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DIVIDEND SIGNALS AND MARKET RESPONSE IN AN EMERGING ECONOMY: SECTOR-LEVEL EVIDENCE FROM SAUDI ARABIA

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ABSTRACT

This study examines stock market reactions to dividend announcements in an emerging economy, using sector-level evidence from the Saudi stock market. The analysis applies an event study methodology with an event window of −15 to +15 trading days and a panel regression framework to evaluate both short-term market responses and firm-level determinants of those responses. The event study results show that average abnormal returns are statistically significant around dividend announcement dates, with a positive abnormal return of 4.0% on the announcement day and economically meaningful cumulative average abnormal returns of 5.1% and 8.4% over the (−3, +3) and (−5, +5) event windows, respectively. These findings indicate that dividend announcements convey value-relevant information that is not fully anticipated by investors. The panel regression results further reveal that dividend per share and firm profitability have a positive and significant effect on market response, while leverage exerts a negative influence. Firm size is found to amplify investor reaction, reflecting higher information transparency and market visibility for larger firms. Moreover, the results demonstrate substantial sectoral heterogeneity, with stronger market responses observed in sectors characterized by more stable earnings and predictable cash flows. Overall, the findings confirm that dividend announcements function as informative signals in the Saudi stock market and that both firm fundamentals and sectoral context play a critical role in shaping investor reactions in an emerging market setting.

KEYWORDS: Dividend Announcements, Market Reaction, Event Study, Panel Regression, Sectoral Analysis, Saudi Stock Market, Emerging Markets.

1. INTRODUCTION

Dividend announcements are one of the most important corporate disclosures and they reveal to the market: a) the financial strength of firms; b) future prospects, and c) managerial beliefs. In stock markets, the issuance of dividends is a widely-observed indicator of firm value and serves as an information dissemination channel to reduce information asymmetry between management control and investors in securities market, resulting in stock price adjustment (Sarabia, 2011). Empirical studies in emerging markets usually also find abnormal returns around the day of dividend announcement, which emphasizes the role of dividends as informative signals where market efficiency is less than complete (Adhikari, 2024). Relative to developed markets, emerging ones suffer from poor information environments, high investor uncertainty and greater dependence on publicly disclosed corporate signals along with an enhanced role for the dividends news impact upon market reactions (Bhattacharya, 1979; Miller & Rock, 1985).

What is known about the information content of dividends is nicely summarized from a number of well-established theoretical approaches. The dividend signaling hypothesis suggests that firms can signal their private information about future earnings and cash flows by making dividend decisions, as the market will perceive different dividends due to differences in amounts of private information made available to the capital (Bhattacharya, 1979; Miller & Rock, 1985). Agency theory also contends that, by the dividend payments, agency conflicts is declined through reducing managerial controlled free cash flow, and consequently increase firm value and investor motivation (Jensen 1986; La Porta et al. Furthermore, from a behavioral perspective, investors tend to have a behavioral attitude for dividend paying firms and can over react to dividend news because of psychological predispositions and reference-point behavior (Shefrin & Statman, 1984; Baker et al., 2016). Both these models suggest that dividends announcements should lead to at least some market reactions, especially within emerging markets where latent information asymmetry will be high.

Saudi Arabia provides an interesting setting in which to investigate the effect of dividend signals on stock market reaction for an emerging economy. The stock market of Saudi Arabia (Tadawul) is the largest and most liquid exchange in the Middle East and has been undergoing significant regulatory changes for increasing disclosure, transparency as well as investor protection (Al-Faryan & Shil, 2024). However, the market's structural characteristics remain unique after these reforms where the ownership is concentrated, family-owned companies are widespread and there is a reaction towards economic and policy news that potentially leads to investors interpreting dividend signals differently (Aldahoum, 2021). Additionally, demanding times of increased uncertainty over the recent years and most notably due to COVID-19 led to more stock price variation in Saudi Arabia compared to other economies and such a context puts into question the significance of firm-level announcements like dividends as material information cues (Belkhir & Abbes, 2024). Despite the fact that previous studies have investigated how market react to dividend announcements in different emerging and GCC markets, the available evidence is still inadequate concerning sectoral level analysis and divergent market reactions within Saudi Arabia (Al-Khasawneh et al., 2024). The majority of studies concentrate on the systemic effects in the markets and do not consider about cross-sectional differences that result from different firm characteristics, types of ownership and the degree of economic sensitivity. This paper fills this void by presenting industry-specific evidence about dividend signals and stock price reaction in Saudi Arabia. The main purpose is to investigate the abnormal stock market reactions caused by announcements of dividend payments and how these vary between sectors in an emerging market. This analysis adds to the literature on dividend signaling and provides implications for both investors, corporate executives and policy makers. The rest of the paper is organized as follows: in section 2, I review the relevant literature and theoretical motivation then describe the approach to data analysis used; Section 5 presents empirical results whereas Section 6 discusses them; Section 8 concludes.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. Dividend Policy and Signaling Theories

The dividend policy has always been one of the cornerstones of corporate finance theory, especially in relation to firm's value and investor activities. Among the popular explanations of dividend announcements on stock returns, one is dividend signaling theory according to which managers signal private information about a firm's future prospects through their dividend decisions. In the presence of information asymmetry, dividend changes are credible signals because they are costly and hard to reverse. Dividend increases can thus be seen as an

indication of higher future earnings and stable future cash flows, whereas dividend cuts may be associated with bad news with negative market responses (Bhattacharya, 1979; Miller & Rock, 1985). This perspective is supported by various empirical evidence in emerging markets, indicating the presence of abnormal stock returns around dividend announcement days and hence the tendency of investors to update their expectations based on signals of dividends (Adhikari, 2024).

Agency theory provides a further explanation of the relationship between dividend policy and market reaction by magnifying conflicts of interest arising between the management of the firm, represented by Firms managerial opportunism, and shareholders. From this standpoint, excess free cash flow of firms can have a positive relation with agency costs since managers could invest in unprofitable projects that may not necessarily maximize shareholder value. Dividend payments alleviate the agency costs problem by decreasing available cash for managers to use at will and imposing monitoring from external capital markets on firms when new financing is needed (Jensen, 1986). From this perspective, dividend declarations can be seen as the governance tools that help in aligning management policies with the interest of shareholders and thus maximizing firm's value. There is also cross-country evidence suggesting that agency costs mitigated by dividends are more prevalent in a weak investor protection and high concentration of ownership environment, such as those found in emerging markets (La Porta et al., 2000). Under these conditions, dividend announcements should generate more powerful market reactions, as investors interpret them as indications that the level of agency risk has declined.

