



Research Paper

The Relationship of the Effect of Cash Dividends on the Price Coincidence of the Stock Exchanges of Tehran Stock ExchangeMohammad khanmadi ¹ , Seyyed Mohammadreza Raeeszadeh ² , Shahab Yekkeh Fallah ³ 

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Receive: 09 Feb 2025

Revise: 06 Mar 2025

Accept: 11 Mar 2025




Published online:
20 Mar 2025**Abstract**

The present study examines the effect of cash dividend payout ratio on stock price synchronization of companies listed on the Tehran Stock Exchange. The statistical population of the study includes companies listed on the Tehran Stock Exchange in the period 2011-2011. Considering the limitations imposed, and also by eliminating over-the-counter companies and using the systematic elimination method, 101 companies were selected as the final sample. The results showed that there is a positive and significant relationship between cash dividend payout ratio and stock price synchronization, and the control variables of company size and earnings per share and company growth and the ratio of market value to book value of the company have a significant relationship with the dependent variable, namely stock price synchronization. The estimated coefficient (0.242721) and t-statistic (2.768767) related to the corporate social responsibility (CSR) variable are positive and statistically significant. (0.0125)

Keywords:

Cash dividend payout ratio, stock price synchronization, market-to-book ratio.

Please cite this article as (APA): khanmadi, M & Raeeszadeh, M & Yekkeh Fallah, S. (2025). The Relationship of the Effect of Cash Dividends on the Price Coincidence of the Stock Exchanges of Tehran Stock Exchange. *Journal of Governance studies & development management*, 1 (2) , 313-325..

Sponsored by: Institute of Somamos Publications	10.22034/jgsdm.2025.531696.1019	
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Extended Abstract

Introduction

Profit sharing is a topic that has long been of interest to financial researchers and still remains one of the controversial issues in the field of financial management. The distribution of corporate profits is still complex and puzzling for financial researchers and is debatable from two very important aspects. On the one hand, it is an effective factor on the investments companies are making. Profit sharing leads to a decrease in internal resources and an increase in the need for external financial resources. On the other hand, many shareholders of the company want to distribute cash profits (Hia, 2023). Therefore, managers must always strike a balance between their various interests and profitable investment opportunities in order to maximize shareholder wealth; therefore, profit distribution decisions made by company managers are very sensitive and important (Liu et al., 2023). At the end of each fiscal year, a percentage of the profits reported by companies is distributed among shareholders. How much profit can be distributed and how it will be distributed is an important issue for shareholders. In fact, dividend policy is an important factor in the decision-making of potential and current shareholders, and shareholders are looking for a way to predict dividend policies and the factors affecting them. Paying a significant percentage of profits is one of the control mechanisms of investors to adjust conflicts of interest; Because cash dividends: (1) force management to generate sufficient cash to pay dividends and (2) can force management to turn to the capital market to finance its projects and provide more information to the capital market (Yadegari et al, 2023). Therefore, financial markets play an important role in the economy of any country and are considered a factor affecting its economic growth. The stock market is also one of these markets that, by directing funds towards investment opportunities, affects a large part of the world economy and causes great concern and concern for governments (Mujilan, 2022). Compared to developed countries such as the United States and the United Kingdom, the Iranian stock market is considered an emerging market, and the low volume of foreign investments and highly volatile stock prices are evidence of this claim. In such markets, studying stock price movements is of particular importance for investors; Because it affects their investment decisions. Stock price synchronization is a concept that expresses the extent to which stock prices move together (Hamzeh et al, 2018). Johnson defines stock price synchronization as: the degree to which market and industry information is reflected in a company's stock price. Also, Dornoff et al. (2003) and Petroski and Rolston (2004) have defined stock return synchronization as: it indicates the extent to which market and industry returns explain changes in a company's stock returns. According to these definitions, it can be said that price synchronization is equal to the ratio of systematic risk divided by unsystematic risk (An et al, 2022). As a result, stock price behavior follows two factors: market movement and company-specific information. Market movement, which will be affected by various factors, including internal and external issues, politics, etc., and company-specific information, which is related to the company's own factors. Investors' greater confidence in company profits is more dependent on company-specific information. Investors' greater confidence in company profits is more dependent on company-specific information, and if the relationship between company returns and market returns (price



