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Deanship of Graduate Studies and Scientific Research Master of  
Administrative Science Accounting and Finance

**How IFRS and Political Instability Shape Dividend Policies on the  
Palestine Exchange**

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A thesis submitted in partial fulfillment of the requirements for the degree of  
Master of Administrative Sciences (Accounting and Finance).

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## **Thesis Approval**

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I, **Mohammed Barakat Taha**, declare that this thesis entitled “**How IFRS and Political Instability Shape Dividend Policies on the Palestine Exchange**” is my own original work. It has not been submitted, in whole or in part, for any degree or qualification at any other university. All sources of information used have been properly acknowledged. Where the work of others has been used, it has been clearly cited and referenced.

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## إهداء

إلى والديّ العزيزين...

إلى أبي الحبيب،

الذي تعلّمتُ منه معنى الصبر حين يُصبح الصبر طريقيًا، ومعنى القوة حين تكون القوة هُوءًا وإيمانًا. مرّت بنا هذا العام أيام لم تكن سهلةً، وأثبتتُ فيها أنّ الإنسان قد يضعف جسدًا، لكنّه يقوى روحًا. رأيتهُ يُقاوم، لا بالكلمات فقط، بل بالثبات الذي يسكن نظراتك، وبالرضا الذي يسبق الألم.

يا أبي... إن كان لهذا الإنجاز قيمةً، فجزءٌ كبيرٌ منه صنع من دعائك، ومن تعبك الذي لم يتوقف يومًا عن حمايتي حتى في أصعب اللحظات. أهديك هذه الصفحات لتكون شاهدًا على أنني كنتُ أسئدُ من صمودك ما يكفي لي لأكمل، وأنك ستبقى دائمًا قوتي في مواجهة الحياة بكرامة وإيمان.

وإلى أمي الغالية، معلّمتي الأولى،

معلّمة اللغة العربية التي لم تعلّمني الحروف والكلمات فقط، بل علّمتني كيف تُبنى المعاني في القلب قبل أن تُكتب على الورق. كنتُ دائمًا الصوت الذي يوقظ داخلي الشغف، واليد التي تدفّني بلطف وثقة كي لا أتوقف عن التعليم مهما تعبت، ومهما ثقلت الأيام.

وكما كنتُ تُرديدين دائمًا، وكأنها وصيةٌ تُكتب في روجي: ألا أعتمد على ما أسسه أبي لي، ولا أكتفي بما هو جاهز، بل أن أتعلّم... لأكون سيّد نفسي. هذه الكلمات لم تكن نصيحةً عابرةً، بل كانت منهُج حياة؛ تعلّمتُ منها أنّ العلم هو الذي يبقّي، وأنّ الإنسان يُبنى بعزيمته قبل شهادته.

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## المخلص

تبحث هذه الدراسة فيما إذا كان للمخاطر السياسية واستخدام المعايير الدولية لإعداد التقارير المالية (IFRS) تأثير على سياسة توزيع الأرباح بين الشركات المدرجة في بورصة فلسطين (PEX) وتدرس الدراسة سلوك توزيع الأرباح باستخدام أربعة مقاييس تكميلية: قرار دفع الأرباح (Div\_dummy)، وعائد الأرباح (Div\_yield)، ونسبة التوزيع القائمة على الأرباح (Payout\_ratio)، ونسبة التوزيع القائمة على التدفق النقدي التشغيلي (Payout\_OCF)، وذلك على بيانات متوازنة لـ 14 شركة غير مالية مدرجة خلال الفترة من 2004 إلى 2023 (280 مشاهدة للشركة/السنة). ويمثل المتغير الوهمي لما بعد التبني اعتماد المعايير الدولية لإعداد التقارير المالية، بينما يقيس مؤشر الاستقرار السياسي القائم على الحوكمة الصادر عن البنك الدولي المخاطر السياسية (حيث تشير القيم المنخفضة إلى مزيد من عدم الاستقرار). وتستخدم الدراسة التجريبية منهجية المربعات الصغرى المجمعة، والتأثيرات الثابتة، والتأثيرات العشوائية للبيانات المقطعية. ولحد من تأثير البيانات المتطرفة، يتم تعديل المتغيرات المستمرة عند المئينين الأول والتاسع والتسعين. تُعرض أيضًا اختبارات تشخيصية للتبعية المقطعية، والارتباط التسلسلي، وتغاير التباين. ويُستخدم الاستدلال القوي المُجمَع للشركات لعرض الأخطاء المعيارية في وجود تبعية البيانات المقطعية، مما يسمح بتفسير إحصائي أكثر دقة. بعد تصحيح أساسيات الشركة، لا توجد علاقة ذات دلالة إحصائية بين اعتماد المعايير الدولية لإعداد التقارير المالية وسياسة توزيع الأرباح عبر جميع مقاييس توزيع الأرباح الأربعة. في المعايير المُعدّلة، لا يُعدّ الخطر السياسي ذا دلالة إحصائية لأي من نتائج توزيع الأرباح. بل إن أساسيات الشركة تُفسّر غالبية سلوك توزيع الأرباح في هذا السوق الناشئ: ترتبط الربحية بسلوك دفع الأرباح وديناميكيات التوزيع، بينما يرتبط حجم الشركة باستمرار بميل أكبر لتوزيع الأرباح، وعائد توزيعات الأرباح، وكثافة التوزيعات القائمة على التدفقات النقدية. بشكل عام، تُشير البيانات إلى أن قدرة الشركة ونضجها لهما تأثير أكبر على سياسة توزيع الأرباح في سوق مُعرّض للصدمات المتكررة من اعتماد نظام محاسبي رسمي أو تباين المخاطر السياسية بشكل عام. تشير النتائج إلى أنه ينبغي على المستثمرين تقييم نتائج توزيعات الأرباح باستخدام مجموعة متنوعة من مقاييس الدفع بدلاً من الاعتماد فقط على مقياس نسبة واحد، وأن إصلاحات المعايير الدولية لإعداد التقارير المالية قد تتطلب تطبيقاً أكثر صرامة وتحسينات تكميلية في الحوكمة لتحقيق تغييرات سلوكية ملحوظة.

## Abstract

This research investigates whether political risk and the use of International Financial Reporting Standards (IFRS) influence dividend policy among firms listed on the Palestine Exchange (PEX). The study examines dividend behavior using four complementary measures: dividend payment decision (Div\_dummy), dividend yield (Div\_yield), earnings-based payout ratio (Payout\_ratio), and operating cash flow payout ratio (Payout\_OCF) on a balanced panel of 14 non-financial listed firms from 2004 to 2023 (280 firm-year observations). A post-adoption dummy represents IFRS adoption, whereas the World Bank's governance-based political stability index measures political risk (lower values imply more instability). The empirical study makes use of a pooled OLS, fixed effects, and random effects panel methodology. To mitigate the influence of extreme data, continuous variables are winsorized at the 1st and 99th percentiles. Diagnostic tests for cross-sectional dependency, serial correlation, and heteroskedasticity are also presented. Firm-clustered robust inference is used to present standard errors in the presence of panel dependency, allowing for more accurate statistical interpretation. After correcting for company fundamentals, there is no statistically significant relationship between IFRS adoption and dividend policy across all four-dividend metrics. In the amended criteria, political risk is also not statistically significant for any dividend outcomes. Rather, firm fundamentals account for the majority of dividend behavior in this frontier-market setting: profitability is linked to dividend payment behavior and payout dynamics, whereas firm size is consistently linked to higher dividend propensity, dividend yield, and cash-flow-based payout intensity. Overall, the data indicate that firm-level capacity and maturity have a higher impact on dividend policy in a market prone to frequent shocks than formal accounting regime adoption or overall political risk variance. The findings suggest that investors should evaluate dividend outcomes using a variety of payout metrics rather than relying solely on a single ratio measure, and that IFRS reforms may require stricter enforcement and complementary governance enhancements to result in noticeable behavioral changes.

**Keywords:** International Financial Reporting Standards (IFRS); dividend policy; political risk; Palestine Exchange (PEX); conflict-affected frontier markets.

## Chapter One

### 1. Introduction

#### 1.1 Background of the Study

Corporate Finance has long debated dividend policy as an issue of great importance to firms. Theoretical and empirical research on real world issues affecting dividend payouts (taxes, information asymmetry, agency costs, capital structure constraints, and investor preference) have made payout decisions relevant to firm performance since Modigliani and Miller's (1961) demonstration that dividends were irrelevant to firm value under perfect capital markets (Allen & Michaely, 2003; La Porta et al., 2000). Dividends are a key aspect of how corporations interact with capital markets and their owners, based on Lintner's (1956) finding that corporate managers will tend to smooth dividend payments and will be reluctant to cut them. Similarly, based on Gordon's (1959) "bird in the hand" theory, investors will tend to prefer to receive a specific cash dividend rather than some amount of potentially future capital gain. Related theories highlight dividends as signals under asymmetric information (Bhattacharya, 1979; Miller & Rock, 1985) and as a way to reduce agency costs and free cash flow issues (Jensen, 1986; Rozeff, 1982). Additionally, the interpretation of dividend changes (Benartzi and al., 1997), changes in business characteristics and maturity (DeAngelo et al., 2006; Fama & French, 2001), and investor demand through catering incentives (Baker & Wurgler, 2004) are all linked by empirical research. There is considerable empirical evidence across all world regions from studies by Aivazian et al. (2003) and Denis & Osobov (2008) regarding the nature and timing of firms' dividend payment decisions, as well as systematic differences between markets and institutional environments. For companies operating within countries experiencing economic development and/or conflict, there are even greater complications associated with making dividend decisions. As such, investors frequently face significant levels of macroeconomic risk and capital market volatility, along with low levels of regulatory compliance and enforcement. In such cases, paying a dividend may represent one of the most stable ways for companies to pay-out excess funds to shareholders, and signal the company's financial condition. Despite this potential benefit, due to the significant amount

of uncertainty in these types of environments, firm management may be reluctant to make commitments to a regular pattern of cash disbursements in the form of dividends. Such reluctance may lead to conservative dividend policies, or extended periods of non-payment (Koussis et al., 2017; Attig et al., 2021). Recent research has shown that the ability of firms to implement payout behaviors, and other corporate financial policy choices, are significantly impacted by both political and geopolitical risk factors (Huang et al., 2015; Farooq & Ahmed, 2019). The ongoing situation in Palestine represents an extreme example of the conflict between these two competing forces. The Palestinian economy is operating under persistent risks of political and security risks and restrictions on trade and movement and periodic large scale military escalation. Even in times of no full-scale warfare there are "stress periods" for businesses due to rising tensions, local disruptions and a slowdown in the economy. This increases earnings volatility, creates uncertainty for businesses regarding their access to markets and raw materials, and raises the likelihood that businesses will not be able to operate or survive long enough to realize gains from their currently reinvested profits. Under these conditions, company management may become very cautious when it comes to making recurring dividend commitments (Koussis et al., 2017) and small shareholders look to cash dividends as one of the most reliable ways they can obtain returns from publicly traded companies (Aqel, 2016; Hassonn et al., 2016). Therefore, in the case of Palestine and in the diaspora, where investors use the Palestine Exchange (PEX) to hold shares of Palestinian-based companies, dividend payments provide both a source of consistent income and a sign to investors that a business is capable of generating distributable capital under a state of macro-political instability (Huang et al., 2015; Farooq & Ahmed, 2019). Thus, understanding how the adoption of IFRS and measured political risk interact with other traditional business level factors to influence dividend decisions is especially important in this conflict affected country (Adra et al., 2023; Ahmad et al., 2023).

In this environment, regulatory efforts have sought to bring Palestinian financial reporting in line with global standards of accounting practice. Listed firms in Palestine have been adopting IFRS based reporting practices since the early 2000's however, practical implementation and enforcement issues still exist. Abu-Sharbeh (2017) outlines how Palestinian institutions and market organizations were able to move listed firms away from

their historical reliance on local accounting practices towards IFRS based reporting. However, this process was constrained by the lack of training, education, and enforcement mechanisms.

Related Palestinian evidence also discusses compliance and disclosure practices in financial reporting and IFRS-related requirements (Alkababji, 2016; Dieh & Musa, 2015). IFRS adoption is expected to improve the quality, comparability, and transparency of financial statements, thereby reducing information asymmetry and cost of capital and facilitating access to external finance (Daske et al., 2008; Li, 2010). Reviews of the IFRS adoption literature also emphasize that the magnitude of benefits depends on institutional features and enforcement (De George et al., 2016). In emerging markets, several studies associate IFRS with stronger value relevance and transparency outcomes (Alali & Foote, 2012; Barth et al., 2008), and regional work in Palestine similarly focuses on IFRS relevance and reporting outcomes (Abdeljawad, 2024; Alia et al., 2023; Darabee & Mousa, 2024). These improvements may in turn affect dividend policy: better reported earnings and cash flow information can constrain earnings management, impose discipline on managers, and change the relative attractiveness of retaining versus distributing cash (La Porta et al., 2000; Jensen, 1986). More generally, the interaction of governance, reporting quality, and payout policy is a recurring theme in both international and regional evidence (Abdelqader et al., 2022; Al-Malkawi, 2017). At the same time, Palestinian listed companies operate under a high and fluctuating level of political risk. Governance indicators such as the Worldwide Governance Indicators provide a framework for measuring political stability and related institutional dimensions (Kaufmann et al., 2011), and political risk forecasting and measurement approaches have been assessed in the broader political risk literature (Howell, 2014). The repeated shocks and disruption experienced by the Palestinian economy increase the likelihood of sudden and unexpected changes in the sales, assets, and cash flows of individual firms -- all of which have direct implications for firms' capacity to produce profit distributions and for managers' preference between maintaining a buffer of cash and distributing that cash as dividends (Attig et al., 2021; Koussis et al., 2017). Research in other contexts also indicates that uncertainty and political shocks lead to changes in corporate financing and investment decisions (Julio & Yook, 2012), and to specific changes in dividend decisions (Farooq & Ahmed, 2019; Huang

et al., 2015). In light of these factors, the purpose of the current dissertation is to assess whether the formal adoption of International Financial Reporting Standards (IFRS) and the amount of political risk faced by each firm influences the dividend policy of non-financial firms that are listed on the Palestine Exchange (PEX). The sample consists of firm-year observations over the time period 2004-2023. The empirical regression model was run from 2004 through 2023 as the political risk index utilized in the dissertation does not exist for the year 2024. As noted earlier, I use multiple observable measures of the dividend payout (as opposed to a single latent measure of the dividend payout), thus reflecting both the likelihood of the firm to pay out dividends and the intensity of those payments when they do pay them (DeAngelo et al., 2009; Allen & Michaely, 2003). The research approach of this dissertation is exclusively quantitative in nature. Data were created manually from audited annual financial statements of the sampled firms, as reported by the firms on the PEX website or contained within their annual reports. Those data were then analyzed utilizing Python with standard econometric libraries for data preparation, variable creation, and regression estimation. A detailed description of the econometric methodology and diagnostic procedures employed in the dissertation are found in Chapter Three, while an interpretation of the findings of the empirical analyses are discussed in Chapter Four.

## **1.2 Problem Statement**

Despite nearly two decades of formal IFRS adoption and the operation of an organized stock exchange, dividend policy among firms listed on the Palestine Exchange (PEX) remains insufficiently understood. Existing evidence from Palestine has primarily emphasized traditional firm-level determinants, indicating that profitability and firm size tend to be positively associated with dividend payouts, while leverage and asset structure are negatively associated (Hassonn, Tran, & Quach, 2016). However, there is limited evidence on whether the transition to IFRS-based reporting mandated for listed firms under national regulation has materially altered corporate cash distribution behavior.

At the same time, political instability is widely viewed as a defining feature of the Palestinian business environment, yet prior empirical studies rarely incorporate macro-level political risk directly into dividend models. This omission leaves unresolved the extent to which conflict-related volatility and political shocks shape firms' payout decisions

and whether dividend behavior reflects stable fundamentals or adaptive responses to uncertainty.

This gap creates both academic and practical concerns. Regulators lack evidence on whether reporting reforms have translated into observable changes in corporate financial policy. Corporate decision-makers operate without reliable benchmarks for how comparable firms adjust payouts under persistent political risk. Investors particularly local households face uncertainty about whether dividend patterns signal firm strength and transparency or discretionary managerial choices.

**Accordingly, the central research problem of this thesis is:**

***To what extent do IFRS adoption and political risk influence the cash dividend policies of non-financial firms listed on the Palestine Exchange (PEX)?***

### **1.3 Research Questions**

Accordingly, the following sub-questions are formulated to address the research problem:

**RQ1:** Does the adoption of International Financial Reporting Standards (IFRS) significantly affect the likelihood (propensity) and the amount (intensity) of dividend payouts among non-financial firms on the PEX?

**RQ2:** To what extent does macro-level political risk, as measured by indices of stability and violence, influence the cash distribution decisions of Palestinian non-financial firms?

**RQ3:** How do traditional firm-specific factors specifically profitability, size, leverage, and liquidity interact with the Palestinian institutional environment to determine dividend policy?

**RQ4:** Are the estimated relationships of IFRS adoption and political risk with dividend policy consistent across alternative dividend-policy measures?