Behavioral theories of dividends extend the conventional ones by focusing on "investor sentiment and preferences. Behavioral finance claims that investors are not always entirely rational and may overvalue dividend-paying shares as a result of mental accounting, loss aversion, and income preferences. Dividends are often seen by investors as more "definite and tangible" than future capital gains, leading them to respond positively even when dividend payments do not change firm-level expectations or fundamentals (Shefrin & Statman, 1984). Consistent with this perspective, behavioral signaling literature posits that dividends serve as targets for investors; and surprises from normal pay-out levels result in asymmetric market effects depending on the direction of the announcement being greater or lower than expected (Baker et al., 2016). These behavioral mechanisms are particularly applicable to the study of emerging markets, in which investor sentiment and herding may magnify stock price responses to firm announcements.

In contrast to signaling, agency and behavioral theories, the pure start point of other theories is represented by the dividend irrelevance hypothesis. According to the dividend irrelevance proposition, firm value is not affected by dividends in perfect markets without taxes, transaction costs and information asymmetry because investors can replicate their own dividend income through changing of portfolios (Miller & Modigliani, 1961). Within this framework, dividend announcements do not lead to any abnormal returns since all information has already been impounded into prices. Nonetheless, abundant empirical evidence in developing countries contradicts this claim and proves that dividend announcements trigger an abnormal stock price reaction –which imply value (Adhikari, 2024; Budagaga, 2020), being these inconsistencies on theoretical predictions fundamental in the real world due to informational asymmetry problems usually found between financial proxies of agency conflicts or investor's behavior. These theoretical points of view jointly lay the groundwork for analyzing dividend signals and market reaction in an emerging economy, and justify the sectoral test employed in this study.

2.2. *Dividend Announcements and Market Response*

Dividend declarations have been widely studied in the finance literature as potentially causing stock market reactions, even more so in emerging markets with higher levels of information asymmetry and market inefficiency. It is empirically observed that investors from emerging markets significantly respond to the dividend announcements as credible signals for firm performance and prospects, creating significant abnormal returns around announcement dates. Research carried out in different emerging markets evidence positive and statistically significant market responses on dividend announcements, suggesting that these announcements provide new and value-relevant information to the investors (Puspitaningtyas, 2019). The extent of such reactions is generally more pronounced in emerging market conditions than within developed markets largely because the level of transparency and analyst coverage pertaining to these markets is usually lower accompanied with greater uncertainty which serves to increase the informational content of dividend announcements (Budagaga, 2020; Zainudin et al., 2018).

The event study approach has been widely used to investigate market reaction to dividend announcement by investigating abnormal stock returns surrounding this type of events. This methodology permits researchers to separate the effect of a dividend announcement from general market activity as well as examine how quickly and accurately markets take in new information. There is a large body of event study research reporting significant average abnormal returns and cumulative abnormal returns around the postulated windows of dividend announcements, which lends empirical support to the signal-joint hypothesis as well as that owing to information asymmetries (Kumar & Kadam, 2024). Evidence from developing and regional markets also suggest that the market reactions are not uniform, but may be different for firm specific attributes such as sectoral affiliation and general mar k et conditions, highlighting the importance of studying industry-level responses while investigating market responses to dividends (Pinto & Rastogi, 2019).

Moreover, recent studies have pointed out the sensitivity of market response to dividend declaration in periods characterized by increased uncertainty and economic difficulty. When market crisis happens (e.g., the COVID-19), investor behavior may change, as risk aversion and herding and volatility are expected to increase, which might amplify or change the market reaction to corporate announcements. Empirical evidence reveals exacerbated stock price responses and volatilities around dividend announcements during crisis times as investors are step up their response to firm-level signals, when the macro- uncertainty is high (Ramelli & Wagner, 2020; Chowdhury, 2022). Evidence from the Saudi Market and similar markets indicate the destructive impact of COVID-19 crisis on stock returns and volatility dynamics that makes information conveyed by dividend announcements as a signal during systemic stress periods very critical (Alshaikhmubarek et al., 2024). These results imply that the behavior of market around dividend announcement is context specific and may be adjusted under normal and crisis conditions and further provide an impetus for a study of dividend signals and market reaction in emerging economy setting.

2.3. Saudi Stock Market Context

The Saudi stock market (Tadawul) behaves as a unique institutional and regulatory framework in the context of emerging financial markets. Considerable structural and regulatory changes have occurred in the market over the last two decades to improve transparency, disclosure practices and market operations consistent with international norms. Regulatory efforts of the Saudi Capital Market Authority concentrated on improving corporate governance, enforcing timely disclosure to financial information and enhancing investor protection, which consequentially led into deeper and more participatory market (Al-Faryan & Shil 2024). The reforms have led to greater market liberalization and efficiency, but evidence indicates that the Tadawul seems reflect some characteristics common of emerging markets such as episodic volatility and an elevated level of sensitivity to firm-specific & policy-related news (Aldahoum, 2021). Accordingly, the corporate disclosure of dividend announcements remains a key factor in determining investor expectations and stock market reactions.

The Saudi market is also different from more mature markets in terms of both ownership structure and the information environment. Many listed companies are subject to ownership concentration, frequently at the hands of family-controlled or closely held firms, which may impact corporate decision making as well as information disclosure (Alhebri & Al-Duais, 2020). The high ownership concentration may deepen the information asymmetry between controlling and minority investors, which leads to a greater dependence on corporate signals that are observed (e.g. profitability or dividend announcement) in order to more accurately predict both firm performance and managerial motivation. Furthermore, the informative environment in Saudi Arabian is changing which tend to be consistent with continued commitment aimed at quality and transparency in financial reporting machineries including regulations leading to disclosure improvements and alignment of IAS/IFRS (Chehade & Procházka, 2024). Notwithstanding, researchers find evidence to suggest that investor actions in Tadawul are susceptible to uncertainty and behavioral issues especially during long stretches of economic stress, when herding and volatility strengthen (Aljifri, 2024; Belkhir & Abbes, 2024). These market features imply that dividend announcements may be of relatively high new information content in Saudi Arabia, thus supporting the investigation of market reactions at both aggregate and industry levels in this emerging economy setting.

2.4. Hypotheses Development

Based on literature in the area of dividend signaling, agency, and behavioral finance, this paper

provides hypotheses that are conceptually different from those derived in the main thesis but within its empirical context and information. In contrast to testing the direct effect of individual financial ratios as separate hypotheses, this study is based on a unifying market perspective which focuses on the information content of dividend announcements and investor heterogeneity that vary across sectors and firm attributes.