synchronicity) is low, it indicates more company-specific information. The lower the relationship between company returns and market returns, or in other words, the lower the stock price synchronicity, the greater the impact of company-specific information. Therefore, it can be said that the low stock return synchronicity of companies actually indicates that their prices are less dependent on market movements, because there is more company-specific information that market participants trust (Kamyabi & Parhizgar, 2016).

In general, stock prices reflect a wide range of information such as earnings, macroeconomic news, analysts' forecasts, and other financial information. Examining stock price synchronicity allows researchers to study a wide range of financial information effects. One of the factors studied in this study, following the research of (Farooq & Elbannan, 2016), is the cash dividend payout ratio. (Farooq & Elbannan, 2016) also stated that stock price synchronicity and cash dividend payout ratio are a function of the information environment related to the companies, such that companies with high cash dividend payout ratios should have low and low synchronicity. High payout ratios are associated with a better information environment, and a better communication environment should lead to low and low synchronicity; therefore, it can be said that cash dividend payout ratio and stock price synchronicity have a negative effect on each other (Farooq & Elbannan, 2016).

Considering the above, in this study we seek to answer the question: Does the payment of cash dividends have a significant effect on the synchronicity of stock prices of companies listed on the Tehran Stock Exchange?

Theoretical framework

Stock Price Synchrony

Johnson defines stock price synchronization as: The degree to which market and industry information is reflected in a company's stock price. Also, Dornoff, Mork, and Young (2003) and Petroski, and Rollston (2004) define stock return synchronization as: It indicates the extent to which market and industry returns explain changes in a company's stock returns. According to these definitions, price synchronization is equal to the ratio of systematic risk divided by unsystematic risk. The behavior of stock prices depends on two factors: market movements and company-specific information. (Cho et al, 2021). Market movements, which are affected by various factors, including internal and external issues, politics, etc., and company-specific information, which is related to factors within the company itself (Wen et al, 2021).

Cash Dividends

Earnings per share are calculated by dividing the company's after-tax profits by the total number of shares; which indicates the profit that the company has earned in a given period per common share. The concepts derived from this term are among the most fundamental principles of decision-making in the stock market (Baldick, 2018). Forecasted earnings per share: It is the profit per share that the company predicts for the upcoming fiscal year. Realized earnings per share: It is the profit per share that was allocated to each share in the previous fiscal period (Cabral et al, 2021). Adjusted earnings per share Companies predict



their profits at the beginning of the fiscal year, which is called forecast EPS. But sometimes this profit turns out to be less and sometimes more than expected. Adjusting means that it is determined by examination that the predicted profit is less or more than the forecasted income (Amiry & Hoseini, 2019).

In the research (Kamyabi & Parhizgar, 2016), the results of the research indicated that there is a significant negative relationship between institutional investment and stock price synchronization. Also, the findings showed that there is a significant negative relationship between the stability of institutional investors and stock price synchronization, while there is a significant positive relationship between the volatility of institutional investors and stock price synchronization. The findings of the research (Ebrahimi Kordlar et al, 2016) showed that earnings quality has a negative and significant effect on stock price synchronization and the auditor's industry expertise as a moderating variable strengthens its effect. In other words, the interactive effect of auditor expertise with earnings quality reduces stock price synchronization.

Research Methodology

Regression models were used to test the research hypotheses after selecting sample companies and collecting the required statistics and information. Also, IViews software was used to analyze statistics and information after processing by Excel spreadsheet software. To collect the desired data, financial statement data and also financial statement notes on the Kodal website were used. The geographical area of the research includes all companies listed on the Tehran Stock Exchange between the years (2011-2016). Considering the aforementioned limitations, 101 companies were selected as a statistical sample.

