.	Zakat evasion consequences		
The 5% of withholding tax is nothing, meaning he did not enter the Saudi market with your company's stock value, unless he knows that if he invests in any of the companies in his country, the fees or taxes that he paid will be higher than in the Saudi market.	No impact of withholding tax	**The Role of Withholding Tax on Dividend Payment decision**	
The non-resident shareholder is the decision-maker at the end of the day and will strike a balance between what he pays and what he receives.	Taxpayers' brackets do not affect investors investment decisions.		
The preference between capital gains or dividends is the investor's personal decision. This investor, even if his income is taxed, is earning more at the end of the day than he owned which means that he is making a profit.	Dividends vs capital gains.		

VAT has no effect on the company's dividend payment decision because I am just cyclical as a receiver only. The effect of VAT would be indirect and it would simply be added to the purchase when a company buys something and uses it inside the company, whether or not direct use is considered an expense. The final consumer is affected by this tax.	No impact of VAT	**The Effect of the VAT on the Dividend Payment Decision**	

Appendix C: A Survey of Managers' Views on the Dividend Payment Decisions of Saudi Listed Companies

Appendix C-1. Status of family ownership by dividend payment

Comparison Variables		Does your company or any of its affiliate/subsidiary companies pay a dividend in ordinary shares (or common stock)?			
		Dividend Paid		Dividend Not Paid	
		count	%	count	%
Is your company a family-controlled business	Family Controlled	12	85.7	2	14.3
	Non-Family Controlled	49	72.1	19	27.9
Total		61	74.4	21	25.6

Note: The table provides more details of the 82 usable responses from firms by running a crosstab between the variable family ownership status and dividend payment status. These two variables were a result of the survey responses to the following questions in Section One: 'Does your company or any of its affiliate/subsidiary companies pay a dividend in ordinary shares (or common stocks)?' and 'Is your company a family-controlled business?'

Appendix C-2. Comparison of the independent two-sample t-test and the Mann-Whitney test for dividend payment determinants

	100% Saudi-owned company vs. mixed company (Saudis and foreigners)		Dividend Not Paid vs. Dividend Paid		Dividend Unchanged vs. Dividend Changed	
	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.
A company should base its current dividend policy on its current earnings.	0.765	0.920	0.364	0.596	0.745	0.916
A company should base its current dividend policy on its expected earnings.	0.040	0.042*	0.636	0.666	0.247	0.243
A company should determine its current dividend policy based on last year's dividend.	0.089	0.077	0.798	0.868	0.577	0.571
A company should base the current dividend policy on the amount of dividend paid by its competitors.	0.030*	0.020*	0.739	0.653	0.242	0.294
A company should avoid making changes in its dividend payment rates that might have to be reversed in a year or so.	0.521	0.448	0.942	1.000	0.384	0.388
A company should strive to maintain an uninterrupted record of dividend payments.	0.401	0.628	0.015*	0.024*	0.060	0.079
A company should base its current dividend policy on its level of debt financing.	0.099	0.090	0.542	0.561	0.753	0.904
A company should consider the availability of potential profitable investment opportunities before paying a dividend.	0.080	0.043*	0.173	0.159	0.393	0.386
A company should consider shareholders' preferences regarding dividends.	0.155	0.105	0.307	0.220	0.756	0.563
A company should determine its current dividend policy based on cash flow/liquidity considerations.	0.277	0.323	0.657	0.756	0.259	0.334
A company should have a target dividend payout ratio.	0.340	0.294	0.803	0.944	0.551	0.384
A company should consider the majority of its government shareholders a significant determinant of its dividend decisions.	0.579	0.571	0.068	0.088	0.900	0.946
A company should consider its family-dominated shareholders a significant determinant of its dividend decisions.	0.582	0.696	0.793	0.902	0.096	0.091
A company should consider projections about the future state of the economy/oil prices in its dividend decisions.	0.300	0.214	0.162	0.138	0.011	0.011*

Note: This table displays the findings of the parametric independent two-sample t-test and the non-parametric Mann-Whitney test for different statements related to the dividend payment section of the questionnaire. The p-values were used to determine if the two tests differed significantly. The results were similar except for one situation where variations were significant. Although the t-test for the statement 'A company should consider the availability of potentially profitable investment opportunities before paying a dividend' was not significant for ownership sub-groups (a 100% Saudi-owned company vs. a mixed ownership company) (t-test = 0.080), the p-value for the Mann-Whitney test was significant at the 0.043.

Appendix C-3. Comparison of the Independent Two-Sample T-Test with the Mann-Whitney Test for the Market and Shareholders' Reactions to Dividends