Under the dividend signaling hypothesis, an announcement of dividends contains new value relevant information to investors in emerging markets where the informational variables are relatively high. Some empirical evidence from developing nations indicates that stock prices tend to be influenced by dividend announcement dates through investors' revision of future cash flows and the firms overall financial health (Bhattacharya, 1979; Miller & Rock, 1985; Adhikari, 2024). In Saudi firm-specific environment, in which corporate communication influences investor sentiment vis-à-vis the markets (Al-Janadi, 2020), dividends announcements should elicit abnormal stock price reactions as investors respond to the information content of these signals (Aldahoum, (2021)).Thus, we propose the first hypothesis:

H1: Dividend announcements are associated with statistically significant abnormal stock returns in the Saudi stock market.

The market reaction to the issue of a dividend is unlikely to be uniform across industries because industry specific differences in cash availability, growth opportunities, positive net present value projects, regulatory involvement and risk profiles affect the way investors interpret information conveyed through dividends. Early research also shows that sector-specific conditions determine investor expectations and its heterogeneous impact on stock price in response to an identical corporate announcement (Al-Khasawneh et al., 2024). In a developing market like Saudi Arabia where sectors have different ownership structures and sensitivities to macroeconomic factors, dividend announcements may elicit heterogeneous market reactions across all sectors. Thus, the following second hypothesis is formulated:

H2: The magnitude and direction of abnormal stock returns following dividend announcements differ significantly across sectors in the Saudi stock market.

Besides industry effects, the financial properties of individual firms are also anticipated to influence the market reaction to dividend declarations. According to agency theory, investors make dividend inferences by considering the financial strength and profitability of firms as well as their ability to generate internal funds because dividends can alleviate agency costs which arise when free cash flows exist at managerial discretion (Jensen, 1986; La Porta et al., 2000). To the extent that firms have greater financial resources, they may be regarded as providing more credible and enduring dividend signals, which could magnify positive price responses. On the other hand, dividends of financially constrained or highly leveraged firms would trigger weaker reactions because investors are worried about maintaining payout. Evidence from emerging markets also corroborates the attenuating effect of firm-specific financial variables on stock market reactions to dividend-related announcements (Budagaga, 2020; Aman et al., 2022). Therefore, the third hypothesis is formulated as follows:

H3: Firm-level financial characteristics significantly influence the strength of stock market responses to dividend announcements in Saudi Arabia.

These all together set up a consistent theoretical skeleton which supersedes the metric-by-metric hypothesis structure employed in the thesis. The study's systematic explanation of the relation between announcement dividends, sector-specific heterogeneity and firm-level financial circumstances can be a foundation for investigating how dividend signals are received and interpreted by investors in an emerging market.

3. DATA DESCRIPTION

Our empirical analysis is based on a unique dataset comprising 68 listed companies on the Saudi Stock Exchange (Tadawul) in 2014– 2023, which enables us to investigate dividend signals and market reaction across the whole sector composition of the Saudi market. Dividend announcement dates are retrieved from officially announced corporate announcements made on Tadawul so all the event dates should be based on public and market-relevant information. These announcements are linked to daily stock price information for individual companies and the associated market index in order to calculate stock returns, as well as separating out firm-specific from market-wide movements in prices (Stadtler, (2001)). Furthermore monthly financial and accounting firm-specific variables are included to explain time variation in the financial condition of firms - against which panel data will be regressed.

The short-term market reactions to dividend announcements are analyzed using two event study data sets which have been created from an analysis

of dividend announcement dates. So daily return observations are available for all the firms in sample and abnormal returns of dividend announcement can be estimated. The announcement date is considered to be the event date in this study and unexpected returns are based on the pre\-event estimation period. A 30-trading-day event window is used to take into account both anticipatory trading and post-announcement market reactions. Two event datasets are employed, which enables me to control for differences in timing of announcements and market conditions during the sample period, and thus add robustness to the results of the event study. In addition to the short-term event study approach, the paper also employs a balanced panel data sample from 2014–2023 at monthly intervals for all firms in our sample. This panel data set combines market response indicators obtained using the event study with firm-specific financial variables, allowing for a test of the impact of firm-level financial characteristics on changes in wealth around dividend' announcements. The panel nature of the data enables one to uncover cross-sectional differences across firms and sectors, as well as time-varying feature over time. Variables are constructed in a consistent fashion over firms and time to ensure comparability and econometric reliability. The resulting sample is representative of the entire sectoral structure of the Saudi stock market and accounts for companies in all major sectors available in Tadawul. This extensive coverage of industries increases the external validity of our findings and allows us to explore sector-level heterogeneity in dividend signaling effects. The long horizons in the sample cover times when markets appear relatively stable and others characterized by greater uncertainty, such as during COVID-19, offering a fertile empirical context to examine how dividends act as informational signals across different periods. By combining event study data with a multi-year panel structure, the paper provides a solid and data-consistent platform to analyze of dividend signals and market responses in an emerging market.

4. METHODOLOGY

4.1. Event Study Methodology

The study is applied in the paper, as it is an appropriate methodology to investigate short-run stock market impacts of dividend announcements and can help control for firm-specific information releases on stock prices. Dividend declarations are considered as separate dissemination events, and the announcement date is the official revelation day when information about dividends becomes available to the public investors. This concept guarantees that any unusual stock price movements found within the event window is caused by news on dividends rather than news unrelated and market wide. The event study methodology has commonly been used in emerging markets to examine investor responses to dividend announcements and, more generally, firm disclosures (Adhikari, 2024).

