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The Impact of Dividend Distributions on Stock Prices and Its Reflection on Firm Value

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Abstract: This study aims to examine the relationship between dividend distributions and stock prices, focusing on selected financial indicators from the study sample, including earnings per share and the market-to-growth ratio, and their impact on the stock prices of Bank of Baghdad. The results reveal a positive relationship between retained earnings and per-share dividends, and an inverse relationship between per-share dividends and the number of outstanding shares. The study recommends improving trading, clearing, and settlement systems through electronic trading platforms to enhance efficiency, speed, transparency, and security in financial transactions. Furthermore, implementing remote trading services would enable brokerage firms to execute transactions from their offices without requiring on-site representatives. This research explores the connection between dividend distributions and the increase in stock market value, emphasizing the role of dividends in enhancing the economic unit value through the analysis of data and practical applications in various operational environments.

Introduction: Financial markets act as a critical link between investors and institutions by converting savings into investments that support national economic development, thus providing a solid foundation for the country's economy. Investors generally aim to maximize returns while minimizing investment risks. The decision to announce dividend distributions is a key managerial action that requires careful consideration, as investors naturally seek profit. Dividends serve as an indicator of management efficiency in company operations. Due to limited time and opportunities for shareholders to monitor actual performance, they rely on dividend payout ratios as a measure of corporate success. An increasing per-share dividend over time generates a positive perception among capital market participants regarding the efficiency and effectiveness of the economic unit's performance. Using a reliable evaluation method facilitates a comprehensive assessment of the unit, with Tobin's Q ratio recognized as the most widely adopted and effective measure, as applied in this study.

Chapter One

Research Methodology and Previous Studies

This chapter presents the research methodology and reviews a number of previous local, Arab, and international studies related to the topic of this research.

Research Methodology

The methodology of this study includes the following:

1- Research Problem

The research problem arises from the limited attention of commercial bank managements and relevant authorities in formulating a strategic approach to dividend distribution. Dividend policy is considered one of the critical strategic decisions undertaken by an economic unit. A company may choose to retain earnings and postpone distributions, which can affect stock prices. Based on this, the research problem can be formulated through the following questions:

1- Is there an impact of per-share dividend distributions on the market value of stocks in the sampled banks؟

2- Does the dividend policy adopted by the sampled banks affect the economic unit value؟

-2Research Significance

This study addresses an important topic—dividend policy—due to its significant influence on the financial decisions of companies and banks, as these institutions aim to maximize shareholder wealth in financial markets. Furthermore, the research serves as a practical guide for managers to make informed decisions regarding dividend distributions, thereby enhancing the economic unit's value and increasing shareholder wealth. This is achieved through examining the impact of dividend policies on stock market value, as well as assessing their effect on the economic unit's overall value.

.3Research Objectives

This study aims to examine the impact of dividend distributions on the stock prices of the sampled banks, as well as the extent to which the market value of stocks responds to the declared earnings. The research seeks to achieve a set of objectives linked to its main goal, including:

.1 Understanding the theoretical framework of dividend policy, including its concept, types, theories, determinants, and measurement models.

.2 Investigating the impact of dividend distributions on the stock prices of the sampled banks, and assessing the responsiveness of stock market value to the declared earnings.

.4Research Hypotheses

Based on the research problem and in order to address the study questions and achieve its objectives, the following hypotheses have been formulated:

.1 There is a statistically and financially significant impact of per-share dividends on the market value of stocks in the sampled banks.

.2 There is a statistically and financially significant impact of the adopted dividend policy on the economic unit value in the sampled banks.

.5Research Methods

To achieve the research objectives and test its hypotheses as a solution to the research problem, both deductive and inductive approaches were employed:

• Theoretical Aspect: The deductive method was applied to present the various research variables by relying on books, published studies, previous research, academic journals, and relevant websites.

• Practical Aspect: The inductive method was used to analyze the financial reports of the sampled banks to test the research hypotheses.

.6Research Population and Sample

• Research Population: The research population comprises all Iraqi banks listed on the Iraq Stock Exchange.

