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## Factors affecting the dividend payout: Evidence from Saudi Arabia

### العوامل المؤثرة في توزيع الأرباح: دليل من المملكة العربية السعودية

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#### Abstract

المخلص:

Businesses need financing and investors need higher returns. Both are indispensable for each other. Keeping in view the above fact, the current study examined the dividend payout factors affecting the Saudi cement industry. Secondary data are used to investigate the mentioned purpose over the period from 2006 to 2020. It was noticed that cement industry has become crucial for all other industries in general and particularly to the construction industry of Saudi Arabia. The study has employed the regression examination to explore the association regarding endogenous and exogenous variables. The present study has used the dividend payout ratio as an endogenous variable, while exogenous variables are liquidity (CR), profitability (ROA), FS (Firm Size), and financial leverage. The study reported that ROA has statistical significant and positive association with depended variable i.e. (dividend disbursement ratio). ROA is an important predictor of dividend payout, while FS, LEV, and CR have reported insignificant association with the dividend payout ratio. Cement industry of Saudi Arabia and investors would benefit from the current findings.

في عالم الأعمال الحديث، تحتاج الشركات باستمرار إلى التمويل المناسب وكذلك المستثمرون يبحثون عن عوائد أعلى لاستثمارهم. درست الورقة العلمية الحالية عوامل توزيع الأرباح التي تؤثر على صناعة الأسمنت في السوق السعودي. تم استخدام البيانات الثانوية لغرض الدراسة من عام 2006 إلى 2020. وقد لوحظ أن صناعة الأسمنت في المملكة أصبحت جوهرية لجميع الصناعات الأخرى بشكل عام وخاصة صناعة البناء في المملكة. استخدمت هذه الدراسة اختبار الانحدار لتحليل الارتباط فيما يتعلق بالمتغيرات الداخلية والخارجية. وتم كذلك استخدام نسبة توزيع الأرباح كمتغير داخلي، بينما المتغيرات الخارجية هي السيولة (CR) والربحية (ROA) و (FS حجم الشركة) والرافعة المالية. أظهرت نتائج الدراسة أن العائد على الأصول له علاقة إيجابية ودلالة إحصائية مع المتغير التابع، أي نسبة توزيع الأرباح. يعتبر العائد على الأصول مؤشراً هاماً على توزيعات الأرباح، بينما أفادت FS و LEV و CR عن ارتباطات غير مهمة مع نسبة توزيع الأرباح. ستستفيد صناعة الأسمنت في المملكة العربية السعودية والمستثمرون من النتائج الحالية.

**الكلمات الدالة:** توزيع الأرباح، السيولة، الرافعة المالية، الربحية، إجمالي الأصول

**Keywords:** Dividend payout, liquidity, financial leverage, profitability, and total assets.

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## Introduction

Effective and efficient financial management of a company become critical for the success and competition of businesses. The financial management of companies requires a dynamic, sincere, committed, knowledgeable, and visionary team. A good financial performance of a company depends upon the proper utilization of financial resources. Financial resources are scarce and must be utilized wisely. Many financial decisions like capital budgeting, financing, assets management, liquidity, risk management, investor's relation, government reporting, employee compensations, and dividend decision affect the company's performance. All of them require systemic and scientific analysis. Before 1950s, there were only two functions of the financial management, just raising funds and cash management. However, nowadays this section of a company requires lots of responsibilities, and all responsibilities have equal importance.

There is no rule of thumb for the development and progress of companies, but best practices can achieve the targets of a company. The future of a company links with a good brand image, and a good brand image needs a lot of attention such as resources (financial and non-financial), commitment, sincerity, artificial intelligence, company mission, and vision. It is important to know why some fail to achieve the desired objectives and some become successful companies. Companies usually fail due to war, recession, misuse of resources, poor management, high taxation and interest rates, excessive regulations, inability to compete, lack of trust from the public's side, agency problems, trust deficit between investors and the company, hostile takeover, and inappropriate strategies. They do not synchronize the resources according to the need and priority of the factor/area. A company needs a huge amount of funds to operate, and it has to utilize its resources after proper analysis like technical analysis and efficient market analysis. Dividend decision plays a vital role in raising and using funds in companies. Dividend decisions of companies should properly evaluate the possible factors associated with it, especially the cost and earning that should be considered while making the dividend policy of the company. The main objective of the study is to examine the factors affecting the dividend payout of cement industry of Saudi Arabia. The factors considered in this study are size, profit, leverage and liquidity. While dividend payout is taken as dependent variable.

