

The Relationship between Dividend Policy and Stock Market Performance: Evidence from the Saudi Stock Exchange (Tadawul)

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Abstract

It is an empirical study that investigates the impact of dividend policy on the performance of stocks in the Saudi Stock Exchange (Tadawul) in the emerging financial market environment. The study focuses on the energy sector firm Saudi Aramco, food sector firm Almarai Company, and industrial sector firm Zamil Industrial from 2020 to 2024. The research assesses the impact of dividend payout ratio, dividend yield and dividend per share (DpS) on the indicators of the work of the stock market, namely the return of stocks and the closing price of stocks. The method used for this quantitative research is a secondary data collection method and the sources of financial data are annual reports and official financial data. SPSS software was used for several statistics, such as descriptive statistics, Pearson correlation analysis, one-way ANOVA and regression analysis to study the relationship between the dividend policy indicators and the stock market performance of the sectors.

Empirical results show that there are significant differences for firms from various sectors in their dividend policy and the valuation of the market. The findings also reveal statistically significant negative correlation between dividend yields, dividend per share (DpS)s and stock market performance variables which indicate that higher dividend payout could be correlated with lower market valuations and lower growth expectations. Further, regression analysis indicates that the dividend yield has the highest impact on the performance of the stock market in the sampled companies.

This study is one of the many that has been written in the literature on dividend policy in emerging financial markets, with this study also giving comparative sectoral evidence from the Saudi financial market during the post-pandemic era and the Saudi Vision 2030 reform. The results have some significance in practical application for the corporate financial managers, investors, and policy makers interested in improving investment decision making, dividend policies, and market efficiency in Tadawul.

Keywords: dividend policy, performance, dividend yield, stock return, emerging financial markets.

JEL Classification: G35; G14; C12; O16.

Introduction

Dividend policy is one of the most critical financial decisions of a company that has a significant impact on the valuations of a company, the confidence of investors and the performance of the stock market. The distributions of dividends are always viewed as narratives regarding the earnings of the firm and the financial stability of such firms. Therefore, dividend policy is seen to be an essential determinant of investors' decision-making processes and reactions in financial markets, particularly those that experience information asymmetry and changes in market situations. In this case, the goal of the business firm is to sustain its growth in the market and create a competitive position through the best utilization of its available resources for the implementation of different strategies in the financial market (Ali Taher and Al-Shboul, 2023).

There have been many improvements in the Saudi Stock Exchange (Tadawul) due to the reforms in the financial market, foreign investments, and the economic reform strategies under Saudi Vision 2030. The Saudi Stock Exchange is among the largest and most influential financial markets in the Middle East region, making it a key area to analyse the relationship between corporate finance policies and stock market behaviour. With the increase in the number of businesses that have listed their companies in the stock exchange across different business operations, the impact of dividends on share valuation and investor decisions in the Saudi financial market has gained significance (Knio and Houmani, 2024).

The connection between stock market performance and dividend policy remains a hotly contested issue in the financial literature. According to some theories, the payment of dividends is believed to have a positive effect on the value of stocks due to the increased confidence and reduced uncertainty of investors, whereas, according to other theories, excessive payment of dividends is likely to reduce the potential to reinvest in growth and thus may negatively influence long-term growth. The two conflicting schools of thought suggest that there are differences based on sectors, individual companies, and markets in the relationship between dividend policy and capital profit.

Furthermore, the Saudi financial market is a unique research environment because of its diversified sector, ownership, and behaviour patterns of investors. Many prior studies have highlighted the impact of corporate governance mechanisms, ownership concentration, and market specific factors on dividend distribution decision and stock market reaction in Saudi Arabia (Boshnak, 2023).

Although the capital market is a subject of growing importance and attention, empirical research on the Saudi capital market and the impact of dividend policy on stock market performance is still scarce, especially from a comparative sectoral perspective. The existing literature has mainly concerned either the financial performance of the firm or the general macroeconomic variables that influence stock market movements, while the importance of the dividend policy for various industries has been neglected (Sallam et al., 2025).

Based on this, the purpose of this research is to examine the effect of dividend policy on the performance of the stock market in the Saudi Stock Exchange (Tadawul), on some of the companies in the energy, food, and industrial sectors. The study aims to assess the impact of dividend related indicators on stock price and investors' response and to offer empirical data to the body of literature dealing with emerging financial markets.

This study builds on the literature in a number of significant ways. Firstly, it offers comparative sectoral evidence from the Saudi Stock Exchange by analysing companies in the energy, food, and industrial sectors. Secondly, the research combines dividend policy

variables with stock market variables in the context of an emerging financial market. Thirdly, it adds to scarce empirical research that focuses on the dividend policy dynamics in the Saudi context during the period following the outbreak of the pandemic and Saudi Vision 2030 reform.

1. Literature Review

The dividend policy has been the subject of a considerable amount of interest in the corporate finance literature due to its close connection with shareholder wealth and investor confidence and stock market performance. Dividend payments in emerging financial markets are often viewed as a signal of company financial health and future earnings, especially when the markets are volatile and information is less than perfect. Therefore, dividend policy is now one of the key policy tools that can affect the actions of investors and the valuation of the market in developing stock markets (Mahirun et al., 2023).