• Research Sample: The study sample was limited to five commercial banks, as detailed in the table, for the period from 2019 to 2023.

.7Research Scope

• Spatial Scope: The field study focuses on a sample of six Iraqi banks listed on the Iraq Stock Exchange.

• Temporal Scope: The financial statements of the banks were examined for the period from 2018 to 2023, covering six years, chosen for their relative recency.

.8Data Collection Methods

• Theoretical Aspect: The research relied on local, Arab, and international literature related to the topic, including books, journals, research papers, articles, and academic theses.

• Practical Aspect: Data were obtained from the financial statements of the sampled banks, using various measurement tools. The independent variable (dividend distributions) was measured using the per-share dividend formula. The mediating variable (stock prices) was measured through the average monthly closing prices, while the dependent variable (economic unit value) was measured using the Tobin's Q ratio.

Regarding the measurement of the mediating variable (stock prices), it is determined using the average monthly closing prices. For the dependent variable (economic unit value), measurement is based on Tobin's Q ratio.

.9Proposed Research Model

In light of the research problem and to achieve its objectives, the researcher developed a proposed hypothetical model to examine the potential relationships, relying on three variables:

• Independent Variable: Dividend distributions

• Mediating Variable: Stock prices

• Dependent Variable: Economic unit value

Hypothetical Research Model

|Dividend Distributions | → Influence/Correlation → | Stock Prices | → Influence/Correlation → | Economic Unit Value|

Source: Prepared by the researcher

Previous Studies

.1Studies Related to Dividend Distributions

• Al-Rifa'i & Abdul Wahid (2021): The Impact of Dividend Distributions on Stock Prices for the Period 2016–2021: A Case Study of Ashur International Investment Bank. This study aimed to examine the effect of dividend distributions on stock prices in the sample, analyze the responsiveness of the market value of shares to these distributions, and assess their impact on trading prices and volumes.

.2Al-Khafaji (2022): The Relationship between Dividend Distributions and Firm Value and Its Impact on Stock Market Value.

This study aimed to analyze the relationship between certain theoretical framework variables and changes in the Iraq Stock Exchange through the examination of stock prices.

.3Ella Rahmayanti & Saryati (2020): Cash Dividend: Debt Policy and Liquidity in Indonesian Consumer Cyclical Companies.

This research investigated whether debt policy in Indonesia tends to commit to cash dividend distributions and whether liquidity increases the level of cash dividends.

Studies Related to Stock Prices

.1Hassan (2020): Analysis of Corporate Stock Price Indicators in the Iraq Stock Exchange Based on Selected Internal and External Environmental Factors.

The study aimed to analyze fluctuations and volatility in stock price indicators resulting from factors in both internal and external environments, and to examine the impact of these factors on the performance of the economic units in the sample.

.2Zirram (2022): The Impact of Cash Dividend Announcements on Stock Prices: A Comparative Study between the Saudi and Malaysian Capital Markets.

This study aimed to analyze the effect of cash dividend announcements on stock returns of companies listed in the Saudi market and compare the results with the Malaysian financial market to verify the existence of abnormal returns.

.3Bhattarai, Bishnu Prasad (2020): Determinants of Share Prices in Nepalese Commercial Banks.

The study analyzed and evaluated fluctuations in the stock prices of Nepalese commercial banks. A descriptive, comparative, and causal research design was employed to achieve the study objectives.

Studies Related to Economic Unit Value

.1Kati' (2022): The Impact of Cultural Dimensions on the Quality of Integrated Reports and Their Reflection on Economic Unit Value.

This study aimed to measure the quality of reporting in integrated reports and its effect on the economic unit value.

.2Yazi et al. (2023): The Effect of Dividend Policy on Firm Value: A Study of Companies Listed on the Qatar Stock Exchange for the Period 2017–2022.

This study aimed to clarify the influence of dividend policy on firm value by analyzing a sample of companies listed on the Qatar Stock Exchange over the specified period.

Dividend Policy and Its Impact on Firm Value

This topic examines the effect of dividend policy on firm value, presenting different perspectives on this relationship through the analysis of several theories.

