



The Role of Profitability in the Relationship between Dividend Payout and Market Value of Shares of Non-Financial Companies Listed on the Palestine Exchange

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Abstract

This study aimed to examine the relationship between dividend payout and the market value of shares of non-financial companies listed on the Palestine Exchange, as well as to investigate the role of profitability as a potential moderating variable in this relationship. The study adopted a descriptive-analytical approach, analyzing data from 28 non-financial companies listed on the Palestine Exchange during the period (2014-2022), comprising 252 observations. To test the study hypotheses, panel data techniques and outputs from the STATA statistical software were employed. The study utilized multiple regression analysis using the ordinary least squares (OLS) method. The findings revealed a positive moderating role of the profitability ratio (ROE) on the relationship between dividend payout and the market value of shares.

Moreover, the study demonstrated a strong positive relationship between dividend payout and return on equity (ROE) on one hand, and the market value of shares on the other. The study presented several recommendations, the most significant being the necessity of aligning dividend payout policies with investor requirements, with emphasis on profitability and improving financial performance to enhance market value. Additionally, sustainable dividend payout strategies should be established to balance reinvestment and dividend payout, alongside improving capital structure. Furthermore, financial risk analysis and strategic planning should be conducted to mitigate potential shocks, adopting a combination of cash dividends and reinvestment to achieve sustainable growth while implementing balanced financing policies.

Keywords: Dividend payout, market value of shares, profitability, Palestine Exchange.

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Introduction

The topic of dividend payout policy has garnered considerable attention during the past decade, as many believe that such policy may influence the value of companies and their share prices in the market. The dividend payout decision is considered one of the most fundamental decisions in a company, alongside investment and financing decisions. Consequently, dividend payout policy is no less important than any other corporate decision, which has prompted numerous financial and economic scholars to devote significant attention to this policy. There exists extensive debate among financial and economic scholars regarding the impact of dividend payout policy on market value, which has led to new endeavors to explain corporate behavior in this domain (Eita, 2021).

Dividend payout policy is regarded as one of the critical financial policies in a company and is subject to several considerations in its determination. Various theories attempt to explain investor behavior toward dividend payout policy. Dividend payout policy represents one of the most extensively researched topics in financial accounting. Understanding the relationship between dividend payout policy and the market value of shares is crucial, as dividend payout policy holds profound significance for diverse stakeholders, including investors, lenders, and managers. Profits are not merely a source of income but serve as a vital indicator for evaluating corporate performance. In this context, the concept of market value of shares emerges as one of the fundamental criteria for company valuation, as this indicator is influenced by the company's financial position and surrounding economic conditions (Mashkour, 2018).

Dividend payout policy is considered one of the pivotal financial policies in economic institutions, particularly due to its direct connection with shareholders and its impact on the company's share prices in financial markets. This policy represents an ongoing area of research and discussion in financial management and investment, as it involves making decisions regarding the payout of a company's net income between distributed dividends and retained earnings. Dividend payout policy must be formulated in accordance with the objectives of the economic institution, ensuring the maximization of shareholder wealth (Ben Omar & Fakh El-Din, 2022). Dividend payout is considered a reward to shareholders for their investments in the entity and their assumption of risks. Therefore, dividend payout policy should consider the entity's objectives in a manner that contributes to maximizing shareholder wealth (Alkorshi, 2020). Shareholders demand increased dividend payout based on information derived from financial statements and reports. Dividend payout policy represents the outcome of several factors that influence the company's decision regarding payout, whether cash payout through profit disbursement or in-kind payout through the payout of bonus shares financed from retained earnings (Gyapong, 2019). Thus, dividend payout policy is considered a fundamental issue in companies due to its prominent impact on investment and financing decisions. If a company decides not to distribute dividends or to distribute lower dividends, it will have more internal funds, thereby reducing its need

for external funds. Conversely, if the company distributes high dividends, it will have fewer internal funds, increasing the company's dependence on debt or other forms of external financing (Eita, 2021).

The profitability factor is considered one of the most important factors that receives attention from all investors, owners, and lenders. Profitability expresses the relationship between the profits achieved by investments and projects, and it is one of the most important objectives that shareholders expect to achieve, as it serves as an indicator for judging the efficiency and effectiveness of companies. Consequently, it is considered one of the most important decisions that significantly affect the company's future, as these decisions represent the policies that the company follows, such as investment, financing, and dividend payout policies, with the objective of achieving planned goals. Given the direct relationship between dividend payout policy and shareholders, it is considered one of the most important financing issues. Moreover, dividend payout policy is considered one of the principal decisions faced by senior management, as it is responsible for choosing between distributing dividends to shareholders, thereby reducing the company's internal financing and increasing the market share of its shares, or retaining profits to increase financing sources and enhance available investment opportunities for the company (Makhlouf, 2019). Therefore, it can be stated that profitability has a direct relationship with dividend payout and the market value of shares, as it indicates the company's ability to generate profits, and these profits serve as an important indicator of the company's success in achieving its financial objectives.

The Palestine Exchange plays a vital role in advancing the Palestinian economy forward. With the increasing number of companies listed on the Palestine Exchange and the growing number of shareholders in these companies, coupled with the significant role these companies play in the growth of the Palestinian economy, the financial performance of these companies constitutes an increasing concern for Palestinian investors, as it is considered an indicator of the company's success. The profits achieved by the company play a positive role in determining the share price for these companies, and dividend payout provide a positive indicator to shareholders regarding the company's condition (Heriz, 2018).