	100% Saudi owned company vs. mixed company (Saudi and foreigners)		Dividend Not Paid vs. Dividend Paid		Dividend Unchanged vs. Dividend Changed	
	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.
The market views dividend announcements entirely independently of earnings announcements.	0.673	0.702	0.807	0.791	0.802	0.705
Dividend payments provide a sign of future earnings prospects.	0.789	0.879	0.828	0.939	0.968	0.938
In the long term, an increase in dividend payments will usually lead to a rise in share prices.	0.481	0.389	0.555	0.779	0.910	0.735
A decrease in dividends will usually lead to a fall in share prices.	0.134	0.182	0.945	0.945	0.908	0.940
The market reaction to an increase in dividends will depend on how the new figure compares to shareholders' expectations.	0.387	0.489	0.240	0.356	0.473	0.653
The market reaction to a decrease in dividends will depend on how the new figure compares to shareholders' expectations.	0.282	0.333	0.954	0.873	0.773	0.589
A change in the existing dividend payout ratio is more important than the actual amount of dividends paid.	0.609	0.710	0.404	0.413	0.222	0.233
Shareholders perceive dividend payments to be less risky than the profit from capital gains.	0.253	0.224	0.798	0.981	0.665	0.806
Shareholders generally use dividend announcements to help assess a company's share value.	0.570	0.605	0.426	0.248	0.173	0.149
The market is not efficient, and the reaction to dividends is sometimes not justified.	0.520	0.362	0.600	0.400	0.769	0.984
Shareholders base their expectations about this year's dividend on the previous year's dividend.	0.092	0.070	0.795	0.743	0.331	0.324
Shareholders base their expectations about this year's dividend on trends within the sector.	0.829	0.800	0.832	0.598	0.807	0.569
Shareholders base their expectations about this year's dividend on last year's earnings.	0.166	0.196	0.260	0.292	0.306	0.345
Shareholders base their expectations about this year's dividend on forecast earnings.	0.743	0.653	0.871	0.903	0.393	0.440

Note: This table shows the results of the parametric independent two-sample t-test and the non-parametric Mann-Whitney test for the third section in the questionnaire regarding the market and shareholders' reactions to dividends. The p-values were used to assess whether the results of the two tests varied greatly. Both statistical test results were the same.

Appendix C-4. Comparison of the independent two-sample t-test and the Mann-Whitney test to determine the influence of Zakat and tax on a company's dividend policy

	100% Saudi-owned company vs. mixed company (Saudis and foreigners)		Dividend Not Paid vs. Dividend Paid		Dividend Unchanged vs. Dividend Changed	
	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.	T-test Sig.	Mann-Whitney Sig.
Zakat plays a pivotal role in a company's dividend decision.	0.215	0.251	0.015*	0.012*	0.668	0.682
A company can avoid or reduce its Zakat by distributing its earnings.	0.143	0.129	0.931	0.973	0.195	0.227
A company should avoid paying dividends and pay Zakat.	0.381	0.471	0.005*	0.015*	0.880	0.575
Zakat should not be a strategic consideration affecting dividend payment due to its low rate (2.5%).	0.837	0.806	0.255	0.143	0.735	0.611
Management should determine the annual dividend based on their perception of the tax status of the non-resident shareholders.	0.001*	0.002*	0.662	0.659	0.398	0.349
Non-resident shareholders in high tax brackets are attracted to low dividend-paying companies.	0.296	0.298	0.906	0.886	0.192	0.198
Non-resident shareholders in low tax brackets are attracted to high dividend-paying companies.	0.862	0.738	0.597	0.624	0.047*	0.062
The imposition of dividend-withholding tax reduces dividend payments to non-resident shareholders.	0.128	0.113	0.084	0.080	0.740	0.755
Non-resident shareholders prefer returns from dividends rather than from capital gains.	0.169	0.206	0.326	0.373	0.321	0.421
Taxes (i.e., corporate tax, dividend tax, or capital gains tax) are not a factor in setting resident shareholders' preferences for dividends.	0.405	0.488	0.345	0.331	0.399	0.417

Note: This table shows the findings of the parametric independent two-sample t-test and the non-parametric Mann-Whitney test for the fourth section of the questionnaire on the impact of Zakat and tax on a company's dividend policy. The p-values were used to determine whether the two tests differed significantly. For both tests, the findings were exactly the same except for the statement 'Non-resident shareholders in low tax brackets are attracted to high dividend-paying forms', where the p-value for the Mann-Whitney test was not significant at the level of 0.05; however, the t-test in this case was significant with a p-value of 0.047.

Appendix D: Share Price Reaction to the Dividend Announcements of Saudi-Listed Companies

Appendix D-1. The annual cash dividend announcement dates for the sample companies during the study period 2011–2018

No	Sector	Company Name	2011 mm/dd	2012 mm/dd	2013 mm/dd	2014 mm/dd	2015 mm/dd	2016 mm/dd	2017 mm/dd	2018 mm/dd
1	**Energy**	Aldrees Petroleum and Transport Services Co.	No	No	No	No	No	No	No	01-18
2		National Shipping Company of Saudi Arabia	No	12-22	12-19	12-11	12-24	12-18	12-14	12-11
3		Rabigh Refining and Petrochemical Co.	No	No	No	No	No	No	No	03-08
4		Saudi Arabia Refineries Co.	02-16	02-13	02-19	02-19	02-23	02-23	No	03-01
5	**Materials**	Al Jouf Cement Co.	No	No	03-05	No	No	No	No	No
6		Al Yamamah Steel Industries Co.	No	No	No	No	No	No	05-16	01-22
7		Basic Chemical Industries Co.	No	01-25	01-12	01-13	01-19	04-10	03-05	02-27
8		City Cement Co.	No	No	No	No	10-29	No	No	03-28
9		Eastern Province Cement Co.	02-14	02-12	02-17	02-13	02-15	02-23	02-14	03-21
10		Filing and Packing Materials Manufacturing Co.	No	No	01-19	01-15	01-27	No	01-31	No
11		Hail Cement Co.	No	No	No	No	08-09	No	02-15	No
12		Middle East Paper Co.	No	No	No	No	No	No	03-15	No
13		Najran Cement Co.	No	No	No	12-11	No	05-11	No	No
14		National Gypsum Co.	No	01-21	02-09	02-23	02-24	02-23	03-14	No
15		National Industrialization Co.	No	12-24	No	02-19	02-18	No	No	No
16		National Metal Manufacturing and Casting Co.	No	No	No	12-17	12-07	12-22	12-28	No
17		Sahara International Petrochemical Co.	12-20	07-28	No	No	06-29	No	12-20	No
18		Saudi Arabian Fertilizer Co.	No	No	No	06-23	No	06-19	No	No
19		Saudi Industrial Investment Group	12-25	12-16	12-17	12-21	No	No	No	No
20		Saudi Paper Manufacturing Co.	No	12-23	No	No	No	No	No	No
21		Saudi Steel Pipe Co.	09-26	02-20	No	No	No	No	No	No

