

Faculty of Commerce

Department of Accounting

Measuring the Impact of the systematic and Idiosyncratic Risk Disclosure on the Dividends Policy and its Effect on the Firm’s Value -An applied Study

***A Thesis Submitted in Fulfillment of The Requirements for The Degree of Doctor Of Philosophy In Accounting***

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Abstract

The study of risk disclosure is a vital area that has garnered significant interest. This research is considered a contribution to the previous accounting literature that dealt with the subject of corporate risk disclosure that provide key information to stakeholders, such as investors and lenders, to facilitate the achievement of a company’s long-term goals through its short-term accomplishments

This study aim is to measure the impact of both the systematic risk disclosure (SRD), and the idiosyncratic risk disclosure (IRD), separately supporting the heterogeneity hypothesis of the two categories of risk, on the Dividends policy(DP) and its effect on the firm value (FV) for non-financial companies listed on the Egyptian stock exchange. Using a sample of 75 companies from the period 2017 to 2022 which yielded 450 firm year observations.

Based on the results of the data analyizing, the researcher found a significant positive impact of both the SRD and the IRD on the DP, insignificant impact of the SRD on FV, positive impact of the IRD on the FV, significant positive of both the SRD and IRD on the firm value through the DP. This means that the DP positively moderates the SRD‑FV and IRD-FV relationship, indicating a complementary effect where dividends enhance the firm risk disclosure (SRD, IRD) positive signal. This research supports the signaling theory of firm risk disclosure. In essence, this research enhances understanding of the linkages between firm risk disclosure (systematic and idiosyncratic), dividend policy, and firm valuation outcomes.

**Key Words:** Systematic Risk Disclosure, Idiosyncratic Risk Disclosure, Dividends Policy, Firm Value

1.Introduction:

 In the realm of financial reporting, the principal aim is to provide key information to stakeholders, such as investors and lenders, to facilitate the achievement of a company’s long-term goals through its short-term accomplishments. Financial statements are instrumental in this regard, offering retrospective quantitative data that, while essential, often requires the support of additional notes and disclosures to provide a comprehensive understanding. This is particularly true in the context of Firm risk disclosure.

 The scope of firms’ disclosures regarding their risks has grown tremendously to include the market risk disclosure (systematic risk) which refers to the risk information occurring from the broader trends of market or due to macroeconomic fundamental factors: inflation, interest rates, exchange rates, and economic growth (Daromes, 2022). Systematic risk disclosure also refers to the risk disclosure about factors inherent to the entire market or [market segment](https://www.investopedia.com/terms/m/market-segment.asp). Systematic risk disclosure, also known as “undiversifiable risk disclosure,” “volatility” or “market risk disclosure” that affects the overall market, not just a particular stock or industry (Chen, 2022). Thus, the systematic risk disclosure is concerning with the company’s exposures to all types of market risks (Interest rate, Exchange price, currency rate, and inflationary)

Idiosyncratic Risk disclosure is the specific risk information related to the inherent factors that can negatively impact individual securities or a very specific group of assets due to elements inside an organization. Such elements usually can be controlled from an organization's management. it can be mitigated by **diversification into the investment portfolio**, it is micro in nature as it affects only a specific organization. It can be controlled so that necessary actions can be taken by the organization to reduce the effect of the risk (Leyla Greengard 2019). Idiosyncratic risk is a market-based measure of corporate financial performance that is more robust than accounting based financial performance measures, which do not allow for separating firm-specific risk from total risk and may be subject to different reporting standards and manipulation. Consequently, idiosyncratic risk, may decisively influence success or failure when companies go public (Beat Reber, 2021).Thus idiosyncratic risk disclosure includes private information about (operational risk, credit risk, liquidity risks). This valuable information has significant implications on the firm and affects important decisions like the dividends policy, which correlates with the investment and the liquidity decisions and finally this affects the firm value created by the investors in the market.

**The motivation for the researcher's conduct of this research is that the subject of "measuring the impact of the accounting disclosure of systematic and idiosyncratic risks on the dividend policy and its impact on the firm value" did not obtain sufficient attention from researchers theoretically and empirically, which prompted the researcher to address this topic on the Egyptian Environment**

2.Research Problem

### Due to the changes in the business environment, the most important of which are the complexity of the company’s operations and financing structures, and the intensification of competition which have led to a reconsideration of the current forms of financial reporting as they lack transparency and clarity in the disclosure of risks which lead to The "Risk Information Gap" between financial statement preparers and users as well as the inadequacy of risk disclosure techniques.

The scope of firms’ disclosures regarding their risks has grown tremendously to include the market risk disclosure (systematic risk) and specific risk disclosure (idiosyncratic risk) which include private information about (operational, credit, liquidity risks). This valuable information has significant implications on the firm and affects important decisions like the dividends policy, which correlates with the investment and the liquidity decisions and finally this affects the firm value created by the investors in the market.