Some companies listed on the Palestine Exchange experience volatility in dividend payout policies, as these policies do not always reflect the company's profitability level. Indeed, some highly profitable companies do not distribute dividends at all, which affects the market value of shares and consequently the entity. This raises questions about the factors influencing payout decisions and their reflection on the market, as well as the impact of dividend payout on investor decisions. Some investors prefer high payout while others prefer low payout, but they reject volatile payout. Therefore, company management must estimate future profits and the amount of funds required for investment in anticipated investment opportunities. Companies should not retain profits unless they can reinvest those profits to achieve returns higher than what shareholders could achieve independently (Eita, 2021). As demonstrated through numerous

previous studies, profitability has a direct relationship with both dividend payout and the market value of shares. However, there is no specific criterion that can be universally applied to all companies equally, as the orientations, nature, and preferences of investors are not uniform. Furthermore, company strategies and shareholder objectives differ. Occasionally, we find that a particular company does not distribute dividends to shareholders yet enjoys a high market value for its shares. Conversely, we sometimes observe the opposite, where companies distribute dividends yet experience significant weakness in their market value. In some instances, no significant impact of these payout on market value is observed (Shuqair, 2019).

Theoretical Framework and Literature Review

The theoretical framework and review of previous studies contribute to the theoretical and scholarly grounding of the study's variables and concepts. This enables researchers to identify research gaps and subsequently formulate the research problem, questions, objectives, and hypotheses, as follows:

Theoretical Framework

The theoretical framework constitutes the conceptual foundation upon which this study is based, aiming to clarify the key concepts related to the research topic, as follows:

Concept of Dividend Payout

Dividend payout policy is considered an integral part of the company's strategic financing decision. The essence of this policy involves company managers determining the proportion of profits that should be distributed to shareholders who hold common shares in the company as returns on their investments, and determining the proportion of profits that should be retained to finance future growth in the company. The objective of the dividend payout decision should be to maximize shareholder wealth. Dividend payout policy can be defined as "making decisions to distribute profits or retain them for reinvestment in the enterprise. The optimal payout policies are those that aim to achieve balance between current payouts and future profits, thereby maximizing share price" (Shams El-Din, 2021). According to Ben Omar and Fakhr El-Din (2022), dividend payout policy is defined as "the cash flow that shareholders receive as a return on their investments in the company's shares they own. These dividends represent income for investors, constituting the current income that many shareholders expect and anticipate spending on their consumption of goods and services. Dividend payout policies also affect share market prices." The researchers, through the definitions, propose that dividend payout policy can be defined as: the substance of making decisions regarding profit payout or retention for reinvestment in the enterprise. The optimal payout policies are those that strive to achieve balance between current payouts and future profits.

Dividend payouts represent a portion of profits distributed to shareholders, either in cash or in kind, after approval by the general assembly, and these profits are considered to result from previous and current activities.

Motives for Dividend Payout

Accounting literature has provided numerous incentives and motives for companies to distribute a portion of their profits. These include the following (Samanta & Singla, 2019; Tuan & Anh, 2019):

- 1- Dividend payout are utilized as a signal to communicate information regarding current and future expectations of the organization's profits and performance, thereby influencing the company's market value.
- 2- The objective is to incentivize shareholders to retain the entity's shares and refrain from selling them, as well as to encourage them to subscribe during capital increases, which leads to increased capital and maximization of the entity's value.
- 3- Enhancing the confidence of investors and market participants in the securities market by meeting their requirements and reducing the exploitation of small investors.
- 4- Reducing information asymmetry between internal parties and shareholders through providing information regarding the entity's future growth opportunities.
- 5- Facilitating capital market monitoring and tracking of its activities and performance.
- 6- Resolving agency problems that arise from free cash flows.

Factors Affecting Dividend Payout Policy

1- Growth Prospects

The sole objective of companies is to generate profits and increase them for the benefit of their shareholders, but this does not necessarily mean distributing dividends directly to them. Some companies may lack sufficient financial resources to increase investments, leading to a higher proportion of retained earnings, which results in distributing dividends at low rates. The company undertakes this when it is ambitious about expansion and prosperity and does not wish to increase its debt levels (Makhlouf, 2019).

2- Shareholder Preferences

These are difficult to achieve collectively due to the divergence of interests among shareholders. Small shareholders may prefer to receive dividend payout consistently, as they consider them a source of income, resulting in their rejection of profit retention or payout of only a small portion. Conversely, major shareholders often prefer a profit retention policy for various reasons, such as reducing tax burdens (Ammar et al., 2019).

3- **Liquidity Factor**

Distributing dividends to shareholders requires the presence of cash in the company. Although the company may have achieved good profits over the years, if these profits have been retained and used to finance the company's assets, this means there is no cash liquidity for the company to distribute dividends. Typically, companies that grow rapidly and utilize all available financing sources for expansion often face liquidity crises, where liquidity availability is more important than profit achievement. The company's ability to pay cash dividends reflects its capacity to withstand financial challenges (Shams El-Din, 2012).

4- **Company Age**

Dividend payout is affected by company policy, which is influenced by the company's age. Emerging companies typically face difficulties in obtaining financing to expand their operations and therefore retain a portion of their profits for investment in expansion. In contrast, established companies can obtain financing from internal or external sources and are therefore typically more willing to distribute a larger proportion of profits (Ghazali, 2017).