22		Southern Province Cement Co.	No	No	07-21	No	No	No	No	No
23		Tabuk Cement Co.	No	No	No	06-30	02-19	01-10	No	No
24		Takween Advanced Industries Co.	No	No	No	02-17	No	No	No	No
25		The National Company for Glass Industries	No	No	No	12-25	No	07-20	No	No
26		United Wire Factories Co.	No	No	07-17	07-21	No	No	02-26	04-02
27		Yanbu Cement Co.	02-05	01-21	No	No	No	No	No	No
28		Zamil Industrial Investment Co.	No	07-28	No	No	No	07-27	No	No
29	**Capital Goods**	Abdullah A. M. Al-Khodari Sons Co.	No	No	02-24	02-24	04-05	No	No	No
30		Al-Babtain Power and Telecommunication Co.	No	No	10-27	11-25	10-29	11-21	No	No
31		Astra Industrial Group	02-21	02-19	02-23	02-26	No	No	03-19	No
32		Bawan Co.	No	No	No	No	No	No	No	03-26
33		Electrical Industries Co.	No	No	No	No	No	No	03-14	03-21
34		Saudi Arabian Amiantit Co.	No	02-01	02-03	02-06	No	02-14	No	No
35		Saudi Cable Co.	04-30	No	No	No	No	No	No	No
36		Saudi Ceramic Co.	No	12-29	12-31	No	12-28	12-29	No	No
37	**Commercial & Professional**	Saudi Printing and Packaging Co.	02-15	02-05	02-10	No	No	No	No	No
38	**Transportation**	Batic Investments and Logistics Co.	No	No	No	No	No	No	05-14	No
39		Saudi Industrial Services Co.	No	No	No	No	No	02-29	No	No
40		Saudi Public Transport Co.	01-23	02-19	01-06	02-24	No	01-05	01-24	01-29
41		United International Transportation Co.	No	No	No	No	No	No	No	02-01
42	**Consu-mer**	Al Abdullatif Industrial Investment Co.	02-22	No	No	No	No	02-25	02-08	03-08

43		Al Sorayai Trading and Industrial Group	No	No	No	02-20	No	No	No	No
44		Fitaihi Holding Group	No	No	01-11	No	No	No	No	No
45	Consumer Services	Abdulmohsen Alhokair Group for Tourism and Development	No	No	No	No	No	No	01-22	No
46		Alkhaleej Training and Education Co.	No	No	No	No	No	02-17	02-21	03-28
47		Seera Group Holding	No	No	No	No	No	No	05-03	No
48	Media & Entertainment	Saudi Research and Marketing Group	02-16	02-06	02-11	No	No	No	No	No
49		Tihama Advertising and Public Relations Co.	05-22	No	No	No	No	No	No	No
50	Retailing	Al Hassan Ghazi Ibrahim Shaker Co.	No	No	No	No	No	10-17	No	No
51		Fawaz Abdulaziz Alhokair Co.	03-01	01-14	No	No	04-27	No	No	No
52		Saudi Automotive Services Co.	12-19	No	02-16	No	12-29	No	No	No
53		Saudi Company for Hardware	No	No	No	No	No	No	07-27	No
54		United Electronics Co.	No	No	No	No	No	No	07-10	No
55	Food & Staples Retailing	Abdullah Al Othaim Markets Co.	01-18	09-16	02-05	No	02-23	02-23	No	No
56	Food & Beverages	Al Gassim Investment Holding Co.	No	No	No	No	No	No	05-22	No
57		Al-Jouf Agricultural Development Co.	12-17	12-09	12-30	12-28	12-17	12-12	No	No
58		Almarai Co.	No	No	No	12-28	No	12-06	12-11	12-10
59		Halwani Bros. Co.	No	12-29	12-23	12-23	12-21	12-25	12-24	No
60		Jazan Energy and Development Co.	No	No	No	No	No	No	01-01	No
61		National Agricultural Development Co.	No	No	02-13	No	No	No	No	No