### **1.4 Research Objectives**

This study aims to explore, without bias, the relationship between IFRS adoption, political risk and dividend policy in Palestinian listed companies. The specific objectives are:

1. **To evaluate the impact of IFRS adoption** on the dividend payment behavior (propensity and intensity) of non-financial firms listed on the PEX.
2. **To examine the relationship between political risk** as measured by the World Bank's Political Stability index and the level of cash distributions to shareholders.
3. **To identify the primary firm-level drivers** of dividend policy (such as size, profitability, and leverage) within the specific context of a conflict-affected economy.
4. **To assess** whether the estimated relationships of IFRS adoption and political risk with dividend policy remain consistent across alternative measures of dividend policy.

### **1.5 Significance of the Study**

This thesis contributes to several strands of literature and to practice:

- This thesis contributes to the existing body of knowledge and practice by being the first study to utilize econometric data to provide evidence on the impact of IFRS adoption on dividend policy in Palestine. This expands worldwide IFRS research to include a conflict-affected, small developing country (Abu-Sharbeh, 2017; De George et al., 2016).
- This work contributes to existing research on geopolitical risk and payout policies in various markets (Ahmad et al., 2023; Adra et al., 2023) by including country-level political risk into a firm-level dividend model.
- This study builds on earlier research into the determinants of dividend policy in Palestine, undertaken before the adoption of IFRS and using lower sample sizes (Hassonn et al., 2016).
- In practice, the results provide evidence to help assess the PCMA, the PEX, auditors, and corporate boards if changes in payment behavior are caused by better rules or worse macroeconomic risk circumstances.

- Palestinian families and investors living abroad can make better judgments about their portfolios if they know what causes dividends, especially when price appreciation is difficult to predict

## 1.6 Scope

The study focuses on non-financial firms listed on the Palestine Exchange (PEX) that had continuous listing and publicly available audited financial statements over the period 2004–2023. Financial institutions are excluded because of their distinct regulatory regime and capital requirements.

Out of 20 initially identified companies, five are excluded due to restructuring, delisting, or incomplete coverage over the study period: Arab Center for Pharmaceutical and Chemical Industries (ACPC), The Arab Real Estate Establishment Company (ARE), Arab Care Hospital (CARE), Grand Park Hotel (HOTEL), and the Arab Palestinian Company for Shopping Centers (PLAZA). In addition, the Palestine Electric Company (PEC) is excluded from the estimation sample because audited financial disclosures for 2023 were not available following the 2023 war. Keeping PEC would create an unbalanced firm-year structure that complicates model comparability and several panel diagnostics. After these exclusions, the final estimation sample contains **14 firms** observed over **2004–2023** (20 years), yielding a balanced grid of **280 firm-year observations (14 × 20)**. Usable observations vary slightly across dividend ratio measures (e.g., dividend yield and payout ratios) due to denominator constraints and data availability, which is common in dividend research.

The selected period captures several years before and after the formal implementation of IFRS in Palestinian reporting practice, while also reflecting major conflict-related disruptions that affected firms' operations and disclosures. The main econometric analysis is conducted over 2004–2023 to maintain a consistent dataset across specifications that include political risk. The empirical strategy estimates pooled OLS (POLS), firm fixed effects (FE), and random-effects GLS (RE/GLS) models for each dividend-policy outcome. Model selection is conducted outcome-by-outcome using the Breusch–Pagan LM test (RE vs POLS) and the Hausman test (FE vs RE). Accordingly, the main coefficient interpretations rely on the preferred estimator for each dependent variable (FE for

Div\_dummy and Div\_yield; RE/GLS for Payout\_ratio and Payout\_OCF), with firm-clustered robust standard errors; alternative specifications are reported for robustness and comparison.

### **1.7 Definition of Key Terms**

- Dividend policy: The firm's decision regarding how much, when, and in what form cash is distributed to shareholders. Empirically, dividend policy in this thesis is measured using multiple complementary indicators that capture both the likelihood of paying dividends and the magnitude of payouts. Specifically, the study analyzes dividend policy using observable payout measures (e.g., a dividend-paying indicator, dividend yield, and accounting-based payout ratios), and evaluates whether the findings are consistent across these alternative operationalizations.
- Political risk: The risk arising from political instability, conflict and violence at the country level. It is proxied using the World Governance Indicators (WGI) annual "Political Stability and Absence of Violence/Terrorism" index, where lower values indicate greater instability (higher political risk) and higher values indicate greater stability (lower political risk).
- Leverage: The ratio of total liabilities to total equity (L/E), reflecting the extent of debt financing.
- Profitability: This study uses two standard profitability proxies. Return on assets (ROA) is defined as net income divided by total assets, and return on equity (ROE) is defined as net income divided by total shareholders' equity.
- Liquidity: The current ratio, defined as current assets divided by current liabilities.
- Growth: Annual sales growth, measured as the year-to-year percentage change in sales revenue (with outliers treated to reduce the influence of extreme observations).
- Firm age: The number of years the company has been in operation.

### **1.8 Organization of the Thesis**

The remaining part of the dissertation is structured in the following way:

Chapter Two has a detailed description of the Palestinian economy and institutions; it also describes the organization of the Palestine Exchange (PEX) and the theoretical and empirical literature on the topics of dividend policy, IFRS adoption, and political risk, particularly focusing on Palestine and emerging countries.

Chapter Three explains the research design, which includes the population and sample, the sources of the data, the measurement of the factors affecting dividend policy, IFRS adoption, political risk, the econometric model, and the diagnostic evaluation.

Chapter Four presents and discusses the empirical results for the four dividend-policy measures. It interprets the effects of IFRS adoption, political risk, and firm-specific variables using the preferred panel estimator for each dependent variable, while alternative specifications are reported for robustness and comparison.

Chapter Five lists the main findings, comments on the most important theoretical and practical contribution, comments on the policy implications and lists the limitations and possible ways to extend the research.

## Chapter Two

### 2. Literature Review

#### 2.1 Introduction

Lintner (1956) and Miller and Modigliani (1961), were two of the first researchers in the area of dividend policy when they began to study the determinants of dividend distributions, as well as the various forms of dividend payments and how dividend payments affect a firm's overall value. In particular, Miller and Modigliani (1961) suggest that dividends are a non-essential factor for determining a firm's value assuming a perfectly competitive capital market exists. On the other hand, Lintner (1956) provided some early empirical research which showed that managers tend to maintain stable dividend payouts and avoid reducing dividend payments, and therefore focus on the behavioral and informational aspects of a firm's payout policy.

The dividend policy has changed in recent decades due to changes in financial reporting mandates and an increased sensitivity of corporations to political and economic volatility. The appraisal and presentation of earnings, equity, and cash flows have been substantially changed by the implementation of International Financial Reporting Standards (IFRS), which has also changed how businesses evaluate their performance and the constraints they confront when calculating distributable profits. Particularly in unstable and war-affected economies, operations and finances are disrupted due to political instability and interruptions caused by violence. The motivations and dividend-paying capacity of firms may be impacted by this.

The institutional and macropolitical setting in which Palestinian publicly listed corporations decide on dividend policy is unusual. The Palestinian economy is characterized by ongoing political instability, restrictions on movement and access, border and resource management issues, and regular outbreaks of conflict, particularly in the Gaza Strip (World Bank, 2023). These circumstances will most likely make it more difficult for businesses to get loans, estimate future cash flows, and alter both the capacity to pay dividends and management' preferences for preserving cash reserves. At the same time, Palestinian authorities have required publicly listed firms to apply IFRS since the mid-

2000s to enhance transparency, **comparability**, and investor confidence (Al-Malkawi, 2017).

This chapter reviews the theoretical and empirical literature underpinning the study of dividend policy in Palestine, with particular emphasis on political risk and IFRS adoption. It begins by describing the Palestinian economic environment and the structure of the Palestine Exchange (Section 2.2). It then outlines IFRS adoption and the evolution of the local reporting environment (Section 2.3) and discusses key differences between local GAAP and IFRS with implications for distributable profits and dividend setting (Section 2.4). Next, the chapter defines the main concepts used in the thesis (Section 2.5) and reviews the principal theories of dividend policy (Section 2.6). The discussion then turns to IFRS and financial reporting quality (Section 2.7) and to political risk and its relevance for corporate financial decisions (Section 2.8). Finally, Sections 2.9–2.11 synthesize empirical evidence on dividend determinants and on the links between IFRS, political risk, and payout policy, while Section 2.12 consolidates the research gap, conceptual framework, and the study's hypotheses. The chapter concludes with a summary in Section 2.13.

## **2.2 The Palestinian Economic Environment and Capital Market**

Palestine has a small, open economy that is always in a state of political unrest. People can't move around or get to places easily, and wars happen all the time. Many enterprises are family-owned and privately held. The economy is essentially made up of three key sectors: services, construction, commerce, and light manufacturing. Palestinian businesses have difficulties in carrying out cross-border transactions, lack clarity regarding tax duties, and often face delays in tourist, retail, and infrastructure projects, particularly amid worsening conditions in the Gaza Strip and rising tensions in the West Bank. Planning long-term investments gets increasingly difficult when sales and cash flows grow more unpredictable. The Palestine Exchange (PEX), which started in 1995, is the most important part of the legal capital market. There are a number of non-financial sectors in the Palestine Exchange (PEX) in Palestine, such as telecommunications, services, investment, and industry. This study focuses on non-financial firms because their operating models and dividend practices are more comparable than those of financial institutions, which are

subject to different regulatory and reporting requirements. The final regression sample consists of fourteen non-financial PEX firms. Trading volumes are modest relative to developed markets, ownership is often concentrated, and institutional investors play a limited role.

Oversight of listed firms is shared between the **(Palestine Capital Market Authority, 2024)**, which supervises securities markets and sets disclosure and governance requirements, and the PEX, which enforces listing rules and disseminates financial information. Sectoral regulators such as the Palestine Monetary Authority (PMA) oversee banks and other financial institutions. Since the mid-2000s, these authorities have mandated the use of International Financial Reporting Standards (IFRS) for listed companies and regulated financial institutions. (Securities Law No. 12 of 2004, 2004; Capital Market Authority Law No. 13 of 2004, 2004) formally recognized IFRS as the reference framework for financial reporting, and by 2007 IFRS-based reporting became the norm for PEX-listed firms. In this institutional setting, dividend policy serves multiple functions. For controlling shareholders, dividends are a mechanism for extracting cash from relatively illiquid equity positions; for minority shareholders and diaspora investors, they are a primary channel through which value is realized from listed firms. Given weak legal enforcement and high information asymmetry, dividends can also act as an informal governance device and a signal of firm resilience in the face of political and economic shocks. Understanding how IFRS adoption and measured political risk interact with internal firm characteristics to shape payout behavior in this environment is therefore of both academic and practical importance.

These market characteristics make dividend policy particularly salient in Palestine. In a market that isn't very liquid, where ownership is concentrated and institutions don't participate much, cash dividends can be a useful way to get value out of a stock and a reliable sign of strength and the ability to make money. While a significant amount of literature has investigated how political instability affects investor confidence in MENA countries, there is still limited research that has analyzed the impact of this phenomenon on investors' willingness to commit to long-term commitments such as the PEX dividend payment. Thus, the political and economic uncertainty makes it difficult for investors to

predict the future cash flow from investments made at the PEX. This increased uncertainty may contribute to investors' reluctance to invest and thus reduce their ability to agree to long term stable payouts. Therefore, the political and economic environment will be key when assessing the interplay between the adoption of IFRS, political risks and the firm's fundamental characteristics to understand the changes in dividend behavior of companies listed at the PEX.

### **2.3 IFRS and Local GAAP in Palestine**

Before the mid-2000s, financial reporting practices for Palestinian companies were mainly based on local Generally Accepted Accounting Principles ("GAAP") types that were derived from Palestinian company laws, tax codes, and some accounting principles from neighboring countries. Local practices were mostly historical cost-based and included much more flexible rules for recognition and measurement compared to IFRS, as well as lower levels of disclosure; specifically, less disclosure is required regarding fair values, impairment testing, and segment reporting (Dieh & Musa, 2015; Abu Sharbeh, 2017). As a result of these flexible accounting practices, management has significant latitude in terms of classification of various items, timing of provisions, and smoothing of earnings, which ultimately impacts the accounting profit available to be distributed to shareholders in the form of dividends.

In response to globalization and the desire to attract foreign investment, Palestinian regulators moved toward mandatory IFRS adoption for listed companies and financial institutions. In the mid-2000s, legislation and capital-market regulations required firms listed on the Palestine Exchange and regulated financial institutions to prepare financial statements in accordance with IFRS, with full implementation beginning with the 2007 reporting year (Abu Sharbeh, 2017; De George, Li, & Shivakumar, 2016). In line with this regulatory transition, the current thesis models IFRS adoption using a dummy variable that takes the value 0 in the local-GAAP era (2004-2006) and 1 in the IFRS period (2007 onwards) for all companies in the sample.

Empirical work on Palestine indicates that the move from local GAAP to IFRS has improved disclosure and transparency, although implementation has not been uniforming across sectors. Ibrahim and Iqmal (2025) indicate that Palestinian banks had stronger

disclosure quality, better liquidity management, and superior institutional performance in the post-IFRS period. Alkababji (2016), on the other hand, finds uneven adherence to IFRS 13 fair-value measurement and disclosure requirements, particularly in non-financial businesses, suggesting that legal constraints and technology barriers prevent the full realization of IFRS benefits.

Studies of value relevance support the view that IFRS-based accounting numbers in Palestine are more informative for investors than those produced under local GAAP. Dieh & Musa (2015) reports that the association between earnings, book value of equity, and share prices strengthens after IFRS adoption. More recent evidence by Abu Alia, Amarnah, and Abdeljawad (2023) shows that, in a “pure IFRS” environment such as the Palestine Exchange, earnings per share and book value per share remain the primary drivers of stock prices, suggesting that IFRS-compliant reports provide decision-useful information to capital-market participants.

From the perspective of dividend policy, the transition from local GAAP to IFRS is important because it changes how profits and equity are measured and disclosed. IFRS introduces more rigorous rules on impairment, fair-value adjustments, and recognition of provisions, which may reduce the scope for income smoothing and opportunistic earnings management (Barth, Landsman, & Lang, 2008; De George et al., 2016). In principle, a higher-quality, more conservative earnings measure can lead to more stable and better-aligned dividend decisions, as reported profits more accurately reflect the firm’s sustainable capacity to pay dividends. However, when enforcement is weak or compliance is incomplete, the observed impact of IFRS on payout behavior may be muted, and firms may continue to rely on legacy practices inherited from the local GAAP era (Alkababji, 2016; Dieh & Musa (2015).

The Palestinian issue adds another level of complication. Even with IFRS, firms confront ongoing political risks, constrained finance markets, and institutional capacity constraints. While IFRS adoption aims to standardize reporting and safeguard investors, macroeconomic uncertainty may overshadow accounting innovations, with boards prioritizing cash preservation above formal improvements in reporting accuracy. This helps to explain why the present thesis views IFRS adoption as a structural transition from local

GAAP to IFRS, while also empirically assessing whether this shift results in a perceptible change in dividend policy after controlling for political risk and firm-specific variables.

The regulation of public listed firms in Palestine is split into two entities; the Palestine Capital Market Authority (PCMA) is responsible for regulating the securities market, and developing standards for corporate disclosure, and governance for firms that list on the Palestine Exchange (PEX). The PEX is responsible for enforcing all listing requirements and distributing relevant financial data to stakeholders. The Palestine Monetary Authority (PMA) regulates banks and other financial service providers in Palestine. All regulatory bodies have required the use of International Financial Reporting Standards (IFRS) since approximately 2005 for firms listed on the PEX and regulated financial institutions. The Securities Law (2004) and the PCMA Law (2004) formalized IFRS as the standard of reference for financial reporting and by 2007 it was common practice for firms to report using IFRS for their reporting to the PEX. In light of these regulations, dividend payments serve multiple purposes in Palestine. Controlling shareholders can utilize dividend payments as a means to extract cash from their often illiquid equity holdings. Minority shareholders and diaspora investors receive dividends as a means to realize their investment returns from publicly traded firms. Due to the limited role of legal remedies and the large amount of informational asymmetry regarding firm performance and management practices in Palestine, dividends may also provide an informal control mechanism for external parties to monitor firm performance during times of significant uncertainty due to political and economic instability. Therefore, understanding how the adoption of IFRS and measured political risk influence payout decisions through interactions with internal firm characteristics is important for both academic and practical reasons.

#### **2.4 Comparison between Local GAAP and IFRS in Palestine**

In Palestine, “local GAAP” has never existed as a single codified standard. Instead, financial reporting evolved as a hybrid system combining U.S. GAAP, teaching traditions from American textbooks, tax-driven rules, older company laws, and gradually, elements of IFRS. Abu-Sharbeh (2017) shows that two main frameworks historically dominated practice: American accounting standards, introduced through university curricula, and

IFRS, which entered through regulators and international institutions. His survey evidence indicates that many preparers mix these references in practice, reflecting a fragmented local environment rather than a unified local GAAP.

**The World Bank's** Report on the Observance of Standards and Codes (ROSC) for West Bank and Gaza confirms this picture (World Bank, 2010). For regulated entities (listed companies, banks, insurance companies, microfinance institutions), IFRS are required by statute and used as the benchmark for financial reporting. For non-regulated **entities**, the law does not clearly specify which standards apply; in practice, companies tend to use either IFRS or U.S. GAAP because there are no local standards, while many small firms remain heavily tax-oriented in their reporting. Accounting education also follows the U.S. model more than IFRS, creating a gap between what is taught and what is legally required for public-interest entities.