5- **Company Size**

Company size is closely related to its dividend payout policy. Small companies cannot borrow directly if they require financing and expansion due to numerous conditions imposed by lending institutions, such as high risk and insufficient guarantees for the potential financing amount. Therefore, the company follows a profit retention policy to utilize them in financing these expansion projects (Boughenama & Yousfi, 2022).

6- **Profitability**

Companies with high profitability tend to provide larger dividend payout than other companies. It is essential to determine the profitability level to establish dividend payout policy, as companies with high return on equity and return on assets tend to distribute larger dividends (Merhej & Qalab, 2021).

Concept of Market Value of Shares

Market value is defined as the value at which a share is sold in the securities market, which is influenced by the company's current profits, in addition to its influence on the forces of supply and demand. Consequently, this value changes from time to time (Slabi, 2022). Market value can also be defined as the criterion and fundamental indicator that can be used to express the company's value and its development at the end of the period after reaching its value through the price of its shares in the market. Investors in financial markets view this value as an indicator of the company's success or failure (Mashkour, 2019).

First: Functional Relationships Affecting Market Value**Functional Relationships Affecting Market Value (Mashkour, 2018)****1- The Functional Relationship Between Share Market Value and Earnings Per Share**

The share value in the market is affected by the expected net profit after tax. When investors predict an increase in the net profit rate after tax because of effective fund management, they proceed to purchase and acquire shares, leading to an increase in the share's market value. This relationship represents a linear direct relationship between the increase in net profit after tax and the increase in market value, holding other factors constant that the company cannot control.

2- The Functional Relationship Between Share Market Value and Time to Profit Realization

The relationship between the share's market value and the time to profit realization is considered an inverse relationship. If investors anticipate immediate dividend payout, the share's market value will be higher than if the dividends were distributed later.

3- The Functional Relationship Between Share Market Value and Liquidity

The relationship between the share's market value and liquidity is considered a direct relationship, where market value increases when liquidity is high because of the company entering a new investment project that generates profits.

4- The Functional Relationship Between Share Market Value and Ability to Meet Obligations

It is necessary to examine the relationship between market value and the financial obligations borne by the company, and whether this relationship can be derived from accounting data and the extraction of financial ratios, such as the ratio of total assets to indebtedness, namely the expected rate of return on indebtedness. The higher the expected rate of return, the higher the share's market value.

Second: Factors Affecting the Market Value of Shares**1- Company Profitability**

Company profit is considered one of the principal factors and indicators for share price. Financial analysts recommend purchasing shares that generate higher profits and selling shares whose profits are declining. However, prices may move in the opposite direction to profit, and these fluctuations can be explained through the confidence that investors place in shares rather than relying solely on profit. In other words, the confidence level drives share price upward or downward (Sabr & Nour, 2023).

2- Dividend Payout Policy

Information regarding the payout of cash dividends to shareholders constitutes one of the most prominent concerns for investors and shareholders, as this informa-

tion indicates that an increase in the proportion of cash payouts leads to an increase in expected returns per share. When dividend payout is announced, it signals future expectations regarding the company's ability to maintain this proportion, consequently raising the share price. Conversely, low returns are associated with a low cash dividend payout rate (Lulu, 2016).

3- Expectations of the Company's Future and Financial Position Strength

Information related to the company's future is considered one of the fundamental factors affecting share price. The stronger the company's financial position, the greater its ability to continue and achieve high profits in the future, leading to an increase in share price. Conversely, a weak financial position may negatively affect share value (Heriz, 2018).

4- Book Value Per Share

There is typically a direct relationship between the book value of a share and its market price. Consequently, the market share price is significantly influenced by its book value. Any increase in the share's book value is reflected in its market price through an increase, and vice versa (Jahjuh, 2017).

5- Economic Conditions

The economic condition of a state is affected by internal and external variables, such as economic growth, unemployment rates, exchange rate fluctuations, interest rates, in addition to global financial crises-all factors that will negatively affect the market value of shares (Heriz, 2018).

6- Investor and Financial Analyst Expectations Regarding the Company's Future

Investors and financial analysts must estimate the share's future profitability by conducting a precise analysis of the return on equity rate as a key element in determining the share's earnings growth rate. Current share profitability should also be analyzed to estimate future profitability. Through this analysis, the share's true value can be determined, which is the primary objective of financial analysis and serves as a basis for making investment decisions (Jahjuh, 2017).

Literature Review

Numerous studies have addressed dividend payout policy and its relationship with market value and share price in several Arab stock exchanges, particularly the Palestine Exchange. The majority of these studies demonstrated a strong positive role for dividend payouts on the market value of shares, as evident in the studies of Qushta (2017), Al-Kahlout (2014), Shuqair (2019), Guennoun and Dadene (2019), and Eita (2021), which supports the importance of payout policy in maximizing shareholder wealth and enhancing investor confidence.

Conversely, some studies presented contradictory results regarding the absence of a significant role for dividend payout and share market values, such as the studies of Ben Omar and Fakhr El-Din (2022), Al Tally and Al-Sayed (2020), and Makhoul (2019). This variation results from the characteristics of different markets and sectors across various contexts, as well as liquidity conditions and adopted financial policies. Several studies focused on the determinants of dividend payout policy, confirming that profitability, company size, and liquidity are among the most influential factors in payout decisions, with most adopting panel data and linear regression models.

