FACTORS AFFECTING DIVIDEND PAYMENT DECISIONS AND THEIR IMPACT ON THE MARKET VALUE OF BANKS IN THE MENA REGION

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ABSTRACT

The purpose of this study is to consider the debate on the dividend puzzle in the context of emerging markets and to provide additional empirical evidence to the body of dividend policy literature. This, however, is accomplished differently from previous empirical studies: by investigating dividend policy behavior and its reflection on the market value of banks in the emerging markets of Middle East and North Africa (MENA) region countries which have previously received very little attention by dividend policy researchers. For the purpose of this thesis, three empirical studies were conducted based on a dataset that consisted of 117 commercial banks listed on stock markets in eleven MENA countries (Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and United Arab Emirates) covering the period of 2000-2015.

The aim of the first empirical study was to investigate bank-specific factors affecting dividend payment decisions by banks listed in the MENA region by using Pooled and Panel Tobit and Logit regression models. The results suggested that the main bank-specific factors affecting dividend payment decisions are bank size, profitability, capital adequacy, and credit risk in the context of the MENA emerging markets. Moreover, dividend payment decisions of banks in the MENA region are affected by the same main bank-specific factors as those proposed in financial literature conducted in developed economies. However, unlike what is seen in developed economies, the results of the current study do not support growth opportunities as one of the key financial characteristics driving behaviors of dividend-paying banks in the MENA region. In addition, the analysis showed that the yearly dummy for the Global Financial Crisis (2008-2009) has a significant negative effect, while the yearly dummy for the Arabic Spring Crisis (2010-2011) has no significant effect on the dividend payment decision of banks listed in the MENA emerging markets.

The aim of the second empirical study was to examine whether the dividend payment decisions impact the market value of banks in the MENA region by using Ohlson's (1995) residual income model. The findings indicated that the dividend payment decision has no significant effect on the market value of banks listed in the MENA emerging markets.

The final empirical study investigated the link between bank-specific factors affecting dividend payment decisions and the market value of banks listed in the MENA region by employing Ohlson's (1995) residual income model. The results suggested that the bank-specific factors affecting the market value of banks are profitability, banks' capital adequacy, and growth opportunity. These results are consistent with existing dividend theories and hypotheses presented in banking literature. Furthermore, the yearly dummy for the Arabic Spring Crisis (2010-2011) has a significant negative effect whereas, the yearly dummy for the Global Financial Crisis (2008-2009) has no significant effect, on the market value of banks listed in the MENA emerging markets.

These results, taken as a whole, suggest that the profitability, banks' capital adequacy and size of banks have a significant positive impact on both dividend payment decisions and on the market value of banks, while growth opportunity has no significant effect on dividend payment decisions but does have a significant effect on the market value of banks. Further, credit risk has a significant negative effect on dividend payment decisions but has no significant effect on the market value of banks while liquidity has no significant effect on dividend payment decisions and the market value of banks. Finally, the dividend payment decision has no significant effect on the market value of banks in the MENA region. Therefore, it can be deduced that the dividend payment decision of commercial banks in the MENA emerging markets is dominated by the residual dividends policy, which is the crux of irrelevance theory of dividends.