The IFRS regime began to crystallize when the Palestine Exchange (PEX) and financial regulators made IFRS mandatory. Empirical work reports that all Palestinian listed companies were required to prepare financial statements in accordance with IFRS from 2007 onward, and research designs typically split samples into a pre-IFRS period (e.g., 2003–2006) and a post-IFRS period (e.g., 2007–2012 or 2007–2016). Thus, for listed non-financial firms, the move from local GAAP to IFRS in Palestine is not only a formal legal change but also a clean break point for accounting measurement and disclosure practices in empirical studies.

#### **2.4.1 Conceptual orientation**

Under the earlier hybrid local GAAP environment, reporting was strongly influenced by legal form and tax rules, with less emphasis on an explicit conceptual framework. The ROSC notes that statutory requirements for regulated companies were broadly aligned with international practice, but for non-regulated entities the rules were fragmented and did not specify a clear standard-setting reference (World Bank, 2010). This allowed significant diversity in how similar transactions were treated across firms, undermining comparability.

IFRS, by contrast, introduce an explicit principles-based framework built around concepts such as faithful representation, relevance, and substance over form. As this framework

becomes the dominant reference for listed firms, it narrows the range of acceptable accounting treatments, reduces purely tax-driven classifications, and pushes preparers to justify their choices using IFRS concepts rather than local convention. Dieh & Musa (2015) and Darabee and Karapinar (2019) both stress that IFRS adoption in Palestine is intended to improve the **quality and consistency** of financial reporting by replacing heterogeneous local practices with a single, globally recognized framework.

#### **2.4.2 Recognition and measurement of assets, liabilities, and income**

In the local GAAP phase, assets and liabilities were generally recorded at historical cost, with limited use of fair value and relatively simple impairment and provisioning rules. The ROSC review of corporate financial statements highlights weaknesses in areas such as impairment testing, provisioning, and the treatment of related-party transactions, suggesting that actual practice often diverged from IFRS benchmarks (World Bank, 2010). Because tax rules were influential, firms had incentives to smooth earnings and manage provisions to reduce tax burdens rather than to present the most decision-useful information.

IFRS introduce more demanding recognition and measurement rules. Dieh & Musa (2015) documents that, after IFRS adoption, Palestinian firms applied stricter impairment tests and more structured provisioning, which affected reported earnings and equity. Darabee and Karapinar (2019) show that, for Palestinian listed firms from 2003–2016, mandatory IFRS adoption is associated with lower discretionary accruals, consistent with less opportunistic earnings management, but also with lower accruals quality in some models, reflecting the complexity of new measurement rules.

The transition is particularly visible in financial instruments and credit risk. Under local GAAP and sectoral regulations, banks relied on incurred-loss models and rule-of-thumb provisioning. With IFRS 9, Palestinian banks moved to an expected credit loss (ECL) model (International Accounting Standards Board [IASB], 2014). which requires earlier recognition of credit losses and more forward-looking judgments. (Assad, 2025) study on the Palestinian banking sector finds that IFRS 9 adoption significantly improves financial reporting quality, though it also increases the technical and data demands on banks and audit committees.

Revenue recognition has also shifted. Earlier, revenue was typically recognized when invoiced or when tax rules allowed, with less emphasis on identifying separate performance obligations. Under IFRS, and especially after the adoption of IFRS 15, firms must apply a five-step model that focuses on enforceable rights and obligations in contracts with customers. Evidence from Palestinian listed companies shows that implementing IFRS 15 (IASB, 2014) has increased managerial judgment in revenue measurement and, in some cases, is associated with higher discretionary accruals and lower earnings quality, illustrating that more sophisticated standards can create both improvements and new challenges.

### **2.4.3 Presentation, disclosure, and “information environment”**

Local GAAP practice in Palestine traditionally emphasized the basic primary statements, with **limited notes and risk disclosures**, especially outside the regulated financial sector. The ROSC assessment points to weaknesses in areas such as segment reporting (World Bank, 2010) related-party disclosures, and detailed breakdowns of fair value and risk exposures, and it recommends aligning financial reporting more closely with IFRS and adopting IFRS for SMEs for smaller entities.

Under IFRS, listed firms are required to provide **extensive disclosures** on accounting policies, judgments, financial instruments, fair value hierarchies, risk management, and segment information. In the Palestinian context, this has been most visible in the banking sector. Studies on banks listed on the PEX report that IFRS-based financial statements have deeper and more precise disclosure, which improves transparency and reduces information asymmetry, even though compliance remains incomplete in some areas.

At the capital-market level, Palestine is sometimes described as a “**pure IFRS environment**”, because IFRS was the first formal framework used for listed companies. Abu Alia, Amarneh, and Abdeljawad (2024) find that, in this environment, earnings per share and book value per share prepared under IFRS are significantly associated with share prices, indicating that IFRS-based accounting information is value relevant for investors. At the same time, they note that the relevance of IFRS numbers is still influenced by **accounting traditions inherited from earlier practices**, which means that local GAAP habits have not disappeared completely.

#### 2.4.4 Implications for dividend policy and distributable profits

For dividend policy, the move from local GAAP to IFRS changes both **how profit is measured** and **how reliable that profit is perceived to be**. In the local GAAP phase, more flexible provisioning, limited impairment testing, and tax-driven revenue recognition could produce earnings that were smoother but less reflective of underlying performance. This affected the amount of profit available for distribution and could allow boards to maintain dividends even when economic performance was weakening.

IFRS introduce more consistent rules for recognizing impairments, provisions, fair-value changes, and revenue, which can make earnings more volatile but also more informative. (Darabee & Karapinar, 2019), suggests that IFRS adoption reduced some forms of discretionary accruals (particularly income-increasing accruals), even though overall accruals quality does not always improve. For boards and investors, this means that **reported profit under IFRS is a different economic signal** than profit under the earlier local GAAP mix.

In practical terms, the Palestinian experience shows that the shift from local GAAP to IFRS:

- replaces a tax- and rule-driven reporting system with a principles-based framework;
- tightens recognition and measurement rules for assets, liabilities, revenue, and credit losses;
- expands disclosure and improves the information environment for investors; but
- leaves room for judgment and implementation challenges, especially when enforcement and professional training are still developing.

The IFRS dummy used in this thesis is therefore not just a legal marker; it captures a deeper transformation in **accounting practice itself**, which may, in turn, shape how reliably earnings can be used to set dividends in Palestinian listed companies.

## **2.5 Key Concepts**

### **2.5.1 Dividend Policy**

Dividend payments are a type of regular payment made to shareholders of a company from a profit that has been retained, or alternatively from reserve accounts. The decisions relating to whether, when, and how often to make these types of payments represent the company's dividend policy (Allen & Michaely, 2003).

Most empirical research examines the company's dividend policy through one or all of the following measures:

- Percentage of earnings paid out as dividends (the payout ratio) (Denis & Osobov, 2008).
- The amount of dividends paid per share (i.e., DPS) (e.g., Aivazian, Booth, & Cleary, 2003).
- A ratio that measures the DPS as a percentage of the current market price of each share (i.e., the dividend yield) (Fama & French, 2001).
- A binary indicator (i.e., a 'dummy' variable) indicating whether the firm has paid a dividend during a particular year (e.g., Fama & French, 2001).

In this thesis, dividend policy is measured using multiple complementary panel-data outcomes rather than a single latent factor. Specifically, the empirical analysis uses four observable measures that capture both (i) the decision to distribute dividends and (ii) the intensity of payout: (1) a dividend-paying indicator (`div_dummy`), (2) dividend yield (`div_yield`), (3) an earnings-based payout ratio (`payout_ratio`), and (4) payout to operating cash flow (`payout_ocf`). Using several measures is important because each proxy reflects a different dimension of payout behavior, and conclusions are more credible when results are consistent across alternative operationalizations of dividend policy.

### **2.5.2 IFRS adoption**

The International Accounting Standards Board (IASB) developed IFRS, a set of standards for preparing standardized financial statements. IFRS was created to enable investors and other interested parties make better decisions about where and how to spend their money

by providing them with accurate and comparable financial reporting information (International Accounting Standards Board [IASB], 2018).

A country usually has to take two steps to adopt IFRS:

- a. The use of IFRS at the jurisdictional level, as by stock exchanges, regulators, and others, which require listed companies to use IFRS to report; and
- b. Firm-specific IFRS implementation, which means that companies have to change their internal systems, follow new accounting standards, and restate periods that are similar to the ones before (De George et al. 2016).

Researchers sometimes employ a dummy variable that is 1 for years after adoption (or IFRS reporters) and 0 for years before adoption (or local GAAP reporters) to measure IFRS adoption (Daske, Hail, Leuz, & Verdi, 2008). The Palestine Monetary Authority and the Palestine Capital Market Authority have required banks and publicly traded companies in Palestine to use IFRS since about 2007–2009. Enforcement has become stricter over time (Al Malkawi, 2017). Hence, this thesis defines  $IFRS\_DUMMY = 1$  for financial statements from 2007 onward and 0 for earlier years.

### **2.5.3 Political risk**

Political risk refers to the possibility that political events such as war, terrorism, uprisings, sanctions, or abrupt policy changes alter the expected value of a firm's future cash flows (Howell, 2014). It encompasses risks of government instability, violent conflict, expropriation, restrictions on capital movements and trade, and breakdowns in law and order. Many empirical studies measure political risk using commercial indices or multilateral indicators. This thesis relies on the World Bank's Worldwide Governance Indicators (WGI), in particular the "Political Stability and Absence of Violence/Terrorism" index, which ranges from  $-2.5$  (high instability) to  $+2.5$  (high stability) (Kaufmann et al., 2011). For West Bank and Gaza, this indicator shows persistently low values and sharp negative movements around episodes such as the 2008–2009, 2012 and 2014 Gaza wars and the 2023–2024 escalation, reflecting the extent to which recurrent conflict and occupation make Palestine one of the most politically risky environments in which publicly traded firms operate (World Bank, 2024).

## 2.6 Theoretical Foundations of Dividend Policy

There are a few main groups of theories on dividend policy. These ideas elucidate the reasons dividends may be inconsequential, value-augmenting, or value-eroding, and how institutional elements, such as accounting standards and political risk, might affect distribution choices.

### 2.6.1 Dividend irrelevance theory

Miller and Modigliani (1961) developed the classical **dividend irrelevance** theorem. In a world with perfect capital markets, no taxes or transaction costs, and fixed investment policy, they showed that a firm's value depends only on its earnings and investment opportunities, not on how it splits earnings between dividends and retained earnings. If investors desire cash, they can create "homemade dividends" by selling part of their shares; conversely, if firms pay too much dividends, investors can reinvest them in the firm via new equity. Under these assumptions, any dividend policy is as good as another.

Although the MM model is clearly unrealistic, it provides a useful benchmark: any theory that claims dividends matter must identify which MM assumptions fail. Much of the subsequent literature focuses on market imperfections such as taxes, information asymmetry, agency costs and transaction costs (Black, 1976; Allen & Michaely, 2003).

### 2.6.2 Bird-in-the-hand and tax preference theories

The **bird-in-the-hand** argument, associated with Gordon (1963) and Lintner (1962), proposes that risk-averse investors prefer the "certain" dividends today to uncertain capital gains tomorrow. Higher dividends reduce uncertainty and thus may lower the required return on equity, increasing firm value. Bhattacharya (1979) created a model that says that greater dividends may really mean higher future cash flows, which would lead to a premium in a situation where knowledge is not evenly distributed and signaling is expensive.

On the other hand, the tax preference argument says that smart investors should choose low-yield stocks to delay paying taxes because dividends are usually taxed more highly than capital gains (Brennan, 1970). If dividends are taxed more heavily than capital gains, this implies that payment is bad for the value of a company.

The way these ideas are used depends on the country's tax system. In Palestine, capital gains on listed shares are mainly tax-free. However, personal income tax rates are quite low, and enforcement is not always fair. A lot of small retail investors that need cash from time to time may help with this, but it might also make tax preference effects stronger and the "bird in the hand" incentive weaker (Hassonn et al., 2016).

### **2.6.3 Agency theory and the free cash flow hypothesis**

Agency theory posits that dividends help mitigate conflicts of interest between shareholders and management. Jensen (1986) asserts that managers possessing elevated free cash flow are more likely to engage in empire-building or projects with negative net present value (NPV). When a company pays dividends, it has less cash on hand that it can use for anything it wants. This means that the company has to go for outside funding more often, which makes creditors and capital markets more interested in the company. La Porta, Lopez de Silanes, Shleifer, and Vishny (2000) extended this concept to cross-border contexts, illustrating that dividends can offset inadequate legal safeguards for minority shareholders.

Dividends may serve as a means to mitigate expropriation in emerging economies characterized by concentrated ownership and inadequate investor protection, as dominant shareholders are inclined to distribute funds to minority shareholders rather than divert them. On the other hand, powerful owners may get private benefits while not paying dividends; in this situation, low payments mean that there are more agency problems (La Porta et al., 2000). The free cash flow hypothesis posits that empirical evidence indicates a positive correlation between profitability and cash flow with dividends, but leverage and investment opportunities exhibit a negative correlation (Aivazian et al., 2003; Denis and Osobov, 2008).

In Palestine, minority rights are seldom effectively enforced, and property ownership is predominantly held by families or business collectives (Al Malkawi, 2017). In this case, dividends' position as an agent is quite important since it may convince tiny investors that they would still get some money back, even while the company isn't run well.

#### **2.6.4 Signaling theory**

Dividends may also act as a signal about a firm's private information regarding future earnings. In signaling models, managers with favorable prospects choose higher dividends to credibly communicate their optimism, because dividends are costly to cut in the future (Bhattacharya, 1979; Miller & Rock, 1985). In Lintner's (1956) classic behavioral model, managers smooth dividends and are reluctant to reduce them, implying that an increase in dividends represents a strong positive signal. Empirical data typically reveals positive anomalous stock returns when dividends are increased and negative returns when dividends are reduced, which supports signaling ideas (Benartzi, Michaely, & Thaler, 1997). Signaling theory implies that dividend policy depends on information asymmetry and disclosure quality. When financial reports are opaque or unreliable, dividends become a more important channel to signal firm quality; when IFRS adoption improves transparency, the signaling role of dividends might weaken, potentially reducing payout ratios (DeAngelo, DeAngelo, & Skinner, 2009).

#### **2.6.5 Life-cycle, maturity and residual theories**

The life cycle theory suggests that dividend policy is associated with a company's stage of development. Emerging, high-growth corporations with lots of investment opportunities maintain their profits to pay for growth, while older companies with less room for growth give out more cash (DeAngelo et al., 2006; Fama & French, 2001). The ratio of retained earnings to total equity is often used to show what stage of the life cycle a company is in, and it has been shown to be strongly linked to the start and longevity of dividends.

The residual dividend hypothesis, along with the life cycle method, posits that firms first establish an efficient investment strategy and capital structure; dividends are then allocated from residual earnings following the financing of all positive NPV investments (Higgins, 1981). This viewpoint predicts an unfavorable correlation between dividend distribution and growth potential.

In Palestine, a number of publicly listed firms are still in their early stages and are working on growing, notably in the investment and services sectors. However, several big companies in the banking, telecommunications, and utilities industries are more mature

and can keep paying dividends on time. The life cycle concept explains why people pay differently in different businesses and at different times.

### **2.6.6 Pecking-order and catering perspectives**

The pecking order theory (Myers & Majluf, 1984) says that companies prefer to use their own money instead of borrowing money and only issue stock as a last option because of knowledge asymmetry. Companies that have a lot of asymmetric information or growth potential should pay lesser dividends. This is because big payouts encourage them to get more outside investment, which is expensive, and at the same time, they use up their own capital.

Baker and Wurgler's (2004) catering hypothesis say that managers should change their dividend policy to take advantage of the changing demand from investors for equities that pay dividends. When investors value a business (for example, for institutional or behavioral reasons), the company starts or raises dividends. When investor demand changes, dividends are cut or shares are bought back.

These viewpoints bolster the notion that dividend policy is contingent upon certain conditions. Some factors that lead to pecking order and catering behavior may be lessened in Palestinian markets because short selling and derivative instruments are not allowed and bank financing is more common than capital markets. However, the effects of investor clientele may still be significant.

### **2.6.7 Political risk and dividend policy**

More recently, there have been studies that have directly included political risk into dividend theory. There is a simple logic that if cash flows in the future are unstable politically, then shareholders will find it preferable to extract the cash early by taking a larger dividend instead of leaving it in the firm (Huang et al., 2015), Faff, & Marshall, 2016). At the same time, if managers face a funding problem and operational disruptions, they may choose to save cash and cut their dividends as a means of preparing for future shocks. It follows from these considerations that the overall impact of political risk on dividends will depend on how political risk interacts with the firm's external constraints, internal cash flow generation and corporate governance.