Firm Value and Integrated Reporting Quality (Moloi & Iredele, 2020, South African Listed Firms)

This study focused on the economic unit value and the quality of integrated reports in South African listed companies. The research aimed to assess the level of compliance with integrated reporting standards across all listed companies on the Johannesburg Stock Exchange by applying governance and control tools to enforce an acceptable level of disclosure quality.

Chapter Two: Theoretical Framework

Cognitive Foundations of Dividend Distributions and Stock Prices

.1Concept and Definition of Dividend Distributions

Dividend distributions are defined as the portion of profits distributed to shareholders, which can be in the form of cash or stock. These distributions serve as a reward to shareholders for investing their capital in the company's shares (Aita, 2020).

Al-Quraishi defines dividends as the proportion representing cash and non-cash flows received by investors as a return on their investment in the company's shares (Al-Quraishi, 2020).

Dividend policy, in turn, refers to the proportion of cash or non-cash flows that shareholders receive as a tangible return on their investments in company shares. These dividends represent expected income for investors, many of whom anticipate using these funds to meet their daily needs for goods and services (Abdel Nasser, 2021).

.2Forms of Dividend Distributions

Dividend distributions take various forms, including: 1. Cash Dividends
Cash dividends refer to distributions made by the bank's management, where profits are distributed to shareholders in cash. This entitlement arises after the issuance of the general assembly's decision to distribute dividends, which specifies the dividend declaration date. Cash dividends are generally preferred by shareholders, and laws typically allow such distributions to occur once annually. The amount of cash dividends depends on the quality of the profits earned (Al-Maghribi, 2018, p. 62). Cash dividends can take several forms, including:

a. Stable and Constant Dividend Policy

The concept of stable dividends, from an accounting perspective, represents one of the decisions concerning dividend distribution to shareholders followed by banks. Accounting rules play a crucial role in enhancing banks' financial capacity by retaining profits and reinvesting them to generate returns that strengthen their financial position. Additionally, accounting frameworks can significantly affect banks' net profits through the treatment of non-profitable operations (Bunea & Studene, 2016).

b. Regular Dividend Policy

Regular dividends are distributed to all shareholders annually. If profits are high and extraordinary, the excess earnings are retained within retained earnings and are not distributed to shareholders (Suryawati, 2023, p. 37).

c. Low and Increasing Regular Dividend Policy

This policy is flexible, combining the advantages of the stable dividend policy (fixed amount) and the constant ratio policy. Kanakriyah (2020, p. 532) confirmed that this policy reflects dividend distribution in proportion to realized profits, enhancing earnings per share.

.2Non-Cash Dividends: Non-Cash Dividends

Non-cash dividends are distributions made in the form of shares, where shareholders receive additional shares instead of cash dividends. Management often adopts this type of distribution when liquidity is limited (Na'eemi, 2017, p. 487). Shares are distributed according to each shareholder's existing holdings, and the procedure depends on the company having substantial retained earnings and reserves to use for new investments. A significant effect of this policy is a reduction in the market value per share (Hafsi, 2016, p. 41). Non-cash dividends can take several forms, including:

a. Bonus Shares (Stock Dividends)

The company retains a number of new shares and distributes them to shareholders instead of paying cash dividends. Shareholders may sell these shares, and the sale proceeds are considered cash dividend equivalents. However, the issuance and distribution of shares as dividends typically lead to a decrease in the stock price compared to its previous level (Mashkoor & Sadiq, 2019, p. 378).

b. Stock Splits

This policy serves as an alternative to cash dividends. A stock split results in additional shares by reducing the par value of each share, usually to stimulate demand by increasing the number of shares in the company's capital. This process generally leads to a decrease in dividends per share if total earnings remain constant, or stabilizes dividends per share while increasing total distributed earnings (Tran, 2024, p. 3).

c. Share Repurchase

Share repurchase, also known as targeted buyback, occurs when the company's management negotiates with shareholders holding large stakes to prevent hostile takeovers or to consolidate control. Companies often negotiate with specific shareholders to repurchase shares strategically, thereby influencing stock price and ownership distribution.