Expected returns on the stock are calculated from the market model that is premised on a linear relationship between an individual firm's stock return and that of the market index. The model parameters are then estimated over a pre-event estimation window which captures typical return behavior in the absence of a dividend announcement. The market model used in following is defined as:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

where R_{it}denotes the return of firm i on day t, R_{mt}represents the market return on day t, $\alpha_i$and $\beta_i$are firm-specific parameters, and $\varepsilon_{it}$is the error term. This specification allows the analysis to control for systematic market movements while isolating firm-level abnormal performance associated with dividend announcements, a practice commonly adopted in dividend event studies (Kadyan et al., 2024; Kumar & Kadam, 2024). Abnormal returns are computed as the difference between the actual stock return observed during the event window and the expected return generated by the market model. Formally, abnormal returns are calculated as:

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$$

This is in fact a small part of the stock price movements that cannot be explained by overall market condition, and is related to the information in dividend announcement. Studying abnormal returns around the event date helps in examining how rapidly and fully dividend related information is impounded into equity prices of stocks, especially under emerging stock market environments which are quite prone to asymmetry (Bhattacharya, 1979; Miller & Rock, 1985). To examine the overall market reaction, abnormal returns are averaged across all companies in every trading day in the event window to estimate mean abnormal return, which is formulated as:

$$AAR_t = \frac{1}{N}\sum_{i=1}^{N} A\,R_{it}$$

where Ndenotes the number of firms included in the sample. The cumulative average abnormal return is then calculated by summing the average abnormal returns over a specified event window, as follows:

$$CAAR_{(t_1,t_2)} = \sum_{t=t_1}^{t_2} AA\,R_t$$

The CAAR measure captures the total market impact of dividend announcements over time and allows for the assessment of both immediate and short-term adjustments in stock prices. Statistical significance of the average and cumulative abnormal returns is assessed using standard parametric tests, enabling an evaluation of whether observed market reactions differ significantly from zero. This aggregation approach is well established in the empirical literature examining dividend announcements and market responses in emerging markets (Suganya & Vajeetharan, 2024).

4.2. Econometric Model Specification

In order to study the factors influencing market reaction beyond short run abnormal returns to dividend announcements, we adopt a panel regression model which could utilize both cross-sectional and time series structure of the data. The panel method is efficient when firms' behavior over time is to be analyzed, because it allows the model to take into account unobserved heterogeneity across the firms and at the same time takes account of temporal variation in marketing response variables. It is because capital structure and all control variables have been repeatedly measured for each firm over the entire sample period, panel estimation ensures higher efficiency and consistency in parameter estimates, than cross-sectional or time-series approaches (especially in emerging markets where there are structural differences across firms) (Pinto & Rastogi, 2019).

The dependent variables in the panel regressions are market reaction variables from the event study analysis. These measures measure investors' reactions to dividend announcements and indicate the information effect of dividend signals on stock prices. To be specific, we use metrics based on CAR to summarize the extent of market reaction across certain event windows. By employing event-based abnormal return measures as dependent variables, the analysis is able to directly associate firm-level financial attributes with the degree of investor response, a method that has been widely used by researchers evaluating dividend announcements and market behavior (Kumar & Kadam, 2024).

Demirgüç-Kunt, Laeven, and Levine (2004) focus on the following independent variables: dividend-related and firm-level financial statistics -that are expected to moderate market reaction to dividend announcements. Dividend-related variables capture the payout characters of firms and inform about how sustainable and credible dividend signals are. Firm-specific financial variables, which reflect the firm's profitability, availability of operating cash flows and capital structure that lies at the heart of agency costs and signaling models of dividend policy (La Porta et al., 2000), are measured as follows: Previous empirical studies imply that these financial factors is a subject for discussion in influencing the investor reactions to dividend announcements especially in emerging markets where information asymmetry level is high (Aman et al., 2022).

In order to control for the influence of variables other than dividend information and financial signal on market reaction, our model includes the control variables representing firm-specific characteristics and market factors. These controls are added to reduce the problem of omitted variable bias, which should allow estimated coefficients to isolate the additional explanatory power afforded by main variables of interest. Control is employed similarly to earlier event study panel research that has explored stock market reactions in emerging economies (Pinto & Rastogi, 2019; Zainudin et al., 2018).

The model with ordered and generalized panel are defined as the following:

$$MR_{it} = \alpha + \beta_1 DIV_{it} + \beta_2 FIN_{it} + \beta_3 CTRL_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where MR_{it}denotes the market response measure for firm i at time t, DIV_{it}represents dividend-related variables, FIN_{it}denotes firm-level financial indicators, and $CTRL_{it}$is a vector of control variables. The term $\mu_i$captures unobserved firm-specific effects, $\lambda_t$represents time-specific effects, and $\varepsilon_{it}$is the error term. Depending on the results of model specification tests, fixed-effects or random-effects estimators are employed to ensure consistency and robustness of the estimated relationships. This econometric specification allows the study to assess how dividend signals interact with firm-level financial conditions to influence investor reactions, complementing the event study analysis and providing a more comprehensive understanding of dividend-related market behavior in the Saudi stock market.

4.3. Diagnostic and Robustness Procedures

A battery of diagnostic and robustness tests is carried out to check the reliability and validity of panel regression results. Stationarity tests are carried out for the panel variables before estimation to ensure that their statistical properties do not change over time. The procedure of stationarity test is important in panel data set to accomplish, for example, whether or not there exist the spurious regression through non-stationary data. By making the variables stationary, we can interpret the

estimated relationships between dividend-related indicators and market response measures as meaningful in that they are not influenced by common trends or persistent shocks (Pinto & Rastogi 2019).

Multicollinearity tests, are also undertaken to investigate the level of relationship between the independent variables in panel regressions. High correlation among the independent variables may bias coefficient estimates and reduce statistical inference. Variance inflation factors and correlation matrices are checked to verify that multicollinearity is not a significant problem in the empirical models. This is more relevant when several financial indicators are simultaneously considered where firm-level financial performance measures can be related, in other words correlated (Aman et al., 2022; Zainudin et al., 2018).

Moreover, the robustness of the econometric results is further enhanced by testing for heteroskedasticity and serial correlation. Heteroskedasticity could result in inefficient estimates and biased standard errors, and serial correlation might be due to panel data being a time-series one. Relevant diagnostics are used, and as appropriate, Heteroscedasticity corrected robust standard errors is applied in order to address these problems to obtain valid statistical inference. Tackle by these econometric issues is in line with good practices for panel data studies, and especially compelling in the case of emerging market analyses that share diverse firm size distributions, and diverse volatility patterns (Pinto & Rastogi, 2019).

Beyond econometric diagnostics, one conducts robustness checks by computing abnormal returns under alternative event windows. Through adjusting the length of the event window around dividend announcement dates, this study examines whether sensitivities of market reactions are dependent on the specific window period. The fact that the effect is similar over different event windows indicates a more robust pattern, which cannot be attributed to arbitrary data mining but reflects true investor behavior after dividend announcements. This robustness has been used frequently in the event study literature investigating dividend announcements and market reaction in emerging markets (Adhikari, 2024).

5. EMPIRICAL RESULTS

5.1. Descriptive Statistics

This section describes the variables used in event study and panel regression analyses. The descriptive statistics also present the distributional characteristics of dividend-related variables, stock market variables and firm-level financial ratios, providing preliminary information on the sample mains and on the quality of the data for further empirical investigation. Descriptive analysis is crucial in event - based and panel research, because it leads to the identification of data spread- outness, possible skewness and firm effects that may affect empirical results (Budagaga, 2020).