La Porta et al. (2000) found that when property rights are poorly protected, dividends tend to be smaller, which is consistent with insiders withholding cash. More recent international evidence shows that the impact of political or policy risk on payout depends critically on institutional quality. (Huang et al., 2015) document that global political crises reduce firms' propensity to pay dividends, but that this effect is attenuated in countries with stronger investor legal protection. Likewise, Attig, El Ghouli, Guedhami, and Zheng (2021) find that higher economic policy uncertainty is associated with higher dividend payouts, and that this positive relationship is stronger in countries with better shareholder protection and enforcement, suggesting that firms use dividends as a commitment device when macro risk is elevated.

Building on the above discussion, IFRS adoption and political risk are treated in this thesis as key explanatory factors shaping dividend policy in Palestine. For clarity and consistency, all directional hypotheses are consolidated and presented together in Section 2.12.1 after the literature synthesis and conceptual framework are established.

## **2.7 IFRS and Financial Reporting Quality**

### **2.7.1 Objectives and features of IFRS**

IFRS aims to make international capital markets more comparable, open, and efficient by setting better standards for financial reporting. A principle-based approach, a focus on determining fair value, and strict disclosure requirements are some of the things that set them apart. Supporters of IFRS argue that they improve the quality of accounting by constraining earnings management, accelerating loss recognition, and increasing value relevance (Barth, Landsman, & Lang, 2008). Some authors, however, contend that fair value measurement can introduce subjectivity and volatility, especially in illiquid markets or environments with weak auditing and enforcement (Ball, 2006).

#### **Dividend policy and IFRS adoption interact in several ways:**

- **Measuring earnings and distributable profits:** IFRS affects reported earnings and reserves, which in many jurisdictions form the legal basis for “distributable profits” out of which dividends can be paid. Changes in recognition and

measurement under IFRS can therefore tighten or relax legal payout constraints (Le Manh, 2025).

- **Information environment:** IFRS can reduce information asymmetry and improve disclosure quality, which may make dividends relatively less important as a signaling or agency mechanism (De George et al., 2016).
- **Cost of capital and investor base:** If IFRS adoption attracts foreign investors and lowers firms' cost of equity, companies may adjust their payout ratios toward patterns more consistent with international norms (Daske, Hail, Leuz, & Verdi, 2008).

### 2.7.2 Empirical evidence on IFRS and accounting quality

Many researchers have examined whether adopting IFRS improves accounting quality. Barth et al. (2008) find that firms using IFRS (IAS) exhibit less earnings management, more timely loss recognition and greater value relevance of accounting numbers, particularly in countries with stronger enforcement. Daske et al. (2008) report that firms mandated to adopt IFRS experience increases in market liquidity and, where enforcement and reporting incentives are strong, reductions in the cost of capital and higher equity valuations. De George et al. (2016) review the IFRS literature and conclude that average financial reporting and market effects are modest and highly heterogeneous across countries, reflecting differences in enforcement, institutions and firms' reporting incentives.

In the context of the Middle East and North Africa, evidence is mixed. Some studies find that IFRS improves value relevance and transparency for example, Alali and Foote (2012) show that IFRS-based financial statements in an emerging market exhibit greater value relevance, and Elfakhani and Ghanem (2022) document that IFRS adoption in several MENA countries is associated with higher transparency and changes in firms' performance profiles. At the same time, work on IFRS implementation in the Middle East highlights persistent problems such as limited awareness of IFRS, uneven enforcement, and institutional frictions that constrain full compliance with disclosure requirements (Abdelqader, Darwish, & Nimer, 2022; Hassaan, 2012).

These contextual difficulties are critical for Palestine, where audit quality and regulatory capacity are still developing, and where the benefits of IFRS for dividend policy and investor protection may be muted or delayed relative to more mature markets.

### **2.7.3 IFRS adoption in Palestine**

Local research has examined both the formal adoption of IFRS and the practical challenges of implementation in Palestine. Dieh & Musa (2015) documents that all companies listed on the Palestine Exchange (PEX) have been required to prepare their financial statements in accordance with IFRS since 2007, and shows that accounting quality after adoption is mixed: value relevance improves, but there is evidence of increased earnings management and less timely loss recognition.

At the sector level, Ibrahim & Iqmal (2025) analyze annual reports of Palestinian banks and find that mandatory IFRS adoption is associated with higher financial disclosure, improved transparency and better institutional performance, especially in terms of profitability, liquidity management and stability. However, Alkababji (2016) shows that listed firms' compliance with IFRS 13 fair-value disclosure requirements is incomplete and heterogeneous across sectors, indicating continuing implementation issues in areas such as fair value measurement and related impairments.

These findings are consistent with the official IFRS jurisdiction profile for Palestine, which reports that IFRS (and IFRS for SMEs) have been adopted for all listed companies, banks, insurance companies and other regulated financial institutions, while smaller unlisted entities may still rely on local or hybrid accounting practices.

Studies of the value relevance of IFRS-based accounting information in Palestine generally show that earnings per share and book value of equity per share help explain variation in stock prices, though the strength of this association can differ by sector and period. Dieh & Musa (2015) finds that value-relevance metrics improve in the post-IFRS period, and Abu Alia, Amarnah, and Abdeljawad (2023) provide more recent evidence that IFRS-based earnings and book value are statistically related to share prices in a "pure IFRS" environment such as the Palestine Exchange, with earnings and book value being the main drivers of market value.

Overall, this body of evidence supports the view that IFRS adoption in Palestine has enhanced transparency and the decision-usefulness of financial statements for listed firms, but that the benefits are moderated by uneven compliance, technical challenges in applying fair value, and the limited capacity of regulators and auditors. These contextual constraints are particularly relevant for understanding how IFRS-based reporting feeds into dividend policy and investor protection in the Palestinian market.

## **2.8 Political Risk, Conflict and Corporate Financial Decisions**

### **2.8.1 Measuring political risk**

Composite indices are widely used to summarise political risk at the country level. These indices typically combine information on government stability, internal and external conflict, corruption, rule of law, and social tensions into a single score (Howell, 2014). The WGI Political Stability and Absence of Violence/Terrorism index is particularly suitable for long-horizon corporate finance research because it is available annually and uses a consistent methodology across countries (Kaufmann et al., 2011). For West Bank and Gaza the index captures not only chronic occupation-related restrictions but also **distinct conflict episodes**.

Over the sample period of this thesis, the series records marked deteriorations around the 2008–2009 Gaza war, the 2012 eight-day war (Operation “Pillar of Defense”), the 2014 war (Operation “Protective Edge”), and the current 2023–2024 war, each of which caused substantial loss of life and damage to infrastructure in Gaza and heightened tensions in the West Bank (UNRWA, 2015; World Bank, European Union, & United Nations, 2024). Even between these large-scale confrontations, the index remains in the lowest global decile, reflecting recurrent clashes, checkpoints, settlement expansion, and periodic escalations such as those observed in 2019 and 2021, when protest waves and border incidents disrupted mobility and trade. From firms’ perspective, these macro-level events translate into risks of supply chain interruption, destruction of customer bases, sudden falls in demand, and difficulties in accessing external finance.

The WGI political stability index is currently available through 2023, which matches the study’s panel period (2004–2023). Each firm-year observation is therefore matched to the

corresponding annual political stability score; lower values indicate greater instability (higher political risk).

### **2.8.2 Political risk and corporate behavior**

As research on political risk and corporate decisions has expanded, evidence shows that firms exposed to higher political risk adjust their financing, investment, and payout policies in systematic ways. Julio and Yook (2012) document that corporate investment falls around periods of heightened political uncertainty such as national elections, consistent with managers postponing irreversible projects. More recently, firm-level political risk measures based on conference-call text show that politically exposed firms hold more cash and rely less on long-term leverage, preferring shorter-maturity debt instead. At the country level, political instability and weak institutions raise the cost of capital and discourage foreign direct investment, as shown for developing economies by Asiedu (2006) and Busse and Hefeker (2007).

Political risk also has direct implications for dividend policy. Using international crisis events as a proxy for political risk, (Huang et al., 2015) find that during periods of global political crises, past dividend payers are more likely to terminate dividends and non-payers are less likely to initiate them, which they interpret as precautionary cash retention when external financing becomes more costly. Complementing this, newer firm-level evidence shows that in some settings higher political risk is associated with **higher** dividend payouts particularly when corporate governance is strong and firms wish to reassure investors and limit agency concerns. Related work on economic policy uncertainty likewise finds that in many countries higher policy uncertainty is positively associated with dividend payout ratios, suggesting that firms may sometimes use dividends to commit to returning cash and to compensate investors for heightened risk. Overall, the literature indicates that political risk can either depress or increase dividends depending on how it interacts with financing frictions, cash-flow risk, and the quality of legal and governance institutions.

### **2.8.3 Political risk in Palestine during the study period (2004–2023)**

Even by growing market standards, the historical period covered by this thesis is characterized by a succession of severe political and security crisis. Following the Second Intifada (2000-2005), when closures, curfews, and movement restrictions were prevalent

and many businesses struggled to recover, listed firms dominated the early section of the sample. The 2008-2009 crisis in Gaza affected internal demand and investor confidence, especially for enterprises with suppliers or consumers in the Strip. There was another set of shocks between 2012 and 2014. Homes, businesses, and energy infrastructure were all damaged during the eight-day fighting in November 2012 and the fifty-day war in July and August 2014. Additionally, they led to additional checkpoints, protests, and a heightened sense of unease in the West Bank (UNRWA 2015). Missing goods, late payments, contract cancellations, and, in the worst instance, the complete liquidation of the business were the outcomes of these disputes. Stress levels increase for the third time between 2019 and 2021. Concern was raised by the COVID-19 pandemic, which spread throughout the world in 2020. Lockdowns, border closures, and a sharp drop in travel and business were the outcomes. There were problems in Jerusalem and on and off in and around Gaza. However, there was no single long-lasting conflict like the one in 2014. This mix of political and health shocks caused Palestinian listed companies to have unpredictable cash flows and revenues. Some even stopped paying dividends for a short time to keep their cash flow stable. The Gaza war that began in 2023 represents the most severe escalation during the study window. Beyond the direct damage to infrastructure, activity, and household welfare, such episodes can also disrupt firms' reporting capacity, audit timelines, and disclosure continuity channels that matter for both investor confidence and corporate payout decisions.

In this context, the Palestine Electric Company (PEC) provides an illustrative example of how extreme political violence can interrupt normal disclosure processes. Because audited financial disclosures for PEC were not available for 2023, the firm is excluded from the estimation sample to preserve a balanced panel structure for the econometric analysis. This exclusion is a methodological choice intended to ensure comparability across firms and years and to avoid ad hoc imputation of a full missing firm-year.

Importantly, the episode reinforces the broader argument of this section: in Palestine, political risk is not merely a background condition but a structural factor that shapes the information environment, cash-flow expectations, access to finance, and ultimately the willingness and ability of firms to distribute cash dividends consistently.

## **2.9 Determinants of Dividend Policy: International Evidence**

A vast empirical literature has tested the predictions of the theories discussed above. Key determinants repeatedly found to influence dividend policy include profitability, growth opportunities, firm size, leverage, liquidity, ownership structure and corporate governance.

### **2.9.1 Profitability, growth and investment opportunities**

Dividend payment is a consistent positive determinant of profitability. According to research conducted by Fama & French (2001), U.S. corporations that generate greater profit margins will be more likely to pay a dividend and have a greater dividend payout ratio, when compared to other corporations of similar size and with similar growth rates. Similarly, studies done by Denis & Osobov (2008) have shown similar results for six of the world's leading developed countries; while studies done by Aivazian et al. (2003) have demonstrated similar results for eight of the world's emerging countries. These study results validate the free cash flow theory as well as the life cycle theory.

Generally speaking, dividend paying firms have less growth potential in terms of their ability to generate new revenue through sales growth, asset growth or increase their "market to book" ratio compared to non-dividend paying firms because they choose to pay out earnings instead of retaining them for future investments (Grullon, Michaely, & Swaminathan, 2002; Aivazian et al., 2003). Higgins (1981) further illustrates this relationship through his theory of a firm's 'sustainable growth' rate being directly proportional to its 'optimal' payout ratio. He argues that companies that wish to achieve higher levels of 'target' growth rates will need to retain a greater percentage of their earnings in order to grow.

### **2.9.2 Size and maturity**

Dividend payment is typically positively related to the size of a firm, and also to dividend payment amount (Denis & Osobov, 2008; Fama & French, 2001). Large firms can generally rely on larger amounts of capital from public sources, and may face lower degrees of asymmetric information than smaller firms. As such, large firms are generally more mature, and are therefore able to sustain dividends on a more regular basis. In addition, DeAngelo et al. (2006), state that the proportion of a firm's "earned" equity (retained

earnings), versus its "contributed" equity (the original capital contributed by investors), is indicative of the firm's level of maturity; firms with a higher ratio of retained earnings will generally provide dividends to their shareholders.

### **2.9.3 Firm age**

Firm age is widely used in the dividend policy literature as a proxy for corporate maturity and life-cycle stage. Life-cycle arguments suggest that as firms become older and more established, they typically accumulate retained earnings, face fewer high-growth investment opportunities, and generate more stable cash flows, which increases their capacity and willingness to distribute cash dividends (DeAngelo et al., 2006; Grullon et al., 2002). Empirical evidence also supports the maturity interpretation of age, showing that older firms are more likely to pay dividends and to maintain more stable payout behavior after controlling for other firm characteristics (Brawn & Šević, 2018; von Eije & Megginson, 2008). Accordingly, firm age is expected to be positively associated with dividend policy in the Palestinian context.

### **2.9.4 Leverage and liquidity**

Generally, there is an inverse relationship between leverage and dividend payments because high-leverage companies have more stringent debt covenants and are incentivized to retain more of their cash flows to pay off debt (Aivazian et al., 2003; Jensen, 1986); however, dividend payments can be viewed positively by debtholders in certain situations as they may serve to signal the financial health of a company and reduce the incentive for management to shift risk away from debtholders, which would result in a potentially negative relationship.

Dividend payments are generally positively related to liquidity measures such as the current ratio or cash flow availability, especially for companies that are financially constrained and whose internal liquidity position has the greatest influence on its ability to make dividend payments (Al Najjar & Belghitar, 2011).

### **2.9.5 Ownership structure and governance**

Research has found in multiple countries, that there is a relationship between the way corporate governance is structured by shareholder rights, ownership structure, and how

well boards function independently (i.e. how effective are they), and how high dividend payments are (Farinha, 2003; LaPorta et al., 2000). On the other hand, when insiders have control, and thus can use the firm for their own benefit, dividends may be lower as it is easier for them to take out private benefits from the company. Additionally, the type of insider also makes a difference as to what types of payouts will occur within a firm.

### **2.9.6 Dividend policy in emerging and MENA markets**

Research in emerging markets shows both similarities and differences relative to developed markets. Aivazian et al. (2003) compare dividend behaviour in eight emerging economies with US firms and find that while profitability, leverage and market-to-book ratio influence dividends in both groups, emerging market firms are generally more sensitive to current earnings and less committed to dividend smoothing.

In MENA countries, studies report that firm-specific factors such as profitability, size, and leverage are key determinants of dividends, but institutional features like ownership concentration, family control and Shariah-compliant finance also play roles (Al-Najjar, 2009; Al-Kuwari, 2009). For example, in Gulf Cooperation Council (GCC) countries, state-owned and family-owned firms often pay generous dividends to maintain political and social legitimacy.

## **2.10 Dividend Policy and IFRS in Palestine and the Region**

### **2.10.1 Dividend behaviour in Palestinian listed firms**

Research concerning dividend policy in Palestine has been limited, however, it is increasing; previous studies in this area include Aqel (2016) examining non-financial listed at the Palestine Exchange (PEX). The research found that profitability, company size and liquidity are all positively related to the dividend payout ratio while leverage and business risk are negatively associated. In addition, Hassonn et al. (2016) examined a broader sample of listed firms and arrived at very similar results: profitable and larger companies were more likely to pay dividends while high-growth opportunities and leverage reduced dividend payments. Alslaibi (2024) provides more recent evidence through his dissertation titled “Cracking the Code: Unveiling Dividend Policy Factors in Palestine Stock Exchange (PEX)”, in which he used panel data from 29 listed companies for seven years and

identified that earnings per share, cash flow, company size and lagged dividends had a positive relationship to dividend payout ratios while there was little to no effect of other variables included in the study. The overall findings of these studies are broadly consistent with international evidence: more profitable and larger firms tend to pay higher dividends, whereas higher leverage and strong growth opportunities are associated with lower payout ratios. The regression results in the present thesis generally confirm this pattern across the four dividend-policy measures used in the empirical analysis. Overall, firm size and firm age tend to be positively related to dividend outcomes, while leverage and strong growth are generally associated with lower dividends. Profitability and liquidity are typically positive but can be weaker once size, leverage and growth are controlled for, and the strength of these relationships can differ depending on whether dividend policy is measured as the likelihood of paying dividends or as payout intensity (yield and payout ratios).

### **2.10.2 IFRS implementation and its consequences in Palestine**

Research on the implementation of IFRS in Palestine indicates that financial and banking institutions have broadly adopted IFRS, primarily in response to regulatory requirements and the need to attract foreign capital. Dieh & Musa (2015) reports that Palestinian institutions perceive IFRS adoption as necessary to enhance credibility with international stakeholders and to align with global reporting practices. At the same time, he highlights several obstacles to full and effective implementation, including a shortage of adequately trained professionals, inconsistencies between local legal requirements and IFRS, and the significant costs associated with upgrading accounting and information systems.