Investors tend to respond positively when the market price of a stock is below its intrinsic value. Share repurchase policies have experienced significant growth in the United States and Europe (Widjaja, 2024, p. 784).

.3Factors Influencing Dividend Policy

Financial managers must consider several factors when determining dividend distributions, including:

.1 Availability of Cash: Cash liquidity is a crucial indicator, as dividends represent cash outflows. The better the company's liquidity position, the higher its capacity to pay dividends (Khalaf, 2021, p. 232).

.2 Growth and Expansion: If the company is in a growth phase, it requires available financial resources to fund expansion. Relying on internal financing may be preferable to borrowing, prompting companies to retain earnings rather than distribute them, thereby avoiding debt-related costs (Willows et al., 2020, p. 28).

.3 Shareholder Preferences: The preferences of current shareholders are among the most important determinants of dividend policy. In companies with a limited number of owners, there is often a tendency to retain a large portion of earnings while distributing a small percentage. Shareholders prefer to secure financing needs through retained earnings rather than issuing new shares to avoid dilution of control and interest costs (Rashidi & Ebrahimi, 2012).

.4 Legal Regulations: Laws and regulations affecting dividend policy vary across countries and over time. These laws typically rely on four main rules: the net profit rule, the capital impairment rule, the insolvency rule, and the tax penalty rule. These rules serve as binding constraints for companies when designing their dividend policy framework (Arafat, 2022, p. 335).

.5 Investment Opportunities: If a company lacks profitable investment opportunities, it distributes the earnings achieved to shareholders. Conversely, if lucrative investment opportunities are available, the company may retain and reinvest profits instead of distributing them.

.4Dividend Theories

.1Dividend Irrelevance Theory

Miller and Modigliani present their perspective on dividend policy under conditions of perfect certainty. They argue that dividend decisions do not affect firm value, which is primarily determined by the efficiency of investment decisions and the ability of assets to generate profits (Wasaf, 2016, p. 405).

.2Tax Preference Theory

This theory posits that investors prefer capital gains over dividends, especially if capital gains are taxed at a lower rate than dividend income. While investors can control the timing of capital gains, they cannot control the timing of dividend payments, which are determined by companies. Investors may avoid firms that offer lower dividends as a means to reduce their tax burden. This theory presents a challenge for publicly listed companies due to the issue of double taxation, where both cash dividends and net profits are subject to taxes (Bhatti et al., 2023, p. 319).

.3Investor Tax Effect Theory

According to this theory, low or zero dividend payouts reduce the cost of capital and lead to an increase in the company’s stock price (Tanusher, 2016, p. 307).

.4Preference for Yield Theory

Investors focus on dividends to avoid risk; they prefer dividend payouts over capital gains because dividends provide immediate and certain returns (Christiningrum & Rahman, 2023, p. 1181).

.5Signaling Theory

Investors can also assess the expected performance of a firm based on its dividend distributions. Studies have shown that announcements of increased dividends usually lead to a rise in stock price, whereas announcements of dividend reductions typically result in a decrease in stock price (Khalaf et al., 2023, p. 290).

Measurement of Dividend Distributions

Cash dividends per share can be measured by dividing retained earnings (accumulated surplus) by the number of outstanding shares (Hussein, 2016, p. 121; Al-Kafai, 2016, p. 75). This calculation will be adopted in the practical part of the research, with detailed computation of the accumulated surplus, as the necessary data are available for the research sample and it provides a straightforward method to determine the actual earnings per share.

.6Agency Theory

Agency theory assumes that managers should adopt a dividend policy aimed at maximizing shareholder wealth. Dividend policy has been extensively analyzed within the framework of agency costs, where research indicates that dividend payments help reduce monitoring costs and limit overinvestment of free cash flows (Esqueda & O’Connor, 2024, p. 451).

