

# The Effect of Dividends on the Market Share Price: An Applied Study on Jordanian Islamic Financial Companies for the 2010-2018

**Shireen Mahmoud Al-Ali\***

Department of Head of Banking and Financial Sciences, Ajloun National University, Jordan. \*Email: [fristjo80@yahoo.com](mailto:fristjo80@yahoo.com)

**Received:** 09 January 2020

**Accepted:** 16 March 2020

**DOI:** <https://doi.org/10.32479/ijefi.9389>

## ABSTRACT

The study seeks to show the effect of dividend distributions on the market share price of Jordanian Islamic financial companies for the period 2010-2018, as represented by (Jordan Islamic Bank, Arab International Islamic Bank, Al-Safwa Islamic Bank, First Insurance, Islamic Insurance Company). The study examined the effect of cash and profits dividends and dividends in the form of shares on the market share price of Jordanian Islamic financial companies, also it examined the effect of retained earnings on the market share price of Jordanian Islamic financial companies, which showed that there was no effect of cash distributions on the market share price of financial companies Islamic, and the study also concluded that there is an effect of dividends in the form of shares and retained earnings on the market share price of Jordanian Islamic financial companies. The study recommended that Jordanian Islamic financial companies give great importance to dividing profits between profits distributed among shareholders and retained earnings, as it is one of the factors affecting the market share price of Jordanian Islamic financial companies, since the share price is an effective indicator for investors in making their investment decisions, and shareholders must understand the company's decision of not distributing the retained profits and detaining them does not mean a negative decision, but rather that it took for them to reuse them in new and diversified investments, which reflects positively on the share price, thus returning to the investor with a double return.

**Keywords:** Cash Dividend, Dividend in the Form of Shares, Retained Earnings, Market Share Price

**JEL Classifications:** G1, G2

## 1. INTRODUCTION

### 1.1. Introduce the Problem

The dividend policy is one of the most important strategic financial decisions made by financial companies of interest to shareholders, as represented by (Lindeman, 2016. p14) as a set of guidelines that banks use to make a decision on how to distribute their profits, when the bank has a surplus at the end of the accountability period, it usually has two options, but some of its profits are distributed as profits to shareholders, either you decide to reinvest the money and consider it as retained earnings.

The dividend policy reflects the financial decision proposed by the board of directors in financial companies about the part

that is distributed and the other part that will be withheld for future investments, where (Al-Nuaimi and Al-Tamimi, 2009. p458) indicated that the optimal dividend policy is based on a balance between the current distributions and future distributions to maximize the value of the stock in the market, and give the importance of distributing profits in the form of cash or shares not holding them or depriving shareholders of profits, they contribute to enhancing the confidence of all investors in financial companies and thus, contribute to maximizing the market value of the share and the value of financial companies. In complete contrast, in the event that the board of directors in financial companies always take the decision to withhold the profits on the pretext of reinvesting them and obtain the double return and distribute it later, so the study seeks to know the effect of the distribution

of profits on the market share price of the Jordanian Islamic financial companies.

## 1.2. Explore Importance of the Problem

The distribution of profits is considered an important financial decision taken by management in financial companies, because it has an effective impact on financial companies and related parties, and investors always seek to achieve profit from their various investments. Therefore, the management of financial companies must balance the profits achieved from investor money between distributed profits and retained earnings, as this decision regarding the distribution of profits reflects the efficiency of financial companies management in managing financial operations and investors should keep their investments in them, which is also reflected on the market value of the stock and therefore is reflected on its share market, which helps to acquire the largest market share, which is one of the most attractive factors for shareholders and the ability to enter the global markets to compete.

In light of the above, the subject of the study came to study the effect of distributing dividends on the market share price of Jordanian Islamic financial companies, so conducting dividends contributes to enhancing investor confidence and acquiring new investors due to the effect of distributing dividends on the market price per share and thus maximizing the value.