Regarding international studies, they largely aligned with the Arab literature, as many confirmed a significant impact of dividend payouts on the market value of companies or the predictive ability of profits, particularly in emerging markets, as demonstrated in studies by Roman (2019), Eissa et al. (2022), and Bataha et al. (2023). Conversely, some studies supported the dividend irrelevance theory, finding no significant effect of dividend payouts on share prices or their volatility, as in Zawadi's (2022) study on Gulf Cooperation Council banks. Other studies devoted attention to analyzing the determinants of dividend payout policy, such as profitability, leverage, liquidity, and company size, using fixed effects models and panel data.

Through the review of previous studies, it is evident that most focused on the direct relationship between dividend payouts and market value, while less attention was devoted to studying the moderating role of profitability in this relationship, especially in an emerging financial environment such as the Palestine Exchange. This study addresses this gap by integrating dividend payouts, profitability, and market value within a unified applied framework, utilizing control variables and relying on actual data from non-financial companies listed on the Palestine Exchange. This enhances the study's scholarly and practical value and contributes to supporting investor decisions and improving the efficiency of the Palestinian financial market.

Research Problem and Questions

Based on the foregoing presentation of the theoretical framework and literature review, the research problem lies in the extent to which profitability affects the relationship between dividend payouts and the market value of shares of non-financial companies listed on the Palestine Exchange. The study attempts to answer the following questions:

- 1- Is there a relationship between dividend payouts and the market value of shares in non-financial companies listed on the Palestine Exchange?
- 2- Is there a relationship between profitability and the market value of shares in non-financial companies listed on the Palestine Exchange?
- 3- What is the nature and direction of profitability's role in the relationship between dividend payouts and the market value of shares in non-financial companies listed on the Palestine Exchange?

Research Objectives

Based on the research problem, questions, and objectives, the study's objectives are as follows:

- 1- To identify the relationship between dividend payouts and the market value of shares in non-financial companies listed on the Palestine Exchange.
- 2- To examine the relationship between profitability and the market value of shares in non-financial companies listed on the Palestine Exchange.
- 3- To verify the role of profitability in the relationship between dividend payouts and the market value of shares in non-financial companies listed on the Palestine Exchange.

Research Hypotheses

In light of the literature review and based on the research problem, questions, and objectives, the researchers formulated a set of hypotheses as follows:

First: The Relationship Between Dividend Payouts (DIVD) and Market Value of Shares (P/E Ratio)

According to signaling theory, dividend payout may lead to improved financial performance of the company, which in turn enhances investor confidence and consequently improves the market value of shares (Bhattacharya, 1979). In the same context, agency theory supports the concepts of signaling theory, as dividend payout may contribute to reducing agency problems and costs, thereby reducing opportunistic management behavior, leading to enhanced corporate market value (Jensen, 1986). Numerous previous studies have demonstrated a strong direct relationship between dividend payout and the market value of shares. Boughenama and Yousfi's (2022) study, applied to French companies listed in the CAC 40 index, concluded that there is a positive relationship between distributed dividends and earnings per share on market value. Similarly, Slabi (2022) study, applied to companies listed on the Palestine Exchange, demonstrated that dividend payout constitute an important element in improving market value in an environment characterized by limited investment opportunities, high risks, and political and economic instability.

Conversely, some previous studies demonstrated a weak relationship between dividend payouts and the market value of shares, as evident in Shams El-Din's (2021) study applied to companies listed on the Amman Stock Exchange, which concluded that the impact of dividend payouts on share prices differs according to economic and financial conditions. Similarly, Abu Al-Rub and Al-Dhaheer's (2017) study, conducted on industrial companies listed on the Palestine Exchange, concluded that there is no relationship between dividend payouts and the market value of shares. Through the reviewing of previous literature, it is evident that there is inconsistency in the relationship between dividend payouts and the market value of shares. Accordingly, considering the above, the first hypothesis is formulated as follows:

H1: It is expected that there exists a positive relationship with statistical significance at a significance level ($\alpha \leq 0.10$) between dividend payout and the market value of shares in non-financial companies listed on the Palestine Exchange.

Second: The Relationship Between the Profitability Indicator (ROE) and Market Value of Shares (P/E Ratio)

The profitability indicator is considered fundamental in evaluating management efficiency and its ability to maximize shareholder wealth and enhance the company's market value. Return on equity (ROE) is considered one of the most important indicators for measuring company performance and management efficiency. Numerous studies have demonstrated a significant positive relationship between ROE and the market value of shares. Boughenama and Yousfi's (2022) study concluded the existence of a direct relationship with significant significance between profitability and the market value of shares. In the same direction, Slabi (2022) study concluded that there is a positive relationship between profitability and the market value of companies listed on the Palestine Exchange, indicating that investors' reliance in the Palestinian context, under conditions of instability, is on financial and accounting indicators in making investment decisions. Accordingly, the second hypothesis is formulated as follows:

H2: It is expected that there exists a positive relationship with statistical significance at a significance level ($\alpha \leq 0.10$) between profitability according to the return on equity indicator and the market value of shares of non-financial companies listed on the Palestine Exchange.