The empirical, previous research mostly confirms the existence of a dividend-stock market relationship but it is inconsistent in its direction and nature in different markets and sectors. According to Mahirun et al. (2023), dividend payments have a positive impact on stock prices because they increase investor confidence and help to ease uncertainty about the future performance of the company. Likewise, Aljubaily and Ali (2025) revealed that the dividend-related indicators have a significant impact on the behaviour of investors and stock prices in the Saudi Stock Exchange. Both studies confirm the dividend policy as an important informational signal to investors. Although Mahirun et al. (2023) pointed out the overall effect on stock price stability on dividend payments, Aljubaily and Ali (2025) discussed the difference in the sectors' effect on investor reactions in Tadawul.

Other studies, however, claimed that dividend policy-performance of the stock market relationship may not be necessarily positive. Sallam et al. (2025) noted that if investors view high dividend yields as a sign of reduced investment opportunities and diminished long-term growth prospects, it may have a negative impact on the valuation of the stock. Similarly, Alsultan and Hussainey (2025) noted that the impact of dividend policy is primarily dependent on firms' liquidity status and financial reporting quality. These results contradict the results of studies that support the positive signalling effect of dividends, suggesting that investors have a financial and strategic perspective on dividend policy rather than a purely dividend policy perspective.

The market-specific and macroeconomic factors have also been highlighted in few studies as an important factor affecting a stock market in Saudi Arabia. In the study conducted by Altahtamouni (2023), he found that the financial indicators and market information have significant impact on the stock market returns in Tadawul. Likewise, Bin Amin and Rehman (2022) found significant impact of oil price and monetary variables on stocks prices of sectors in Saudi Arabia. The results of both studies clearly indicate that the influence of stock market performance in the Saudi context is not only limited to financial policies of the firm but also extends to the overall economic situation and market dynamics.

Recent evidence further highlights the importance of market-specific factors in explaining stock performance in Saudi Arabia. Alshaikhmubarek (2024) examines the cross-section of stock returns and factor premiums in the Saudi market, while Alqadhib (2024) emphasizes the role of exceptional market conditions in investment performance. From a broader institutional perspective, Alqurayn (2023) and Alsalloum (2023) highlight the relevance of financial reforms to the development and functioning of the Saudi stock market.

Other considerations which have also emerged as important factors for understanding the decision to pay dividends in the Saudi Arabia stock market include the aspect of corporate governance and the firm's ownership structure. According to Boshnak (2023), the composition of the board and ownership concentration have been found to be significant factors affecting dividend payment in the Saudi Arabia stock market. Similarly, according to Alobaid (2025), various mechanisms related to governance, including family ownership and board independence, influence the performance and financial decisions made by firms.

More broadly, Rajhi (2022) provides evidence that ownership structure and board attributes are relevant to firms' financial performance in the Saudi context, reinforcing the importance of governance characteristics when interpreting corporate financial outcomes.

Further, the relevance of investors' conduct in explaining stock market changes has become an increasingly important topic in financial literature. The research carried out by Yafouz and Yet (2023) shows that the herding effect has a substantial impact on the transaction activity and stock price movement in the Saudi stock market. Investor response may also be shaped by the information environment surrounding listed firms. Albarrak (2024), for example, demonstrates that the content and tone of corporate Twitter messages can influence stock returns in Tadawul, further illustrating the role of information and investor sentiment in Saudi stock-price dynamics.

Likewise, Najah (2025) showed that there was a positive relationship between the funds trading volume correlated with fluctuations in stock returns in the financial markets of the Gulf region, and that the number of investors who are interested in the financial markets is also positively correlated with the fluctuation in stock returns. The studies all emphasize that in emerging economies, stock markets are being influenced by behavioural and psychological factors more than ever before.

The dividend policy and investor response to financial statements become even more critical in times of economic uncertainty. During the COVID-19 pandemic, Wasiuzzaman (2022) discovered that the stock returns, the volatility in the market, and the trading volume in the Saudi financial market were significantly impacted. In the same way, Al-Khasawneh et al. (2024) found that there was a significant response in the markets of the GCC region when dividend announcements were made during the pandemic period. The two studies confirm that investors become much more attuned to dividend information in times of uncertainty and financial instability.

Although there is an increasing number of studies focusing on dividend policy and the stock market performance, there is still minimal empirical studies that provide comparative evidence across different sectors within the Saudi Stock Exchange. Further, most previous studies have concentrated either on aggregate market performance, governance mechanisms or macroeconomic determinants or on examining the relation between dividend policy indicators and stock market performance across various industries of the Tadawul without taking a simultaneous look into the relation between the dividend policy indicators and the stock market performance across the various industries of Tadawul. Hence, the current study attempts to fill this gap by presenting comparative evidence of firms from energy, food and industrial sectors in the Saudi financial market.

2. Research Methodology

Research Design

The research in this study is of quantitative research type in which it is concerned with the relationship between dividend policy and stock market performance in Tadawul (Saudi Stock Exchange). The quantitative methods are extensively used in financial and economic research due to the use of statistical evidence that can be obtained about the relationship between financial decisions made by the companies and the behaviour of the market (Mahirun et al., 2023). In the current study, a descriptive and analytical design is specifically adopted to investigate the impact of dividend-related indicators on the movement of stock prices and reactions of investors on selected Saudi listed companies.

This research aims to analyse the relation between dividend payout ratio, dividend yield and dividend per share (DpS) as independent variable and performance indicator of stock market as dependent variable which are stock return and closing stock price. The study is based on secondary financial information sourced from annual reports, dividend declaration information and officially maintained financial market databases from 2020 to 2024.