## 1.3. Describe Relevant Scholarship

The profit distribution policy has received the attention of many economists since the middle of the last century, and (Ross, 2013) indicated that this interest is due to the fact that the policy is directly related to the structure of the capital that can be used to reduce the cost of capital to a minimum and then increase the value of the company. So, there are many researchers conducted the relationship between the distribution of profits and the market share price, but some have proven that the relationship between the distribution of profits and the share price is positive as the study of (Subihi, 2016. p37) that indicated the share price is positively affected by cash dividends and that cash dividends are the most common form of dividend affecting the company's share price. This was also confirmed by the study of (Qanoon, 2013. p43), and (Barajneh, 2009. p123) that was conducted on the Palestine Stock Exchange, which consists of five sectors, namely the banking and investment sector, in addition to the industry, insurance and services sector, and that there is a positive relationship between the rate of dividend distribution and the market value of traded shares, i.e. common stock price trends. As for the study of (Mashkour, 2018. p231) emphasized that there is a positive relationship between the dividend policy and the market value of the stock through the high dividends that lead to an increase in the market value of the stock, which is the main objective of the stock through which it seeks to buy. Also, (Ghali, 2017. p180) proved that there is a strong and direct relationship between the profits distributed between the commercial banks and the market value, as the value of the share increases by increasing the distributed profits for the shareholders, which reflects the ability of the company's management to increase its financing structure by increasing its distributed shares for investors and thus, reducing the risks arising from non-payment of loans in addition to the benefits arising from them on time.

The study of (Nazir and Nawaz, 2012. p138) sought to reveal the extent of the effect of the dividend policy on stock prices through the role of this policy in the volatility of stock prices for companies in the financial sector in the Karachi Stock Exchange - Pakistan that the earnings per share is on a positive relationship with fluctuations prices, meaning that the dividend policy is an effective way to influence the market share prices, as the Karachi market is an emerging one. Moreover, the studies conducted by (Sulaiman and Migiro, 2015. p334) and (Ilaboyal and Aggreh, 2013) studied the effect of the decision to distribute profits on the change in stock prices in the Nigerian stock market, to 15 companies listed in nine sectors of the Nigerian economy, which was concluded that the policy of dividend distribution has a noticeable effect in changing stock prices, and that the distribution of profits increases the share price. On the other hand, there are many researchers who have proven that the relationship between dividend distribution and share price is negative as the study of (Sharif, 2015. p214) and Sharif et al. (2015), the study was conducted on companies listed in Bahrain Stock Exchange, and that there is a negative relationship between cash dividends and the market share price. This was confirmed by (Al Masum, 2014,) through a study conducted to analyze the relationship between the policy of distributing dividends and securities to 30 banks listed in Bangladesh Stock Exchange, which found a negative relationship between dividends and the stock price, and also the study of (Hashemijoo et al., 2012. p126) indicated that there is a negative relationship between cash dividends and stock price fluctuations through a study conducted on consumer products companies listed in Malaysian Stock Market, and this was supported by the study of (Tandon and Malhotra, 2013. p. 94) and an inverse relationship between the distribution of profits and the price of the market share of the company listed in NSE100.

The studies of (Ramadan, 2013. p21) and (Qudah and Yusuf, 2015. p56) concluded that there is a negative impact of the dividend policy on the volatility of the share price, this indicates that Jordanian industrial companies have increased the return on dividends, and stock prices tend to be stable while low volatility of prices reduces share price risk, and also it concluded that high rates of payment of profits mean a low volatility of the share price, therefore company managers in Jordanian industrial companies should influence the share prices of their companies by observing the dividend policy that attracts the targeted investors, (Ahmad et al., 2018. p7) also have got to the same result.

With regard to withholding profits and not making distributions to them and their effect on the share price of companies, the study of (Margaretha and Firzitya, 2015. p36) indicated that distributions of cash dividends per share, retained earnings per share and earnings per share have a significant impact on the share price, An increase in the share price will attract investors to investment, and (Munir et al., 2017. p56) confirmed that there is a positive relationship between retained earnings and the share price and (Oyinlola and Ajeigbe, 2014. p1) indicated that the retained earnings have a critical impact on the market share price of companies. In contrary to the study of (Subihi, 2016. p34), he confirmed that the earnings per share and retained earnings have nothing to do with the share price because investors focus on the share of distributions more

than its profitability, as investors attach more importance to liquidity. In addition to the above, there are many studies that prove that the dividends are one of the factors affecting the stock price as the study conducted by (Sharif, 2015, p214) and (Sharif et al., 2015). Besides the study of (Habashneh et al., 2015, p471), which showed that the market share price has a big role. One more thing, influencing the activity of Amman Stock Exchange and the distribution of profits plays a fundamental role in increasing the activity of Amman Stock Exchange. It also showed that the return on the stock and distributed profits caused a positive change in the market share price, which the study recommended that investors study the growth of indicators which positively affect the average price of companies' shares. They are distributed profits, trading volume and earnings per share when directing their money towards investing in Amman Stock Exchange.