Dividend is a return of investment. Every investor wants to earn maximum return on their investment. Investors invest money where they get higher returns. Some investors are long term so they do not consider higher returns in the near future, but short-term investors always consider higher returns in the near future. Investors consider the following factors for their investment in the company's share: earnings per share (EPS), dividend payout (D/P), price to earnings (P/E), return on equity (ROE), debt to assets (DTA), book value per share (BV/S), and market price. They also check the trend of past dividends. After that they decide to make an investment in the company shares. The existing shareholders make a decision to retain, sell, or buy stocks of a company (Patra et al., 2012). Higher dividend always motivates investors to make investments in a company's shares. Company's dividend decisions depend upon internal and external factors: internal factors like company growth, profit, size, leverage, and liquidity, whereas external factors like inflation, competitors' dividend policy, tax rate, interest rate, policy control, attitude of powerful investors, and so on. In our understanding very few studies have been conducted in Middle East in general and particularly in the cement industry of Saudi Arabia. Hence, the current study will contribute to the dividend theories in the context of Middle East.

Indeed, higher return on investment is the ultimate main target of investors and companies. No company has unlimited resources; each company needs financial resources for expansion, growth, profit maximization strategies. The cement industry has a lot of opportunities for expansion and growth. Such an industry needs a substantial amount of financing. Therefore, dividend payout plays a vital role in the company expansion, growth and profit maximization. That is why, it is important to examine the factors affecting the dividend payout of the cement industry. This study would also contribute to the existing literature for researchers and practitioners for future research. This study would also help to the cement industry to design a comprehensive dividend policy.

The current study is consisted into 5 sections. First section of the study is related to introduction, which contains brief introduction of cement industry, objectives, significance of the study. Section two of the study is described the review of literature. While third section is demonstrated the research methodology of the

study. Whereas, fourth section of the study is consisted on data collection and analysis. Last but not least section five of the study is provided comprehensive conclusions which is based upon research findings.

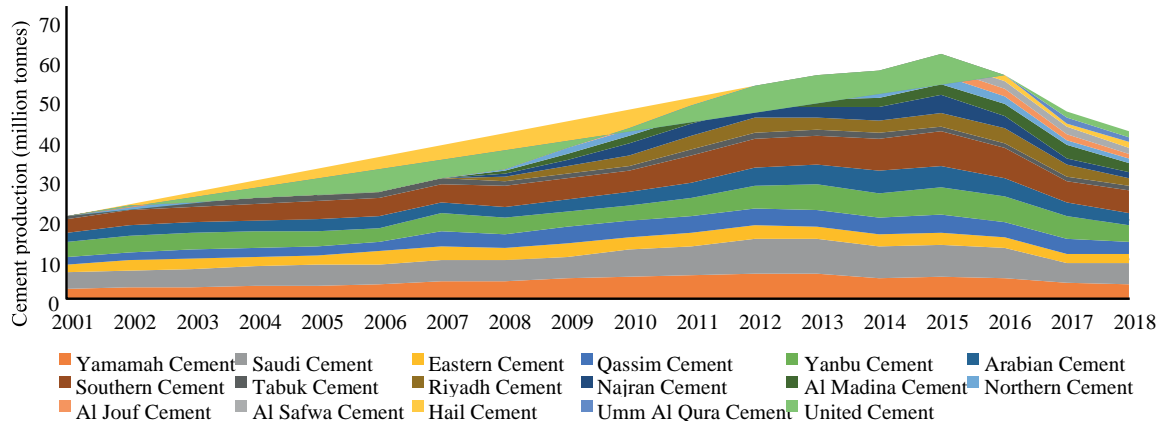
**Cement sector of the kingdom of Saudi Arabia**

Cement sector of the kingdom plays a very important role in uplifting the economic

development. Some key indicators are as follows:

**1. Production of Cement.**

The production of a product definitely matter in the image building of a company and also a major contributor in the revenue generation. The below chart demonstrates the production figures of different cement companies of Saudi Arabia.