62		Saudia Dairy and Foodstuff Co.	05-18	05-26	05-19	05-25	No	05-02	No	No
63		Savola Group	No	No	No	No	No	No	No	02-08
64		Tabuk Agricultural Development Co.	No	No	02-18	02-19	No	02-21	No	No
65	**Healthcare Equip-ment & Svc**	Al Hammadi Company for Development and Investment	No	No	No	No	No	02-24	12-11	No
66		Dallah Healthcare Co.	No	No	No	02-19	No	No	No	12-13
67		Middle East Healthcare Co.	No	No	No	No	No	No	03-05	03-29
68		Mouwasat Medical Services Co.	01-18	No	12-17	No	01-27	01-25	01-23	01-29
69		National Medical Care Co.	No	No	No	02-06	02-23	03-30	No	02-18
70		Saudi Chemical Co.	No	No	No	No	05-14	No	No	09-09
71	**Pharma, Bio-tech & Life Science**	Saudi Pharmaceutical Industries and Medical Appliances Corp.	02-20	02-19	02-20	No	02-17	02-16	03-12	No
72	**Banks**	Alinma Bank	No	No	No	No	12-21	12-20	12-13	12-02
73		Arab National Bank	No	12-18	No	No	No	No	No	No
74		Bank Albilad	No	No	No	No	No	12-29	09-26	01-14
75		Bank Aljazira	12-31	No	No	No	No	No	No	02-08
76		Banque Saudi Fransi	No	12-29	07-04	07-09	No	07-13	No	No
77		National Commercial Bank	No	No	No	No	No	07-27	No	No
78		Riyad Bank	No	No	06-22	No	No	07-18	No	No
79		Samba Financial Group	No	07-17	No	No	No	06-30	No	No
80		Saudi British Bank (SABB)	No	12-23	12-19	No	No	No	No	No
81		Saudi Investment Bank	No	No	No	No	No	No	No	02-14
82	**Diver-sified Finan-**	Aseer Trading, Tourism and Manufacturing Co.	No	12-31	12-25	12-21	12-22	12-21	No	No
83		Kingdom Holding Co.	No	02-25	02-23	02-24	02-23	02-22	04-12	03-29

84		Saudi Advanced Industries Co.	No	No	No	12-23	No	No	05-10	12-30
85	**Insurance**	Al Sagr Cooperative Insurance Co.	No	No	No	No	02-22	08-14	03-05	No
86		Alahli Takaful Co.	No	No	No	No	No	No	03-07	04-10
87		Aljazira Takaful Taawuni Co.	No	No	No	No	No	No	03-01	04-11
88		Bupa Arabia for Cooperative Insurance Co.	No	No	No	04-23	No	04-25	03-13	04-17
89		The Company for Cooperative Insurance	No	02-06	No	No	02-11	02-21	No	No
90		The Mediterranean and Gulf Insurance and Reinsurance Co.	03-29	02-11	No	No	No	No	No	No
91		United Cooperative Assurance Co.	No	03-17	No	No	No	No	No	No
92	**Utilities**	National Gas and Industrialization Co.	02-23	No	No	No	No	No	No	05-13
93		Saudi Electricity Co.	02-21	02-20	02-24	02-25	02-24	02-23	02-21	No
94	**REITs**	AlJazira Mawten REIT Fund	No	No	No	No	No	No	No	07-17
95	**Real Estate Mgmt & Devt**	Alandalus Property Co.	No	No	No	No	No	No	No	04-01
96		Arriyadh Development Co.	02-14	No	02-24	No	No	No	No	No
97		Dar Alarkan Real Estate Development Co.	No	No	No	No	No	No	No	04-26
98		Makkah Construction and Development Co.	No	05-16	05-05	04-24	04-06	03-31	03-23	No
99		Red Sea International Co.	No	No	No	No	No	01-27	02-15	No

Source: (Saudi Exchange, 2018)

Note: The table shows the annual cash dividend payment dates of 99 sample companies over the 2011–2018 study period.

Appendix D-2. Financial indicators for the sample companies on 31 December 2018

No	Company	Close Price (SAR)	Issued Shares (Million)	Net Income (SAR Million)	Shareholders' Equity (SAR Million)	EPS (SAR)	P/E Ratio	Book Value (SAR)	P/B Value
1	Aldrees Petroleum and Transport Services Co.	37.00	50.00	75.20	666.00	1.50	24.60	13.32	2.78
2	National Shipping Company of Saudi Arabia	33.40	393.75	596.86	9,294.42	1.52	22.03	23.60	1.41
3	Rabigh Refining and Petrochemical Co.	19.08	876.00	1,415.00	10,639.00	1.62	11.81	12.14	1.57
4	Saudi Arabia Refineries Co.	41.80	15.00	10.83	495.40	0.72	57.91	33.03	1.27
5	Al Jouf Cement Co.	7.75	143.00	-20.03	1,601.70	-0.14	(M)	11.20	0.69
6	Al Yamamah Steel Industries Co.	14.56	50.80	16.30	652.50	0.32	45.38	12.84	1.13
7	Basic Chemical Industries Co.	22.10	27.50	62.75	499.49	2.82	9.69	18.16	1.22
8	City Cement Co.	9.21	189.20	56.22	2,064.00	0.30	30.99	10.91	0.84
9	Eastern Province Cement Co.	20.72	86.00	53.00	2,187.00	0.62	33.62	25.43	0.81
10	Filing and Packing Materials Manufacturing Co.	34.75	11.50	3.68	186.30	0.32	108.59	16.20	2.15
11	Hail Cement Co.	7.90	97.90	-28.12	992.18	-0.29	(M)	10.13	0.78
12	Middle East Paper Co.	19.98	50.00	111.64	765.22	2.23	8.95	15.30	1.31
13	Najran Cement Co.	8.41	170.00	-77.43	1,952.55	-0.46	(M)	11.49	0.73
14	National Gypsum Co.	11.96	31.67	-1.42	442.58	-0.04	(M)	13.98	0.86
15	National Industrialization Co.	15.12	668.91	1,344.30	9,237.90	2.01	7.52	13.81	1.09
16	National Metal Manufacturing and Casting Co.	17.38	28.11	-8.02	371.25	-0.29	(M)	13.21	1.32
17	Sahara International Petrochemical Co.	15.12	438.80	624.82	5,228.51	1.42	10.62	11.92	1.27
18	Saudi Arabian Fertilizer Co.	77.10	416.67	1,232.41	7,329.09	2.96	26.07	17.59	4.38