In order to fulfil the aims of the study, several statistical methods are used such as descriptive statistics, Pearson correlation analysis and one way ANOVA with the SPSS software. The analytical techniques were deemed suitable to analyse the nature and strength of relationship among finance variables and to find the difference in dividends policy and stock market performance among different sectors. The quantitative design, therefore, allows the study to show empirical evidence of the impact of dividend strategies on investor behaviour and market value in the Saudi financial market.

Population and Sample

The population of the study is the Saudi Stock Exchange (Tadawul) listed companies, which is one of the largest and fastest growing financial market in the Middle East. Tadawul encompasses companies from a wide range of economic activities, including energy, industrial manufacturing, financial services, telecoms, and consumer goods, presenting a significant context to study corporate financial policies and stock market behaviour (Knio and Houmani, 2024).

The study uses purposive sampling to select representative companies in different industries to cover the variations in dividend policy and market performance in different industries. In financial studies that involve comparative analysis among sectors and are based on consistent financial data, it may be suitable to use purposive sampling. For this purpose, three listed companies were chosen from the main sectors of the Saudi economy, namely: Saudi Aramco – Energy Sector. Almarai Company is in the food and consumer goods business. Almarai Company operates in the food and consumer goods industry. The Industrial Sector includes Zamil Industrial. Zamil Industrial is part of the Industrial Sector.

These companies were chosen for several reasons such as their representation by sector, the financial statements, consistent dividend distribution records, and the availability of historical stock market data over the period of this study. Choosing firms from various industries enables the study to make comparisons between the impact of dividend policy on stock market performance based on different financial and operational situations in the Saudi market.

Data Collection

The major sources of financial data used in the present study are the secondary ones obtained from reliable and public data sources. Generally, secondary data are heavily used in financial and stock market research due to their objective, quantifiable, and consistent characteristics that reveal information about the financial performance and the financial market behaviour of the companies (Altahtamouni, 2023). Secondary data further boosts financial analysis reliability and comparability between companies and industries.

The information used in this work comes from a number of official and reliable sources such as:

- Annual financial reports of the selected companies;
- Dividend distribution records;
- Timing of the stock price movement; and
- Financial market databases, such as Tadawul and Bloomberg.

This study is conducted for the period 2020-2024, to investigate the recent trends of dividend policy and stock market performance in the Saudi financial market. The chosen period corresponds to the important economic and financial events which took place during the post-pandemic market recovery, financial market reforms and the continuous economic transformation efforts linked with Saudi Vision 2030.

The data that have been collected in the financial arena comprise dividend distribution, dividend payout ratio, dividend yield, total stock return and closing stock prices for the targeted companies. The data were presented in a systematic and organized manner with SPSS software to ensure accuracy and consistency in the process of statical data analysis. Official financial reports and widely used market databases are used, which helps to enhance the validity of the data and minimize the potential for measurement bias in the study.

Research Variables

The study examines the relationship between dividend policy indicators and stock market performance on the Saudi Stock Exchange (Tadawul). Based on the relevant financial literature and previous empirical studies, the research variables are classified into independent and dependent variables to assess how dividend-related factors influence stock market performance.

The independent variables represent key measures of firms' dividend policies and include:

- Dividend Pay-out Ratio: The proportion of net earnings distributed to shareholders as dividends. This indicator reflects a firm's dividend distribution policy and the balance between dividend payments and retained earnings.
- Dividend Yield: The annual dividend per share relative to the current stock price. It indicates the cash return generated by holding a stock and is commonly used to assess investment attractiveness.
- Dividend per Share (DPS): The amount of dividends distributed to shareholders for each outstanding share. This measure captures the direct cash benefit received by shareholders and is frequently used to assess market responses to dividend decisions.

These indicators are widely used in financial and stock market research because they provide measurable evidence of firms' dividend policies and their potential influence on investor decisions and stock valuation (Mahirun et al., 2023).

The dependent variables measure stock market performance and investor response in the Saudi stock market and include:

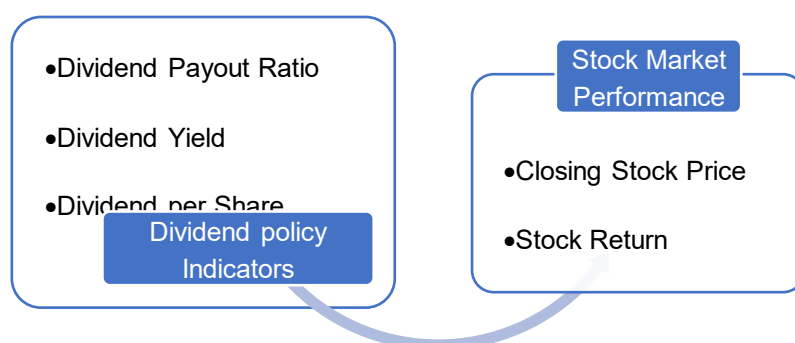
- Closing Stock Price: The price of a company's stock at the end of a trading day, reflecting its market valuation and investors' expectations.
- Stock Return: The percentage change in a stock's price over a specified period, representing a key measure of market performance and investment profitability.

These variables were selected because they directly capture market responses to corporate financial decisions and dividend-related information.

The conceptual framework of the study is based on the assumption that the dividend policy indicators affect the behaviour of investors and the valuation of the stock market in Saudi Arabia. The specific hypothesis of this study is that there is a relationship between the dividend pay-out ratio, dividend yield, dividend per share (DpS) and stock market performance measured by the stock return and closing stock price. This relationship is important in the context of financial signalling theory in the context of developing financial markets that do not have a tradition of efficient market information and where investors' attention is being paid to corporate financial information.