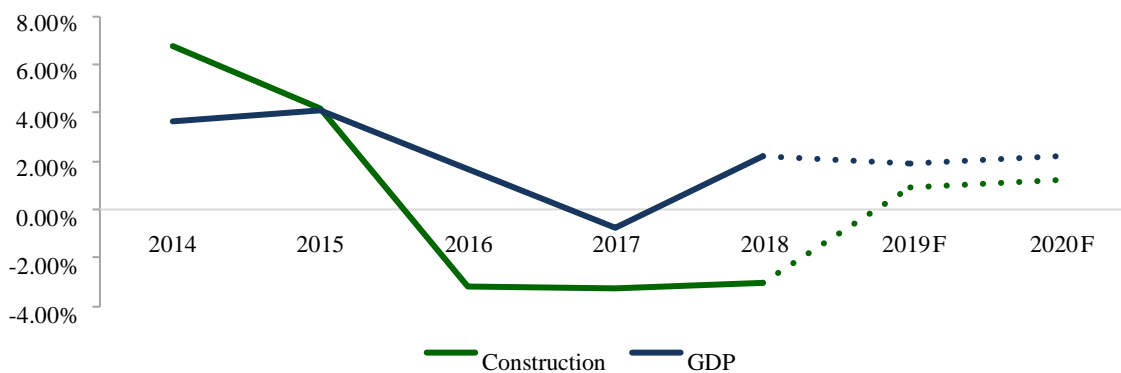


**Graph No. 1.** Cement Production of Saudi Arabia. Source: Jitendra Roychoudhury (2020)

**2. Construction industry of Saudi Arabia.**

The cement industry is highly dependent on the construction market, and it plays a significant role in the development, renovation, maintenance and building of structures. There is a positive development in the construction sector to GDP. Its growth was negative in 2018, that is, -3.06%

and then improved in 2019 to 0.90% and 1.20% in 2020. It indicated a good sign for the cement industry. Numerous mega- and giga-projects of the kingdom such as Qiddiya tourism development, the Red sea and NEOM will enhance the performance and growth of the cement sector.



**Graph No. 2.** Construction Real Growth Rates Source: General Authority for Statistics (2018)

**Review of the literature**

Substantial amount of capital seems to be considered like a life blood for companies.

Always companies prefer less expensive financing to support their assets. Debt and equity financing also affect the dividend policy of a company. Khan and Ahmad (2017) performed an

experimental study to identify the dynamics affecting the dividend payout of the pharmaceuticals sector. Trade theory explained the positive relationship between size and financial leverage ratio. They took data from Pakistan stock exchange listed companies (PSX) in 2019. Their results showed that profit and audit type had optimistic relationship regarding to a firm dividend disbursement ratio, whereas growth, risk, and liquidity show significant but negative relation with the dividend disbursement. In addition to that, size, leverage, and taxation showed no relationship with the dividend payout. Pecking order theory of dividend explains the negative relationship between firms' size and leverage ratio. Big firms' can easily raise to financial markets so that more likely to disburse dividend. Hence the study proposed the hypothesis:

H1: There is positive relationship between firm size and dividend payout

H2: H2. There is a negative relationship between leverage and dividend payout

There is no sole factor to affect the dividend policy of a company. Many factors have been analyzed with respect to dividend policy of a company and found different results. According to Jabbouri (2016) studied the factors affecting the dividend payout in the Middle East and North African economies. The results showed that size, profit, and liquidity affect the dividend payout. He found an inverse association of dividend and financial leverage. The examination also investigated that the economic stability of a country impacts the dividend payout. In addition, free cash affects dividend payout. Whereas, Khan, Naeem and Salman (2016) analyzed the textile sector with respect to the factors of the dividend disbursement ratio. They collected the data of textile companies from PSX. They found no evidence of size and risk effects on the dividend disbursement. Profitability and leverage factors affect the dividend disbursement ratio positively and negatively, respectively.