19	Saudi Industrial Investment Group	22.88	450.00	1,237.00	7,178.00	2.75	8.32	15.95	1.43
20	Saudi Paper Manufacturing Co.	14.06	24.50	-76.70	193.90	-3.13	(M)	7.91	1.78
21	Saudi Steel Pipe Co.	18.08	51.00	-50.37	663.40	-0.99	(M)	13.01	1.39
22	Southern Province Cement Co.	36.85	140.00	258.30	3,105.00	1.85	19.97	22.18	1.66
23	Tabuk Cement Co.	11.10	90.00	-86.19	1,084.59	-0.96	(M)	12.05	0.92
24	Takween Advanced Industries Co.	9.64	95.00	-95.07	721.70	-1.00	(M)	7.60	1.27
25	The National Company for Glass Industries	18.00	32.90	29.50	650.40	0.90	20.07	19.77	0.91
26	United Wire Factories Co.	14.18	43.88	25.66	516.45	0.58	24.25	11.77	1.20
27	Yanbu Cement Co.	24.00	157.50	153.00	3,174.00	0.97	24.71	20.15	1.19
28	Zamil Industrial Investment Co.	17.40	60.00	-41.92	1,539.41	-0.70	(M)	25.66	0.68
29	Abdullah A. M. Al-Khodari Sons Co.	6.80	55.78	-79.34	379.56	-1.42	(M)	6.80	1.00
30	Al-Babtain Power and Telecommunication Co.	19.80	42.63	86.00	801.90	2.02	9.82	18.81	1.05
31	Astra Industrial Group	16.40	80.00	43.62	1,070.31	0.55	30.08	13.38	1.23
32	Bawan Co.	13.24	60.00	28.72	827.72	0.48	27.66	13.80	0.96
33	Electrical Industries Co.	16.86	45.00	41.58	605.04	0.92	18.25	13.45	1.45
34	Saudi Arabian Amiantit Co.	5.84	115.50	-128.99	845.76	-1.12	(M)	7.32	0.80
35	Saudi Cable Co.	38.20	11.06	-195.21	87.86	-17.65	(M)	7.94	4.81
36	Saudi Ceramic Co.	19.44	60.00	-198.56	1,494.00	-3.31	(M)	24.90	0.78
37	Saudi Printing and Packaging Co.	16.18	60.00	-69.86	787.70	-1.16	(M)	13.13	1.23
38	Batic Investments and Logistics Co.	38.00	30.00	22.04	362.65	0.73	51.74	12.09	3.14
39	Saudi Industrial Services Co.	10.84	81.60	30.60	1,065.50	0.38	28.91	13.06	0.83
40	Saudi Public Transport Co.	13.96	125.00	36.65	1,632.12	0.29	47.61	13.06	1.07
41	United International Transportation Co.	26.35	71.17	145.11	1,087.13	2.04	12.92	15.28	1.72

42	Al Abdullatif Industrial Investment Co.	11.12	81.25	17.87	1,184.80	0.22	50.56	14.58	0.76
43	Al Sorayai Trading and Industrial Group	14.80	22.50	-25.14	194.17	-1.12	(M)	8.63	1.71
44	Fitaihi Holding Group	10.84	55.00	-4.66	643.31	-0.08	(M)	11.70	0.93
45	Abdulmohsen Alhokair Group for Tourism and Development	17.28	55.00	-25.66	657.20	0.47	(M)	11.95	1.45
46	Alkhaleej Training and Education Co.	13.02	45.00	31.05	535.23	0.69	18.87	11.89	1.09
47	Seera Group Holding	20.00	209.65	-146.00	5,655.00	-0.70	(M)	26.97	0.74
48	Saudi Research and Marketing Group	82.80	80.00	130.70	1,053.00	1.63	50.68	13.16	6.29
49	Tihama Advertising and Public Relations Co.	44.55	7.50	0.29	59.20	0.04	1,152.16	7.89	5.64
50	Al Hassan Ghazi Ibrahim Shaker Co.	8.51	63.00	-188.00	772.28	-2.98	(M)	12.26	0.69
51	Fawaz Abdulaziz Alhokair Co.	22.00	210.00	306.06	2,502.00	1.46	15.09	11.91	1.85
52	Saudi Automotive Services Co.	16.88	60.00	32.42	727.35	0.54	31.24	12.12	1.39
53	Saudi Company for Hardware	66.20	36.00	100.39	596.35	2.79	23.74	16.57	4.00
54	United Electronics Co.	64.00	50.00	155.80	579.70	3.12	20.54	11.59	5.52
55	Abdullah Al Othaim Markets Co.	70.20	90.00	363.20	1,554.12	4.04	17.40	17.27	4.07
56	Al Gassim Investment Holding Co.	10.80	30.00	3.47	319.94	0.12	93.27	10.66	1.01
57	Al-Jouf Agricultural Development Co.	21.60	30.00	22.96	679.89	0.77	28.22	22.66	0.95
58	Almarai Co.	48.00	1,000.00	2,152.10	13,387.90	2.15	22.30	13.39	3.59
59	Halwani Bros. Co.	45.25	28.57	64.20	461.60	2.25	20.14	16.16	2.80
60	Jazan Energy and Development Co.	14.80	50.00	-1.78	591.17	-0.04	(M)	11.82	1.25
61	National Agricultural Development Co.	29.45	84.70	42.01	1,474.94	0.50	59.38	17.41	1.69