The relationships among the study variables are summarized in Figure 1, which illustrates the conceptual framework linking the three dividend policy indicators, dividend pay-out ratio, dividend yield, and dividend per share (DPS), to stock market performance, represented by stock return and closing stock price.

Figure 1: Conceptual Framework of the Study



Source: Authors' design based on the research framework.

Statistical Methods

The study uses SPSS software in analysing the relationship between dividend policy and stock market performance, among others are statistical techniques. The statistical methods were chosen for their applicability to the analysis of financial relations, identification of sectorial differences, and assessment of the impact of the dividend-related indicators on the behaviour of the stock market. Quantitative statistical analysis allows the study to give empirical evidence about direction, strength and significance of the relationship between dividend policy and stock market performance in the Saudi Stock Exchange.

The main characteristics of the study variables were described and summarized using descriptive statistical analysis. The indicators of dividend policy and the stock market performance variables for the selected firms were calculated as mean, standard deviation, minimum and maximum value, in order to get a general overview. Descriptive statistics help to appreciate the nature of the financial information used for analysis, mean, mode, and median of the data set.

To study the relationship between dividend policy indicators and stock market performance variables, Pearson correlation analysis was used. This method allows for the positive and negative association between dividend pay-out ratio, dividend yield, dividend per share (DpS), stock return and closing stock price to be identified. In financial research, the correlation analysis is commonly used to determine the level of relationship between the indicators of a company's financial development and variables of market performance.

One-Way Analysis of Variance (ANOVA) is used to compare the means of three or more independent samples. One-way ANOVA was used to see whether there is a significant difference among the selected companies in terms of dividend policy indicators and stock market performance. ANOVA is suitable as the study compares the firms in various sectors of the Saudi market. This approach can help determine how much each sector contributes to the overall approach to dividend strategies and market valuation.

For this purpose, the effect of dividend policy indicators on the performance of the stock market was analysed by regression analysis. In particular, the regression model examines the effect of dividend pay-out ratio, dividend yield and dividend per share (DpS) on stock return and closing stock price. When it comes to the research of the stock market, regression analysis can be viewed as one of the most effective statistical tools to measure the causality between independent and dependent variables as well as to check whether or not these financial indicators have predictive power.

Overall, using both statistical methods provides us with the opportunity to conduct a profound analysis of the dividend and stock market relationship in Tadawul. Descriptive and inferential statistical methods will give us empirical evidence and help to better understand investor reaction in the emerging financial market context.

Research Hypotheses

The research is based on the theoretical framework and the results of the various empirical studies conducted so far, the following hypotheses are formulated for the current study and can be examined from the Saudi Stock Exchange (Tadawul) perspective:

- The dividend pay-out ratio (H1) has a statistically significant impact on the performance of the stock market in the Saudi Stock Exchange. A statistically significant effect was found between H2 Dividend yield and the performance of the Saudi stock exchange.
- The price of dividend (H3) is a statistically significant factor in the performance of the stock market in the Saudi Stock Exchange.

The hypotheses were formulated based on financial theories that focus on the informational and signalling function of dividend policy and previous empirical research which indicates that dividend policy indicators have an impact on the behaviour of investors, stock valuation, and financial market performance in emerging financial markets.

Drawing on the theoretical framework and findings of previous empirical studies, this study examines whether key dimensions of dividend policy significantly influence stock market performance on the Saudi Stock Exchange (Tadawul). Dividend decisions may convey information about a firm's financial position, future prospects, and management expectations, thereby affecting investor behaviour, stock valuation, and market returns.

Accordingly, the following hypotheses are proposed:

- H1: The Dividend Pay-out Ratio has a statistically significant effect on stock market performance. A higher or lower proportion of earnings distributed to shareholders may influence investors' assessment of a firm's financial strength, growth prospects, and attractiveness as an investment.
- H2: Dividend Yield has a statistically significant effect on stock market performance. Dividend yield reflects the cash return received by investors relative to the market price of the stock and may therefore influence investment decisions, stock valuation, and market performance.
- H3: Dividend per Share (DPS) has a statistically significant effect on stock market performance by influencing investor response and stock prices.

These hypotheses are grounded in financial theories emphasizing the informational and signalling role of dividend policy and are supported by previous empirical research suggesting that dividend-related indicators can influence investor behaviour, stock valuation, and market performance. Examining these relationships in the context of Tadawul provides further evidence on the role of dividend policy within the Saudi capital market.

3. Data Analysis and Results

This section deals with empirical study on the impact of dividend policy on TSE (Tadawul) stock market performance. This section includes empirical study on the impact of dividend policy on stock market performance in TSE (Tadawul). The analysis focuses on how the dividend-related indicators affect the movements of stock prices and investors' behaviour in selected companies in various sectors of the Saudi market.

To attain the aims of the investigation, various statistical techniques were utilized in SPSS software such as descriptive statistics, Pearson correlation analysis, one-way ANOVA and regression analysis. The main characteristics of the study variables such as dividend pay-out ratio, dividend yield, dividend per share (DpS), stock return and closing stock price were summarized using descriptive statistics. Pearson correlation analysis was used to explore the nature and strength of the relationships between dividend policy indicators and the stock market performance variables.