Research Findings

Descriptive statistics of the research variables showed that the average cash dividend payout ratio is 0.572852 and its maximum and minimum are 1.898174 and -1.077793. The average of this variable indicates that 57 percent of the sample companies have paid dividends in cash, which is a suitable percentage. The average growth of the company is 0.954190 and its maximum and minimum are 1.521292 and 0.007606. The average of this variable indicates that 95 percent of the sample companies have experienced appropriate growth. In examining the significance of the entire model, given that the probability value of the F statistic is smaller than 0.05 (0.000), the significance of the entire model is confirmed with 95% confidence. If the Durbin Watson statistic is between 1.5 and 2.5, there is no need to worry. In the first model of the study, the Durbin-Watson statistic shows the value (2.155990), so there is no sequential correlation between the residuals. The important difference between the coefficient of determination and the adjusted coefficient of determination is that the coefficient of determination assumes that each independent variable observed in the model explains the changes in the dependent variable; therefore, the percentage shown by the coefficient of determination (0.551256) is based on the assumption of the effect of all independent variables on the dependent variable. While the percentage shown by the adjusted coefficient of determination (0.499481) is only the result of the actual effect of the



independent variables of the model on the dependent and not all independent variables. Another difference is that the suitability of the variables for the model cannot be determined by the coefficient of determination even with a high value, while the estimated value of the adjusted coefficient of determination can be trusted; therefore, the adjusted coefficient of determination of the model indicates that 49 percent of the dependent variable of simultaneous stock price is explained by the independent and control variables of the model.

Conclusion

The research hypothesis states: There is a relationship between the cash dividend payout ratio and stock price synchronization. The results of data analysis showed that the estimated coefficient (0.242721) and the t-statistic (2.768767) related to the corporate social responsibility (CSR) variable are positive and statistically significant (0.0125). Accordingly, the results of the research hypothesis are confirmed at the 5 percent error level; therefore, according to these results, it can be said that there is a positive and significant relationship between the cash dividend payout ratio and stock price synchronization, and the control variables of company size, earnings per share, company growth, and the ratio of market value to book value of the company have a significant relationship with the dependent variable, namely stock price synchronization. The results of the present study are consistent with these studies: (Kamyabi & Parhizgar, 2016) The results of the study indicate that there is a significant negative relationship between institutional investment and stock price synchronization. Also, the findings showed that there is a significant negative relationship between the stability of institutional investors and stock price synchronization, while there is a significant positive relationship between the volatility of institutional investors and stock price synchronization. (Ebrahimi Kordlar et al, 2016) The research findings showed that earnings quality has a negative and significant effect on stock price synchronization, and the auditor's industrial expertise as a moderating variable strengthens its effect. In other words, the interactive effect of auditor expertise with earnings quality causes a decrease in stock price synchronization. Based on the research findings, it is suggested that requiring companies to provide complete and transparent information, including management analyses of financial statements and providing necessary information in the field of dividend policies, is effective for investors' decision-making and their evaluation of the company's performance. Company managers are advised to pay their dividends based on the quality of earnings and available cash, as far as possible; Therefore, if a company has sufficient cash flow but pays less profit to its shareholders, this means that investor expectations are not met and, as a result, the company's value decreases. The research hypothesis states: There is a relationship between the cash dividend payout ratio and stock price synchronization. The results of data analysis showed that the estimated coefficient (0.242721) and the t-statistic (2.768767) related to the corporate social responsibility (CSR) variable are positive and statistically significant (0.0125). Accordingly, the results of the research hypothesis are confirmed at the 5 percent error level; therefore, according to these results, it can be said that there is a positive and significant relationship between the cash dividend payout ratio and stock price synchronization, and the control variables of company size, earnings per share, company growth, and the ratio of market value to book value of the company have a significant



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