62	Saudia Dairy and Foodstuff Co.	100.40	32.50	212.11	1,337.63	6.53	15.38	41.16	2.44
63	Savola Group	26.80	533.98	-31.90	7,634.20	-0.06	(M)	14.30	1.87
64	Tabuk Agricultural Development Co.	9.93	45.00	-17.48	513.94	-0.39	(M)	11.42	0.87
65	Al Hammadi Company for Development and Investment	25.10	120.00	102.88	1,458.25	0.86	29.28	12.15	2.07
66	Dallah Healthcare Co.	56.20	59.00	172.40	1,650.80	2.92	19.23	27.98	2.01
67	Middle East Healthcare Co.	32.45	92.04	224.25	1,406.86	2.44	13.32	15.29	2.12
68	Mouwasat Medical Services Co.	80.50	100.00	373.39	1,627.76	3.73	21.56	16.28	4.95
69	National Medical Care Co.	50.30	4,485.00	87.98	990.56	1.96	25.64	22.09	2.28
70	Saudi Chemical Co.	31.05	63.24	128.16	1,502.16	2.03	15.32	23.75	1.31
71	Saudi Pharmaceutical Industries and Medical Appliances Corp.	29.40	120.00	158.34	2,918.53	1.32	22.28	24.32	1.21
72	Alinma Bank	22.98	1,500.00	2,416.00	20,212.00	1.61	14.27	13.47	1.71
73	Arab National Bank	31.90	1,000.00	3,260.10	24,725.00	3.26	9.78	24.73	1.29
74	Bank Albilad	27.25	600.00	1,044.90	7,940.60	1.74	15.65	13.23	2.06
75	Bank Aljazira	14.28	820.00	947.80	11,646.00	1.16	12.35	14.20	1.01
76	Banque Saudi Fransi	31.40	1,205.36	3,461.00	31,836.00	2.87	10.94	26.41	1.19
77	National Commercial Bank	47.85	3,000.00	10,576.00	55,503.87	3.53	13.57	18.50	2.59
78	Riyad Bank	19.82	3,000.00	4,338.00	36,750.00	1.45	13.71	12.25	1.62
79	Samba Financial Group	31.40	2,000.00	5,336.20	42,813.00	2.67	11.77	21.41	1.47
80	Saudi British Bank (SABB)	32.65	1,500.00	4,424.00	32,727.00	2.95	11.07	21.82	1.50
81	Saudi Investment Bank	17.12	750.00	1,436.70	12,500.00	1.92	8.94	16.67	1.03
82	Aseer Trading, Tourism and Manufacturing Co.	9.21	126.39	-347.62	1,620.00	-2.75	(m)	12.82	0.72
83	Kingdom Holding Co.	7.80	3,705.88	704.90	30,815.00	0.19	41.01	8.32	0.94
84	Saudi Advanced Industries Co.	12.94	50.00	40.86	833.36	0.82	15.83	16.67	0.78

85	Al Sagr Cooperative Insurance Co.	12.36	40.00	21.05	459.31	0.53	23.49	11.48	1.08
86	Alahli Takaful Co.	28.50	16.67	28.18	247.15	1.69	16.85	14.83	1.92
87	Aljazira Takaful Taawuni Co.	17.52	35.00	29.79	387.91	0.85	20.58	11.08	1.58
88	Bupa Arabia for Cooperative Insurance Co.	81.00	120.00	534.16	2,517.47	4.45	18.20	20.98	3.86
89	The Company for Cooperative Insurance	60.30	125.00	-657.99	2,162.05	-5.26	(M)	17.30	3.49
90	The Mediterranean and Gulf Insurance and Reinsurance Co.	16.18	80.00	-82.63	376.09	-1.03	(M)	4.70	3.44
91	United Cooperative Assurance Co.	11.88	40.00	-35.83	401.86	-0.90	(M)	10.05	1.18
92	National Gas and Industrialization Co.	28.00	75.00	92.01	1,139.00	1.23	22.82	15.19	1.84
93	Saudi Electricity Co.	15.14	4,166.59	37.00	77,099.00	0.01	1,704.93	18.50	0.82
94	AlJazira Mawten REIT Fund	14.42	11.80	9.69	124.74	0.82	17.55	10.57	1.36
95	Alandalus Property Co.	14.30	70.00	60.05	1,133.65	0.86	16.67	16.20	0.88
96	Arriyadh Development Co.	14.54	133.33	205.80	1,895.00	1.54	11.36	14.21	1.23
97	Dar Alarkan Real Estate Development Co.	9.02	1,080.00	797.13	18,669.83	0.74	12.22	17.29	0.52
98	Makkah Construction and Development Co.	79.00	164.82	170.00	5,850.86	1.03	76.59	35.50	2.23
99	Red Sea International Co.	15.90	60.00	-94.78	762.47	-1.58	(M)	12.71	1.25

Source: (Saudi Stock Exchange, 2018a)

Note: The table shows the financial indicators for the 99 sample companies on 31 December 2018, including the companies' share prices, issued shares, net income, shareholders' equity, earnings per share (EPS), price to earnings ratio (P/E) and price to book value (P/B). Companies that did not disclose their net income or reported negative net income (recent four quarters), are not included in the computation of P/E ratio for the market and industries. Based on recent financial data of four quarters (3rd.–Q 2018 as current for all companies), M: indicates a negative ratio because of losses that the company made.