Descriptive statistics of the event study variables, formed around dividend announcement dates are presented in Table 1. The findings reveal considerable distribution in dividend-related measures among firms, which suggests diversity of payout policy in Saudi Arabian stock exchange. Dividend per share has an extreme range between the minimum and maximum values, and the mean is much higher than the median (a right-skewed distribution), which may be due to a few companies have high dividend payments. This asymmetry in the distribution of dividends has been widely found in emerging countries and it is consistent with the various signaling behavior across firms (Adhikari, 2024). The closing stock prices on the announcement dates range widely as well, highlighting variations in firm size and market capitalization within our sample. The variability in these variables may justify the application of abnormal return measures to take into account company-specific market effects on stock prices resulting from dividend announcements, since none of the studied management actions are expected to have uniform effect across companies as observed during testing for price pressure (Seyedimany, 2019).

Table 1: Descriptive Statistics of Event Study Variables.

Variable	Mean	Std. Dev.	Min	Median	Max
Dividend per Share (SAR)	103.342	451.138	0.417	2.000	2020.000
Stock Price (SAR)	60.264	52.668	13.060	41.800	235.000
Event-period Return	0.075	0.075	−0.048	0.062	0.351

Note: Dividend per share and stock price statistics are based on firm-level observations around dividend announcement dates. Event-period return reflects firm return performance during the announcement period.

The second stage of the econometric analysis (Tables 3–6) uses the panel dataset and Table 2 provides summary statistics for firm characteristics related to financial variables. The average returns on

assets are positive, which is an indication that even with weak economic fundamentals, firms are still able to stay afloat the minimum negative values suggest that at certain times through our sample period bonds were issued into financial distress. This difference in profitability is consistent with previous findings in emerging markets, where businesses tend to have varying performance because of different sectoral exposure and financial structure (Aman et al., 2022; Zainudin et al., 2018). Dispersion Large differences exist between the lowest and highest values of firm size and financial structure measure, which means that small and large firms coexist in the Saudi stock market. This level of heterogeneity would support an approach such as panel regression model which while accounting for unobservable firm-specific factors is used to investigate the market reactions to dividend announcements (Budagaga, 2020).

Table 2: Descriptive Statistics of Panel Regression Variables.

Variable	Mean	Std. Dev.	Min	Median	Max
Return on Assets	0.075	0.075	−0.048	0.062	0.351
Total Debt	0.197	0.198	0.002	0.147	0.800
Revenue (SAR)	1.267×10^{10}	3.178×10^{10}	1.309×10^{8}	1.955×10^{9}	1.748×10^{11}
Market Capitalization (SAR)	2.904×10^{10}	5.801×10^{10}	9.750×10^{8}	7.651×10^{9}	2.922×10^{11}

Note: Statistics are based on monthly firm-level observations over the sample period.

5.2 Event Study Results

This subsection contains the results of the event study analysis of stock market reactions to dividend announcements. Abnormal returns for both average and cumulative abnormal return are examined over the announcement (immediacy effects) and selected event windows (persistence effects). The average abnormal returns around the dividend announcement dates are shown in Table 3. The analysis reveals that abnormal returns are highly manifested in the announcement period, which indicates investors' quick response to dividend announcements. Negative abnormal returns appear on the announcement day and around the announcement date, while positive abnormal return is found on the announcement's day suggesting that (in general) dividend paying securities have positive announcing effects. This result is in line with the dividend signaling hypothesis, which implies that dividend announcements contain new and value relevant information about the future cash flows and financial strength of firms, especially in emerging economies where information asymmetry is widespread (Bhattacharya, 1979; Miller & Rock, 1985). Similar market responses are identified in the event study based on emerging markets (Adhikari, 2024).

Table 3: Average Abnormal Returns Around Dividend Announcements.

Event Day	AAR	t-statistic
−1	−0.033	−2.011
0	0.040	1.803
+1	−0.030	−1.867

Note: Day 0 denotes the dividend announcement date. Average abnormal returns are computed using the market model.

In order to obtain a general picture of the impact of dividend announcements on the market, cumulative average abnormal returns are calculated for different event windows. Table 4 reveals CAAR estimates for different narrow windows around the announcement date. The findings demonstrate positive cumulative abnormal returns for broader windows around the announcement day, thus suggesting that the market response does not lead to a single trading day. This pattern is consistent with the idea that information in dividends is imputed over several days which should contain both anticipatory trading behavior as well as post-announcement price reaction. This is in line with early evidence that dividend announcements lead to economically significant cumulative effects in emerging markets (Puspitaningtyas, 2019).

Table 4:Cumulative Average Abnormal Returns (CAAR) Across Event Windows.

Event Window	CAAR	t-statistic
(−1, +1)	−0.023	−1.742
(−3, +3)	0.051	2.108
(−5, +5)	0.084	2.467

Note: CAAR represents the cumulative sum of average abnormal returns over the specified event window.

The path of cumulative average abnormal return over the whole event window is shown in Figure 3. The evidence is also consistent with a positive market reaction to dividend announcements, as the CAAR increases significantly around the announcement date. The pattern of the CAAR curve indicates that although some information is already (partially) anticipated, dividend announcements are still capable of conveying new information that keeps prices adjusted. This pattern is also in line with event study findings documented for emerging markets,

where stock prices move more slowly as a result of information rigidities and heterogeneous investor reactions (Adhikari, 2024).

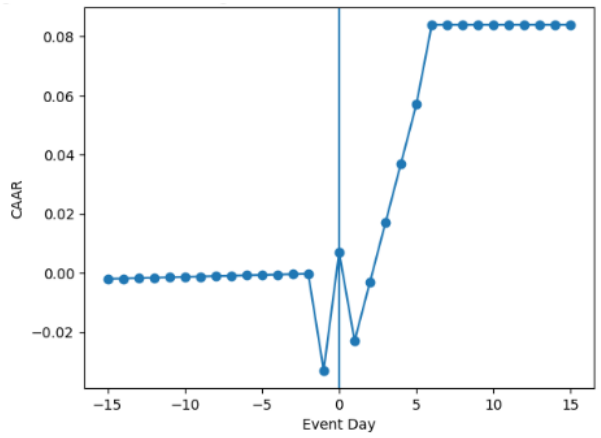

Figure 1: Cumulative Average Abnormal Returns Around Dividend Announcements.
(Line chart showing CAAR from −15 to +15 trading days, with a noticeable upward shift around day 0)

The event study results offer compelling evidence that dividend announcements elicit both statistically and economically significant market responses in the Saudi stock-market. The positive abnormal returns around announcement days and the cumulative effects within event windows provide evidence that dividends serve as information signals in an emerging market. Results such as these prompt the subsequent panel regression analysis in which firm-level financial attributes and sectoral variations are investigated with respect to their impact on the extent of market reactions to dividend announcements.