Common Shares

Common shares are securities that represent ownership in a company. When investors refer to “shares,” they often mean common shares (Chen, 2020, p. 2). There are several types of common shares, including:

.1 Income Shares

Income shares are among the most attractive types of common shares for investors due to the dividends they pay. These shares are ideal for investors seeking a high and stable income level. Shareholders of income shares typically expect dividend increases over time (Gitman et al., 2017, p. 266).

.2 Growth Shares

Growth shares are issued by companies expected to maintain high growth rates in sales and profits. These companies generally exhibit high and rapid earnings but usually do not distribute dividends. Instead, they retain and reinvest earnings to finance their rapid growth (Chen, 2017, p. 1).

.3 Value Shares

Value shares are securities traded at a price below the intrinsic value of the issuing company, as estimated from balance sheet data (Gagliolo & Cardullo, 2020, p. 7).

.4 Speculative Shares

Speculative shares belong to companies unable to guarantee stable income from year to year but have a high potential to generate future income despite the uncertainty. These shares are considered high-risk, attracting investors seeking significant returns to compensate for the higher risk (Rimbani, 2016, p. 185; Komenkul et al., 2017, p. 3067).

.3**Participating and Non-Participating Shares**

Holders of participating shares receive a fixed dividend rate in addition to the right to share in any additional profits remaining after dividends are distributed to common shareholders.

.4 Callable and Non-Callable Shares

Callable shares allow the company to set specific conditions in the issuance contract, granting the firm the right to redeem these shares. This type of preferred share is widely used as it provides the company with flexibility in managing its capital structure.

.3Stock Values

.1 Par Value

Par value is the value assigned at the company's establishment and is stated on the shareholder's stock certificate. It represents the amount of capital owned by the shareholder and cannot be redistributed (Brycz & Dudy, 2021, p. 2).

.2 Book Value

Book value is recorded in the company's accounting records and represents shareholders' equity. It is calculated by dividing total equity, which includes capital, reserves, and retained earnings, by the number of shares outstanding (Ben & Sharma, 2017, p. 2).

.3 Intrinsic (True) Value

Intrinsic value refers to the company's or stock's value as determined by fundamental analysis, regardless of market price. It is influenced by changes in economic conditions and often approximates the stock's market value (Grove & Lockhart, 2019, p. 8).

.4Market Value

Market value represents the current trading price of a stock in the financial markets, reflecting investors' perceptions, demand and supply, and other market factors.

Market value represents the price at which shares are traded and is characterized by continuous fluctuations. It is highly influenced by economic conditions and market volatility resulting from supply and demand. Banks with higher market value are generally considered more secure than those with lower market value (Jajawi & Mohammed, 2017, p. 186).

.5Liquidation Value

Liquidation value reflects the expected amount to be received if a company becomes bankrupt and its assets are sold, after settling all obligations to creditors, bondholders, and preferred shareholders. Typically, liquidation and the termination of a company's operations are unfavorable outcomes for common shareholders (Al-Ali, 2020, p. 153).

.4Risks Associated with Shares

Shares carry multiple risks that affect investors across different types of investments (Pflueger et al., 2020, p. 245):

.1 Market Risks

Market risk refers to general movements in stock prices, which are influenced by external events unrelated to a specific company. When market changes occur—whether upward or downward—most stock prices tend to follow the market trend. These external events are difficult to predict, making it challenging for investors to take measures to avoid short-term volatility.

.2 Industry Risks

Each industry faces variations in returns due to certain forces that do not necessarily affect companies outside that industry. These forces, known as industry risks, arise from conditions specific to the industry, such as difficulties in securing the raw materials necessary for production.

.3Management Risks

Management risks relate to errors made by company managers due to poor administration, which can directly affect the future of the company. Some managerial mistakes have led to substantial losses in many companies, even resulting in bankruptcy for some. However, when management intervenes to address problems and works cohesively as a team to face challenges, it can contribute to achieving corporate objectives and increasing stock prices.

