Global Journal of Sciences
Volume 2, Issue 2, 2025, Pages 143-165
DOI: https://doi.org/10.48165/gjs.2025.2211; ISSN: 3049-0456
https://acspublisher.com/journals/index.php/gjs

Research Article

The Impact of Capital Reduction on Share Prices: An Event Study of Companies Listed on the Saudi Stock Exchange (Tadawul)

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ARTICLE INFO

Article History
Received 25 Sep 2025
Revised 13 Oct 2025
Accepted 18 Oct 2025
Published 17 Nov 2025

Keywords
Capital Reduction Announcement,
Abnormal Returns,
Event Study,
Saudi Stock Exchange.

ABSTRACT

This research evaluates the impact that capital reduction announcements have on the stock prices of firms that are listed on the Saudi Stock Exchange (Tadawul) between 2020 and 2024. Specifically, the study will focus on the period between 2020 and 2024. This research makes use of the event study methodology in order to assess the effectiveness of the market as well as the actions of investors in response to business events. In order to achieve this task, it is necessary to evaluate the course of market responses and the timing of those reactions. To be more specific, the objective of this study is to analyze whether or not the reduction in capital serves as an early warning sign of financial difficulties, or whether or not it is a deliberate process of financial restructuring with the idea of boosting the organization's worth over the long run. According to the findings of empirical research, announcements of a decrease in capital at the time of the event do not evoke a market reaction that is statistically significant in a negative direction. After an initial period of investor concern, the data suggests that there was a relatively favorable cumulative impact. This is in contrast to the previous statement. The fact that this is the case shows that market participants may see these declarations as components rather than indicators of a crisis or of aggressive financial management. The purpose of this study is to contribute to the knowledge of financial restructuring, company signaling, and market efficiency in emerging countries. The dissemination of data extracted from the expanding Saudi capital market is how this objective is fulfilled. These results shed light on the need of conducting an evaluation of activities that are targeted at decreasing capital within the context of a strategic governance framework that is in accordance with the goals of Saudi Arabia's Vision 2030. As a result of this, they bring attention to the possible importance that these activities may have in increasing the confidence of investors and assuring the organization's capacity to continue operating financially in the future.

1. INTRODUCTION

A company's rearrangement of its corporate financial structure, especially the decrease of capital, significantly impacts its market value and share performance. Another key strategic act is the reduction of the company's capital. It is generally agreed upon that this procedure is one of the most important strategic activities that may be taken. In accordance with the law, it is defined as a reduction in either the number of shares that are now outstanding or their nominal value, with the intention of achieving the objectives of raising profits per share (EPS), strengthening capital structure, or compensating for losses that have accumulated over the course of

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time. All three authors, Myers, Brealey, and Allen, had their work published in the year 2020 [1]. In the sphere of theoretical discussion, the topic of whether or not capital reductions influence swings in share prices is still a contested one. This is because the subject is still being thought about. The possibility exists that this is an indication of operational inefficiencies or financial difficulties, both of which have the ability to result in a decline in share value and a negative response from the market. Both of these outcomes have the potential to have a negative impact on the company. On the other side, this action may be considered a positive sign from management, since it demonstrates that they are paying attention to enhancing the company's financial health.

The signaling theory was introduced by [2] as a technique of obtaining optimal well-being and boosting investor confidence. This circumstance gives a distinct take on the matter. The identification of which of these interpretations is the most widespread in a specific market setting is of the highest significance. Within the context of the Saudi Stock Exchange (Tadawul), it is of the utmost importance to carry out an exhaustive study into the consequences that declines in capital have had. It has been determined by the International Monetary Fund (IMF) that among the financial markets that are situated in the Middle East and North Africa (MENA), Tadawul is the most significant and active market. In this way, it can successfully fulfill the not only considerable goal of strengthening the Saudi economy but also the goal of increasing the number of investors of other countries. The possibility of the Saudi market responding to a fall in capital will depend on a variety of factors such as the regulatory framework, the demographics of investors, and the impact they possess on a wide range of sectors of the economy. The disclosures can vary greatly as compared to the disclosures made under other situations [3]. The two may have a significant difference. To fill in a gap identified in existing body of research, this study will be aimed at conducting a comprehensive evaluation of the impacts of going down the capital share prices on the Saudi market.. As a result of the results, it is anticipated that persons in charge of financial management, investors, and regulatory bodies would be subject to serious consequences. The following is a list of the primary factors that contribute to a decrease in capital:

A company may lower its share capital via the sanctioned mechanism known as capital reduction. This operation allows the company to reduce the nominal value of its shares or cancel them altogether. Brealey, Myers, and Allen [1] state that "transferring surplus funds to shareholders, improving financial ratios, or eliminating accumulated losses" are all examples of potential strategies. Studies that were carried out not too long ago in the disciplines of management and finance have brought to light the fact that capital reduction is an essential financial instrument that businesses use to achieve a broad range of financial and strategic objectives. This technique has several primary goals, two of which are the elimination of accumulated losses from financial statements and the ultimate restoration of balance. The execution of this approach is underpinned by a major justification for its implementation. This approach aims to improve the overall financial stability of the company by addressing the relationship between paid-up capital and shareholders' equity [1]. Furthermore, [4] state that several businesses are working toward the goal of improving their capital structure by reducing the amount of surplus or underutilized capital to maximize the efficiency with which they use their financial resources. According to [5], one of the most important factors is the decline in the total number of shares that are now outstanding, which is accompanied by an increase in the profitability per share. It is of utmost importance to provide help to firms to support them in improving their market value and strengthening investor trust. Comparably, it is used to reconcile book values and adjust ownership percentages after firm splits or mergers, as well as during post-merger or demerger restructuring and capital reduction [6]. Additionally, it contributes to the reduction of capital. Additionally, it is used to modify ownership percentages. The signaling hypothesis suggests that a decrease in capital may be seen by markets as a positive indicator of management's dedication to long-term strategy and financial discipline. A correlation exists between the two. This is the hypothesis that underpins the theory. The findings may be considered a positive development in the field. As stated by [2], an improvement in performance presents an opportunity to boost the level of confidence that investors have in the firm. According to [7], this strategy has the potential to improve financial performance measures such as return on assets (ROA) and return on equity (ROE), which in turn will lead to an improvement in the company's reputation, financial status, and stakeholder relations. Some firms cut their capital to reach regulatory levels to comply with the legal and regulatory standards that have been set by regulatory authorities, especially those rules that are connected to the needs for capital in the economy at this stage. The purpose of doing these tasks is to ensure that compliance requirements are adhered to. Adaptability often refers to an organization's ability to manage large financial crises. This capacity is assessed based on the ratio of the company's capital to its operational size [8], Either the redistribution of income or the return of capital to the owners may be possible via the use of a technique known as capital reduction. The use of this strategy is especially beneficial in circumstances in which the company does not have access to substantial investment prospects. According to [9], this type of reduction causes an increase in the efficiency with which resources are allocated, which in turn makes it easier to make use of existing capital.

The permitted method of capital reduction allows a corporation to reduce its share capital by either canceling shares or reducing the nominal value of its shares. This means that the firm may reduce its share capital. Through the use of this process, the company is able to decrease its share ownership. [1] say that "distributing excess funds to shareholders, enhancing financial ratios, or eradicating accumulated losses" are examples of strategies that are viable. Research that was conducted not too long ago in the field of finance and management suggests that capital reduction is an important financial tool that is used by businesses to accomplish a variety of financial and strategic goals. Two of the most important goals of this technique are the elimination of cumulative losses from the financial statements and the subsequent reestablishment of equilibrium. This is one of the primary explanations for the method's existence. By bringing the discrepancy between paid-up capital and shareholders' equity into harmony, this method ultimately contributes to the improvement of the organization's financial well-being [1]. In addition, [4] state that several organizations are working toward the goal of improving their capital structure by reducing the amount of excess or underutilized capital to maximize the efficiency with which they use their financial resources. Another important justification is the decrease in the total number of shares that are now outstanding, as well as the increase in profitability per share. By doing so, they assist businesses in increasing their market value and boosting the trust of investors. Additionally, it is used in the process of reconciling book values and modifying ownership percentages after business splits or mergers, as well as in the process of post-merger or demerger restructuring and capital reduction [6]. A drop in capital may be regarded by markets as a good indication of management's dedication to long-term vision and financial efficiency, according to the signaling theory, which argues that markets may see the change as a positive signal. This decline [in] one may consider the result to be a positive turn of events. [2] establishes a correlation between an increase in investor confidence and an improvement in the performance of the company. There is a possibility that this approach may improve financial performance indicators, such as return on assets (ROA) and return on equity (ROE), which would eventually lead to an improvement in the creditworthiness of the business.

I would appreciate it if you could offer a comprehensive account of the present financial situation of the firm, including the many partners who are involved. Certain companies reduce their capital at the regulatory level in order to achieve compliance with the legal and regulatory standards that have been established by regulatory authorities, particularly with respect to the capital needs. This is done in order to meet the minimum requirements for capital. In order to guarantee that compliance standards are met, it is necessary to make cuts of this kind. A. The Organization for Economic Cooperation and Development (OECD) states that this ratio is used to assess the capital of a business in relation to the volume of its activities. This ratio is a reflection of the company's capacity to deal with harsh financial situations. According to the authors of [9], cash reduction may be able to assist in the redistribution of income or the return of cash to owners, hence promoting efficient resource allocation for the deployment of excess capital. The significance of this ratio becomes more apparent in circumstances in which a firm does not own any investment options that are appealing to the organization.