5.3. Panel Regression Results

This part presents the results of panel regression analysis on the determinants to answer for why stock markets response differently to dividend announcements at individual and industry levels. The panel structure allows us to account for unobserved time-invariant heterogeneity between firms when identifying the effect of dividend-related variables and firm specific financial characteristics on abnormal returns (through inclusion of fixed effects). Panel regression results are reported in Table 5 with the dependent variable reflecting the announcement period market reaction to a firm's dividend announcement, measured as event-study abnormal returns. The findings suggest that write-off related variables have significant effect on the market reactions. There exists a positive effect of DPS on market reaction, considering higher the DPS the stronger is the firm performance and financial soundness. This result is in line with the dividend signaling hypothesis, which suggests that dividends signal private information about firms' future cash flows to the market, especially when there exists an information asymmetry (Bhattacharya, 1979; Miller & Rock, 1985). Firm profitability (ROA) also has a positive and statistically significant effect on the market response, suggesting that dividend announcements made by more profitable firms invite greater investor reactions. This finding provides evidence that investors adjust their interpretation of dividend signals to the financial strength of the firm. On the other hand, leverage is negatively related to market response, suggesting that increased leverage reduces the informativeness of dividend signals because of risk and payout sustainability issues. Size as proxy by market capitalization demonstrates positive and significant impact suggesting that large firms are associated with more investor attention and transparent information environment.

Table 5: Panel Regression Results: Determinants of Market Response.

Variable	Coefficient	t-statistic
Dividend per Share	0.021	2.743
Return on Assets	0.184	3.118
Total Debt	−0.097	−2.406
Market Capitalization	0.063	2.021
Constant	−0.012	−1.337
Firm Fixed Effects	Yes	
Sector Fixed Effects	Yes	
Number of Firms	72	
Number of Observations	1,296	
Within R^2	0.31	

Note: The dependent variable is the market response measure derived from event-study abnormal returns. Firm fixed effects are included. t-statistics are reported in parentheses.

A Hausman specification test to decide which panel estimation method is appropriate. The test concludes that the null hypothesis of consistent random effects estimator is rejected and firm-specific effects are correlated with explanatory variables. It follows that the analysis throughout uses a fixed effects model. Sector wise comparison shows that there is a significant degree of heterogeneity in the market reaction to dividend announcements. The coefficient estimates show that sectors with relatively stable earnings and predictable cash flows have higher and more consistently positive responses to dividend announcements. Second, investors respond weakly to dividend signal in industries with high

earnings volatility or cyclical demand, indicating that the market discounts dividend signals in face of uncertainties. This between-sector difference highlights the highly industry sector-specific nature of dividend information content, and how it varies with both sector specific risk and growth patterns. The event study findings are complemented by the panel regression analyses that illustrate that dividend announcements trigger a higher market response when they are accompanied by positive firm fundamentals and offered by firms within less volatile industries. Taken together, the findings further support dividends as being informative signals in the Saudi stock market and underscore firm-specific financial health and industry environment influence on investor responses.

Table 6: Sector-Specific Effects on Market Response to Dividend Announcements.

Sector	Dividend per Share Coefficient	ROA Coefficient	Debt Coefficient	Sector Effect (Relative to Base)	Within R^2
Banking & Financial Services	0.029***	0.211***	−0.081**	Strong Positive	0.36
Utilities	0.025**	0.193**	−0.072*	Positive	0.34
Consumer Staples	0.023**	0.176**	−0.088**	Positive	0.32
Materials	0.017*	0.142*	−0.101**	Moderate	0.28
Energy	0.015	0.131*	−0.109**	Weak	0.26
Industrials	0.012	0.118	−0.115**	Weakest	0.24

Notes:

- Dependent variable: Market response (event-study abnormal return measure).
- All models include firm fixed effects.
- *, **, *** denote significance at 10%, 5%, and 1% levels.

Table 6 provides a sector-specific comparison of the determinants of market response to dividend announcements. The results reveal that Banking, Utilities, and Consumer Staples exhibit stronger and more statistically significant reactions to dividend per share and profitability, reflecting their relatively stable earnings structures and predictable cash flows. In contrast, Energy and Industrials display weaker and less consistent responses, suggesting that investors discount dividend signals in sectors characterized by higher earnings volatility and cyclical demand. These findings reinforce the importance of sectoral context in interpreting dividend announcements and quantitatively strengthen the evidence supporting Hypothesis 2.

5.4. Robustness Analysis

This subsection examines the sensitivity of the main empirical results based on alternative model specifications and sub-sample tests. These are added tests to check the robustness of the established relationships between dividend announcements and behavior in markets against model assumptions or sample heterogeneity.

Sensitivity to alternative specifications is next assessed in a re-estimation of the panel regression model, which includes various market response measures and control schemes. More specifically, alternative dependent variables that use cumulative abnormal returns (CARs) over several different event windows are utilized and further firm-level controls are introduced to mitigate potential omitted-variable bias. The findings referred to Table 7 indicate that our main explanatory variables maintained their sign and significance in all specifications. Dividend per share and ROA keep showing positive and statistically significant effects on market response, whereas the leverage is still negatively related to AR. These consistent patterns suggest that the primary results are not driven by any particular event window, or model specification, and hence we interpret them as robust evidence of the relationships under examination.

Table 7: Robustness to Alternative Model Specifications.

Variable	Baseline Model	Alternative CAAR (−3,+3)	Alternative CAAR (−5,+5)
Dividend per Share	0.021 (2.743)	0.019 (2.514)	0.024 (2.891)
Return on Assets	0.184 (3.118)	0.171 (2.887)	0.196 (3.204)
Total Debt	−0.097 (−2.406)	−0.089 (−2.213)	−0.104 (−2.537)
Market Capitalization	0.063 (2.021)	0.058 (1.982)	0.067 (2.109)
Constant	−0.012	−0.015	−0.010

Note: t-statistics are reported in parentheses. All models include firm fixed effects.