Enhancing profitability is the core objective of profit-oriented companies. High profit ultimately leads to distribute substantial amount of dividend to stockholders and it is imperative for running businesses in a smooth way. Kaźmierska-Jóźwiak (2015), examined the determinants of dividend policy with respect to Polish Listed Companies. He considered profitability, liquidity, size, leverage of the firm as independent variables and dividend payout as a dependent variable. His results showed negative relationship between profitability and dividend

payout. He explained that Polish companies retain profit as a sources of capital and as a result pay less dividend to shareholders. His results also in line with US firms (Titman and Wessels 1988), G-7 countries (Rajan and Zingales 1995), US and Japan firms (Kester 1986). The study also indicated negative relationship between leverage and dividend payout ratio. Whereas, firm size and price to earnings ratio showed insignificant relationship.

A sufficient amount of profit is also a good predictor for taking loans. Numerous researchers pointed an optimistic and significant predictor of dividend disbursement. Arshad et al., (2013) also identified a positive and significant association between profitability and the dividend payout ratio in Pakistan. According to pecking order theory of dividend policy, profitability and dividend payout have negative relationship. High profitability leads to higher retained earnings as a source of capital. So, companies pay less dividend to stockholders. The theory hypothesized:

H2: There is negative relationship between profitability and dividend payout.

Financial leverage management plays an important role in a dividend policy decision of a company. It has been analyzed in the literature with respect to profitability, cost and risk of a company. Ajanthan (2013) studied the hospitality sector and reported an irrelevant relationship regarding debt and dividend disbursement in Sri Lanka. Another research by Bolbol (2012) estimated the impact of leverage on the dividend disbursement. The study reported insignificant association between dividend payout and debt in Malaysian construction companies.

Dividend policy seems to be considered an important factor of market price/share and easier access to capital market for companies. According to Mehta (2012) conducted a quantitative analysis of the non-financial sector registered on the stock exchange of Abu Dhabi. The main objective was to identify the factors contributing to the dividend policy. After the analysis, he found mixed results; some independent variables showed important and progressive relationship with the dividend disbursement of the firm, while risk was a negative and significant contributor to the dividend payout. However, current profit, leverage, and liquidity were insignificant with regards to the dividend payout.

No doubt, all companies try to enhance the profitability. Many factors affect the profitability of a company such as, product/service quality, company's management, availability of funds, company's reputation and so on. It also affects the dividend policy decision of a company. According to Bolbol (2012), he analyzed the impact of profitability with respect to firms' dividend disbursement and the study reported insignificant association with the dividend disbursement ratio. Whereas, Abdelsalam et al., (2008) also estimated the same results that profitability of the firm has a positive impact on the dividend disbursement of the firm.

Dividend disbursement depends upon the profitability of a firm. It is expected that higher profitability of a firm means higher return on stocks as a dividend. Chang (2009) and Abor and Bokpin (2010) estimated the association regarding firm profitability and dividend disbursement ratio. They found a progressive and significant association regarding profitability and the dividend disbursement ratio. Al-Shubiri (2011) also evaluated several factors such as investment opportunity, profitability, the firms' size, and financial leverage with respect to the dividend policy and the firms' value. He found that these factors are important and affect the firms' dividend policy to the value of the firm directly and indirectly.

Firms' management always looking for an opportunity in a market. When there is opportunity in a market and firm does not has sufficient amount of capital then firm goes for debt financing. Firm must evaluate the financial leverage with respect to positive impact on business performance. Wang et al., (2011) evaluated the firm's age cycle and dividend policies in Taiwanese stock exchange market. They expressed results that disbursement of dividends in newly established company's ultimate lead to high growth and low profitability. Their results also indicated that businesses with little growth capacity and huge profitability ultimately dispersal of cash dividend against stock dividend.