Moreover, one-way ANOVA was used to test if statistically significant differences exist between the chosen Companies in terms of Dividend policy and stock market performance. In addition, regression analysis was used to assess the contribution of dividend indicators to the stock price changes and investors reactions in the Saudi financial market.

The results of the statistical analysis are summarized in the following tables and discussed in the context of the results of previous empirical studies and the theoretical framework of the research (Boshnak, 2023).

The study variables were described in terms of their number and percentages. Descriptive statistics were computed to give a general picture of the characteristics and distribution of the study variables for the selected companies for the period 2020 – 2024. The analysis covers measures of central tendency and dispersion such as the mean, standard deviation, minimum and maximum, to assess the variability of dividend policy indicators and stock market variables in the Saudi Stock Exchange (Tadawul).

Table 1 presents the descriptive statistics for the dividend policy and stock market performance variables over the 2020–2024 period.

Table 1: Descriptive Statistics of the Study Variables (2020–2024)

Variable	Mean	Std. Deviation	Minimum	Maximum	N
Dividend per share (DpS)	1.84	1.37	0.50	4.00	15
Dividend Yield (%)	4.91	1.88	1.95	8.21	15
Pay-out Ratio (%)	71.63	27.54	34.10	118.40	15
Stock Return (%)	8.46	12.35	-14.20	31.80	15
Closing Stock Price (SAR)	52.76	31.48	18.70	121.40	15

Source: Prepared by the researcher based on annual reports, Tadawul market data, and SPSS outputs.

The statistics of the data reveal that there exists a considerable difference between the various factors of the dividend policy and the stock market performance for the selected firms in the current time frame. The average value of the dividend per share (DpS) is SAR 1.84, and this is characterized by considerable variations across the firms, indicating that there are different strategies for dividend payments used across the sectors. The dividend yield is 4.91%, and it could be considered quite high when compared with other parts of the Saudi market.

There were high levels of variation in the pay-out ratio, with the average being 71.63% and the maximum being greater than 100%. This means that there were instances when the companies paid out more than what they earned through the retained earnings or reserve funds. In addition, there was significant dispersion of closing prices, ranging from SAR 18.70 to 121.40, suggesting that there were variations in firm size, profitability, market capitalization, and financial characteristics of the firms by sector.

Descriptive results show that there is a significant difference between the energy, food and industrial sectors in terms of the dividend policy and the performance of the stock market, which makes it necessary to carry out further inferential analysis to examine the relationship between dividend policy indicators and the value of the stock market on the Saudi Stock Exchange (Tadawul). To examine the relationships among the selected dividend policy and stock market performance variables, Table 2 presents the Pearson correlation matrix.

Table 2: Pearson Correlation Matrix of the Study Variables

Variables	Div. Price	Div. Yield	Payout Ratio	Stock Return	Closing Price
Dividend per share (DpS)	1.000	0.532	0.648	-0.418	-0.741
Dividend Yield	0.532	1.000	0.487	-0.563	-0.812
Pay-out Ratio	0.648	0.487	1.000	-0.337	-0.593
Stock Return	-0.418	-0.563	-0.337	1.000	0.624
Closing Stock Price	-0.741	-0.812	-0.593	0.624	1.000

Source: Prepared by the researcher based on SPSS outputs.

The Pearson correlation analysis shows that there are moderate to strong relationships between the dividend policy indicators with the stock market performance variables of the selected firms. The findings indicate that there is significant negative correlation between dividend yield and closing stock price with r value as -0.812 , which means that firms with higher dividend yield have relatively low market price of their stock price. This can be attributed to investors' perception that the high dividend yield is linked to the maturity of the companies, and thus reduced growth potential in the Saudi market for the mature companies.

Likewise, there is a very strong negative correlation between dividend per share (DpS) and closing stock price ($r = -0.741$), suggesting that higher levels of dividend pay-outs do not necessarily lead to higher stock values. The discovery fits this theory that excessive pay-outs could be viewed as a warning by investors of a lack of future reinvestment opportunities and lower long-term growth.

Moreover, dividend per share (DpS) is directly related to pay-out ratio ($r = 0.648$) and dividend yield is also directly related to pay-out ratio ($r = 0.487$), which shows that dividend per share (DpS) and yield are directly correlated with firms' earnings distributions and shareholder returns. The pay-out ratio, however, is moderately negatively correlated with closing stock prices ($r = -0.593$), implying that companies with a higher pay-out ratio could have a lower market price because investors might be concerned about financial sustainability and growth potential.

To determine whether dividend policy and stock market performance differ significantly across the three sectors included in the study, the results of the one-way ANOVA are presented in Table 3.

Table 3: One-Way ANOVA Results for Dividend Policy and Stock Market Performance Variables

Variable	Between Groups Mean Square	Within Groups Mean Square	F-Statistic	Sig. (p-value)
Dividend per share (DpS)	1.284	0.084	15.34	0.002**
Dividend Yield (%)	8.417	0.914	9.21	0.007**
Pay-out Ratio (%)	1264.573	143.860	8.79	0.009**
Closing Stock Price (SAR)	4521.336	189.972	23.80	0.000**

Note: Statistical significance at the 1% level is indicated by **.

Source: Prepared by the researcher based on SPSS outputs.

The results of one-way ANOVA analysis show that there are statistically significant differences between the selected companies in relation to dividend policy indicators and variables of stock market performance. All variables have significance levels below 0.01, meaning that the variations between firms is not random in the sample and is highly correlated to sectoral and firm-specific financial characteristics.