Third: The Moderating Role of Profitability (ROE) in the Relationship between Dividend Payout (DIVD) and Market Value of Shares (P/E Ratio)

Through reviewing previous studies, it was found that there is contradiction in results between the existence of a strong positive relationship between dividend payout and the market value of shares and studies that found no relationship or a weak relationship between the two variables mentioned. Therefore, it is possible that market value is affected by the interaction of profitability with dividend payout. It is probable that good profitability enhances the improvement of dividend payout, thereby strengthening its positive role on the market value of shares and the company in general. As signaling theory suggests, dividend payout may increase in companies with higher profitability as an indicator of earnings quality (Bhattacharya, 1979). Through following previous literature, Boughenama and Yousfi's (2022) study concluded that there is a significant positive role for dividend payout on market value, which is more decisive under high company profitability. The moderating role of profitability can be justified considering the unique characteristics of the Palestinian context. Companies that achieve high profitability tend to distribute dividends as a means of enhancing the confidence of potential and current investors. Meanwhile, companies that achieve low profitability levels tend to adopt a conservative policy in dealing with achieved profits to confront the political and economic instability experienced by the Palestinian business environment. Based on the above, the third hypothesis can be formulated as follows:

H3: Profitability plays a significant positive moderating role in the relationship between dividend payout and the market value of shares in non-financial companies listed on the Palestine Exchange, at a statistical significance level ($\alpha \leq 0.10$).

Research Design

Research Methodology

This study is considered a quantitative study that adopted the descriptive-analytical approach due to its suitability for examining causal relationships between quantitative variables, using panel data, which combines the temporal and cross-sectional dimensions, thereby enhancing the strength and accuracy of statistical analysis. It is noteworthy that the financial sector was excluded from the study sample due to its accounting, financial, and operational nature being different from the non-financial sector. Therefore, the non-financial sector was selected, which includes industrial, service, and investment companies according to the Palestine Exchange classification. The temporal period extending from 2014 to 2022 was selected due to the availability of financial and governance data during that period. The years 2023 and 2024 were excluded due to the war on the Gaza Strip, which significantly affected the Palestinian economy in the West Bank and Gaza Strip, to ensure homogeneity throughout the study period.

Population and Sample

The study population consists of all non-financial companies listed on the Palestine Exchange, totaling 34 companies. Six companies were excluded due to recent listing and data deficiency, resulting in an effective sample of 28 companies for a period of 9 years from 2014 to 2022. Table (1) illustrates the study sample as follows:

Table 1: Population and Sample of the Study

Description	Number of Companies	Percentage
Companies listed on Palestine Exchange	49	100%
Financial sector companies	(15)	(20.6%)
Non-financial sector (industrial, service, and investment)	34	69.4%
Excluded: recently listed companies and incomplete data	(6)	(12.40%)
Net sample: Non-financial companies listed on Palestine Exchange	28	57%
Total observations for nine years (2014-2022)	252	

Data Collection

The study relied on secondary data, which were manually collected from the audited annual financial reports of the companies under study published on the Palestine Exchange's electronic website. Manual data collection is considered appropriate to the nature of the Palestinian market, given the absence of comprehensive electronic databases covering all required variables.

1- Study Variable Measurements

Based on the study objectives, the study variables are as follows:

- **Independent Variable:** Cash dividend payout (DIVD)
- **Dependent Variable:** Market value of shares (SMV): measured using the price-to-earnings (P/E) ratio, calculated by dividing the share's market price by earnings per share. This measure is considered common in previous studies as an indicator of the market value of shares (Al-Taweel, 2020).
- **Moderating Variable:** Profitability (ROE)
- **Control Variables:** Company size (FSIZE), company age (FAGE), board of directors' meetings (BMEET), CEO duality (CEODUAL), audit committee size (ACSIZE).

Table (2) illustrates all variables and their measurements as follows:

Table 2: Study Variable Measurements

Variable	Symbol	Measurement	Source
First: Dependent Variables			
Market value of shares	SMV	Price-to-earnings multiplier = (Market share price / Earnings per share)	(Al-Taweel, 2020)
Second: Independent and Moderating Variables			
Cash dividends distributed	DIVD	Cash dividends distributed per share / Earnings per share	(Eita, 2021)
Return on equity	ROE	Net profit / Net equity	(Vinjamury, 2021)
Cash dividends * Return on equity	DIVD*ROE	Testing the moderating role of profitability in the relationship between dividend payouts and market value of shares	(Hussain et al., 2021)
Third: Control Variables			
Audit committee size	ACSIZE	Number of audit committee members	(Aljadba, 2021)
Company age	FAGE	Natural logarithm of company age from establishment date	(Vinjamury, 2021)
CEO duality	CEODUAL	Value of 1 if the CEO is the same as board chairman, value of zero otherwise	(Vinjamury, 2021)
Board meetings	BMEET	Number of annual boards of directors' meetings	(Vinjamury, 2021)
Company size	FSIZE	Natural logarithm of total company assets	(Vinjamury, 2021)

2- Data Analysis Methods

The study relied on fundamental data analysis methods through identifying variable characteristics through their descriptive study. To test the hypotheses, the ordinary least squares (OLS) method was used to analyze data according to the panel data approach. A comparison was made between fixed and random effects models according to the Hausman Test results, which confirmed that the preference for the study model is the fixed effects method. Through the VIF test and Pearson correlation matrix, the absence of multicollinearity problems among independent variables was

verified. The STATA software was utilized for data analysis, as it is commonly used (Aljadba et al., 2022).