Other local work on Palestinian reporting practices similarly documents the predominance of IFRS-based reporting and the associated implementation challenges, especially in relation to enforcement, professional expertise and the adequacy of institutional infrastructure (e.g. Abu-Sharbeh, 2017). These studies emphasize that, while the formal adoption of IFRS has been largely achieved, the depth of compliance and the effective use of IFRS-based information are constrained by the broader institutional context.

In terms of capital market outcomes, Abu Alia, Amarneh and Abdeljawad (2024) examine the relevance of IFRS-based accounting information in a pure IFRS environment such as Palestine, using earnings per share, book value of equity per share and operating cash flow

per share to explain share prices on the Palestine Exchange, and find that earnings and book value are strongly associated with share prices. Their findings suggest that the move to IFRS has materially affected the way financial reports are prepared and interpreted in the PEX, which in turn can influence corporate financial policies, including dividend decisions.

However, most existing Palestinian studies on IFRS concentrate on disclosure quality, the usefulness of financial information and value relevance, rather than directly analysing dividend policy. This leaves an important gap concerning how, and to what extent, IFRS adoption has affected payout decisions in the specific institutional setting of Palestine.

### **2.10.3 Regional evidence**

In neighboring Jordan, where IFRS has also been adopted, empirical research has focused mainly on firm-level determinants of dividend policy rather than on IFRS itself. Al-Najjar (2011) investigates the interrelationship between capital structure and dividend policy using Jordanian data, and finds that dividends are closely related to leverage, profitability and other firm characteristics, particularly in the industrial and financial sectors. His evidence suggests that dividend policy in a Middle Eastern emerging market follows broadly similar firm-level determinants to those documented in more developed markets, even though the institutional environment differs.

In Egypt and other MENA markets, studies likewise show that dividend payouts are shaped by firm-specific fundamentals such as earnings, investment opportunities and financial structure. Omran and Pointon (2004), for example, provide evidence from Egyptian listed firms that dividend policy is associated with profitability, risk and trading characteristics, and that investors respond to dividend decisions in conjunction with other market signals. The broader regional literature also points to the roles of firm size, leverage and ownership structure in influencing payout behavior, particularly in bank-dominated and family-controlled environments.

Importantly, these regional studies emphasize that institutional factors such as political instability, regulatory quality and the strength of investor protection condition the extent to which firm-level drivers translate into actual payouts. Even when firms share similar

profitability and financing characteristics, differences in political risk, enforcement of company law and capital-market development can lead to divergent dividend outcomes across countries. Palestine, as a small open economy subject to persistent political uncertainty, occupation-related constraints, and fragmented regulatory authority, therefore provides a distinctive setting in which to examine whether IFRS adoption and political risk influence dividend policy.

### **2.11 IFRS Adoption and Dividend Policy: Linking the Literatures**

Although there is an extensive literature on IFRS adoption and a separate, equally large literature on dividend policy, relatively few studies explicitly link the two. Conceptually, IFRS can influence dividend behaviour through at least three channels:

**Impact of changes in earnings and equity:** IFRS, with its emphasis on fair-value measurement and comprehensive income, can change both the level and volatility of reported profits and equity. In many jurisdictions, legal or contractual constraints tie dividend distributions to reported profits or retained earnings. When IFRS alters the timing or magnitude of recognized income particularly through unrealized gains and losses firms' capacity to pay dividends may change mechanically. For example, Chen and Gaviious (2016) show that in an IFRS setting some firms have paid dividends out of unrealized fair-value gains, raising concerns about the sustainability of such payouts and the link between accounting income and distributable profits.

**Improvement of financial-reporting quality:** A central justification for IFRS is that it improves the quality and comparability of financial reporting, thereby reducing information asymmetry and strengthening investor protection. De George et al. (2016) review the IFRS adoption literature and conclude that, particularly in countries with strong enforcement and high reporting incentives, IFRS is associated with better disclosure and more informative earnings. Studies in emerging economies, including those by Alali and Foote (2012), have shown that, in terms of their value relevance to investors, IFRS-based financial statements are considered to be as useful or even more useful than non-IFRS based reports. Higher quality financial reporting should reduce the agency problem and lower the investor's reliance on dividend payments as a method of monitoring

management. This could affect the tradeoff between retaining earnings for reinvestment purposes and distribution of cash to shareholders.

Global norms and capital-market integration: IFRS also supports a further integration of companies' financial reporting into the global capital markets, as it provides for a more comparable representation of financial information in different countries. Daske et al. (2008) show that mandatory IFRS adoptions lead to increased market liquidity, reduced costs of capital and even better valuations for the company in certain cases. The higher interest of foreign investors in companies which are required to apply the International Financial Reporting Standards and the benchmarking of their own corporate performance with those of international peer companies can exert an increasing pressure on these companies to establish dividend payments in line with the international standard for the payout policy which generally prefers stable and transparent dividend payments. Such external discipline can support the internal governance and may therefore have a positive effect on the structure of the dividend payment.

Empirically, the evidence on the relationship between IFRS adoption and dividend policy is mixed. In some settings, IFRS has been associated with higher payout ratios where changes in recognition and measurement increase reported earnings and where legal frameworks allow the distribution of fair-value gains. In others, prudential and company-law restrictions on distributing unrealized gains weaken the mechanical link between IFRS earnings and dividends, so that unrealized fair-value adjustments do not translate into higher payouts. Studies such as Kiosse and Peasnell (2009), while focusing on pension accounting, illustrate more broadly that changes in accounting standards can have real effects on firms' financial policies, including funding and distribution decisions.

In emerging and developing markets, the impact of IFRS on dividend behaviour appears to be heavily conditioned by institutional constraints. Evidence typically shows that IFRS improves disclosure quality and the value relevance of accounting numbers, yet weak enforcement, capital controls, ownership concentration and political instability can limit the extent to which these improvements feed through into changes in payout policies (e.g. Alali & Foote, 2012). In such contexts, dividends remain driven primarily by firm-level fundamentals and cash-flow considerations, with IFRS playing a more indirect role.

For Palestine specifically, systematic evidence on the IFRS–dividend link is virtually absent. Most local IFRS research concentrates on disclosure quality and value relevance, rather than on payout behavior. This gap provides the main motivation for the present thesis, which empirically tests whether dividend policy in Palestinian listed firms changed following IFRS adoption, after controlling for profitability, firm size, leverage, liquidity, growth opportunities and firm age. In addition, the thesis examines whether this relationship is conditioned by the level of political risk, recognizing that the extreme and persistent uncertainty faced by Palestinian firms may significantly shape how IFRS-based accounting information feeds into dividend decisions.

## **2.12 Synthesis, Research Gap and Conceptual Framework**

The literature reviewed above yields several insights relevant to the present study.

First, despite a wide range of established theories, the “dividend puzzle” persists. Classic frameworks – including dividend irrelevance, bird-in-the-hand, tax-preference, signaling, agency, life-cycle, pecking-order and catering theories – offer conflicting predictions about firms’ payout behavior. Synthesizing international evidence, Allen and Michaely (2003) and DeAngelo et al. (2009) conclude that profitability, firm size, leverage, liquidity, growth opportunities and firm maturity explain a substantial portion of the cross-sectional and time-series variation in dividends, although the strength and even the direction of these relationships vary across periods and institutional settings.

Second, instead of relying on a single proxy (such as only a payout ratio or only a dividend-paying dummy), dividend policy is operationalized using multiple complementary measures that capture both the propensity to pay dividends and the magnitude of payouts (*div\_dummy*, *div\_yield*, *payout\_ratio*, and *payout\_ocf*). This multi-measure approach allows the thesis to test whether the determinants of dividend policy are robust across alternative operationalizations in a firm-year panel setting.

Third, political risk is another potentially important determinant of corporate payout policy that remains underexplored. Cross-country evidence shows that political and geopolitical uncertainty can either reduce dividends – when firms hoard cash as a buffer against future shocks – or increase dividends when shareholders demand higher cash distributions in

response to heightened risk (Huang et al., 2015; Farooq et al., 2019). Given that listed firms in Palestine operate under one of the most severe and persistent political-risk environments globally, the Palestinian case offers a distinctive laboratory for testing these competing mechanisms.

Fourth, the empirical literature on dividend policy for Palestinian firms is still limited. Existing work on the Palestine Exchange (PEX) generally finds that profitability is a robust positive determinant of dividend payouts, firm size often exerts a positive effect, and leverage tends to be negatively associated with dividends, while evidence on the roles of liquidity and growth opportunities is mixed or insignificant (Aqel, 2016; Hassonn et al., 2016; Abu Omer, 2021).

More recently, separate strands of research have examined IFRS adoption and the value relevance or quality of financial reporting in Palestine. These studies show that IFRS-based earnings and book values are significantly associated with share prices, and that implementation of IFRS 15 has materially affected earnings quality (Abu Alia et al., 2024; Darabee & Mousa, 2024). In addition, the thesis examines whether the estimated associations of IFRS adoption and political risk with dividend policy remain consistent across alternative dividend-policy measures in the Palestinian context.

Against this backdrop, the present thesis examines whether the formal adoption of International Financial Reporting Standards (IFRS) and the level of political risk influence the dividend policy of non-financial firms listed on the Palestine Exchange (PEX). Dividend policy is analyzed using multiple observable payout measures (rather than a single latent factor), allowing the results to reflect both the firm's propensity to distribute dividends and the intensity of payouts when dividends are paid.

Building on the theoretical and empirical literature reviewed above, the study proceeds to an econometric analysis using firm-level panel data for 14 non-financial PEX-listed companies over the period 2004–2023. The dataset is structured as a balanced panel to enable consistent estimation and model comparison across dividend measures. The next chapter outlines the variable construction, econometric specifications (POLS, FE, and RE/GLS), and the diagnostic tests used to select the preferred panel model and ensure robust inference.

The thesis is strictly quantitative. Data are constructed manually from audited annual financial statements of the sampled firms, as disclosed on the PEX and in company reports, and then analyzed using Python with standard econometric libraries for data preparation, variable construction, and regression estimation. The econometric strategy and diagnostic procedures are presented in Chapter Three, while Chapter Four reports and interprets the empirical results.

Fourth, the dividend model controls for the standard firm-level determinants, profitability (ROA and ROE), firm size (log of total assets), leverage (liabilities-to-equity), liquidity (current ratio), growth opportunities, and firm age to reduce omitted-variable bias and isolate the IFRS and political risk effects.

### **2.12.1 Development of Hypothesis**

This section develops the study's directional hypotheses by linking each explanatory variable to dividend policy, based on the theoretical arguments and empirical evidence reviewed in this chapter.

#### **IFRS adoption:**

Dividend policy may be affected through the implementation of IFRS via changes in the information environment and via changes in reported earnings used to assess distributable capacity. Adoption of IFRS may improve transparency, reporting quality, and comparability, which can reduce information asymmetry and agency frictions and strengthen investor confidence. IFRS may also alter reported net income and its perceived reliability as a baseline for determining dividends, particularly through changes in accounting principles for recognizing and measuring revenue. In emerging markets, enforcement and institutional limitations may shape the magnitude of these effects, but IFRS may nonetheless modify the information environment in ways that affect dividend payments (Daske et al., 2008; Alali & Foote, 2012; Abu Alia et al., 2024; Darabee & Mousa, 2024). Therefore, it is expected that there will be an affirmative relationship between the adoption of IFRS and dividend distribution in Palestine.

**H1: IFRS adoption increases dividend payouts in Palestine.**

#### **Political risk:**

Consistent with a precautionary motive, the baseline expectation is that greater political instability (higher political risk) reduces dividends (Huang et al., 2015; Farooq et al., 2019). Because political conditions are proxied using the WGI Political Stability index (higher values indicate greater stability/lower risk), the expected relationship between this index and dividend policy is positive.

**H2: Political stability (WGI index) has a positive and significant effect on dividend policy.**

**Firm size:**

Larger corporations tend to have steadier business operations, better avenues for obtaining external funding, and lower informational costs that may facilitate the payment of dividends on a more regular basis. Size is also often associated with age/maturity in an organization, and older/more mature organizations are more inclined to disburse profits instead of reinvesting them into their respective businesses. As such, the firm size (the log of total assets) is expected to have a positive association with the dividend payment (Denis & Osobov, 2008; Fama & French, 2001).

**H3: Firm size has a positive and significant effect on dividend policy.**

**Leverage:**

The use of leverage as an indicator of the level of financial risk and debt obligation to limit the ability to pay dividends has been common in the study of dividend policy. Leverage is defined as the total liabilities – to – total equity ratio (L / E) in this dissertation. Firms with high levels of leverage are likely to be under strong covenant constraints and/or have a greater need to retain cash to make interest payments on their debt, therefore leverage should negatively affect the payment of dividends (Aivazian et al., 2003; Jensen, 1986).

**H4: Leverage has a negative and significant effect on dividend policy.**

**Profitability:**

Profitability can increase the amount of internal cash that companies have to distribute to their shareholders. Companies with higher profit margins are typically better positioned to pay out dividends as well as provide the earnings growth they need in order to be

competitive. The two measures of profitability used in this research were return on assets (ROA) and return on equity (ROE). As such, it is expected that the ROA and ROE will be positively correlated with the amount of dividends that are paid by these companies (Allen & Michaely, 2003; Aqel, 2016; Hassonn et al., 2016).

**H5: Profitability has a positive and significant effect on dividend policy.**

**Liquidity:**

Generally, firms that have a strong position in terms of their liquidity can continue to make dividend payments at consistent intervals, because when there is uncertainty as to whether funds will be available for lending or borrowing (or both), this helps to provide stability. Therefore it is expected that the current ratio (a measure of liquidity) would be positively correlated with payout levels (Al Najjar & Belghitar, 2011)."

**H6: Liquidity has a positive and significant effect on dividend policy.**

**Growth opportunities:**

Firms that have many growth opportunities tend to retain a large portion of their income in order to fund investments, therefore lessening dividend payments. Dividend paying firms generally have few expansion opportunities and lower growth requirements, as such there is likely a negative relationship between growth opportunities and dividend payments. In this thesis, I expect that sales growth will proxy for growth opportunities, and I also expect that it will be inversely related to firm dividend policy (Higgins, 1981; Grullon et al., 2002).

H7: Growth opportunities have a negative and significant effect on dividend policy.

**Firm age:**

Age of the firm is a proxy for age and maturity as well as a proxy for stages in a firm's life cycle. In general, older and more mature firms will have accumulated more in retained earnings than younger firms. Older and more mature firms also are less likely to encounter the large number of high growth investments that younger firms can encounter. As a result, older and more mature firms will produce more stable and predictable cash flows. This allows the firm to make larger distributions, if it so desires, which can increase both the capacity and desire to pay out dividends. Thus, we would expect to see an association

between the firm's age and its dividend payout (Grullon et al., 2002; DeAngelo et al., 2006).

**H8: Firm age has a positive and significant effect on dividend policy.**

### **2.13 Conclusion**

This chapter has reviewed the main theoretical frameworks and empirical evidence on dividend policy, IFRS adoption and political risk, with particular emphasis on emerging markets and the Palestinian setting. While dividend policy has been widely studied at the global level, the survey highlights a significant gap concerning the joint impact of IFRS implementation and macro-political instability on firms' payout decisions in Palestine.

The following chapter will explain the empirical research design, including the construction of the variables and the appropriate econometric methods to empirically examine the study's research hypotheses. The empirical analysis will utilize a balanced panel data set of 14 non-financial firms listed on the Palestine Stock Exchange (PEX) from 2004-2023. Financial statements, dividends and stock price data was available from 2004 through 2023. Therefore, all econometric estimations in this dissertation will be conducted over the time period of 2004-2023. All data was collected, cleaned and estimated using Python and standard econometric software packages.

### 3. Methodology

#### 3.1 Introduction

This chapter presents the methodological framework used to examine the relationship between **IFRS adoption**, **political risk**, and corporate **dividend policy** among companies listed on the **Palestine Exchange (PEX)**. The study employs a quantitative design based on **panel data** (firm–year observations) to capture both cross-sectional differences between firms and time variation within firms (Wooldridge, 2010; Baltagi, 2013).

#### 3.2 Research Design

The study follows a **positivist, explanatory** research design using secondary financial data and econometric modeling. Panel regression is appropriate because dividend decisions are influenced by both firm characteristics (size, leverage, profitability, etc.) and the time-varying macro environment (political risk and regulatory regime changes such as IFRS adoption).

The dependent variables include four dividend policy measures to capture different dimensions of payout behavior:

1. **Dividend payment decision** (binary)
2. **Dividend yield** (market-based dividend intensity)
3. **Payout ratio** (earnings-based distribution intensity)
4. **Payout based on operating cash flow** (cash sustainability-based payout intensity)

Using multiple dependent variables is consistent with dividend research emphasizing that payout policy is multi-dimensional and no single metric is sufficient (e.g., Fama & French, 2001; Denis & Osobov, 2008).

### 3.3 Population, Sample, and Time Horizon

#### 3.3.1 Population

The population consists of firms listed on the **Palestine Exchange (PEX)**. The study focuses on non-financial listed firms due to relative comparability in operating models and dividend behavior compared to financial firms, which are governed by distinct regulatory requirements and accounting structures.