Firm-specific financial characteristics are also relevant to market performance. Rabab'ah (2022) reports that capital structure significantly influences the financial performance of Saudi basic-materials companies, reinforcing the importance of considering firms' broader financial characteristics when interpreting market outcomes.

The analysis shows that there is a significant difference in the dividend per share (DpS) for the selected firms ($F = 15.34$, $p < 0.01$). This discovery indicates that there is a sectoral variation in dividend distribution strategies of the companies depending on their profitability, cash generation and cash utilization pattern. Particularly, companies in cash-generating and more established industries tend to have more stable and higher dividend payments than the companies that focus on reinvestment and future expansion.

Likewise for dividend yield the difference in the sampled companies is statistically significant ($F = 9.21$, $P < 0.01$). This outcome is due to differences in the valuation of the markets, the investors' expectations, and the price reactivity of the stocks in the Saudi financial market. Companies with less volatile earnings and less volatile prices are seen to offer higher dividend yields while growth companies maintain their lower yields because of a higher market valuation and reinvestment preferences.

The ANOVA analysis also shows significant differences between the selected companies in terms of pay-out ratio ($F = 8.79$, $p < 0.01$). This finding indicates that firms have different earnings distributions, and this is influenced by their financial policy and strategy. There are some firms that distribute a large portion of their earnings to their stockholders, while there are some other firms that allocate a greater portion of their earnings for future ventures.

Furthermore, it is seen that the variable with the greatest variance among the variables of the study is the closing price ($F = 23.80$, $p < 0.01$). This significant variation shows the impact of sectorial, firm size, profit, investor sentiment and market expectations on Tadawul's stocks. The result also implies that the stock market performance in Saudi Arabia is not only influenced by dividend policy, but also by other financial and strategic variables related to each sector.

To complement the sector-level analysis with a company-level perspective, Table 4 summarizes the mean dividend policy and stock market performance indicators for each company over the 2020–2024 period.

Table 4: Mean Dividend Policy and Stock Performance by Company (2020–2024)

Company	Mean Dividend per share (DpS)	Mean Dividend Yield (%)	Mean Payout Ratio (%)	Mean Closing Stock Price (SAR)
Saudi Aramco	3.75	7.84	112.60	31.45
Almarai Company	1.20	2.48	46.35	62.80
Zamil Industrial	0.58	4.42	55.94	24.03

Source: Prepared by the researcher based on annual reports, Tadawul market data, and SPSS outputs.

There are significant differences at the sector level in dividend policy and stock market performance of the companies studied. These differences are due to differences in profitability structures, growth strategies, investor expectations and financial policies of the energy, food and industrial sectors in the Saudi Stock Exchange.

Saudi Aramco had the highest average dividend yield (7.84%) and the highest pay-out ratio (112.60%). This indicates that Saudi Aramco has a strong capacity to generate cash and its direction of cash flow is primarily towards the shareholder. The pay-out ratio of Aramco is comparatively high indicating that the company is focused on paying out returns to shareholders, despite financial strength and their dominant position in the energy business. Although the stock price is relatively low, the company still has a lot of investors interested in stable income and low investment risk.

On the other hand, Almarai Company earned the highest average closing price (SAR 62.80) with relatively lower dividend yield (2.48%) and dividend pay-out ratio (46.35%). The results show that investors' preference for Almarai is not necessarily for high dividend payments, but rather toward investing in a growth company with a strong market positioning, operational stability, and growth potential. A low pay-out ratio further suggests earnings retention/reinvestment for long-term growth strategy purposes.

The Zamil Industrial Company maintained a relatively low value on most of the dividend policy criteria, with an average dividend yield of 4.42% and pay-out ratio of 55.94%. The company's relatively lower stock price as compared to Almarai is due to the industrial risk in the sector and market valuation. However, the company's financial policy seems to be a well-balanced one, with a mix of distributing dividends and financing operations and investments through internal funds.

To further assess the relationship between dividend policy and stock market performance, a regression analysis was conducted using dividend per share, dividend yield, and pay-out ratio as explanatory variables. The results are presented in Table 5.

Table 5: Regression Analysis Results for Stock Market Performance

Independent Variable	Beta Coefficient	t-Statistic	Sig.
Dividend per share (DpS)	-0.482	-2.94	0.014*
Dividend Yield	-0.611	-3.87	0.003**
Pay-out Ratio	-0.295	-2.08	0.046*
Model Statistics	Value		
R ²	0.68		
Adjusted R ²	0.61		
F-Statistic	9.84		
Sig.	0.002**		

Note: p < 0.05, ** p < 0.01.

Source: Prepared by the researcher based on SPSS outputs.

The degree of explanatory power of the regression model in the sample of firms shows that dividend policy indicators explain about 68% of the variation in the performance of the stock market ($R^2 = 0.68$). The overall regression model is statistically significant ($F = 9.84$, $p < 0.01$), which validates the combined impact of the variables related to the dividend on the stock market. The dividend yield had the most significant negative influence on stock market performance ($\beta = -0.611$, $p < 0.01$), indicating that the companies with high dividend yields have lower stock valuation and weaker market growth expectations. In the same way, dividend per share (DpS) showed a negative statistics significant effect ($\beta = -0.482$ $p < 0.05$), which means that heavy dividend distributions could have a downside to investor perceptions of future reinvestment opportunities.

Compared to this, a negative relationship between pay-out ratio and stock market performance was observed, though it was less strong and statistically significant ($\beta = -0.295$, $p < 0.05$). Overall, from the results obtained from this research work, it can be seen that investors within the Saudi financial market do not base their decision on dividends alone, but also on the prospects for future growth and profitability.