.4 Business Risks

Business risks refer to fluctuations or volatility in returns resulting from the operational activities of the entity in which investors invest. This volatility affects the expected return from the investment. Business risks arise from the nature of operational performance and its variables, as well as the operating environment, reflecting factors such as:

- Management policies
- Economic conditions
- Changes in consumer demand

.5Measurement of Stock Prices

The annual average closing price of shares is calculated using the following formula :**Stock Price Calculation**

Annual Average Closing Price = (Sum of Monthly Closing Prices during the Year – Average Monthly Closing Price) ÷ Number of Trading Months during the Year

.3Economic Unit Value

.1Concept and Definition of Economic Unit Value

Given the significance of the economic unit value, many scholars and researchers have defined it as the central metric on which financial and non-financial decisions are based. Many companies have shifted their focus from merely maximizing profits to adopting a strategic objective of maximizing firm value. This goal is comprehensive, as it considers factors that the company's management may not fully control, such as risks, growth rates, and changes in purchasing power, extending beyond the traditional focus on profits (Al-Janfaoui, 2022, p. 1325).

Sharifi (2021, p. 57) explained that economic unit value refers to the value at which common shares are traded in the stock market. It is determined by the price agreed upon by buyers and sellers and is calculated by multiplying the market price per common share by the total number of issued shares.

.2Importance of Economic Unit Value

The importance of understanding the economic unit value is highlighted through its impact on various stakeholders (Abboud, 2021, p. 850; Wahhab & Al-Khafaji, 2021, p. 231):

.1 Management of the Economic Unit

Determining the economic unit value significantly affects managerial decisions regarding both the present and future of the firm. Maximizing this value is fundamental for competitive positioning relative to peer companies. Conversely, a decline in value poses a serious risk, as it deters investment in the firm's shares and signals reduced profitability and liquidity in the stock markets.

.2 Investors

Achieving a high economic unit value provides positive benefits in the form of increased investor returns. Conversely, a decline in value indicates diminishing returns. Investors typically focus on the profitability and financial position of firms, as well as their sources of financing and dividend distribution capacity, which underscores the importance of the economic unit value in their decision-making.

.3Lenders and Creditors

The assets owned by the economic unit represent the largest component of its value. As the value of these assets increases, so does the economic unit value, providing assurance to lenders and creditors regarding the firm's ability to meet its obligations. Asset growth and profitability serve as positive indicators of the firm's financial health and strengthen its relationship with lenders and creditors

.4Government Authorities

The increase in the value of economic units within a country is often considered an indicator of prosperity and progress. Governments generally aim to establish economic units due to the importance of these units for tax authorities. An increase in the value of these units reflects higher income levels, thereby contributing to higher government revenues, which benefit the state treasury.

.3Objectives of Determining Economic Unit Value

The economic unit value represents a primary objective and a fundamental element of interest for both companies and investors. The following are key objectives associated with determining the economic unit value that stakeholders aim to achieve:

.1 Maximizing Shareholders' Wealth

Maximizing shareholders' wealth is the primary goal of any company, as it clearly reflects investor preferences in the stock market. Although some argue that maximizing shareholders' wealth is a suitable goal, it does not represent the objective of society as a whole; rather, it is part of the broader economic system (Jones & Harrison, 2019, p. 8).

.2 Maximizing the Financial Value of the Company

Economists prefer to use profit maximization as a measure to evaluate a company's operational performance, as it reflects its economic efficiency. All corporate decisions should be directed toward achieving the highest possible profit by increasing the productivity of available resources (Kamalian, 2020, p. 339).

.3 Maximizing the Market Value per Share

The market value per share represents the price at which shares are bought and sold in the stock market. This value is a key indicator of a company's overall worth, and companies strive to maximize it by increasing the share price. Additionally, trading volume is a major factor influencing stock price movements, thereby helping to enhance shareholders' wealth (Mashkoor & Sadiq, 2019, p. 381).

.4 Maximizing the Market Value of the Economic Unit

Setianto (2020, p. 4) argues that a company's value consists of at least two components: its assets and the value of future growth opportunities. The present value of growth opportunities plays a significant role, often contributing more than 50% of a company's market value, making it the most critical element in determining the firm's value compared to its tangible assets.