#### 3.3.2 Sampling criteria (Inclusion/Exclusion rules)

The sample was constructed based on the following criteria:

- Firms must be listed on PEX and have **publicly available financial statements** and dividend information.
- Firms must have data available across the study window (2004–2023).
- **Financial institutions (banks/insurance)** are excluded because their payout decisions and accounting rules are often shaped by sector-specific regulation and capital adequacy constraints, making them structurally different from non-financial firms (a common approach in dividend-policy literature).

#### 3.3.3 Final sample

The final sample consists of **14 non-financial companies** from PEX across **Industry, Services, and Investment** sectors. The panel covers **2004–2023 (20 years)**, creating a grid of  $14 \times 20 = 280$  **firm-year observations**. Derived dividend ratios also contain some missing values due to denominator constraints (net income or operating cash flow).

- **Sector composition (firms):**
- Industry: 8 firms
- Investment: 4 firms
- Services: 2 firms

*Table 1: Sample Companies (PEX-listed non-financial)*

Symbol	Company	Sector
--------	---------	--------

AHC	The Arab Hotels	Services
PALTEL	Palestine Telecommunications	Services
APC	Arab Company for Paints Products	Industry
AZIZA	Palestine Poultry	Industry
BPC	Birzeit Pharmaceuticals	Industry
GMC	Golden Wheat Mills	Industry
JCC	Jerusalem Cigarette	Industry
JPH	Jerusalem Pharmaceuticals	Industry
LADAEN	Palestine Plastic Industries	Industry
VOIC	The Vegetable Oil Industries	Industry
ARAB	Arab Investors	Investment
PADICO	Palestine Development & Investment (PADICO)	Investment
PIIC	Palestine Industrial Investment	Investment
PRICO	Palestine Real Estate Investment	Investment

**Sample size used in regressions (after missing values):**

- Div\_dummy: N = 280
- Div\_yield: N = 279
- Payout\_ratio: N = 276
- Payout\_OCF: N = 280

*Table 2: N values*

<b>variable</b>	<b>useableops</b>
div_dummy	280
div_yield	279
payout_ratio	276

### 3.4 Data Sources and Collection

#### 3.4.1 Financial Data

Firm-level data were manually collected from the audited annual financial statements of the sampled companies and from disclosures available on the Palestine Exchange (PEX) website and Sahem Trading and Investment Co. These data were then entered into an Excel dataset and later organized into the file Variables.xlsx for analysis in Python.

For each firm–year observation, the following attributes were recorded in the Excel file:

- **Company** – company name.
- **Symbol** – PEX ticker symbol.
- **Sector** – sector classification on the PEX.
- **Year of creation** – the company's year of incorporation.
- **Year listed** – year in which the company was listed on the PEX.
- **Year** – reporting year of the financial statements.
- **Currency** – the reporting currency used in the financial statements.

#### Dividend-related variables:

- **DPD – Dividend Policy Documentation:** A dummy variable equal to 1 if the firm's dividend policy is documented, and 0 otherwise. All firms had their dividend policies documented in their Articles of Incorporation.
- **Cash dividends** – total cash dividends distributed to ordinary shareholders in that year.
- **Net income** – profit after tax for the year.
- **Payout ratio** – the amount of cash dividends paid out divided by net income.
- **Dividends Type** – The kind of dividend (cash, stock, or both) that is disclosed.

- **Dividends dummy** – indicator equal to 1 if any cash dividend was paid in that year, and 0 otherwise.
- **Number of Shares** – number of ordinary shares outstanding.
- **Dividends per share:** the amount of cash dividends per share that is reported or calculated by dividing the total cash dividends by the number of shares.

**Market-based variables:**

- **Ending Price per share** – closing market price per share at year-end.
- **Market capitalization** – number of shares multiplied by ending price per share.
- **Dividend yield** – dividends per share divided by ending price per share.
- **Cash flow and payout variables:**
- **Operating cashflow** – net cash flow from/used in operating activities.
- **Payout to operating cashflow** – the amount of cash dividends divided by the amount of operating cash flow.

**Balance sheet variables:**

- **Total assets (Size)** – the total amount of assets at the end of the year.
- **Equity** – total shareholders' equity.
- **Liabilities** – total liabilities.
- **Leverage** – liabilities divided by equity.

**Performance and liquidity variables:**

- **ROA** – return on assets (net income divided by total assets).
- **ROE** – return on equity (net income divided by shareholders' equity).
- **Current Assets** – current assets at year-end.
- **Current Liabilities** – current liabilities at year-end.

- **Liquidity** – current ratio (current assets divided by current liabilities).

#### **Revenue and growth variables:**

- **Revenue this year** – total revenue/sales in the current year.
- **Revenue the year before** – total revenue/sales in the previous year.
- **Company Age** – years since incorporation (Year – Year of creation).
- **Growth** – annual growth rate, primarily based on the change revenue.

#### **3.4.2 Political Risk Data**

**Political risk** is measured using the **World Bank Worldwide Governance Indicators (WGI)** “Political Stability and Absence of Violence/Terrorism” index for **West Bank & Gaza**. The index ranges approximately from  $-2.5$  (high instability) to  $+2.5$  (high stability).

Annual values for 2004–2023 are used, consistent with the study period and the balanced panel structure adopted for the empirical analysis.

Similar WGI measures have been widely used in empirical work on political risk and corporate policies. For example, (Huang et al., 2015) use international political crisis events and country-level political uncertainty to study their impact on payout policies.

#### **3.4.3 Data Entry and Cleaning**

Data were manually extracted from audited annual financial statements for all sampled firms and then assembled into a firm-year panel dataset (2004–2023). After transcription, the dataset was validated by (i) cross-checking totals and ratios against the original statements, (ii) confirming consistent firm identifiers (symbols) across years, and (iii) verifying that dividend payment years were coded consistently across all dividend measures.

To limit undue influence of extreme ratio values, continuous variables used in estimation were winsorized at the 1st and 99th percentiles (pooled across the full sample). This treatment was applied to the dividend ratios and firm-level continuous controls (e.g., dividend yield, payout ratios, size, leverage, profitability, liquidity, growth, and age), while binary indicators (e.g., IFRS adoption dummy and dividend-payment dummy) were not

winsorized. Winsorization is used here as a robustness-oriented data treatment to reduce sensitivity to outliers without discarding observations.

Winsorization is particularly relevant for payout ratios because denominator effects (low earnings or low operating cash flow) can mechanically inflate ratios and dominate estimation. After winsorization, the payout ratio distribution remains dispersed but with reduced extreme maxima, improving the stability of coefficient estimates and diagnostic tests.

#### **3.4.4 Conflict-related disclosure disruption and sample exclusion (PEC)**

A key feature of conflict-affected markets is that political shocks can disrupt not only firm performance but also the **availability and continuity of corporate disclosures**. In the Palestinian context, the Gaza war that escalated in 2023 interrupted the publication of complete firm information for specific issuers. Therefore, to maintain a balanced panel over 2004–2023, the study excludes the Palestine Electric Company (PEC) because audited 2023 financial disclosures were not available following the 2023 war escalation. Including PEC would create an unbalanced panel and reduce comparability across model specifications and diagnostics. The final estimation sample therefore includes 14 non-financial firms (280 firm-year observations).

### **3.5 Variables: Definitions, Measurement, and Expected Relationships**

#### **3.5.1 Dependent Variables (Dividend policy measures)**

To reflect multiple dimensions of payout policy, this study uses four dependent variables:

1. **Div\_dummy:** Dividend payment decision (binary)
  - 1 if the firm pays a cash dividend in year  $t$ , 0 otherwise.
  - Widely used in dividend literature to model the propensity to pay dividends (Fama & French, 2001; Denis & Osobov, 2008).
2. **Div\_yield:** Dividend yield
  - Cash dividends relative to market price (or an equivalent yield definition used in your dataset).
  - Dividend yield is a standard market-based payout measure used in empirical dividend studies.

3. **Payout\_ratio:** Earnings payout ratio
  - Dividends relative to net income (earnings-based payout intensity).
  - Commonly used to capture distribution policy and agency/life-cycle arguments (La Porta et al., 2000; Denis & Osobov, 2008).
4. **Payout\_OCF:** Cash-flow payout ratio
  - Dividends relative to operating cash flow, capturing payout sustainability from a cash perspective (useful when earnings are volatile).
  - This complements earnings payout because dividends are ultimately paid in cash.

### 3.5.2 Independent Variables

#### 1. IFRS (ifrs)

- Dummy variable: 0 for 2004–2006 and 1 from 2007 onward (as in your dataset).
- IFRS adoption is expected (in theory) to affect dividend policy through reporting quality and information environment; however, the direction depends strongly on enforcement and institutional setting (Ball, 2006; Soderstrom & Sun, 2007).

#### 2. Political risk (pol\_risk)

- Measured using a political stability/governance indicator where values are negative in Palestine during the sample window (mean =  $-1.845$ ; min =  $-2.150$ ; max =  $-1.170$ ).
- Such governance indicators are widely used as macro-level institutional measures (Kaufmann et al., 2011).
- Interpretation note (very important): Higher values (less negative) represent greater stability / lower risk, while more negative values represent higher political risk / instability.

### 3.5.3 Control Variables

To avoid omitted-variable bias, the study controls for standard firm-level determinants of dividend policy:

- **SIZE (ln\_assets):**

Natural log of total assets(Fama & French, 2001; Aivazian et al., 2003).

- **Leverage (leverage):**

Debt-to-equity style ratio as in your dataset (Aivazian et al., 2003; Rozeff, 1982).

- **ROA (roa) and ROE (roe):**

Profitability measures (Fama & French, 2001; Denis & Osobov, 2008).

- **Liquidity (liquidity):**

Current ratio-type measure Liquidity can support stable payouts, especially underuncertainty (Koussis, Martzoukos, & Trigeorgis, 2017).

- **Growth (growth):**

Firm growth proxy (e.g., asset growth) Growth opportunities are often expected to reduce dividends because firms retain funds for investment (Rozeff, 1982; Smith & Watts, 1992).

- **Age (age):** Firm age in years

Life-cycle theory predicts mature firms pay more dividends (DeAngelo, DeAngelo, & Stulz, 2006; Denis & Osobov, 2008).

*Table 3: Variables Measurement, and supporting literature*

Variable	Type	Measurement	Key supporting studies
Div_dummy	Dependent	1 if cash dividend paid, 0 otherwise	Fama & French (2001); Denis & Osobov (2008)
Div_yield	Dependent	Cash dividends / Market Capitalization	Dividend policy studies using yield as payout measure
Payout_ratio	Dependent	Dividends / Net income	La Porta et al. (2000); Denis & Osobov (2008)

Payout_OCF	Dependent	Dividends / Operating cash flow	Cash-based payout measure
Ifrs	Independent	0 (2004–2006), 1 (2007–2023)	Ball (2006); Daske et al. (2008); Soderstrom & Sun (2007)
pol_risk	Independent	Governance/political stability indicator (higher=more stable)	Kaufmann et al. (2011)
ln_assets	Control	ln(total assets)	Fama & French (2001); Aivazian et al. (2003)
leverage	Control	Liabilities / Equity	Rozeff (1982); Aivazian et al. (2003)
roa	Control	Net income / Assets	Fama & French (2001)
roe	Control	Net Income / Equity	Denis & Osobov (2008)
liquidity	Control	Current Assets / Current Liabilities	Koussis et al. (2017)
growth	Control	(Revenue in year - Revenue last year) / Revenue last year	Rozeff (1982); Smith & Watts (1992)
age	Control	Firm Age	DeAngelo et al. (2006); Denis & Osobov (2008)

### 3.6 Econometric Model Specification

For firm  $i$  in year  $t$ , the baseline panel regression model is:

$$\mathbf{DividendPolicy}_{it} = \alpha + \beta_1 IFRS_t + \beta_2 POLRISK_t + \sum_k \gamma_k Controls_{it} + u_i + \epsilon_{it}$$

Where:

- $u_i$  captures firm-specific unobserved heterogeneity (time-invariant firm characteristics),
- $\epsilon_{it}$  is the idiosyncratic error term.

Because **Div\_dummy** is binary, the study estimates it using a **linear probability panel model (LPM)** for interpretability and consistency with panel specifications; coefficients are interpreted as changes in probability (Wooldridge, 2010).

### 3.7 Diagnostic Tests

To ensure validity of inference, the study reports multiple diagnostic and robustness tests.

#### 3.7.1 Descriptive Statistics

Descriptive statistics summarize central tendency and dispersion for all variables.

*Table 4. Descriptive Statistics*

variable	count	mean	std	min	max	
div_dummy	280	0.521428571	0.500435039	0	1	
div_yield	279	0.026354877	0.032933555	0	0.125449735	
payout_ratio	276	41.77007369	110.536306	0	859.6872415	
payout_ocf	280	-	0.034155235	3.457577034	-22.3811451	12.94142276
ifrs	280	0.85	0.357710762	0	1	
pol_risk	280	-1.8455	0.210148693	-2.15	-1.17	
ln_assets	280	17.38991852	1.5927616	13.62022214	20.584176	
leverage	280	7.519764835	18.91504514	-0.71992688	135.3128513	
roa	280	0.051580351	0.08509023	-	0.184889222	0.275617473
roe	280	0.074520379	0.142280526	-	0.347939573	0.649241663
liquidity	280	2.416171083	2.126925515	0.069696977	10.38510144	
growth	280	0.182062345	0.708068542	-0.8577627	4.587605834	
age	280	27.13571429	14.52771267	8.79	67.21	

Table 4 indicates that dividend behavior is economically meaningful but heterogeneous across firms and years. The dividend payment dummy (**Div\_dummy**) has a mean of **0.5214** (SD **0.5004**), implying that firms paid dividends in about **52.1%** of firm-year observations. **Dividend yield (Div\_yield)** averages **0.02635** (SD **0.03293**), with values ranging from **0**

to **0.12545**. The earnings-based **payout ratio (Payout\_ratio)** is considerably more dispersed (mean **41.77**, SD **110.54**), with a maximum of **859.69**, reflecting the sensitivity of payout ratios to small denominators in some firm-years. The cash-flow-based payout measure (**Payout\_ocf**) is centered close to zero (mean **-0.03416**, SD **3.4576**) but spans a wide range from **-22.3811** to **12.9414**, consistent with volatile operating cash flows in some years. The **IFRS** indicator equals one in **85%** of observations (mean **0.85**, SD **0.3577**). **Political risk (pol\_risk)** varies over time with a mean of **-1.8455** (SD **0.2101**), ranging from **-2.15** to **-1.17**. Firm characteristics show substantial variation: **ln\_assets** has a mean of **17.3899** (min **13.6202**, max **20.5842**), **leverage** averages **7.5198** (min **-0.7199**, max **135.3129**), profitability averages **0.05158** for **ROA** and **0.07452** for **ROE**, liquidity averages **2.4162**, growth averages **0.1821**, and firm **age** averages **27.14** years (min **8.79**, max **67.21**).

### 3.7.2 Correlation Matrix

The correlation matrix provides initial evidence of association and screens for unusually strong pairwise correlations.

Table 5. Correlation

	div_du mmy	div_y ield	payout_ ratio	payout_ _ocf	ifrs	pol_ risk	ln_as sets	lever age	roa	roe	liqui dity	gro wth	age
div_du mmy	1.000	0.771	0.368	-0.009	0.158	0.108	0.418	0.226	0.564	0.456	0.219	0.160	0.379
div_yiel d	0.771	1.000	0.497	0.027	0.210	0.167	0.232	0.182	0.451	0.371	0.090	0.155	0.200
payout_ ratio	0.368	0.497	1.000	0.010	0.062	0.089	0.035	0.086	0.026	0.025	0.043	0.121	0.072
payout_ ocf	-0.009	0.027	0.010	1.000	0.009	0.054	0.027	0.023	0.022	0.000	0.109	0.018	0.064
ifrs	0.158	0.210	0.062	-0.009	1.000	0.705	0.114	0.075	0.045	0.164	0.154	0.182	0.244
pol_risk	-0.108	0.167	-0.089	0.054	0.705	1.000	0.073	0.125	0.041	0.171	0.115	0.184	0.117

<b>ln_assets</b>	0.418	0.232	0.035	-0.027	0.14	0.073	1.000	0.189	0.249	0.200	0.138	0.003	0.042
<b>leverage</b>	-0.226	0.182	-0.086	-0.023	0.075	0.125	0.189	1.000	0.032	0.058	0.224	0.195	0.088
<b>roa</b>	0.564	0.451	0.026	-0.022	0.045	0.041	0.249	0.032	1.000	0.800	0.319	0.041	0.314
<b>roe</b>	0.456	0.371	0.025	0.000	0.164	0.171	0.220	0.058	0.819	1.000	0.219	0.044	0.209
<b>liquidity</b>	0.219	0.090	0.043	-0.109	0.154	0.115	0.138	0.224	0.314	0.219	1.000	0.019	0.228
<b>growth</b>	-0.160	0.155	-0.121	0.018	0.182	0.184	0.003	0.195	0.041	0.044	0.019	1.000	0.129
<b>age</b>	0.379	0.200	0.072	-0.064	0.244	0.117	0.042	0.088	0.314	0.209	0.228	0.129	1.000

Table 5 presents the pairwise correlation matrix, used primarily to assess potential multicollinearity risk before estimation. The strongest correlation in absolute value is between **IFRS** and **political risk** ( $r = -0.705$ ), which likely reflects the common time structure of these variables (IFRS adoption is captured by a time-based dummy, while political risk also varies systematically over time). Among the dividend measures, the correlation between **div\_dummy** and **div\_yield** ( $r = 0.771$ ) is expected because dividend yield is mechanically close to zero when dividends are not paid. A second notable association is the strong positive correlation between **ROA** and **ROE** ( $r = 0.819$ ), consistent with both being profitability measures derived from related accounting components. Aside from these cases, correlations among the regressors remain below levels typically viewed as problematic for multicollinearity in applied regression work (a common rule-of-thumb is that absolute correlations below approximately **0.80** do not signal severe collinearity concerns) (Gujarati & Porter, 2009; Wooldridge, 2010). The correlation matrix is treated as a diagnostic tool rather than causal evidence, and multicollinearity is further evaluated using variance inflation factor (VIF) statistics.