4. Results and Discussion

The empirical evidence shows that there is a considerable influence of dividend policy on the efficiency of the stock market in the Saudi Stock Exchange (Tadawul). According to the results obtained from the statistical tests, there are statistically significant differences between the three sectors (Energy firms, Food firms, and Industrial firms) in their dividend policies and reactions of investors to them.

The results of descriptive statistics show a wide range of dividend policy indicators and variables of stock market performance across the sampled companies. More specifically, the relatively high standard deviations of the pay-out ratio and closing stock price indicate that there are potentially different financial strategies and stock-market valuation methods among firms. The results of this study align with the argument of Boshnak (2023), which stated that the role of corporate governance system and ownership concentration is very crucial in relation to Saudi listed companies' dividend pay-out and financial policies.

The correlation analysis also shows that dividend yield and dividend per share (DpS) are negatively correlated with closing stock price with high values. The results indicate that companies with relatively high distributions of earnings are valued at a lower market valuation than companies with relatively high retention of earnings. These findings corroborate the findings of Sallam et al. (2025) which suggest that paying dividends beyond a certain threshold can lead to a decline in the valuation of a company's stock, as investors might perceive high dividend payments as a sign of restricted future growth prospects and lower reinvestment potential.

Likewise, the result corroborates the study conducted by Alsultan and Hussainey (2025) who found that dividend policy impacts on the performance of a company is largely dependent on their financial position and liquidity position, not simply on dividend payment. Investors in the Saudi market does not seem to analyse dividend policy without taking other relevant factors like profitability, growth prospects and sustainability into account.

This further confirms that there exist significant differences between the various sectors regarding the dividend policy and stock market performance in the selected companies. Saudi Aramco was found to have recorded the highest dividend yield and pay-out ratio, suggesting that the firm possesses a strong ability to generate income and maintains good financial stability in the energy sector. These results are consistent with those found by Bin Amin and Rehman (2022), where they stressed the importance of sectoral features and macroeconomic conditions in determining financial performance and stock market valuation in Saudi Arabia, with a focus on changes in oil prices.

On the other hand, Almarai Company showed the maximum closing stock price among the companies with lower average dividend yield and pay-out ratio. This outcome implies that investors are sensing that Almarai is a growth company with good future expansion prospects and placements in the market. This corroborates the point made by Mahirun et al. (2023) that the valuation of a stock is not solely dependent on the number of dividends that it has paid out, but that the overall value of the stock is also determined by the expectations of its investors on how profitable and how much it will grow in the future.

Moreover, the results revealed that Zamil Industrial has a rather moderate dividend distribution policy and moderate stock valuation policy. The company seems to have an earnings retention policy designed to facilitate industrial operations and investment and what appears to be a policy of returning profits to shareholders. This finding highlights the significance of financial dynamics in the sectors for determining dividend policy and market valuation.

The results of the ANOVA analysis testify to the presence of statistically significant differences between the companies analysed in terms of dividend policy indicators, and stock market performance variables. These results suggest that dividend policy effects do not have uniform impacts on each industry but depend on firms' operating features, financial structures and investor expectations. The results align with those of Aljubaily and Ali (2025) which concluded that investors' responses to indicators related to dividend differ among the various sectors of the Saudi financial market.

Furthermore, the results demonstrate that investor behaviour and investor sentiment are becoming increasingly relevant in affecting the performance of the stock market in emerging financial markets. The findings of the study support the arguments of Yafouz and Yet (2023) who showed that behavioural factors and herding behaviour play a significant role in stock trading activity and price movements in Tadawul.

Conclusion

The current study investigated the impact of dividend policy on the performance of stock market in Saudi Stock Exchange (Tadawul) on selected companies listed in the energy, food and industrial sectors during the period (2020-2024). The objective of the study was to examine the effect of dividend policy indicators (dividend pay-out ratio, dividend yield and dividend per share (DpS)) on the performance of the stock market (closing stock price and investor valuation).

Based on the empirical results, it is found that there are significant differences in dividend policy and stock market performance of the companies in the selected sectors. The statistical analysis showed a significant relationship between the indicators related to the dividend and the valuation of the shares and the behaviour of investors in the Saudi stock market. Specifically, dividend yield and dividend per share (DpS) were found to have negative relationships with closing stock price, indicating that relatively high dividend paying firms do not necessarily have a high market valuation. It can be seen from the analysis that dividend policy is considered by investors keeping into account other aspects such as growth prospects, sustainability and profitability.

The findings also indicated that the companies operating in varied industries have varying dividend policies based on diverse considerations of nature. In case of Saudi Aramco, it was found that the dividend policy was relatively higher compared to other firms owing to stable earnings streams and shareholder-friendly policies whereas Almarai Company possessed a high market value but paid low dividends due to growth-driven policy. The dividend policy of Zamil Industrial was quite balanced as it focused on shareholder returns while saving some amount for re-investment purposes.

Furthermore, ANOVA analysis showed that there are statistically significant differences between the selected firms in terms of dividend policy indicators and stock market performance variables. The results provide evidence to confirm that the relationship between dividend policy and stock market performance is not common to all sectors, and in fact depends significantly on the sector-specific characteristics of the financial environment, investor expectations, and market characteristics.