Appendix D-3. Share price performance around the 11-day event window for a parametric test

Day	Abnormal Returns			Excess Returns		
	MEAN	SD	P-value	MEAN	SD	P-value
t-5	0.0013	0.0185	0.255	0.0016	0.0188	0.168
t-4	0.0003	0.0163	0.769	0.0000	0.0170	0.992
t-3	-0.0011	0.0155	0.246	-0.0008	0.0153	0.404
t-2	0.0016	0.0317	0.389	0.0019	0.0317	0.317
t-1	0.0007	0.0242	0.643	0.0009	0.0247	0.522
t 0	0.0050	0.0213	0.000*	0.0052	0.0213	0.000*
t+1	0.0015	0.0201	0.213	0.0017	0.0199	0.158
t+2	-0.0012	0.0150	0.199	-0.0010	0.0148	0.269
t+3	-0.0011	0.0142	0.201	-0.0008	0.0146	0.380
t+4	-0.0009	0.0156	0.340	-0.0004	0.0157	0.640
t+5	-0.0012	0.0148	0.195	-0.0006	0.0143	0.503

Note: This table illustrates the abnormal and excess returns for the 99 sample companies that announced 280 dividend payments for 11 days around the dividend announcement (DA) date (Day t_0). SD relates to the standard deviation, while p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed t-test.

Appendix D-4. Share price performance around the 11-day event window for a non-parametric test

Day	Abnormal Returns			Excess Returns		
	Median	SD	p-value	Median	SD	p-value
t-5	-0.0003	0.0185	0.944	-0.0004	0.0188	0.893
t-4	0.0001	0.0163	0.731	-0.0006	0.0170	0.887
t-3	-0.0007	0.0155	0.118	-0.0008	0.0153	0.161
t-2	-0.0009	0.0317	0.498	-0.0011	0.0317	0.664
t-1	0.0006	0.0242	0.212	0.0006	0.0247	0.168
t-0	0.0024	0.0213	0.001*	0.0028	0.0213	0.000*
t+1	-0.0013	0.0201	0.856	-0.0004	0.0199	0.623
t+2	-0.0020	0.0150	0.039*	-0.0023	0.0148	0.050*
t+3	-0.0016	0.0142	0.013*	-0.0013	0.0146	0.043*
t+4	-0.0011	0.0156	0.095	-0.0008	0.0157	0.163
t+5	-0.0005	0.0148	0.139	-0.0006	0.0143	0.232

Note: This table shows the median abnormal and excess returns for the 99 sample companies that announced 280 dividend payments for 11 days around the dividend announcement (DA) date (Day t0). SD relates to the standard deviation, while p-value represents the Wilcoxon signed-rank test, which examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed Wilcoxon test.

Appendix D-5. Share price performance around the 11-day event window for dividend increase companies using a parametric test

Day	Abnormal Returns			Excess Returns		
	MEAN	SD	P-value	MEAN	SD	P-value
t-5	0.0022	0.0203	0.09	0.0026	0.0211	0.06
t-4	-0.0005	0.0161	0.35	-0.0010	0.0170	0.23
t-3	-0.0010	0.0151	0.20	-0.0006	0.0155	0.32
t-2	0.0010	0.0380	0.37	0.0014	0.0381	0.32
t-1	0.0006	0.0293	0.39	0.0007	0.0301	0.38
t 0	0.0071	0.0232	0.00*	0.0076	0.0232	0.00*
t+1	0.0028	0.0218	0.05*	0.0032	0.0216	0.03*
t+2	-0.0017	0.0161	0.09	-0.0014	0.0158	0.13
t+3	-0.0010	0.0157	0.21	-0.0006	0.0163	0.31
t+4	-0.0012	0.0152	0.16	-0.0005	0.0157	0.34
t+5	-0.0015	0.0155	0.11	-0.0008	0.0149	0.24

Note: This table highlights the abnormal and excess returns for the 162 announcements with an increase in the dividend payment level for 11 days around the dividend announcement (DA) date (Day t_0). SD relates to the standard deviation, while the p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed t-test.

Appendix D-6. Share Price Performance Around the 11-Day Event Window for Dividend Increase Companies Using a Non-parametric Test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-value	Median	SD	P-value
t-5	-0.0004	0.0203	0.867	-0.0005	0.0211	0.907
t-4	-0.0004	0.0161	0.744	-0.0007	0.0170	0.449
t-3	-0.0007	0.0151	0.323	-0.0010	0.0155	0.334
t-2	-0.0014	0.0380	0.276	-0.0016	0.0381	0.472
t-1	0.0010	0.0293	0.119	0.0010	0.0301	0.145
t-0	0.0037	0.0232	0.000*	0.0041	0.0232	0.000*
t+1	0.0002	0.0218	0.383	0.0013	0.0216	0.214
t+2	-0.0029	0.0161	0.096	-0.0023	0.0158	0.164
t+3	-0.0016	0.0157	0.068	-0.0009	0.0163	0.139
t+4	-0.0012	0.0152	0.279	-0.0002	0.0157	0.493
t+5	-0.0003	0.0155	0.363	-0.0003	0.0149	0.537

Note: This table presents the median abnormal and excess returns for the 162 announcements with an increase in the dividend payment level for 11 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank test examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed Wilcoxon test.