Income considers to be main factor to judge the efficiency of management which ultimate leads to predict the company's performance. Aivazian, Booth and Cleary (2003) analyzed a pragmatic study of 8 developing markets in the United States of America. The research pointed out that income was a significant and positive factor that affects the dividend payout of emerging markets. They found a significant and negative relation with regards to the dividend payout. Their results

showed an insignificant effect on the dividend payout.

Working capital condition of a company affects the company performance. It also affects the dividend policy of a company. A substantial amount of working capital are more likely to pay dividend and vice versa. Such kind of positive relationship is supported by signaling theory of dividend policy (Ho, 2003). It is hypothesized that:

H4: There is positive relationship between liquidity and dividend payout.

Market price/share is a good predictor for overall performance of a company. It has been analyzed in the literature as an important determinant for the dividend policy. Share Allen & Rachim (1996) reported a robust association between the share prices and firm dividend policy. While, Miller & Modigliani (1961) supposed that appreciation in stock prices and announcement of dividend have dependent each other. Whereas, price benefit does not motivate to investor. Fama & French (1993), on the other hand, believed that stock prices persist direct stimulus of the dividend payout of a company. It was supposed that a firm dividend policy may affect the potential investors.

Keep in view the above studies, it is concluded that many studies have been conducted to analyze the effect of debt and equity decision on dividend payout. Some studies analyzed to examine the internal factors and dividend payout decisions. No study is related to cement sector and it is worth mentioning that it plays a vital role in the economic development of a country. No one can deny the importance of cement sector. Such study is going to fill this gap and considered the above factors affecting the dividend payout of cement sector.

### Methodology

Attaining research objectives relies on suitable research methodology that justify authentic research project results. The current research project investigates the factors affecting the dividend payout of the cement sector of Saudi Arabia. The study objectives are attained by using correlation and linear regression. A linear regression model is developed, and multiple regressions are used to obtain the results by using SPSS software. Secondary data are collected from the Argaam website (<https://www.argaam.com/en>) regarding the cement sector of Saudi Arabia.

**Data Collection and Measurement:**

Seventeen cement firms are listed in the Saudi stock exchange (Tadawal). Seven firms are taken as a sample for analysis such as, Saudi Cement, City Cement, Yamama Cement, Southern Cement, Qassim Cement, Najran Cement, and Yanbu Cement. Secondary data are used over the period from 2006 to 2020. The reason behind seven firms is the data limitation. Only seven firms' data is available from the said period. This study has taken a case study of the cement sector of Saudi Arabia. The study has considered dependent variable to dividend disbursement ratio, while size, profit, leverage, and liquidity are used as explanatory variables. The said variables have based upon previous research studies. Descriptive statistics are used to mean,

trend, minimum, and maximum values of said variables. The correlation is measured to know the association and direction between variables. The study employed multiple regression to examine the nexus between dependent and explanatory variables.

**Specification of Variables:**

**I. Dependent Variable:**

The return of investors will be measured by the dividend payout. It will be measured as follows:

$$Dividend\ payout = \frac{Dividend\ paid}{Net\ income} \dots\dots\dots(i)$$

**II. Explanatory variables**

**Table No. 1.**  
*Independent variables*

Explanatory variables	Variable Calculations
Firm Size	Natural Log of Total assets
Return on asset	Net income / Total asset
Financial leverage	(Current debt + Long term debts) / Total assets
Liquidity	Current assets / Current liabilities

**Proposed Research Model:**

$$Y_{it} = \alpha + \beta_{1it} ROA + \beta_{2it} \ln FS + \beta_{4it} CR + \beta_{5it} LEV + Ut,$$

**Where**  $Y_{it}$  is the dividend payout, ROA is the return on assets, FS (natural log of total assets), CR (current ratio), LEV is the leverage, and  $U_t$  is the error term.