Empirical Study

Based on the research problem and to achieve its objectives and test its hypotheses, the empirical study was conducted on non-financial companies listed on the Palestine Exchange according to the following statistical and applied tests:

Descriptive Analysis of Variables

The results of descriptive statistics presented in Table (3) reveal that the average market value of shares (SMV) is approximately (20.8) with a standard deviation of (41.39), reflecting a noticeable variation in share market values among Palestinian companies listed on the stock exchange. Share market prices are characterized by high sensitivity to changes in earnings per share, particularly in cases of negative earnings or those close to zero. Some companies listed on the Palestine Exchange experience consecutive losses, leading to negative and extremely high values for the price-to-earnings multiplier—a common phenomenon, especially in markets operating in unstable environments such as the Palestine Exchange.

Previous studies confirm that this high dispersion is considered a common matter in data of companies operating in volatile and emerging economic and political environments (Kothari et al., 2005). Cash dividend payout (DIVD) recorded an average of (0.396), with clear variance in values, indicating differences in dividend payout policies among companies. As for return on equity (ROE), its average reached (0.049), reflecting somewhat low profitability levels.

Regarding control variables, the average audit committee size (ACSIZE) was approximately (2) members, and the average board meetings (BMEET) was about (5.8) meetings annually, while company age (FAGE) and company size (FSIZE) showed relatively limited variation, indicating relative convergence in company ages and sizes. The results also indicated that the proportion of companies combining the positions of board chairman and CEO (CEODUAL) reached approximately (23.8%), indicating variation in governance practices among the companies under study.

Table 3 : Descriptive Statistics Results

Variable	Obs	Mean	Std. Dev.	Min	Max
SMV	252	20.87274	41.3985	-27.14286	155
DIVD	252	0.396294	1.307568	-1.049964	9.793814
ROE	252	0.049206	0.1143998	-0.388234	0.395236
DIVD*ROE	252	0.031378	0.0935268	-0.055951	0.798627
ACSIZE	252	2.031746	1.540614	0	5
BMEET	252	5.801587	1.986086	0	19
FAGE	252	3.201058	0.4921571	1.609438	4.343805
FSIZE	252	7.510804	0.6770574	5.881147	9.009127
CEODUAL	252	0.238095	0.4267653	0	1

Pearson Correlation Analysis

The results of the correlation analysis indicated the absence of multicollinearity problems among the independent variables. Aljadba et al. (2021) and Asteriou & Hall (2007) confirmed that linear correlation between two independent variables should not exceed 80% at most to avoid multicollinearity problems that affect the reliability of regression analysis results.

To confirm this, the variance inflation factor (VIF) analysis was conducted, which revealed the absence of multicollinearity problems in the relationship among independent variables, as VIF values for all variables were less than 10. Therefore, regression analysis can be conducted without affecting the results or their reliability. Table 4 illustrates this.

Table 4 : Pearson Correlation Analysis Results Among Independent Variables

VARIABLE	SMV	DIVD	ROE	DIVD*ROE	ACSIZE	BMEET	FAGE	FSIZE	CEODUAL	VIF
SMV	1									
DIVD	0.0926	1								1.08
ROE	0.0795	0.0025	1							1.36
DI- VD*ROE	0.0793	0.0896	-0.3664	1						1.25
ACSIZE	0.0125	-0.1246	0.0496	-0.1097	1					1.32
BMEET	0.0119	0.0594	0.0338	0.2247	0.1062	1				1.16
FAGE	-0.0406	-0.0799	-0.1482	0.0742	-0.0118	0.2254	1			1.33
FSIZE	0.0065	0.0663	-0.0595	-0.1197	0.2213	-0.1081	0.348	1		1.27
CEODUAL	-0.045	-0.0941	0.1428	0.022	-0.0439	0.0022	0.1833	0.3756	1	1.23

Regression Analysis and Hypothesis Testing

Regression analysis aims to verify the level of association between independent and dependent variables. The regression model in this study is multiple regression analysis based on the OLS method and fixed and random effects models according to the Hausman Test results, where the fixed effects model was found to be appropriate. Additionally, the Robust strategy was employed in the STATA software after the regression equations to correct standard errors in case of heteroscedasticity, which in turn affects t-statistics, probability values, and confidence intervals. This option is considered useful in panel data analysis.

To address outliers in the market value of shares indicator (SMV) without excluding any observations, the study adopted the Winsorization method at the 5% and 95% levels, a common procedure in accounting and finance research to limit the impact of extreme or outlier values, thereby enhancing the reliability and neutrality of results (Leuz et al., 2003; Habib et al., 2014).

Accordingly, to conduct regression analysis on sound statistical foundations, all the procedures and statistical tests ensure more reliable and neutral results, as well as a robust and more stable statistical model. Table (5) illustrates the results of statistical tests and regression analysis.

Table 5: Multiple Linear Regression Analysis Results

SMV	Coef.	Std. Err.	t	P> t
DIVID	7.932453	4.97377	1.59	0.122
ROE	56.387	21.86309	2.58	**0.016
DIVID*ROE	11.50808	4.709498	2.44	**0.021
ACSIZE	5.07315	3.864106	1.31	0.2
BMEET	6.017667	3.695772	1.63	0.115
FAGE	22.72154	74.67062	0.3	0.763
FSIZE	-68.26292	38.09669	-1.79	*0.084
CEODUAL	-23.34021	17.55857	-1.33	0.195
_cons	7.932453	4.97377	1.59	0.122
Robust			YES	
R-squared			0.1290	
Hausman Test			Fixed Effects	
Control Years			Yes	
Prob > chi2			>0.05	

Note: * significant at 10%, ** significant at 5%

Discussion of Hypothesis Testing Results

First: Discussion of First Hypothesis (H1) Results

The regression analysis results reveal that there is a positive but statistically insignificant relationship between cash dividend payout (DIVD) and the market value of shares (SMV) according to the price-to-earnings multiplier measure at the significance level (α) in non-financial companies listed on the Palestine Exchange during period t , where the sig value was 0.122, which is greater than 10%. Accordingly, the first hypothesis (H1) is rejected. This result is consistent with some previous studies that concluded there is no significant relationship between dividend payout and the market value of shares, especially in emerging markets characterized by weak efficiency and high instability, where investors tend to focus on profitability indicators and future performance compared to current cash payout (Abu Al-Rub & Al-Dhaher, 2017; Shams El-Din, 2021).