And it was pointed out that the share of the profits is one of the factors affecting the share price as the study of (Dhahir, et al., 2011, p402) that sought to identify the impact of a number of financial and accounting variables on the prices of shares of companies listed in Palestine Stock Exchange, and from those factors, the most important of which are the share of the net profits, which the study concluded that there is a significant effect of the share of the net profit on the stock price in industrial companies, and this was confirmed by the study of (Abdullah, 1995), where he emphasized that one of the most important factors affecting stock prices in the industry sector in the Kingdom of Saudi Arabia, the share is from earnings per share, and this confirms the importance of this ratio in determining the expected value of the share, which helps the investor in taking his investment decisions in a proper way.

#### 1.4. State Hypotheses and Their Correspondence to Research Design

The main hypothesis  $H_0$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) of dividends distributions to the market share price of Jordanian Islamic financial companies for the period (2010-2018), and sub-hypotheses are branched out, as follows:

1. The first sub-hypothesis  $H_{01}$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) of the cash dividends on the market share price of Jordanian Islamic financial companies for the period (2010-2018).
2. The second sub-hypothesis  $H_{02}$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) for distributions in the form of shares on the market share price of Jordanian Islamic financial companies for the period (2010-2018).
3. The third hypothesis  $H_{03}$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) of retained earnings on the market share price of Jordanian Islamic financial companies for the period (2010-2018).

## 2. METHOD

The current study adopts the Descriptive Analytical Approach, which aims to describe specific phenomena or events and collect information, and the statistical methods necessary to analyze the study data as well as test hypotheses will be used in this study.

Through reviewing the previous studies, it became clear that the appropriate approach to the study is the descriptive and analytical approach in order to capture the various theoretical and practical aspects of the subject depending on the various sources and references such as books, scientific articles and magazines, etc., in addition to statistical and standard tools in order to facilitate the measurement of the financial variables used in the model.

In order to estimate "the effect of dividend distributions on the market share price of Islamic financial companies for the period (2010-2018)," the study used the panel data method, and the researcher relied on the Random Effect model based on Hausman's test, including independent variables (cash dividends, distribution in the form of shares, retained earnings), and (market share price as a dependent variable).

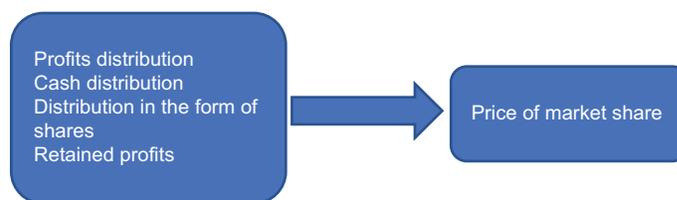
### 2.1. Study Community

The study community includes Jordanian Islamic financial companies.

### 2.2. Study Sample

As for the study sample, it emanates from the study community, as it includes the Jordan Islamic Bank, Islamic Insurance, Al-Safwa Islamic Bank, Al-Israa for Islamic Investment and Finance, Al-Sanabel International for Islamic Investments (Holding).

### 2.3. Study Model



## 3. RESULTS

The sample of the study consists of the Jordanian Islamic financial companies for the period (2010-2018), and data for these companies for the aforementioned period have been collected from their annual reports, and after ensuring that the data are appropriate to the study model, this part of the study will display the hypothesis test, where all the branched hypotheses have been subjected on the main hypotheses of multiple regression analysis.

The main hypothesis  $H_0$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) of dividend distributions to the market share price of Jordanian Islamic financial companies for the period (2010-2018).

The results of the hypothesis test branching from this hypothesis were presented as follows:

The first sub hypothesis  $H_{01}$ : There is no statistically significant effect at the level of ( $\alpha \leq 0.05$ ) of the cash dividends on the market share price of Jordanian Islamic financial companies for the period (2010-2018).