**Results and discussion**

Descriptive statistics provide useful summary to investors and brokers. They may use past return performance by carrying out analytical and empirical analysis on their investment in order to make better future investment decisions. The above descriptive statistics explains the data feature of each variable in detail.

**Table No. 2.**  
*Descriptive Statistics*

	No. of Obs.	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	Kurtosis	Std. Error	Std. Error	Std. Error
DPR	105	-1.35	19.66	11.05	1.22	4.71	22.23	-1.00	0.58	3.02	1.12
FS	105	2.90	6.29	5.63	0.29	1.11	1.23	-1.71	0.58	1.78	1.12
LEV	105	0.01	0.06	0.04	0.00	0.02	0.00	0.33	0.58	-1.82	1.12
ROA	105	0.53	5.87	3.63	0.43	1.65	2.74	-0.57	0.58	-0.56	1.12
CR	105	1.25	4.20	2.22	0.26	1.00	1.00	0.97	0.58	-0.40	1.12
Valid N (listwise)	105										

**Normality Test:** Normality test is employed to check the normality of the data. It was found that the data was distributed normally.

**Correlation Analysis:** It is employed to check the association, direction, and multicollinearity between the variables.

**Table No. 3.**  
Correlations

		DPR	FS	LEV	ROA	CR	EPS
DPR	Pearson Correlation	1					
	Sig. (2-tailed)						
FS	Pearson Correlation	-.046	1				
	Sig. (2-tailed)	.872					
LEV	Pearson Correlation	-.317	-.045	1			
	Sig. (2-tailed)	.250	.874				
ROA	Pearson Correlation	.493	-.323	-.636*	1		
	Sig. (2-tailed)	.062	.240	.011			
CR	Pearson Correlation	-.115	-.666**	.234	.212	1	
	Sig. (2-tailed)	.684	.007	.400	.448		

\*. Correlation is significant at the 0.05 level (2-tailed).

The correlation explains the association, strength, and direction between variables. LEV has a negative correlation with DPR. ROA has a

positive correlation with DPR, whereas CR and FS have a very weak correlation with DPR.

**Table No. 4.**  
Anova test

		ANOVA <sup>b</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	96.249	4	24.062	4.619	.019 <sup>a</sup>
	Residual	214.959	10	21.496		
	Total	311.208	14			

- a. Predictors: (Constant), FS, LEV, CR, ROA
- b. Dependent Variable: DPR

**Table No. 5.**  
Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.556 <sup>a</sup>	.309	.033	4.63636	2.939

- a. Predictors: (Constant), FS, LEV, CR, RO
- b. Dependent Variable: DPR

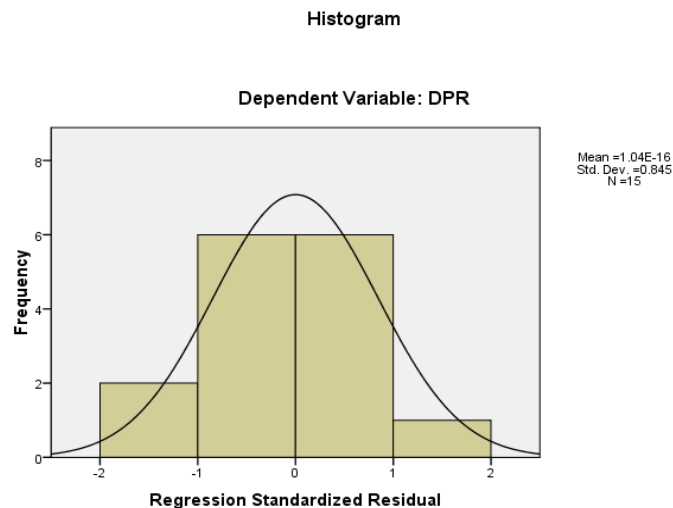
F (4, 10) = 0.019, P < .05, R<sup>2</sup> = 0.309. The overall regression model was significant.