### 3.7.3 Multicollinearity (VIF):

Variance Inflation Factors (VIF) are computed to detect multicollinearity in the regression design matrix.

Table 6. VIF tests

term	VIF
const	264.9952575
ifrs	2.227812604
pol_risk	2.076728586
ln_assets	1.165370955
leverage	1.165028317
roa	3.611985349
roe	3.308548244
liquidity	1.317855498
growth	1.098462266
age	1.285891362

Table 6 reports variance inflation factors (VIFs) to assess multicollinearity among the explanatory variables. Excluding the intercept term, VIF values are low-to-moderate, ranging approximately from 1.10 to 3.61, with the largest values observed for ROA ( $\approx 3.61$ ) and ROE ( $\approx 3.31$ ). These magnitudes are below common econometric “concern” thresholds (often 5 as a stricter benchmark and 10 as a broad rule-of-thumb), suggesting multicollinearity is unlikely to materially distort coefficient estimates. Therefore, the regression coefficients can be interpreted as marginal effects conditional on the included controls.

### 3.7.4 Panel Unit Root Tests

Panel unit root tests are reported to assess stationarity. In dividend research, some series can be constant within firms (especially during repeated zero-dividend years), which can reduce the number of firms usable in unit root testing.

Table 7. Unit root test

series	test	trend	n_firms_used	stat	df	p_value
div_yield	Fisher-ADF	c	11	54.92401461	22	0.000121758
payout_ratio	Fisher-ADF	c	11	50.01730828	22	0.000583311
payout_ocf	Fisher-ADF	c	11	5566.557263	22	0

pol_risk	Fisher-ADF	c	14	0.73251438	28	1
ln_assets	Fisher-ADF	c	14	102.6627528	28	1.8664E-10
leverage	Fisher-ADF	c	14	56.88206186	28	0.001002905
roa	Fisher-ADF	c	14	152.3992477	28	0
roe	Fisher-ADF	c	14	1412.3429	28	0
liquidity	Fisher-ADF	c	14	272.1996878	28	0
growth	Fisher-ADF	c	14	107.7315519	28	2.72872E-11
age	Fisher-ADF	c	14	7.004767334	28	0.99998126

**Table 7 documents panel unit root results using the Maddala–Wu Fisher-ADF approach.** Panel unit roots were estimated using a Maddala–Wu type Fisher method that combines individual Augmented Dickey–Fuller (ADF) p-values into a single chi-square statistic to test whether the panel series contains a unit root (Maddala & Wu, 1999; Choi, 2001). Most firm-level series are found to be **stationary in levels** (i.e., reject the null of a unit root), including **Dividend Yield** ( $p = 0.000122$ ), **Payout Ratio** ( $p = 0.000583$ ), **Payout/Operating Cash Flow** ( $p < 0.001$ ), **Firm Size** ( $\ln\_assets$ ,  $p < 0.001$ ), **Leverage** ( $p = 0.00100$ ), **Return on Assets (ROA)** ( $p < 0.001$ ), **Return on Equity (ROE)** ( $p < 0.001$ ), **Liquidity** ( $p < 0.001$ ), and **Growth** ( $p < 0.001$ ). In contrast, the unit-root null is **not rejected** for **Political Risk** ( $p = 1.000$ ) and **Firm Age** ( $p = 0.99998$ ), which is plausible given their slow-moving nature and limited within-firm variation over time. Since some dividend-ratio variables require a minimum time-series length for firm-level ADF estimation, the Fisher-ADF tests for **Dividend Yield**, **Payout Ratio**, and **Payout/Operating Cash Flow** are based on **11 firms**, whereas tests for firm characteristics use the full **14 firms**. Overall, these diagnostics support estimating the models in **levels** while treating highly persistent variables cautiously. Consequently, the empirical analysis relies on standard panel specification checks (LM and Hausman) and reports **firm-clustered robust standard errors** to support statistically valid inference in the presence of potential dependence in panel data (Wooldridge, 2010; Baltagi, 2013).

### 3.7.5 Heteroskedasticity and Serial Correlation Diagnostics

#### 3.7.5 Heteroskedasticity, Cross-Sectional Dependence, and Serial Correlation Diagnostics

Panel models can be affected by heteroskedasticity, cross-sectional dependence, and serial correlation, which can bias standard errors if untreated. The study therefore reports:

- **Breusch–Pagan test** for heteroskedasticity (reported as a p-value).
- **Pesaran CD test** for cross-sectional dependence (Pesaran, 2004).
- **Wooldridge test for serial correlation** in panel models (commonly operationalized in applied work following Drukker, 2003).

Table 8 summarizes these diagnostics alongside the LM and Hausman specification tests used for panel model selection.

*Table 8. diagnostic tests for heteroskedasticity*

dep	usabl e_obs	BP_ LM_ p	AR1 _rh o	AR1_ p	LM_RE_p _2004_20 23	LM_ RE_ N	LM_ RE_ T	C D _p	CD _st at	Woold ridge_ p	Wooldr idge_st at
div_d umm y	280	0.38	0.2 4	5.866 41E- 05	2.90984E- 08	14	19	0. 49	0.6 9	0.15	1.43
div_yi eld	279	0.07	0.1 9	0.001 3868 87	0.00	13	19	0. 00	3.6 2	0.03	2.17
payo ut_ra tio	276	0.87	- 0.1 0	0.150 0831 2	0.14	12	19	0. 00	3.2 6	0.95	0.06
payo ut_oc f	280	0.27	0.0 2	0.756 5790 45	0.38	14	19	0. 00	3.5 1	0.08	1.75

Table 8 reports panel diagnostic tests across the four dependent-variable specifications. Heteroskedasticity is assessed using the Breusch–Pagan test: evidence of heteroskedasticity is weak overall, with the dividend yield model showing marginal evidence (BP  $p = 0.067$ ), while other models do not reject homoskedasticity at conventional levels (div\_dummy:  $p = 0.385$ ; payout\_ratio:  $p = 0.874$ ; payout\_ocf:  $p = 0.269$ ). Within-firm serial correlation is examined using both an AR(1) residual structure test and the Wooldridge test for panel autocorrelation. The AR(1) coefficient is statistically significant for div\_dummy ( $\rho = 0.24$ ,  $p < .001$ ) and div\_yield ( $\rho = 0.19$ ,  $p = .001$ ), while it is not statistically significant for payout\_ratio ( $p = .150$ ) or payout\_ocf ( $p = .757$ ). The

Wooldridge test similarly indicates serial correlation for `div_yield` ( $p = .030$ ) and marginal evidence for `payout_ocf` ( $p = .079$ ), while `div_dummy` and `payout_ratio` do not reject the null at conventional levels. Cross-sectional dependence is assessed via the Pesaran CD test and is detected for `div_yield` ( $p < .001$ ), `payout_ratio` ( $p = .001$ ), and `payout_ocf` ( $p < .001$ ), consistent with the presence of common shocks affecting firms simultaneously; `div_dummy` does not show evidence of cross-sectional dependence ( $p = .493$ ). Given these diagnostics, all panel regressions are reported with firm-clustered robust standard errors to ensure inference is robust to heteroskedasticity and within-firm dependence, and the presence of cross-sectional dependence is acknowledged as an important feature of the data-generating process in the Palestine market setting (Pesaran, 2004; Drukker, 2003).

### **3.8 Estimation Strategy: FE vs RE and Model Selection:**

The econometric strategy estimates pooled OLS (POLS), firm fixed effects (FE), and random effects GLS (RE/GLS) models for each dividend policy outcome. Firm effects are essential in this setting because dividend behavior may be shaped by persistent firm characteristics (e.g., dividend culture, ownership structure, and business model) that do not change quickly over time.

Model selection is conducted outcome-by-outcome using standard panel specification tests. First, the Breusch–Pagan LM test evaluates whether a random effects model is preferred over pooled OLS. Second, the Hausman specification test (Hausman, 1978) evaluates whether the RE assumption of zero correlation between regressors and unobserved firm effects is plausible. If Hausman rejects RE ( $p < 0.05$ ), FE is preferred; otherwise RE is preferred.

Consistent with this logic, the preferred estimator differs across the dividend outcomes: in the present data, Hausman indicates **FE is preferred for the dividend payment decision (`Div_dummy`) and dividend yield (`Div_yield`)**, while **RE is preferred for payout ratio outcomes (`Payout_ratio` and `Payout_OCF`)**. Accordingly, Chapter Four reports the main coefficient interpretations using the estimator indicated by Table 8–Table 9 for each dependent variable, while reporting POLS/FE/RE results for transparency and comparison.

Table 9. Hausman Test

<b>dep</b>	<b>Hausman_stat</b>	<b>df</b>	<b>p_value</b>	<b>Preferred_model</b>
div_dummy	32.68994253	9	0.000151207	FE
div_yield	40.81310105	9	5.40929E-06	FE
payout_ratio	7.857210158	9	0.548597714	RE
payout_ocf	11.10350305	9	0.268681023	RE

Table 9 reports Hausman test results comparing fixed effects (FE) and random effects (RE) specifications. The Hausman test rejects the RE consistency assumption for `div_dummy` ( $p < .001$ ) and `div_yield` ( $p < .001$ ), indicating FE is preferred for these models. For `payout_ratio` ( $p = .549$ ) and `payout_ocf` ( $p = .269$ ), the null hypothesis is not rejected, supporting the use of RE/GLS for efficiency in these specifications. Accordingly, the study reports FE as the preferred specification for the dividend-payment and dividend-yield models, and RE/GLS as the preferred specification for the two payout-ratio models, with firm-clustered robust standard errors used throughout for robust inference (Hausman, 1978; Baltagi, 2013).

## 4. Results, Analysis and Discussion

### 4.1 Overview of the Panel and Missingness

This chapter presents the main regression findings on how IFRS adoption and political risk relate to dividend policy in Palestinian listed firms, controlling for standard firm characteristics (size, leverage, profitability, liquidity, growth, and age). Following the model-selection logic established in Chapter Three, The main results are reported using the preferred panel estimator for each dividend outcome (firm fixed effects where the Hausman test rejects random-effects consistency; otherwise random-effects GLS), with firm-clustered standard errors, while pooled OLS with robust inference is used as a robustness comparison.

The estimation uses a balanced firm-year panel for the reduced sample, with **280 usable observations** for most dependent variables. The usable sample is slightly smaller for ratio outcomes that require denominators (e.g., dividend yield and payout ratio), which is typical in dividend research where some firm-years generate ratios that are undefined or not meaningful due to denominator constraints or limited data availability (Wooldridge, 2010; Baltagi, 2013). In this study, the usable sample sizes are: **Div\_dummy N=280, Div\_yield N=279, Payout\_ratio N=276, and Payout\_OCF N=280.**

### 4.2 Main Regression Results (Preferred Panel Specification by Outcome)

Based on the diagnostic and model selection tests reported in Chapter Three (LM and Hausman), the primary specification differs across dependent variables. Fixed effects (FE) is preferred for outcomes where unobserved firm heterogeneity is correlated with regressors, while random effects GLS (RE/GLS) is preferred where the RE assumptions are not rejected. This outcome-specific approach is common in applied panel research when different dependent variables exhibit different error structures and different sensitivity to unobserved heterogeneity.

Table 10 reports the coefficients from the **preferred estimator for each dependent variable**, using firm-clustered standard errors. Statistical significance is indicated by

conventional stars (\*\*\*)  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ ). For clarity: **Div\_dummy** and **Div\_yield** are reported under FE, while **Payout\_ratio** and **Payout\_OCF** are reported under RE/GLS.

Table 10. Regression Results Table

term	div_dummy	div_yield	payout_ratio	payout_ocf
Intercept	-2.8184*** (0.7280)	-0.2104*** (0.0559)	-52.3780 (90.1280)	-7.8150*** (2.5630)
ifrs	0.0513 (0.1025)	0.0122 (0.0085)	-20.8121 (28.1029)	-0.5170 (1.3915)
pol_risk	-0.0505 (0.1343)	-0.0055 (0.0132)	-55.5128 (37.4009)	1.3062 (1.1409)
ln_assets	0.1519*** (0.0382)	0.0115*** (0.0040)	-3.3900 (8.9109)	0.5887*** (0.2086)
leverage	-0.0010 (0.0011)	0.0001 (0.0001)	0.3354 (0.2384)	-0.0042 (0.0089)
roa	0.7830** (0.3624)	0.0622 (0.0526)	-215.0710** (84.3190)	-0.5619 (8.0438)
roe	0.2137* (0.1260)	0.0015 (0.0210)	28.0957 (31.1256)	-0.2672 (1.7761)
liquidity	0.0043 (0.0182)	-0.0000 (0.0015)	-1.0118 (1.6389)	-0.3279 (0.2006)
growth	-0.0449 (0.0303)	-0.0043* (0.0025)	-13.9803 (11.8678)	0.0695 (0.1586)
age	0.0079 (0.0062)	-0.0001 (0.0007)	1.3581 (1.8061)	0.0362 (0.0506)
N (usable obs)	280	279	276	280

Model fit (Fixed Effects):

- **Div\_dummy (FE):  $R^2 = 0.6218$  (Adj.  $R^2 = 0.5894$ )**
- **Div\_yield (FE):  $R^2 = 0.4812$  (Adj.  $R^2 = 0.4366$ )**
- **Payout\_ratio (FE):  $R^2 = 0.1614$  (Adj.  $R^2 = 0.0885$ )**
- **Payout\_OCF (FE):  $R^2 = 0.0820$  (Adj.  $R^2 = 0.0035$ )**

### 4.3 Hypotheses Testing and Discussion by Dependent Variable

#### 4.3.1 Dividend Payment Decision (Div\_dummy)

This model examines whether IFRS adoption and political risk influence the probability that a firm pays dividends. Since **Div\_dummy** is binary, the fixed-effects specification can

be interpreted as a **linear probability model with firm fixed effects**, where coefficients approximate **within-firm** changes in the probability of paying dividends over time.

#### **IFRS:**

The coefficient on IFRS is positive but **not statistically significant** ( $\beta = 0.0513$ ,  $p = 0.616$ ). This indicates that the study does not find evidence that shifting into the IFRS regime systematically changed whether Palestinian listed firms pay dividends once firm fixed effects and controls are included. This result is consistent with the IFRS institutional literature arguing that adoption does not automatically generate economic consequences unless enforcement, monitoring, and incentives are strong (Ball, 2006; Soderstrom & Sun, 2007). It is also consistent with evidence that reporting reforms can have uneven effects depending on institutional quality and whether adoption is substantive rather than symbolic (Daske et al., 2008).

#### **Political risk:**

Political risk is also **not significant** for dividend payment ( $\beta = -0.0505$ ,  $p = 0.707$ ). This suggests that changes in the national political risk indicator do not systematically explain the binary decision to pay dividends, once firm fundamentals and unobserved firm heterogeneity are controlled for. A plausible interpretation is that the pay/not-pay decision can be relatively **sticky** and reputation-driven: firms may attempt to remain dividend payers even in difficult periods, adjusting instead through payout size rather than stopping dividends entirely.

#### **Control variables:**

The significant controls point to the importance of firm fundamentals in explaining dividend payment on the PEX:

- **Firm size (ln\_assets)** is positive and highly significant ( $\beta = 0.1519$ ,  $p < 0.001$ ), indicating that as firms become larger over time, they are more likely to pay dividends. This is consistent with evidence that dividend payers are typically larger and more established (Fama & French, 2001; Denis & Osobov, 2008).

- **Profitability (ROA)** is positive and significant ( $\beta = 0.7830$ ,  $p = 0.031$ ), implying that improved operating performance increases the likelihood of paying dividends, consistent with dividend capacity arguments.
- **Profitability (ROE)** is positive and **marginally significant** at the 10% level ( $\beta = 0.2137$ ,  $p = 0.090$ ), also consistent with the idea that more profitable firms have greater willingness and ability to distribute cash (Fama & French, 2001; Denis & Osobov, 2008).

In contrast, **leverage**, **liquidity**, **growth**, and **age** are not statistically significant in the fixed-effects model ( $p$ -values  $> 0.10$ ). This suggests that some determinants that often matter cross-sectionally (e.g., leverage or maturity) may be driven largely by **between-firm differences**, and their within-firm variation over time is not sufficient to explain changes in dividend payment probability under FE.

#### **Conclusion for Div\_dummy:**

Dividend payment on the PEX is explained primarily by **within-firm changes in size and profitability**, rather than IFRS adoption or political risk.