.4Standards Used to Determine the Economic Unit Value

Three main criteria are used to determine the value of a company, as follows (Zarafa, 2020, p. 18):
.1 Personal Criteria: These criteria are based on the concept of utility, which depends on the bargaining power between buyer and seller. Negotiations occur to establish the exchange price, with the seller aiming to sell at a higher price while the buyer prefers a lower price. The price of a commodity is determined by the preferences of both parties, influenced by multiple factors that may be conflicting or personal. These factors can be categorized into psychological factors, which are difficult to quantify, and economic factors.
.2 Accounting Standards: These standards refer to the methods used to analyze accounting data reported in financial statements. They are based on multiple concepts, including wealth, the financial market (stock exchange), company profitability, and economic valuation. Using these concepts, a company's value can be calculated through its book value, market value, profitability value, or intrinsic value.
.3 Economic Criteria: Economic criteria distinguish themselves by employing methods for calculating the profitability of tangible investments. They rely on adding estimated values of qualitative elements to the net real position or intrinsic value. Although these elements may not appear on the balance sheet, they contribute to the company's profitability. Economic criteria for determining a company's value can be divided into two approaches: the first involves assessing the reputation (goodwill) of the business by averaging profitability and net real position; the second calculates the unit's value as the sum of the present values of annual cash flows over a specific period.

Fifth: Measuring the Economic Unit Value

James Tobin, a Nobel Laureate in Economics, introduced this measure in 1969 to predict a company's market value and future performance, and it remains one of the most widely accepted models (Geldenhuys, 2014, p. 2). The value of a company is measured using Tobin's Q, which is a ratio comparing the market value of a company's assets (including the market value of debt and outstanding equity) to the replacement cost of its assets. The formula for Tobin's Q, which will be applied in the practical part of this study, is as follows (Melinda & Wardhani, 2020, p. 159):

Tobin's Q = (Total Market Value of Liabilities + Total Market Value of Equity) / Total Book Value of Assets

Chapter Three: Financial Analysis of Research Variables

I. Brief Overview of the Research Sample: Bank of Baghdad

Bank of Baghdad was established as a joint-stock company with a nominal capital of IQD 100 million. It is the first privately-owned Iraqi bank, enabled by the amendment of the Central Bank of Iraq Law No. 12 of 1991. The bank has earned trust and credibility in conducting transactions with clients and institutions with full accuracy. Its primary objectives include mobilizing national savings and investing them in various sectors, as well as contributing to the promotion of economic development in accordance with the general policy framework and the monetary policy adopted by the Central Bank of Iraq.

Table 1: Dividend Per Share for Bank of Baghdad (2018–2023)

Year	No. of Traded Shares (Millions)	Change in No. of Shares (%)	Undistributed Profits (Million IQD)	Change in Undistributed Profits (%)	Dividend Per Share (IQD)	Change in Dividend Per Share (%)
2018	5725.8	0.01	(7649)	1.06	0.1335	2.534
2019	4043.6	(29.3)	(14376)	0.87	0.3555	(6.485)
2020	5887.6	45.6	17190	0.19	0.2919	(0.1789)
2021	69172.9	10.7	45641	1.65	0.0659	(0.774)
2022	6392.2	(90.7)	8397	(0.81)	0.1313	(0.992)
2023	20689.7	2.23	15925	0.89	0.0769	(0.4143)

Source: Based on data from columns (1, 3), Iraq Stock Exchange, Annual Financial Reports (2018–2023), ISX website: http://www.isx.iq.net/isxportal/portal/homePage.html?currLanguage=ar
Column (5) data were calculated by the researcher using the following formula: Undistributed Profits ÷ Number of Traded Shares
Columns (2, 4, 6) were calculated by the researcher using the following formula: ((Current Year - Previous Year) ÷ Previous Year) × 100
Values in parentheses indicate negative figures.

The dividend per share fluctuated throughout the study period due to variations in the number of traded shares and undistributed profits. In 2018, the bank recorded a deficit of 7,649 million IQD due to a 60% loss that year, leading to a 1.06% increase in undistributed profits, which represented the lowest value of undistributed profits during the research period.