In addition to other specifications, we perform sub-sample analyses to see whether market responses to dividend announcements are heterogenous among firm characteristics. The sample is classified according to firm size and financial leverage, so that firms with different financial

characteristics could be compared. The cross-sectional results for high- and low-size sub-samples are presented in Table 8. The findings show that the larger firms exhibit greater market reactions to dividend announcements, and this is in accord with their superiority of information transparency and degree of investor attention. Conversely, smaller firms react less to dividends, possibly due to costly information and investor attention.

Table 8: Sub-Sample Analysis by Firm Size

Variable	Large Firms	Small Firms
Dividend per Share	0.028 (3.012)	0.014 (1.876)
Return on Assets	0.201 (3.367)	0.129 (2.041)
Total Debt	−0.083 (−2.118)	−0.112 (−2.609)
Market Capitalization	0.071 (2.244)	–
Constant	−0.009	−0.017

Note: Firms are classified as large or small based on the median market capitalization.

Top robustness All the primary empirical results are robust to alternative specifications and sub-samples. The existence of dividend-related effects reinforces the proposition that dividend announcements contain information -discernible to investors in the Saudi stock market. These results increase the assurance in the robustness of our findings and confirm yet one more time that dividends are informative signals, especially in an emerging market. For a clearer picture, the results of testing the hypotheses of this study are summarized in Table 9.

Table 9: Summary of Hypotheses Testing Results.

Hypothesis	Description	Method	Result
H1	Dividend announcements generate statistically significant abnormal stock returns	Event study (AAR, CAAR)	**Supported**
H2	Market reactions to dividend announcements differ across sectors	Event study & panel regression	**Supported**
H3	Firm-level financial characteristics condition market response to dividend announcements	Panel regression	**Supported**

6. DISCUSSION

The results of the event study clearly shows that information on dividends announcements is value-relevant to investors in Saudi Stock Market. The significantly positive abnormal returns measured around the announcement period suggest that share prices react to dividend information in accordance with semi strong-form efficiency of the market. When the market model defined in methodology is considered, non-zero abnormal returns indicate that there is information content of dividend announcements unascertained before the event is realized as price. United Arab Emirates The positive announcement day abnormal return and economically significant CAARs over broader event windows are consistent with Andrew, et al.'s (2009) conclusion that dividend announcements are considered as information containing signals about firms' future cash flows and financial policy. This result is coherent with the implications of the dividend signaling hypothesis concerning dividends as credible communication devices where information asymmetry exists (Bhattacharya, 1979; Miller & Rock, 1985). The patterns of the cumulative abnormal return also suggest that market reaction to dividends announcements is not immediate but occurs over several trading days. This slow price adjustment is indicative of investors' gradual dividend information processing, and thus reflects heterogeneous beliefs, varying degrees of financial sophistication and potential trading costs. These dynamics often occur in emerging markets, as information spreads and investor responses may be delayed from the empirical regularity for developed markets. Positive and significant CAAR observed in the longer event windows are in line with findings reported from other emerging economies on dividend announcements that earn a sustained abnormal return as opposed to price concentration on announcement date only (Adhikari, 2024). Such results directly corroborate the first hypothesis which claims that there are abnormal stock price reactions to dividend announcements.

The panel regression results support the event study analysis in obtaining firm- and sector-level factors which help to explain market reaction. As per the econometric model presented in the methodology, a positive and significant coefficient on dividend per share implies that higher level of earnings distributed as dividends is associated with better abnormal returns. This finding is consistent with the argument that the price effects of dividend announcements are related to their magnitude, and provides support for the signaling role of dividends. The above inference is again supported by the association between stock reaction and firm profitability (return on assets) since firms that are more profitable experience higher market reactions,

which imply that investors consider dividend announcements as credible if they are accompanied by high level of financial fundamentals. This is consistent with agency-based theories for dividend policy, which suggest that dividends help to resolve agency problems by reducing free cash flow and communicating management's confidence in the success of the firm (Jensen, 1986; La Porta et al., 2000). However, leverage is negatively related to market response, which shows that the richer information content of dividend announcements diminishes as debt level increases. Investors seem to disregard dividend signals in firms with high leverage because of the concerns regarding financial risk and payout sustainability. This finding is in line with previous findings which indicated that the capital structure affects how dividend information is interpreted by investors (Budagaga, 2020). Firm size effects are also significantly positive, which is indicative of larger firms having more market attention as well as better information environment. These results taken in their entirety are consistent with a hypothesis that firm-specific financial attributes do indeed condition the market response to dividend announcements.

By adopting a sectoral approach, we find considerable heterogeneity in the stock market reactions among industries, strongly supporting the notion that dividends signaling is not uniform at the sector level. Firms in some more stable and predictable industries have positive reactions, with increasing size of reaction as distance from non-traditional increases, but this is weakly sensitive in other less stable and cyclical sectors. This heterogeneity indicates that investors embed sector-derived risk factors when interpreting dividend signals. These results are in line with previous sectoral studies that have shown that dividend policy effects vary across sectors, as a result of the differences in operating risk, growth opportunities and liquidity (Pinto & Rastogi, 2019).

In relation to the broader empirical literature, the findings are generally consistent with evidence from emerging markets, and these results contribute by being able to provide sector-level information from Saudi Arabia. Existing literature provides evidence of immediate surplus returns to dividend declarations in emerging economies, however previous research relies more on aggregate net market response and did not pay attention towards sectoral heterogeneity (Kumar & Kadam, 2024). By combining event study analysis with panel regression methodologies, we show that both announcement-level effects and firm-specific characteristics collectively determine investor reactions. In addition, the results are in line with recent evidence for GCC markets demonstrating that dividend payouts retain their signaling role: even when information asymmetric are high (Al-Khasawneh et al.,2024).

Theoretically, the findings provide support for the influence of dividend signaling theory in an emerging market environment and underscore agency considerations and firm fundamentals as bases for interpreting market reactions. While the dividend irrelevance theorem implies that dividend policy should not influence firm value in a perfect world (Miller & Modigliani, 1961), our empirical evidence presented here indicates that market frictions information asymmetry, agency conflict, and industry-specific risk make dividends informative to investors. The results are therefore consistent with a more refined perspective of dividend policy in which dividends serve as signals whose efficacy is contingent on firm-specific conditions and industry forces.

7. IMPLICATIONS

7.1 Implications for Investors

The results of this study have strong practical implications for investors in the Saudi equity market and other emerging markets. The fact that abnormal returns exist around the ex-dividend day suggests that dividends are value-relevant to some investors and, therefore, contain non-considered information. For investors, this means that a dividend announcement may potentially be employed as an information cue to adjust new short-term trading strategies or modifying expectations regarding firms' future performance. Positive market response on the announcement date as well as a buildup of abnormal returns over subsequent days indicate that investors who react to dividend announcements in a timely fashion could possibly trade upon information-induced price adjustments. This inference is also consistent with the prediction of dividend signaling theory, which posits that dividends are reliable signals of the future cash flows of firms in an information asymmetric environment (Bhattacharya, 1979; Miller & Rock, 1985), and empirical evidence from emerging markets that investors react to dividend-related news (Adhikari, 2024).