1.1 An Examination of the Correlation Between Financial Strain and Affirmative Indicators

Since the beginning of corporate finance, one of the most contentious theoretical issues has been the effect that announcements of capital reductions have on the view of the market. According to the notion of financial distress, a decline in capital might be read in a negative manner, implying that a firm is either unable to create adequate internal finance or that it has basic operational problems. In the event that this action shows that cumulative losses have resulted in a reduction of the shareholders' equity, it is possible that they will want an adjustment to the capital basis. This position contends, on the basis of the results shown in [10], that the disclosure may result in unfavorable responses from investors as well as a fall in the value of the company's shares. It is possible that the market may see it as evidence of managerial failure or instability in the financial system.

In contrast, the signaling hypothesis proposes an alternative interpretation, which is that a decrease in capital might be seen as a sign of optimism from management. This view is in opposition to the previous interpretation. This interpretation is based on the firm's future prospects, its commitment to achieving profitability, and its operational proficiency.

To strengthen the balance sheet of the company, increase the value of the company's shareholders, and give the impression to the market that the company is exercising fiscal constraint, [11] propose that management make these modifications on their own volition. This is done to strengthen the firm's balance sheet. Therefore, investors may view a voluntary reduction in capital to be evidence of innovative leadership and effective management, particularly when it is followed by an increased potential for profit. This is especially true when the amount of capital that is reduced is voluntary. Real statistics on global markets continue to lack consistency.

In a study that was carried out by [12] , the researchers came to the conclusion that the response of the market to the news of a decrease in capital is impacted by several different factors. Numerous factors impacted the market's response, proving this. The company's position, investor expectations, and market maturity are some factors that may be considered. There are a number of other elements that may also be considered. The existence of these contrasting points of view sheds light on the significance of context in a variety of markets, particularly in developing nations such as Saudi Arabia.

It is claimed that around seventy percent of the whole market is accounted for by the Saudi Stock Exchange (Tadawul), which is the most major and active financial market in the region that spans the Middle East and North Africa.

People commonly refer to this exchange as the Qatar Stock Exchange. Although it was initially established as a joint-stock company in 2007, Tadawul continues to exercise control over more than seventy percent of the market value of the whole industry, as stated by the International Monetary Fund [13]. The IMF provided this information. This is the case as of the current moment. This is the current situation. In the process of developing capital, the Capital Market Authority (CMA) area is an essential component. This is due to the fact that it makes it easier for businesses to get cash for extending their operations. Both the goals of Saudi Arabia's Vision 2030 and the aims of this document are supported by it. Consequently, Tadawul serves as a hub for foreign investors seeking to put money into the largest Gulf economy by analyzing its regional activities. Because of the agreement, it is now more liquid and more integrated globally; it is a part of two of the world's main indices: the FTSE Russell and the MSCI Emerging Markets primary indexes. When it comes to examining capital reductions and other corporate restructuring choices, Tadawul provides a novel empirical approach. There are many intriguing aspects of the Saudi market:

There is a large concentration of ownership among powerful families and governments, and there is a rise in the number of individual investors whose sentiments might amplify temporary fluctuations in the market. The proposed changes to the law aim to enhance market transparency and efficiency.

These characteristics suggest that investors may see capital depreciation differently than in more affluent countries. For example, Saudi Arabian investors can see capital depreciation differently. For example, instead of seeing these stories as just economic indicators, they may be considered parts of a broader company strategy.