Appendix D-7. Share price performance around the 11-day event window for dividend decrease companies using a parametric test

Day	Abnormal Returns			Excess Returns		
	MEAN	SD	P-value	MEAN	SD	P-value
t-5	-0.0021	0.0134	0.182	-0.0019	0.0134	0.214
t-4	0.0066	0.0158	0.011*	0.0061	0.0165	0.020*
t-3	-0.0030	0.0115	0.072	-0.0024	0.0116	0.119
t-2	-0.0006	0.0113	0.383	-0.0007	0.0122	0.380
t-1	0.0019	0.0129	0.206	0.0012	0.0129	0.291
t 0	-0.0008	0.0137	0.369	-0.0017	0.0144	0.257
t+1	-0.0034	0.0220	0.192	-0.0040	0.0213	0.148
t+2	-0.0022	0.0119	0.146	-0.0023	0.0115	0.129
t+3	-0.0001	0.0095	0.477	-0.0002	0.0095	0.463
t+4	-0.0004	0.0091	0.403	-0.0008	0.0086	0.308
t+5	-0.0019	0.0119	0.188	-0.0011	0.0110	0.293

Note: This table highlights the abnormal and excess returns for the 33 announcements of a decrease in the dividend payment level for 11 days around the dividend announcement (DA) date (Day t_0). SD refers to the standard deviation, while the p-value relates to a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed t-test.

Appendix D-8. Share price performance around the 11-day event window for dividend decrease companies using a non-parametric test

Day	Abnormal Returns			Excess Returns		
	Median	SD	P-value	Median	SD	P-value
t-5	-0.0033	0.0134	0.264	-0.0031	0.0134	0.339
t-4	0.0008	0.0158	0.114	-0.0006	0.0165	0.264
t-3	-0.0011	0.0115	0.48	-0.0005	0.0116	0.611
t-2	-0.0013	0.0113	0.728	-0.0017	0.0122	0.701
t-1	0.0003	0.0129	0.586	-0.0020	0.0129	0.796
t 0	-0.0027	0.0137	0.837	-0.0022	0.0144	0.623
t+1	-0.0028	0.0220	0.249	-0.0055	0.0213	0.166
t+2	-0.0018	0.0119	0.339	-0.0028	0.0115	0.235
t+3	-0.0005	0.0095	0.837	0.0001	0.0095	0.852
t+4	-0.0004	0.0091	0.503	-0.0014	0.0086	0.469
t+5	-0.0018	0.0119	0.33	-0.0005	0.0110	0.501

Note: This table indicates the median abnormal and excess returns for the 33 announcements with a decrease in the dividend payment level for 11 days around the dividend announcement (DA) date (Day t_0). The Wilcoxon signed-rank test examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a one-tailed Wilcoxon test.

Appendix D-9. Share price performance around the 11-day event window for the dividend no change announcements using a parametric test

Day	Abnormal Returns			Excess Returns		
	MEAN	SD	P-value	MEAN	SD	P-value
t-5	0.0008	0.0166	0.650	0.0008	0.0158	0.636
t-4	-0.0007	0.0164	0.703	-0.0005	0.0170	0.785
t-3	-0.0005	0.0174	0.789	-0.0005	0.0163	0.792
t-2	0.0037	0.0224	0.135	0.0039	0.0223	0.113
t-1	0.0003	0.0155	0.861	0.0012	0.0150	0.459
t 0	0.0031	0.0194	0.140	0.0034	0.0189	0.106
t+1	0.0008	0.0154	0.614	0.0010	0.0152	0.530
t+2	0.0002	0.0141	0.871	0.0003	0.0141	0.833
t+3	-0.0016	0.0127	0.239	-0.0012	0.0128	0.378
t+4	-0.0005	0.0183	0.807	-0.0002	0.0180	0.912
t+5	-0.0003	0.0148	0.873	0.0001	0.0145	0.960

Note: This shows the abnormal and excess returns for the 85 announcements with no change in the dividend payment level from the last year for 11 days around the dividend announcement (DA) date (Day t_0) .SD relates to the standard deviation, while the p-value represents a one-sample t-test of the null hypothesis that the mean is equal to zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed t-test.

Appendix D-10. Share price performance around the 11-day event window for the dividend no change announcements using a non-parametric test

Day	Abnormal Returns			Excess Returns		
	Median	SD	p-value	Median	SD	p-value
t-5	0.0018	0.0166	0.660	0.0012	0.0158	0.663
t-4	0.0002	0.0164	0.977	0.0000	0.0170	0.925
t-3	-0.0015	0.0174	0.380	-0.0007	0.0163	0.419
t-2	0.0000	0.0224	0.594	0.0003	0.0223	0.599
t-1	-0.0011	0.0155	0.866	0.0002	0.0150	0.741
t 0	0.0015	0.0194	0.154	0.0025	0.0189	0.085
t+1	-0.0022	0.0154	0.804	-0.0019	0.0152	0.991
t+2	-0.0018	0.0141	0.359	-0.0012	0.0141	0.319
t+3	-0.0022	0.0127	0.076	-0.0023	0.0128	0.181
t+4	-0.0012	0.0183	0.200	-0.0015	0.0180	0.185
t+5	-0.0011	0.0148	0.406	-0.0023	0.0145	0.389

Note: This table indicates the median abnormal and excess returns for the 85 announcements with no change in the dividend payment level from the last year for 11 days around the dividend announcement (DA) date (Day t0). The Wilcoxon signed-rank test examines the null hypothesis that the median is different from zero. An asterisk (*) indicates significance at the 5% level based on a two-tailed Wilcoxon test.