In the above table, R-squared = 0.309; taken as a set, the predictors LEV, FS, ROA, and CR account for 31% of the variance in DPR.

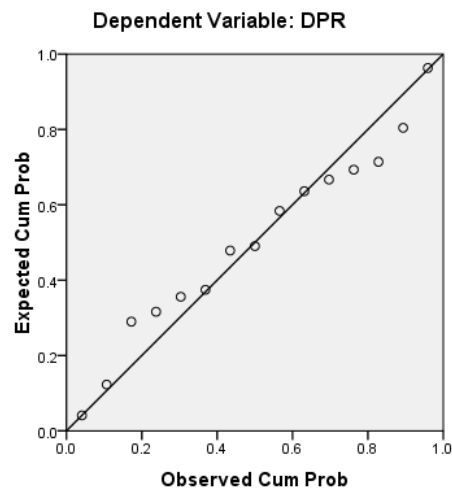
**Table No. 6.**  
Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.843	13.475		.508	.623
	ROA	1.544	.707	..542	2.184	.050
	CR	-1.519	1.790	-.322	-.849	.416
	LEV	46.232	100.818	.179	.459	.656
	FS	-.160	1.551	-.037	-.103	.920

- a. Dependent Variable: DPR



**Normal P-P Plot of Regression Standardized Residual**



**Graph No. 3.** Normality of dependent variable

The above regression coefficients explain each predictor with respect to the criterion variable. Results show that ROA has a significant positive relation (t-value 2.184/ significant value 0.05) with DPR. ROA coefficient brings a significant change in dividend payout. ROA is a significant predictor of DPR, where CR, FS, and LEV have reported no significant relationship with the dependent variable, that is, DPR. They do not have significant contribution in DPR of the cement industry.

### Conclusions

Indeed, dividend payout plays a significant role in the corporate world. Management should know what factors affect the dividend payout. The dividend policy is very important for a company. The company's management can

attract and retain investors through dividend payout. Dividend payout needs substantial amounts of funds. Proper financial management is needed to make sure that funds are easily available for dividends. Sufficient amount of profit, suitable liquidity position, and high earning per share matter for the dividend payout. The overall company's performance depends upon financial indicators and market position. The cement sector of a country plays a vital role in uplifting the economy. Such industry provides job opportunities, plays an important role in the balance of payment, and facilitates other industries especially construction companies. It is concluded that ROA is a good predictor for DPR. Higher ROA leads to higher dividend payout and vice versa. The study estimated that higher ROA attracts investors. Assets management of the cement sector would enhance



efficiency and generate substantial revenue. The cement sector would use the total assets at full capacity and earn a lot of revenue. Sufficient amount of profit is directly linked to the sales turnover of a company. Saudi cement industry would find new domestic and international markets for the purpose of sales maximization. Companies can satisfy investors through higher return on investment. ROA would become a good factor to attract new investors. Low corporate tax, that is, 20% in Saudi Arabia, is a good opportunity for the cement industry to generate sufficient profit and ultimately give substantial amount of return to investors as a dividend. Various mega-projects are being started in the kingdom, and the cement sector would take advantage of this opportunity. There is no interest in bank deposits in the kingdom. It is also a good opportunity for the cement sector to attract the investors.

**Limitations of the research:** this study was correlational and non-experimental (i.e., none of the participating firms will be assigned to conditions) a causal link between independent variable (e.g., sales growth) and dependent variable (e.g., dividend payout ratio) cannot be definitively established. Therefore, a link between independent variable (e.g., sales growth) and dependent variable (e.g., dividend payout ratio) can only be suggested. Additionally, the findings of this study can only be generalized to firms similar to those who participated in the research

**Author contributions:** Conceptualization, Q.A; Data curation, Q.A; Formal analysis and interpretation, Q.A; Research project administration, Q.A, Software, Q.A, Validation, S.A, Original draft, Q.A, Writing-review and editing, S.A and F.A.Q. All authors have read and agreed to publish this version of the manuscript.

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