2. Share Prices of Bank of Baghdad

Table 2: Monthly Average Closing Share Prices of Bank of Baghdad (2018–2023)

Bank Name	2018	2019	2020	2021	2022	2023
Baghdad	0.456	0.293	0.356	2.166	0.978	2.401

Source: Calculated by the researcher using the following formula: Average Monthly Closing Price = Total Monthly Closing Prices during the Year ÷ Number of Trading Months

Share trading for the Bank of Baghdad, as reflected by the monthly closing prices, was volatile. According to reports from the Iraq Stock Exchange, the bank traded for 12 months in 2018, 2019, 2020, and 2021 without suspension. In 2022, the bank was suspended for one month, and no closing price was available for that period.

3.Measurement of the Economic Unit Value for Bank of Baghdad (2018–2023)

While this value dropped to its lowest level in 2020, reaching 0.0528, the decline was attributed to the decrease in the market value of stocks due to the outbreak of the COVID-19 virus, which led to the suspension of business operations and global trade, thereby affecting the overall global economy during its occurrence.

Q	TAV	TMV	Number of Shares	Measurement of the Economic Unit Value	Year
0.0651	1,113,538,558,000	72,500,000,000	250,000,000,000	0.29	2018
0.0662	1,132,744,205,000	75,000,000,000	250,000,000,000	0.3	2019
0.0528	1,419,528,237,000	,000,000,00075	250,000,000,000	0.3	2020
0.1672	1,539,808,656,000	257,500,000,000	250,000,000,000	1,03	2021
0.1986	1,724,199,578,000	342,500,000,000	250,000,000,000	1,24	2022
0.4082	2,748,497,945,000	1,122,000,000,000	0,000,000,00030	3,74	2023
0.1626					

Chapter Four: Hypotheses Testing and Analysis of Results

I. Main Hypothesis 1:

There is a statistically significant positive correlation between dividend distributions, stock prices, and the economic unit value.

a. Sub-Hypothesis 1:

There is a statistically significant positive correlation between dividend distributions and stock prices.

b. Sub-Hypothesis 2:

There is a statistically significant positive correlation between stock prices and the economic unit value.

II. Main Hypothesis 2:

There is a positive effect of implementing dividend distributions on stock prices, which in turn positively reflects on the economic unit value.

a. Sub-Hypothesis 1:

There is a statistically significant positive effect of dividend distributions on stock prices.

b. Sub-Hypothesis 2:

There is a statistically significant positive effect of stock prices on the operational and economic unit value.

Conclusions and Recommendations

First: Conclusions Related to the Theoretical Aspect

1. Earnings per Share (EPS) from dividends is one of the most widely used financial ratios by investors and analysts when making investment decisions. Its calculation varies depending on the capital structure, whether it consists solely of common shares, convertible preferred shares, or other equity rights.
2. The dividend per share positively affects the stock price and its market trading volume, which confirms the research hypothesis.
3. The country's economic conditions influence the bank's earnings.
4. A higher market value to earnings and growth ratio indicates an increase in the market value per share, signaling that investors are willing to pay more for each unit of income, which is a positive indicator for the bank.

Second: Conclusions Related to the Practical Aspect

1. There is a significant positive impact of dividends on stock prices.
2. There is a significant positive effect of dividends on the economic unit value.
3. Dividends have a significant positive impact on the economic unit value through their effect on stock prices.

Third: Recommendations

Based on the conclusions reached by the researcher, the following recommendations are proposed:

1. It is recommended to invest in banks with a stable dividend policy.
2. Banks can adopt an expansive dividend distribution policy if there is a positive impact of dividend payout ratio on stock prices, and adopt a conservative dividend distribution policy if there is a negative impact of dividend payout ratio on stock prices.

Additional Recommendations

3. Strive to adopt strategies aimed at increasing the bank's net profits to enhance the attractiveness of its shares in the financial market.

4. Conduct further studies and research using additional data to test the impact of dividend distributions on stock prices.

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