Trying to explain why firms decide to pay dividends has created significant problems for many researchers. The determinants of the dividends policy have taken much interest by the researchers , the researcher concludes that the following three determinants: Investment opportunities, Firm liquidity, and Firm profitability may have the significant and the common effect on both the dividends policy according to most of the theoretical and empirical studies mentioned, which lead the researcher to measure the impact of the systematic and idiosyncratic risk disclosure on the dividends policy directly and also on the three main determinants on the dividends policy. and then measure their effect on firm value, which serve the objective of the research.

3.Research objectives:

the main objective of the research is to measure the impact of the accounting disclosure of both systematic and idiosyncratic risks on Dividends policy and its effect on the value of the company.

1-Study and measure the direct impact of systemic risk disclosure on the dividend policy and its effect on firm value.

2- Study and measure the Indirect impact of systemic risk disclosure on the dividend policy three main determinants (Firm liquidity, Investment opportunities, profitability) and its effect on firm value.

3- Study and measure the direct impact of Idiosyncratic risk disclosure on the dividend policy and its effect on firm value.

4-Study and measure the Indirect impact of Idiosyncratic risk disclosure on the dividend policy three main determinants (Firm liquidity, Investment opportunities, profitability) and its effect on firm value

4.Research Importance:

1. Shedding lighter on the importance of the subject of research by studying the nature of systematic and idiosyncratic risks, and the nature of the accounting disclosure about them separately and measuring the impact on the dividend policy and the value of the company, with the scarcity of Egyptian and foreign studies that dealt with this effect.
2. Conducting an applied study on a sample of Egyptian companies listed on the Egyptian Stock Exchange to study the current corporate risk disclosure (systematic and idiosyncratic) in the Egyptian Environment and to measure the effect of the accounting disclosure of systematic and idiosyncratic risks on the dividend policy and its effect on the firm value
3. Help companies improve financial reporting about risk information, identify the type of risk information that will be disclosed, help corporations to manage the threatens and uncertainty and decrease the cost of the capital, Helping companies and the investors in assessing the effect of risk disclosure on one of the important decisions which is dividends policy that have a significant effect on the financing and investment decision and finally effect the firm value.

5.Research Scope and Limitation:

1. The researcher will explain the general framework for systematic, idiosyncratic risks and the dividend policy without addressing other categories of risks.
2. The researcher is limited in studying the impact of risk disclosure on the dividends policy on the cash dividends policy not the stock dividends.
3. The researcher will depend on, the study of the effect of the firm risk disclosure on the dividends policy, only on three determinants of the dividends policy (Investment opportunities, firm liquidity, and the firm profitability).

Research Hypotheses:

1. Hypothesis (H1) The Systematic Risk Disclosure has a positive impact on the Dividends policy and then the firm value.

Hypothesis (H1) The Idiosyncratic Risk Disclosure has a positive impact on the Dividends policy and then the firm value.

6.Research Findings:

1. The research proved the validity of the first hypothesis by finding a significant impact of the systematic risk disclosure on the dividends policy and then the firm value directly and based on the dividends policy determinants, The study could find that companies with higher levels of systematic risk disclosure tend to have more stable dividend policies and much firm value directly and based on the followings:
2. The validity of the second hypothesis(H2) by finding a significant impact of the idiosyncratic risk disclosure on the dividends policy and then the firm value directly and based on the dividends policy determinants which approved the first dimension of this type of risk disclosure. Companies that provide transparent disclosures about idiosyncratic risks and their mitigation strategies may be perceived more positively by investors, leading to higher confidence in the sustainability of dividend payments based on the following results
3. In general, the researcher could reach these general results:

-The dividends policy positively moderates the systematic risk disclosure-firm value relationship, and idiosyncratic risk disclosure firm value relationship, indicating a complementary effect where dividends enhance the firm risk disclosure (systematic and idiosyncratic) positive signal.

-The research results have approved the signaling effect theory of the dividends policy theories, Dividend decisions are seen as strategic signals that can influence investor perceptions, stock prices, and ultimately, the cost of capital which affects the firm value. for the company, Investor or

potential investor forecasts the profit of the company, which in fact is influenced by the rate of dividend.

-The applied study results approved the convergence of the effects of the risk disclosure categories in the Egyptian environment which requires a further guideline to separate between them in the financial statements.

7.Research Recommendations:

1. The findings highlight the importance of Egyptian companies to consider the impact of risk disclosures on investor perceptions and adjust dividend decisions accordingly. For example, during periods of heightened risk, conservative dividend policies may be more appropriate to preserve financial flexibility.
2. The companies also should strive to improve the transparency and clarity of their risk disclosures. Providing detailed information about both systematic and idiosyncratic risks, along with mitigation strategies, can help investors better understand the company's risk profile and make more informed investment decisions.
3. Egypt regulatory authorities should prioritize the disclosure of risk for each type of risk disclosed (systematic and idiosyncratic) separately aiming to offer a transparent overview of firms' risks, establish clear guidelines and standards for risk disclosure practices, including requirements for disclosing both systematic and idiosyncratic risks.