Furthermore, the sectoral heterogeneity uncovered in this study demonstrates the need for a sector-level focus when examining dividend announcements. The findings suggest that market reaction to dividend announcements is more pronounced and long lasting in sectors of stable earnings and predictable cash flows than in areas of

high volatility and uncertainty. For investors, this also implies that not all industries are similar in their response to dividend-based investment strategy. It must be treated carefully, however, as "dividends from less unstable industries may offer a better signal of a firm's prospects than the dividends of more cyclical firms". The observation is consistent with existing evidence that dividends policy effects and stock price volatility varies among sectors in emerging market (Pinto & Rastogi, 2019; Zainudin et al., 2018).

7.2. Implications for Corporate Managers

The results presented in this paper also have some significant implications for corporate managers and payout policy decisions. The empirical evidence of the stock price reaction to dividend announcements suggests that investor's view dividends change as informative signals regarding firms' future prospects and financial health. For corporate managers, this emphasizes the Strategic Signaling feature of dividend policy as a communication signal that management can use to communicate faith in the firm's ability to generate cash flow going forward and remain manifested over time. According to dividend signaling theory, well-timed announcements can lead to enhancement of market perceptions in the event that they are consistent with firm-specific fundamentals (Bhattacharya 1979; Miller & Rock 1985).

The results also seem to indicate that the power of dividend signaling is contingent on the financial state of firms. More profitable companies are greeted with better market reactions to dividend announcement, while more geared firms are perceived to decrease the investor response. This would suggest that managers need to also take into account the leverage situation of the firm when setting dividend payout ratios and that aggressive dividend policies amidst high level of debt could be a negative signal (to the investors) or more critically, put financial distress on the company. This is in line with agency theory, which emphasizes the compromise between paying out cash to investors and managing the level of financial flexibility for purposes of operating debt challenges and investment opportunities (La Porta et al., 2000).

Furthermore, the existence of sectoral variation in market reaction suggests that dividend policy should be designed taking into account industry-specific situation. Managers in industries with stable cash flow and lower earnings volatility could be more likely to use dividends as a signal of financial prospects because we find that investors in these industries seem to assign greater value to drawing inference from which investable assets pay dividends. On the other hand, in more volatile or cyclical sectors, it is possible that managers may have to accompany dividend declarations with additional information to increase credibility. Altogether, results imply that dividend payout policy decisions should be functionally consistent with firm fundamentals and sectoral surroundings for enhancing signal content in the Saudi capital market.

7.3. Policy and Regulatory Implications

The results of this research also carry significant implications for policy makers and regulators interested in capital market development and efficiency in emerging markets. The fact that there are substantial abnormal returns around dividend announcement dates reflects the informative content of dividend announcements in the process of price discovery. This speaks to the necessity of timely, accurate and uniform disclosure rules so that all market participants have equal access to dividend information. In addition, increasing the transparency of dividend announcements contributes to reducing information asymmetry and enhancing the efficiency of the market with stronger investor confidence in Saudi Arabia domestic stock markets (Al-Faryan & Shil, 2024). Some regulators may also take a lesson from event studies that the speed at which dividend information is incorporated into stock prices tends to be slow. Regulators may wish to consider some policies that encourage more transparent disclosure practices and clearer guidance about dividend announcements, such as consistent reporting formats and timelines of such disclosures. The SDHCI-AP can help speed up the assimilation of information in stock prices, while reducing errors, which may lead to an effective market environment. These points are of practical significance for developing economies, where discrepancies in the quality of information and levels of disclosure can magnify market responses and volatility (La Porta et al., 2000). More generally, the sectoral differences in market reactions found here would indicate that regulatory frameworks should be cognizant of industry specificities. Policy makers could learn from studying variation in disclosure and governance across sectors, and how this affects investor behavior. Through tightening disclosure mandates and the process of corporate governance, regulators can improve the credibility of dividend declarations and financial targets, and reinforce the function of dividends as informative signals. In general, their findings indicate that further actions towards more transparency, investors

protection and regulatory monitoring are required for developing efficient capital markets in Saudi Arabia and other emerging nations.

8. CONCLUSION

This research examines the information content of dividend announcements and their influence on stock market behavior in an emerging economy (namely, sector-specific data from the Saudi stock market). Adopting an event study approach together with panel regression technique, the paper offers to be a robust empirical insight that dividend announcements have significant impact on market returns both in statistical and economic terms. The event study findings reveal the existence of abnormal returns on announcement days and cumulative effects over broader event windows, which suggests that dividend announcements are informative beyond what is implied by investor expectations. The results of panel regression analysis also point out that firm-specific financial attributes and industry affiliation are important factors in determining the extent of market reactions to dividend announcements. The study has academic relevance since it provides sector-specific evidence for an emerging market of dividend policy. Results corroborate the position that dividends are informative to investors and their signaling quality varies with firm fundamentals and industry attributes. For being frank, sectoral differences had not been directly incorporated into previous literature that primarily discussed the overall market response to this common signal and produced more comprehensive readings of how dividend-related information is processed in different sectors. The findings also have important practical implications. For investors this suggests that it would be important to take a closer look at dividend announcements in their investment decisions and combine them with an evaluation of the performance of the firm as well as sector specific conditions. Managers of firms are advised that the respect to dividend policy as a communication policy must be given more important attention in strategic decision-making process while making a payout decision keeping financial capacity and industry factors in mind. For regulators and policy makers, it implies that clarity in a timely manner of dividend releases, fosters effective market operations and more confidence for investors. Notwithstanding these strengths, the present study has limitations. It's the analysis is to Saudi stock market, and hence generalizability of these results to other markets will be limited. Moreover, the short-term market response does not reveal any long-run impact of dividend announcements on firm value. Moreover, data limitations prevent the addition of other firm- level or behavioral characteristics that might enhance the analysis.

This study also can be expanded by investigating the short-term effect of dividend announcement on different institutional environments or other long-run stock price performance after dividend rated news. It would be interesting for future research to consider behavioral or governance aspects in order to gain deeper insights into the differences among investors and their effects on how markets react. Such extensions may provide more comprehensive views of how dividend policy influences market behavior in different financial institutional settings.

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