On the other hand, this result is inconsistent with some previous studies that concluded there is a statistically significant positive relationship between dividend payout and the market value of shares, according to the concepts of signaling theory, which suggests that dividend payout may have positive signals regarding the company's financial performance, thereby raising investor confidence and enhancing market performance (Bhattacharya, 1979; Miller & Rock, 1985). This result is also inconsistent with the concepts of agency theory, which argues that dividend payout contributes to reducing cash flows, thereby reducing agency costs, and enhancing the company's overall market value (Easterbrook, 1984; La Porta et al., 2000). This statistically insignificant result can be explained due to the unique characteristics of the Palestinian market, which is characterized by limited liquidity, economic and political instability, in addition to significant profit fluctuations. This may reduce the effectiveness of dividend payout as an independent signal for market valuation in general. The results indicate that dividend payout, despite their positive signal, do not represent a decisive factor alone in explaining variations in the price-to-earnings multiplier. Rather, their impact appears more clearly when interacting with other indicators such as profitability, which is supported by the results of subsequent hypotheses in the study, as will be presented.

Second: Discussion of Second Hypothesis (H2) Results

The regression analysis results demonstrate that there exists a positive relationship with statistical significance between return on equity (ROE) and the market value of shares (SMV) at the significance level (α) in non-financial companies listed on the Palestine Exchange during period t , where the sig value was 0.016, which is less than 10%. Accordingly, the second hypothesis (H2) is accepted. This result is consistent with Lestari's (2022) study conducted on Indonesian industrial companies. The results of this study clearly demonstrate that return on equity plays a significant role in influencing the market value of shares. This means that shareholders should consider the magnitude of return on equity, as this return affects variations in share values in the stock exchange. Thus, the significant contribution of the rate of return on the company's equity or its private capital in generating net income becomes evident. When return on equity increases, the profit of investors who invest their capital in the target company also increases. It can be stated that if return on equity increases, investor interest in investing their capital will increase, which will in turn lead to an increase in the company's share price.

Third: Discussion of Third Hypothesis (H3) Results

The results from Table (5) reveal that the interaction of profitability (ROE) as a moderating variable with dividend payout (DIVD) as an independent variable led to strengthening the relationship positively between dividend payout and the market value of shares, where the sig value was 0.021, which is less than 10%, and the Coefficient sign is positive. This confirms the existence of a strong positive role for profitability on the relationship between dividend payout and the market value of shares at the level (α) in period t in non-financial companies listed on the Palestine Exchange. Accordingly, the third hypothesis (H3) is accepted. This result is consistent with the concepts of signaling theory, which assumes that dividend payout convey positive signals to investors regarding the robustness of companies' financial performance under information asymmetry, contributing to increasing investor confidence and enhancing share valuation in the market (Miller & Rock, 1985).

This result is also consistent with the concepts of agency theory, where dividend payout lead to reducing agency costs and improving monitoring efficiency, which is positively reflected on the company's market value (Easterbrook, 1984; La Porta et al., 2000). This result agrees with Ameen's (2022) study, which concluded the existence of a significant positive relationship between dividend payout and the value of the company and market shares in Egyptian companies listed on the stock exchange. This result is also consistent with Pangraran & Rasyid's (2025) study, which was applied to Indonesian consumer goods companies and concluded the existence of a positive relationship for dividend payout on the company's market value, and that profitability plays a moderating role that strengthens the relationship between dividend payout and market value. This result is consistent with Boughenama and Yousfi's (2022) study, which was applied to 18 French companies listed in the CAC 40 index, where the results indicate the existence of a statistically significant positive relationship for both distributed dividends and earnings per share on the share's market value.

In the Palestinian context, this result indicates that companies with high profitability prefer to distribute dividends, while companies with low profitability adopt a conservative policy in dealing with profits under an emerging financial market and a politically and economically unstable environment. This, in turn, sends positive and encouraging signals to investors regarding financing strategies and future growth opportunities, where high payout rates may be viewed as an indicator of attractive and viable investment opportunities within companies listed on the Palestine Exchange. This enhances the attractiveness of purchasing shares while the company achieves high profitability levels. The Palestine Exchange is characterized by certain features such as limited investment opportunities, scarce liquidity, and high costs of obtaining it, which makes investors more sensitive toward cash dividend payout. This confirms the strong positive impact of profitability on the relationship between dividend payout and the market value of shares.

Fourth: Discussion of Control Variables Results

(Company size, current ratio, company age, board of directors' meetings, audit committee size, CEO duality). These variables aim to determine their impact on the dependent variable through using multiple linear regression models, which helps improve the regression model and enhance the explanation of factors affecting the market performance of the companies under study (Aljadba, 2022).