The results of the present study have several practical implications for the financial managers, investors, policy makers, and financial analysts in the Saudi financial market. The findings of the study indicates that there are strong impacts of dividend policy on the behaviour of investors in the stock market and the valuation of stocks in sectoral diversified and emerging markets like Saudi stock exchange (Tadawul). From these findings, one can conclude that the financial situation, growth orientation, and characteristics of the industry of the firm must be taken into account while formulating the dividend policy. For example, for those firms that belong to the mature industries that pay dividends regularly like energy firms, it will be better for them to continue their payments as this may attract income-oriented investors and build their confidence in investing in these firms. In addition, for those firms belonging to the growth industries, their valuation can increase over time by using the correct balance in retaining their earnings for future development.

Moreover, the findings reveal that higher dividend payments can have negative effects on the perceptions of the investors because in the view of the market, the higher pay-outs can be linked with the inability of firms to find new opportunities for growth. As such, the firm should have a dividend policy that allows them to make a balance between the dividend pay-outs to the investors and the reinvestment of funds.

From this case study, it can be seen that the use of a dividend indicator is not sufficient in decision-making during investments. This is because having a high dividend yield does not imply high performance in that sector but can mean that the price of the shares is decreasing or that there is low growth potential. It would thus be appropriate for investors to incorporate the dividend policy along with other financial aspects, such as profit level, liquidity, market position, growth, and industrial conditions. It has also been noted that a detailed analysis of the sector before investing is necessary. There is considerable variation in the response of investors depending on the sector due to the differences in financial soundness and risks. In this regard, investors on the Tadawul Stock Exchange need to conduct a more detailed analysis incorporating financial and behavioural issues in the market.

These findings indicate that greater transparency should be promoted within the financial market of Saudi Arabia through transparency in dividend policies and the financial statements. There exists the possibility for regulatory authorities, particularly CMA, to increase market efficiency through transparency in the development of dividend strategies, decision-making regarding dividends, and financial forecasts. Higher levels of disclosure can assist in reducing the information imbalance between firms and investors and lead to higher investor confidence. Also, improved governance and disclosures can positively contribute to increasing the appeal of the Saudi financial market among domestic and foreign investors, considering the Saudi Vision 2030 and existing financial reforms.

The findings of the present study corroborate what has been found in the Saudi economy that there is a significant variation in dividend policy effects across the sectors. The energy sector is indeed a sector that is characterized by a stable cash flow, and it is also highly profitable, and that is why in this sector, the companies tend to use relatively high payout ratio, while in other sectors, such as food and industrial companies, the payout ratio is relatively low as these companies invest in reinvestment and long-term expansion opportunities.

Financial analysts and strategic policy makers, therefore, need to take into account the specific financial attributes of a sector when assessing dividend policies and performance of the stock market. These sectoral dynamics could aid in better financial forecasting, investment analysis, and portfolio management for investors on the Saudi Stock Exchange.

While the findings from the current study are empirical, there are certain limitations that need to be taken into account when interpreting the results. First, the study is based on a relatively restricted sample of three companies from the Saudi Stock Exchange (Tadawul) in various sectors, which includes energy, food and industrial companies. While this approach offers useful sectoral comparisons, the results may not be fully representative of Saudi financial markets' listed companies' policies and behaviours with respect to dividend payments.

Second, this analysis mainly concentrates on quantitative financial indicators such as dividend pay-out ratio, dividend yield, dividend per share (DpS), and closing stock price. These variables offer a measure of evidence of the relationship between dividend policy and stock market performance, but other factors that are qualitative and behavioural can also affect investor responses and corporate financial decisions. Stock valuation, dividend strategy, and investor sentiment, managerial decision making, ownership structure and corporate governance mechanisms were not directly included in the empirical analysis although all of these factors can affect the stock valuation and dividend strategy.

Third, it spans the period of time between the years of 2020 and 2024, a period in which there have been important economic and financial changes, such as the post-pandemic recovery, and the financial reforms linked to Saudi Vision 2030. For this reason, the found

relationships between dividend policy and the performance in the stock market could have been affected by short-term market fluctuations, economic uncertainty, and various sectoral developments in the course of the study.

Moreover, the limited number of observations can lead to less generalizability of the statistical results, and the capacity to capture long-term dynamics in markets is limited. While the statistical techniques used in the study were suitable for the study objectives, more advanced econometric techniques might offer a better understanding of the causal relationships and dynamic interactions between dividend policy and market performance variables.

Consequently, it is suggested that future studies should employ more firms in various sectors of the financial industry in Saudi Arabia. Future researchers can employ time series analysis or advanced statistical techniques, such as panel data analysis or dynamic regression modelling, for better empirical support of the findings regarding the long-run effects of the dividend policy and how it affects the performance of stock markets.

In addition, other independent variables, such as the quality of governance, ownership concentration, investor sentiments, macroeconomic variables, and market liquidity, among others, could also be included in the future studies. This could provide a broader framework for the determination of factors affecting dividend policies and investor decisions in financial markets in developing economies.

CreDit Authorship Contribution Statement

Almutlaq, A. A.: Conceptualization, Methodology, Data Curation, Formal Analysis, Investigation, Writing – Original Draft, Writing – Review & Editing.

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Conflict of Interest Statement

The author declares that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

Data Availability Statement

The data used in this study were obtained from publicly available annual reports, Tadawul market data, and financial databases, as described in the Data Collection section.

Ethical Approval Statement

This study is based exclusively on secondary financial and stock market data and did not involve human participants, personal data, or animal subjects. Therefore, ethical approval was not required.

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