**Table 1: Results of multiple regression analysis to study the effect of dividend distribution variables on the market share price**

| Dependent variable              | Coefficients        |         |                  |              |                           |
|---------------------------------|---------------------|---------|------------------|--------------|---------------------------|
|                                 | Statement           | B       | Standard mistake | t calculated | Sig t* significance level |
| Market share price              | Cash dividends*     | 0.00001 | 0.000            | 0.854        | 0.398                     |
|                                 | Dividends in shares | 0.00002 | 0.000            | 4.172        | 0.000                     |
|                                 | Retained earnings*  | 0.00003 | 0.000            | 6.376        | 0.000                     |
| R2 coefficient of determination |                     |         | 0.88             |              |                           |
| Adj. R2 correction factor       |                     |         | 0.87             |              |                           |
| Calculated F value              |                     |         | 101.39           |              |                           |
| *Sig. F*                        |                     |         | 0.00             |              |                           |
| D-W                             |                     |         | 0.78             |              |                           |

\*The natural logarithm of the values of the independent variable is calculated

The second sub-hypothesis  $H_{02}$ : There is no statistically significant effect at the level of significance ( $\alpha \leq 0.05$ ) for distributions in the form of shares on the market share price of Jordanian Islamic financial companies for the period (2010-2018).

The third hypothesis  $H_{03}$ : There is no statistically significant effect at the level of ( $\alpha \leq 0.05$ ) of retained earnings on the market share price of Jordanian Islamic financial companies for the period (2010-2018).

The results of Table 1 indicate that the value of the determination coefficient ( $r^2 = 0.88$ ), and this means that the independent variables have explained (88%) of the variance in (the market share price), with other factors remaining constant. It also shows that the value of (F) has reached (101.39) at the confidence level (Sig. = 0.000) and this confirms the significance of the regression at the level of ( $\alpha \leq 0.05$ ). With regard to testing the hypotheses, the results showed the following:

First: There is no statistically significant effect at the level of ( $\alpha \leq 0.05$ ) of the cash dividends on the market share price of Jordanian Islamic financial companies for the period (2010-2018), where the value of (T) reached (0.854) which is not statistically significant. Therefore, the first sub hypothesis is rejected as the alternative form, and it is accepted with the null form.

Second: There is a statistically significant effect at the level of ( $\alpha \leq 0.05$ ) for distributions in the form of shares on the market share price of Jordanian Islamic financial companies for the period (2010-2018), where the value of (T) (4.172) is a statistically significant value. Therefore, the second sub-hypothesis is accepted by the alternative form and rejected by the null form.

Third: There is a statistically significant effect at the level of ( $\alpha \leq 0.05$ ) of retained earnings on the market share price of Jordanian Islamic financial companies for the period (2010-2018), where the value of (T) (6.376) is a statistically significant value. Therefore, the third sub-hypothesis is accepted by the alternative form, and it is rejected by the null form.

#### 4. CONCLUSION

The results of the study showed that the effect of dividends on the market share price, that there was no effect of cash dividends on

the market share price of Islamic financial companies for the period (2010-2018), and that was confirmed by several studies, including (Hashemijoo et al., 2012,) (Sharif et al., 2015), (Sharif et al., 2015), (Tandon and Malhotra, 2013), but the results contradicted with the study of (Subihi, 2016), and besides that, it showed there is an effect of distributions in the form of shares on the market share price of Jordanian Islamic financial companies for the period (2010-2018) This is consistent with (Ghali, 2017) study, and the study also demonstrated that there is an effect of retained earnings on the market share price of financial companies Islamic studies for the period (2010-2018) supported by the study of (Margaretha and Firzitya, 2015) as well as the study of (Munir et al., 2017), in addition to the study of (Oyinlola and Ajeigbe, 2014).

The study recommended that Jordanian Islamic financial companies give great importance to dividing profits between distributed profits among shareholders and retained earnings, as it is one of the factors affecting the share price of Jordanian Islamic financial companies, because the share price is an effective indicator for investors in making their investment decisions, and shareholders must be aware of the company's decision not to distribute the profits and retain them, it is not a negative decision, but rather it was taken in their favor to reuse them in new and various investments, which reflects positively on the share price and consequently returns to the investor with a double return.

#### REFERENCES

- Abdullah, A.Q. (1995), Factors determining the share price of joint stock companies in the Kingdom of Saudi Arabia. *Yarmouk Research Journal, Humanities and Social Sciences Series*, 11(1), 135-155.
- Ahmad, M., Alrjoub, A., Alrabba, H. (2018), The effect of dividend policy on stock price volatility: Empirical evidence from Amman stock exchange. *Academy of Accounting and Financial Studies Journal*, 22(2), 1-8.
- Al Masum, A. (2014), Dividend policy and its impact on stock price – a study on commercial banks listed in Dhaka stock exchange. *Global Disclosure of Economics and Business*, 3(1), 9-17.
- Dhahir, Mufid, Al-Foqaha, Salem. (2011) Factors affecting the share prices of industrial companies listed on the Palestine stock exchange: An applied study for the period between 2004-2008, Mutah for research and studies. *Humanities and Social Sciences Series*, 26(7), 383-410.
- Al-Nuaimi, A.T., Al-Tamimi, A.F. (2009), *Advanced Financial Management*. Amman, Jordan: Dar Al-Yazouri Scientific Publishing and Distribution.
- Barajneh, A. (2009), *A Test of the Relationship Between the Distribution*