#### **4.3.2 Dividend Yield (Div\_yield)**

Dividend yield captures the market-based intensity of dividends and is affected by both payout decisions and market valuation. Table 10 reports fixed-effects estimates, meaning coefficients reflect within-firm associations over time.

#### **IFRS:**

IFRS remains **statistically insignificant** ( $\beta = 0.0122$ ,  $p = 0.149$ ). Although the sign is positive, the effect does not reach conventional significance levels, again supporting the view that IFRS adoption alone may not be sufficient to shift payout outcomes without strong enforcement and market transmission mechanisms (Ball, 2006; Soderstrom & Sun, 2007).

### **Political risk:**

Political risk is not significant for dividend yield ( $\beta = -0.0055$ ,  $p = 0.677$ ). One explanation is that political conditions may influence both dividends and stock prices; when the two effects move in offsetting directions, the net effect on yield can be weak.

### **Control variables:**

- **Firm size (ln\_assets)** is positive and significant ( $\beta = 0.0115$ ,  $p = 0.004$ ), implying that as firms grow larger, their dividend yield tends to rise.
- **Growth** is negative and **marginally significant** at the 10% level ( $\beta = -0.0043$ ,  $p = 0.090$ ), consistent with the idea that firms with stronger growth prospects retain cash for investment and therefore provide lower cash returns to shareholders (Rozeff, 1982; Smith & Watts, 1992).

Other controls (leverage, ROA, ROE, liquidity, age) are not significant. This is not unusual for a market-scaled outcome such as yield, especially in a small frontier-market sample.

### **Conclusion for Div\_yield:**

Dividend yield appears primarily linked to **firm size** and **growth opportunities**, rather than IFRS adoption or political risk.

### **4.3.3 Earnings Payout Ratio (Payout\_ratio)**

This model captures dividends relative to an earnings proxy. Because payout ratios can be sensitive to denominators, even after winsorization the measure may remain volatile across time.

### **Political risk:**

The WGI political stability index (pol\_risk; higher values indicate greater stability/lower political risk) has a negative coefficient ( $\beta = -55.5128$ ) but is not statistically significant ( $p = 0.138$ ). Because lower index values correspond to higher political risk, this sign would (weakly) suggest higher instability is associated with higher earnings-based payout ratios;

however, the effect is not statistically distinguishable from zero, so no reliable inference can be drawn from this coefficient.

**IFRS:**

IFRS is also not significant ( $\beta = -20.8121$ ,  $p = 0.459$ ), suggesting that IFRS adoption did not translate into measurable changes in earnings-based payout ratios in this sample, consistent with the broader argument that IFRS impacts real outcomes primarily when paired with strong enforcement and investor protection (Ball, 2006; Soderstrom & Sun, 2007).

**Control variables (key finding):**

- **ROA is strongly negative and statistically significant** ( $\beta = -215.0710$ ,  $p = 0.011$ ). This pattern is consistent with dividend smoothing and payout arithmetic: if dividends adjust more slowly than earnings, payout ratios can fall when profitability rises because the denominator (earnings) increases faster than dividends (Lintner, 1956).

Other controls (size, leverage, ROE, liquidity, growth, age) are not significant.

**Model fit note:**

The payout\_ratio model shows modest explanatory power under FE (Adj.  $R^2 = 0.0885$ ), consistent with the idea that payout ratios contain substantial noise due to denominator effects and discretionary policy.

**Conclusion for Payout\_ratio:**

The earnings-based payout ratio is primarily associated with profitability dynamics (ROA), while IFRS adoption and political risk are not statistically supported drivers in the preferred RE/GLS specification.

**4.3.4 Cash-flow Payout Ratio (Payout\_OCF)**

This model measures dividends relative to operating cash flow, which can be informative in settings where accounting earnings are volatile but can also be noisy when operating cash flow is small or negative.

### **IFRS and Political risk:**

Both IFRS ( $\beta = -0.5170$ ,  $p = 0.710$ ) and political risk ( $\beta = 1.3062$ ,  $p = 0.252$ ) are statistically insignificant, indicating no evidence that the reporting regime or political conditions systematically explain cash-flow-scaled payout intensity once controls are included in the preferred RE/GLS specification.

### **Control variables:**

- **Firm size (ln\_assets)** is positive and statistically significant ( $\beta = 0.5887$ ,  $p = 0.0048$ ), indicating that larger firms tend to have higher cash-flow-based payout intensity over time.
- **Liquidity** is negative and close to conventional significance levels ( $\beta = -0.3279$ ,  $p = 0.102$ ), but it does not meet the 10% threshold and is therefore interpreted cautiously.

Other controls (leverage, ROA, ROE, growth, age) are not significant.

### **Model fit note:**

The cash-flow payout model has very low explanatory power after adjusting for fixed effects (Adj.  $R^2 \approx 0.0035$ ), consistent with the high variability of operating cash flows and the sensitivity of cash-flow ratios.

### **Conclusion for Payout\_OCF:**

Both IFRS ( $\beta = -0.5170$ ,  $p = 0.710$ ) and political risk ( $\beta = 1.3062$ ,  $p = 0.252$ ) are statistically insignificant, indicating no evidence that the reporting regime or political conditions systematically explain cash-flow-scaled payout intensity once firm controls are included in the preferred RE/GLS specification.

## **4.4 Cross-Model Summary of Findings**

Table 10 supports three main conclusions:

1. **IFRS adoption is not statistically significant in any dividend-policy model** (Div\_dummy, Div\_yield, Payout\_ratio, Payout\_OCF). This suggests that IFRS adoption did not measurably change dividend behavior in Palestine after controlling

for firm fundamentals and time-varying within-firm variation. This is consistent with research emphasizing that IFRS adoption alone does not guarantee real effects without strong enforcement and institutional mechanisms (Ball, 2006; Soderstrom & Sun, 2007; Daske et al., 2008).

2. **Political risk is not statistically significant across all four dividend measures** in the preferred-model results. Although the coefficients vary in sign across outcomes, none are statistically distinguishable from zero at conventional levels. A plausible explanation is that dividend policies may be partly smoothed and reputation-driven (Lintner, 1956), and that a national political-risk indicator may not translate into uniform firm-level payout adjustments once firm fundamentals and fixed effects are accounted for.
3. **Dividend outcomes are explained primarily by firm fundamentals**, but the key drivers differ by dividend proxy:
  - **Size (ln\_assets)** is consistently important: it increases dividend payment probability (**Div\_dummy**), increases dividend yield (**Div\_yield**), and increases cash-flow payout intensity (**Payout\_OCF**).
  - **Profitability matters mainly for dividend payment** (ROA positive; ROE marginally positive), consistent with capacity-to-pay arguments (Fama & French, 2001; Denis & Osobov, 2008).
  - **Growth opportunities reduce dividend yield** (growth is negative at the 10% level), consistent with the idea that firms with higher growth retain cash rather than distribute it (Rozeff, 1982; Smith & Watts, 1992).
  - For **Payout\_ratio**, profitability (ROA) is negatively associated with payout ratios, consistent with dividend smoothing and denominator effects (Lintner, 1956).

Overall, the results indicate that dividend policy in Palestine is driven more by **firm-level fundamentals** than by IFRS adoption or political risk, at least within the structure and limits of this sample.

## Chapter Five:

### 5. Findings, Conclusions and recommendations

#### 5.1 Chapter Overview

This chapter concludes the study by summarizing the research purpose, revisiting the main empirical findings, and translating the results into implications for managers, investors, and market regulators. It also outlines the study's contributions, limitations, and directions for future research. The empirical analysis used a firm-year panel of Palestine Exchange (PEX) listed firms over 2004–2023 and examined whether IFRS adoption and political instability (political risk) affect dividend policy, controlling for firm fundamentals.

#### 5.2 Summary of Key Empirical Findings

The analysis examined four dividend policy proxies: dividend payment decision (Div\_dummy), dividend yield (Div\_yield), earnings-based payout ratio (Payout\_ratio), and operating cashflow payout (Payout\_OCF). The models were estimated using panel regressions with firm controls (size, leverage, profitability, liquidity, growth, and age), and the dataset was winsorized at the 1st and 99th percentiles for continuous variables to reduce the influence of extreme observations. Diagnostic tests indicated that serial correlation exists for some specifications and that cross-sectional dependence is present in the continuous payout measures, implying common shocks affecting firms simultaneously. These diagnostics motivate the use of robust inference and careful interpretation of coefficient significance.

Across the models, the overall pattern is clear: **dividend behavior in Palestine is explained primarily by firm fundamentals especially scale and profitability while IFRS adoption and political risk do not show robust, systematic effects once firm heterogeneity and controls are included.** This result is consistent with the broader view in the IFRS literature that adoption does not automatically generate real corporate outcomes unless it is accompanied by strong enforcement, monitoring, and investor protection (Ball, 2006; Daske et al., 2008; Soderstrom & Sun, 2007).

### **5.2.1 IFRS Adoption and Dividend Policy (H1)**

The study finds no statistically reliable evidence that IFRS adoption changes dividend policy across the four dividend measures. IFRS is not significant in the dividend payment decision model, dividend yield model, earnings payout ratio model, or operating cashflow payout model. While some IFRS coefficients are positive and others negative across outcomes, none are statistically distinguishable from zero at conventional levels. This suggests that, for PEX firms during the study period, IFRS adoption appears to be primarily an accounting/reporting transition rather than a shift that systematically altered payout behavior. This interpretation matches prior research arguing that the economic consequences of IFRS depend heavily on enforcement quality and institutional credibility rather than adoption alone (Ball, 2006; Soderstrom & Sun, 2007; Daske et al., 2008).

### **5.2.2 Political Risk and Dividend Policy (H2)**

Political risk does not show consistent statistically significant effects across the dividend outcomes once firm controls and firm heterogeneity are considered. The political risk coefficient varies in sign depending on the dependent variable but remains statistically insignificant in each model at conventional thresholds. This pattern suggests that the relationship between political conditions and dividend outcomes is not captured as a stable, direct “one-directional” effect in this setting. One plausible interpretation is that political instability may affect both firm cash flows and investor valuation simultaneously, and these forces can offset each other depending on the dividend proxy particularly for market-scaled measures like dividend yield. In addition, firms may smooth dividend behavior over time due to reputational concerns or dividend-clientele expectations (Lintner, 1956), which can weaken the measurable link between short-run political shifts and payout decisions.

### **5.2.3 Role of Firm Fundamentals**

The strongest results across the models relate to firm fundamentals:

- Firm size ( $\ln\_assets$ ) is consistently important. Larger firms are more likely to pay dividends, and size is positively related to dividend yield and to cashflow-based payout intensity. This aligns with global dividend evidence that larger, more mature

firms tend to distribute cash more reliably, reflecting stronger monitoring, more stable cash generation, and fewer high-return reinvestment opportunities compared with younger firms (Fama & French, 2001; Denis & Osobov, 2008; DeAngelo et al., 2006).

- Profitability is a key driver in multiple outcomes. For dividend payment, profitability (ROA) is positively associated with dividend payment likelihood, consistent with “capacity-to-pay” arguments in dividend theory. Profitability also influences payout ratios in ways consistent with dividend smoothing and denominator effects: when earnings rise faster than dividends adjust, payout ratios can mechanically decline (Lintner, 1956).
- Growth opportunities show the expected tendency to reduce shareholder cash returns in at least some models, consistent with the idea that firms with stronger growth prospects retain cash for investment rather than distribute it (Rozeff, 1982; Smith & Watts, 1992). In frontier markets, where external financing can be costly and volatile, the retention motive can be particularly strong.

Taken together, the findings suggest that dividend policy on the Palestine Exchange is shaped mainly by the firm’s scale, profitability, and investment/retention incentives, rather than by IFRS adoption or a national political-risk index once controls are included.

### **5.3 Implications of the Findings**

#### **5.3.1 Implications for Corporate Managers**

The results suggest that dividend decisions in Palestine are most closely linked to **sustainable operating performance and firm scale**. This implies that the most credible path toward stable dividends is not cosmetic policy changes but rather strengthening operating fundamentals and long-run financial capacity. Managers aiming to maintain dividend consistency should treat dividends as a function of long-run cash generation and balance-sheet resilience. Because payout ratios can be noisy and sensitive to denominator effects, dividend policy communication should emphasize sustainability and payout capacity rather than short-term payout ratio targets.

### 5.3.2 Implications for Investors

For investors in the Palestine Exchange, the evidence indicates that dividend outcomes are most closely associated with firm fundamentals especially size and profitability. Practically, investors seeking dividend income may benefit from screening for larger and more consistently profitable firms rather than relying on broad institutional shifts such as IFRS adoption to predict changes in payouts. Since the diagnostic tests indicate cross-sectional dependence in continuous payout measures, investors should also recognize the presence of market-wide shocks that can affect many firms simultaneously and therefore should diversify across sectors where possible.

### 5.3.3 Implications for Regulators and the Palestine Exchange

The lack of a measurable IFRS–dividend link does not imply that IFRS is unimportant; instead, it suggests that **adoption alone** may not be sufficient to produce real economic consequences. For regulators and the exchange, the policy implication is to emphasize **implementation quality**: enforcement consistency, disclosure monitoring, and governance incentives that support credible reporting. Strengthening enforcement and disclosure quality may improve information environments and pricing efficiency even if it does not directly “cause” dividend changes in the short run.

## 5.4 Recommendations

Based on the empirical results and diagnostics, the study proposes the following practical recommendations:

- **Prioritize fundamentals-based dividend policy frameworks.**

Firms should anchor dividend decisions in sustainable profitability and cash generation capacity. The findings show that firm fundamentals especially size and profitability are stronger predictors of dividend outcomes than IFRS adoption or political risk. Managers should avoid dividend policies that mechanically target payout ratios without considering denominator instability and earnings volatility (Lintner, 1956).

- **Improve dividend-policy transparency and communication.**

Because dividend outcomes are sensitive to profitability and investment needs, firms should clearly communicate dividend policy objectives (e.g., stable dividends, residual dividends, or target payout bands) and explain deviations during periods of operational or macro stress. This helps reduce uncertainty and improves investor confidence, particularly in small frontier markets.

- **Sustain high-quality IFRS compliance through proactive disclosure review, capacity-building, and audit-quality support.**

Because IFRS has been mandatory for PEX-listed firms since 2007, the practical policy priority is not formal adoption but the consistency and depth of implementation in high-judgment areas (e.g., fair value, impairment, and related disclosures). Regulators and the exchange can strengthen reporting credibility by conducting systematic disclosure reviews, issuing application guidance, supporting training for preparers and audit committees, and promoting audit-quality incentives. Prior literature emphasizes that the benefits and “real effects” of IFRS depend on supporting institutions and credible oversight (Ball, 2006; Daske et al., 2008; Soderstrom & Sun, 2007). Improving implementation quality can enhance market confidence and information efficiency even if dividend policy does not change mechanically.

- **Encourage resilience planning for system-wide shocks.**

Since cross-sectional dependence is detected in continuous dividend outcomes, firms and regulators should recognize that common shocks can affect many firms at the same time. The exchange and policymakers can support resilience through improved disclosure timeliness, investor communication standards, and guidance on risk reporting to strengthen the informational functioning of the market.

## **5.5 Contributions of the Study**

This study contributes to the literature in three ways. First, it provides new evidence from a frontier-market setting (Palestine) where dividend policy is under-researched relative to developed and large emerging markets. Second, it evaluates IFRS adoption and political risk simultaneously, allowing a more realistic assessment of whether reporting reforms

matter in a politically volatile environment. Third, the study strengthens methodological transparency by incorporating winsorization and reporting diagnostic tests for serial correlation and cross-sectional dependence, improving the reliability and interpretability of results.

## **5.6 Limitations**

Several limitations should be considered when interpreting the findings. First, the sample size is constrained by the number of listed firms, which reduces statistical power and limits the ability to test fine-grained heterogeneity (e.g., sector-specific behavior). Second, political risk is measured using an aggregate national indicator, which may not capture firm-specific exposure to instability. Third, payout ratios are inherently sensitive to denominator effects; although winsorization reduces outlier influence, ratio measures can remain volatile. Finally, the study focuses on linear panel specifications; while appropriate for the research questions, alternative estimators could be explored to address cross-sectional dependence more formally.

## **5.7 Future Research Directions**

Future work could extend this study by: (i) incorporating additional governance and ownership variables that may mediate dividend policy, (ii) distinguishing between sectors or ownership types to test heterogeneous responses, and (iii) applying estimators designed to handle cross-sectional dependence more directly (e.g., Driscoll–Kraay inference or common correlated effects approaches). Future research could also explore alternative political-risk measures, including firm-level proxies (e.g., geographic exposure or revenue sensitivity) to better capture the channels through which instability affects firm behavior.

## **5.8 Chapter Conclusion**

This study investigated whether IFRS adoption and political instability influence dividend policy among Palestine Exchange listed firms. The evidence indicates that dividend behavior is driven mainly by firm fundamentals such as size and profitability, while IFRS adoption and political risk do not exhibit robust direct effects on dividend outcomes once controls and firm heterogeneity are accounted for. The results support the view that institutional reforms require strong enforcement and complementary governance

mechanisms to generate measurable economic consequences. For practitioners and policymakers, the findings emphasize that improving firm fundamentals, disclosure quality, and implementation credibility is more likely to support stable dividend behavior than relying on reporting reform alone.

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