The regression analysis results in Table (5) reveal that company age (FAGE), CEO duality (CEODUAL), audit committee size (ACSIZE), and board meetings (BMEET) showed an insignificant role on the market value of shares, indicating that these factors are not primary in determining share market values. This can be explained by the fact that investors focus more on other factors such as profitability and payout ratios instead. This may be because investors focus on financial performance, enhancing profitability, and maximizing profits. Conversely, the analysis results demonstrated the existence of a significant negative relationship between company size (FSIZE) and the market value of shares. This indicates that there is a role for the audit committee in enhancing shareholder wealth through promoting transparency, accountability, and reducing agency costs, as well as enhancing trust between management and shareholders and between the company and the public.

Regarding the activity of the board of directors represented in its annual meetings, this indicates that effective boards of directors positively affect share prices in the market by enhancing oversight and accountability within the company and strengthening trust with current and potential shareholders. This was confirmed by Al-Marzouqi and Abdullah's (2023) study. The regression results also clarified that the control year variables during the period from 2014 to 2022 were all statistically insignificant at ($\alpha \geq 0.10$). Consequently, there is no significant effect of time on the market value of shares. This reveals that there is convergence in the economic and political conditions affecting companies listed on the Palestine Exchange during the study period. Additionally, including the control year variable contributed to improving the model's strength without time having an independent and substantial role.

Study Findings

Through statistical analysis, the study reached a set of findings that reflect the relationship between dividend payouts and market value, as well as the effect of profitability as a moderating variable, in non-financial companies listed on the Palestine Exchange during the period (2014-2022). The most important findings are as follows:

- 1- The results revealed that there exists a positive but insignificant relationship between cash dividend payout and the market value of shares measured by the price-to-earnings multiplier, indicating that dividend payout alone do not constitute a direct factor in explaining variations in the market value of shares of non-financial companies listed on the Palestine Exchange.
- 2- The results demonstrated that there exists a strong positive relationship between profitability measured by return on equity (ROE) and the market value of shares. Thus, investors in the Palestine Exchange focus their attention significantly on profitability indicators and efficiency in capital utilization when making their investment decisions.
- 3- The results revealed that profitability affects positively and strongly the relationship between dividend payout and the market value of shares at the level ($\alpha \leq 0.10$), where companies with high profitability prefer to distribute dividends or a portion thereof, thereby enhancing investor confidence and attracting investment opportunities on the Palestine Exchange.
- 4- The results showed that company age, CEODUAL, number of board meetings, and audit committee size did not have a significant role on the market value of shares, indicating that these factors are not considered decisive determinants for share valuation in the Palestinian context.
- 5- The results revealed the existence of a strong inverse relationship between company size and the market value of shares, reflecting the particularity of large companies in emerging markets.
- 6- The results of year variables from (2014–2022) showed the absence of a clear temporal effect on the market value of shares, indicating that changes in market value are attributable to financial indicators rather than specifically to the time factor.
- 7- The study's findings reflect the nature of the Palestinian market, which is characterized by scarce liquidity, high risks, and weak political and economic stability, which makes current and potential investors more sensitive to profitability indicators compared to cash dividend payout.

Study Recommendations

Considering the findings of the study, the following are the most important recommendations:

- 1- Companies should align dividend payout policies according to investor requirements, as the results demonstrated that dividend payout positively affect the market value of shares.
- 2- Companies should establish sustainable strategies for dividend payout that take

into consideration achieving balance between reinvestment in growth and distributing dividends to shareholders.

- 3- Increased attention should be paid to profitability as a fundamental factor in supporting market value, as it enhances the relationship between dividend payout and market value. Therefore, it is essential that companies focus on improving their financial performance and enhancing their operational efficiency. Companies with high profitability should be encouraged to achieve balance between dividend payout and reinvestment to ensure attracting investors and increasing share value.
- 4- Companies should adopt a combination of cash dividend payout and profit reinvestment in expansion projects, which contributes to achieving sustainable growth and increasing market value in the long term. Companies should consider shareholder needs when making dividend payout decisions, balancing between incentivizing investors, and enhancing the company's capacity for expansion and innovation.
- 5- Companies should improve the quality of financial reports and disclose their data clearly, particularly regarding dividend payout policies and financial risks, as this enhances investor confidence and contributes to raising market value.
- 6- Developing balanced financing policies: Companies should adopt more balanced financing policies that reduce excessive dependence on borrowing and enhance internal financing sources.
- 7- Encouraging companies to adopt clear dividend payout policies to enhance the market value of shares, attract investors, and promote transparency in dividend payout strategies to ensure investors understand company policies.

Study Limitations and Future Research Suggestions

The study limitations are represented in its restriction to non-financial companies listed on the Palestine Exchange during a specific time period from 2014 to 2022, and its reliance on specific measures for variables, in addition to using secondary data manually collected from annual reports. This may limit the generalization of results and necessitates future expansion of the study scope and period to include the years 2023, 2024, and 2025, which represent a period of severe political and economic instability. It is also recommended to study the financial sector to include banks and insurance companies, as well as to examine other variables to enhance results and their generalizability.

The study recommends conducting additional future studies addressing the role of earnings management as a moderating or mediating variable in the relationship between dividend payouts and market value. Future research could also examine the role of earnings management in dividend payout decisions and their implications for both financial performance and the market value of shares and the company. Furthermore, investigating the role of earnings management in dividend payout decisions and their reflections on both financial performance and the market value of shares and the company could be explored in future studies.

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