- of Profits and Both the Market and Book Value of Shares Traded in the Palestine Securities Exchange, Master Thesis in Accounting, Islamic University Gaza, Deanship of Graduate Studies. p123.
- Ghali, B. (2017), The role of financial analysis in enhancing the relationship between dividends and the market value of shares in commercial banks, an applied study. *Al-Muthanna Journal of Administrative and Economic Sciences*, 7(3), 171-183.
- Habashneh, F., Al-Shahatit, M., Al-Badur, J., Al-Amareen, Z. (2015), The factors that affect the price of the market share on the Amman stock exchange during the period 1984-2011. *Studies, Administrative Sciences*, 42(2), 461-472.
- Hashemijoo, M., Ardekani, A., Younesi, N. (2012), The impact of dividend policy on share price volatility in the Malaysian stock market. *Journal of Business Studies Quarterly*, 4(1), 111-129.
- Ilaboya1, O.J., Aggreh, M. (2013), Dividend policy and share price volatility. *Journal of Asian Development Studies*, 2(2), 109-122.
- Lindeman, T. (2016), The Correlation between Dividend Policy Measures and Share Price. Degree Thesis International Business, ARCADA.
- Margaretha, F., Firzitya. (2015), The effect of cash dividend, retained earnings, and stock price of manufacturing company listed in Indonesia stock exchange. *Journal the Winners*, 16(1), 36-43.
- Mashkour, S. (2018), The relationship between the dividend policy and the market value of the stock and its impact on determining the value of the company. Applied research in a sample of banks registered in the Iraqi market for securities. *Journal of the Kufa Studies Center*, 50, 221-248.
- Munir, S., Kharal, M., Abidi, S. (2017), Impact of cash dividends and retained earnings on stock price a comparative study of high and low growth of firms. *Research Journal of Finance and Accounting*, 8(11), 51-57.
- Nazir, M., Nawaz, M. (2012), How dividend policy affects volatility of stock prices of financial sector firms of Pakistan. *American Journal of Scientific Research*, 61, 132-139.
- Oyinlola, O.M., Ajeigbe, K.B. (2014), The impact of dividend policy on stock prices of quoted firms in Nigeria. *International Journal of Economics, Commerce and Management*, 2(9), 1-17.
- Qanoon, A.H. (2013), Study of the Impact of the Policy of Dividend Distribution on the Stock Market Value of Economic Institutions. A Study of a Sample of Institutions Listed on the Qatar Stock Exchange during the Period 2012-2018, Master Thesis. Kassadi Murbah University and Raqala Algeria, College of Science Economics, Business and Management Sciences.
- Qudah, A., Yusuf, A. (2015), Stock price volatility and dividend policy in Jordanian firms. *Research Journal of Finance and Accounting*, 6(22), 149-159.
- Ramadan, I. (2013), Dividend policy and price volatility. Empirical evidence from Jordan. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 3(2), 15-22.
- Ross, S. (2013), *Fundamentals of Corporate Finance*. 10<sup>th</sup> ed. New York: McGraw-Hill.
- Sharif, T., Purohit, H., Pillai, R. (2015), Analysis of factors affecting share prices: The case of Bahrain stock exchange. *International Journal of Economics and Finance*, 7(3), 207-216.
- Subihi, I. (2016), Analyzing the Effect of Dividend Distribution on Stock Prices. A Study of a Sample of Companies Included in the CAC40 Index During the Period 2012-2015, Master Thesis, Kassadi Murbah University and Ouargla Algeria, Faculty of Economic Sciences, Commercial and Management Sciences.
- Sulaiman, L., Migiros, S. (2015), Effect of dividend decision on stock price changes: Further Nigerian evidence. *Investment Management and Financial Innovations*, 12(1), 330-337.
- Tandon, K., Malhotra, N. (2013), Determinants of stock prices: Empirical evidence from NSE 100 companies. *IRACST-International Journal of Research in Management and Technology*, 3(3), 86-95.