2. PROBLEM STATEMENT AND STUDY QUESTIONS

An explanation of the issues that are now being faced Even while publicly traded corporations are increasingly using capital reduction as a method of financial restructuring, there is still a lack of clarity around how investors interpret these movements, particularly in developing nations. This is especially true in those countries where the economy is still in the process of developing. There are other theoretical perspectives; the financial hardship hypothesis proposes that a decline in capital is an indication of economic instability, while the signaling theory claims that it demonstrates management confidence and a strategy to maximize firm value. Both of these hypotheses represent different perspectives. As instances of various theoretical perspectives, both of these concepts are presented below. It is essential for investors and organizations alike to have a firm grasp of these competing points of view in order to effectively traverse the complexity of financial decision-making. This is because the decision-making process may be rather complicated. For the purpose of determining the extent to which cultural and economic factors have an impact on the responses of investors to strategies for capital reduction in these markets, it is essential to do more study. In the Saudi Stock Exchange (Tadawul), there have been very few empirical studies undertaken on how the market reacts to announcements of capital decreases. These research have been conducted on a limited number of occasions. As a result of the fact that the bulk of the research that has been conducted up to this point has focused on stock splits, dividend policy, and capital expansions, there is a scarcity of knowledge about how investors react to drops in capital in the context of Saudi Arabia. It is possible that investors and policymakers may gain important insights that can be utilized to make better choices if they have a better understanding of these patterns. Furthermore, comparative studies of other developing nations may provide insight on the greater ramifications of capital reduction strategies across a number of cultural and economic environment situations. This is achieved via the research of other rising nations. When the particular characteristics of the Saudi market, such as concentrated ownership and the regulatory framework, are taken into account, the fact that capital reduction announcements continue to have an impact on market movements, whether in a positive or negative way, remains a contentious subject. Retail investors have a big impact on the alterations that are made via their investments. Their responses have the ability to have a considerable influence on stock prices as well as the general mood of the market, which highlights the need of good communication strategies inside companies. In light of this, getting an understanding of the motivations behind and actions done by these investors may provide valuable insights into the dynamics of the market in Saudi Arabia and other nations that are similar to Saudi Arabia.

The goal of this study is to bridge the knowledge vacuum that has been brought to light by doing empirical research on the impact of capital reduction announcements on stock prices and market behavior in the Saudi capital market. We will accomplish this by conducting research on the Saudi capital market. This study's objective is to determine if the decrease in capital in Tadawul's turbulent financial environment serves as a bad financial indication or a beneficial management signal. The research will be conducted in order to accomplish this objective.

2.1. Study Questions:

The following research attempts to answer the significant questions in respect to the goal outlined above. Such questions will act as a guiding factor on how we are going to carry out our investigations and it will enable us to gather relevant data. With answering these questions, we hope that we will have a chance to acquire knowledge that will contribute to our understanding of the matters of the subject.

(1) How well the initial market response to the announcement of capital cutover indicates the market efficiency and investor behaviour in the Saudi financial market (Tadawul)? We are also going to analyze how other external forces such as legislative policy and economic conditions will influence market reactions. With this extensive research, we will be in a position to make substantial conclusions concerning the dynamics of Tadawul and the implications that the latter has on investors and regulators.

(2) Reduction in capital is a symptom of a financial crisis, which makes investors perceive it as a symptom of instability. This, in its turn, might contribute to an increase in the stock prices volatility. Should the market believe that cutting of capital is a long-term developmental strategy, then there is the possibility that this move would enhance investor confidence and this will eventually translate to increase in stock prices in future.

(3) whether or not it can also be the sign of proposed financial reorganization that is set to enhance value in the long term. One of the possible aspects of this reorganization is the redistribution of resources to initiatives that are more profitable or the increase in the efficiency of operations. Finally, the perceived reasons behind the changes in capital and the situation in the economy in general will define the reaction of the market.

2.2. The Justification of Academics

This study contributes to the larger literature that has been generated on the topic of business signaling, market efficiency and financial restructuring in the developing countries. These are all the issues that have been considered in this research. This contribution is done with the view of addressing the issues that have been raised in the earlier discussion. One should know how companies report to investors about their financial strength and financial aspirations because this communication channel can create a significant impact on how investment community will perceive the company and decisions that investors make regarding investments. This highlights why it is imperative to be aware of how firms are communicating these to investors. This research is aimed at providing significant information about the effectiveness of the different techniques of signaling employed by businesses. These learnings are acquired by exploring a wide range of case studies and the responses of the market. It concludes by stating that politicians and corporate leaders should adopt good habits of open communication. These practices can foster trust in the market and also lead to the creation of a sustainable economy. Perhaps, politicians and business executives may find the insights offered by this study to be useful in their efforts to tackle the issues that are related to economic growth. These discoveries are a result of the exploration of these underlining processes. It provides empirical evidence of one of the capital markets in the Middle East and North Africa region that is growing at the most rapid pace. This is one of the capital markets that is under discussion. Both theoretical and practical implications of this information exist and they are applicable to the academics, investors, and regulatory bodies to take into consideration. In as far as the mechanism of instilling investor confidence and supporting economic growth is concerned, the findings provide an insight into the applicability of great communication and transparency. Also, they indicate that customized policies can contribute to a further enhancement of the market stability and influx of foreign investment which would eventually result in an even more stable economic situation in the area. This would all be achieved through the use of these policies. The stakeholders in such markets will be required to engage in constant research and cooperate with each other to identify solutions to the one-of-a-kind issues and prospects that emerge as the markets keep increasing. Provided that the region pays innovation and adaptation a high price, it will be capable of establishing itself as a strong participant in the global financial market. This is a possibility.

3. REVIEW OF LITERATURE

The article conducted by Munoz Mendoza and his team in the year 2020 was aimed at exploring the impact that capital structure changes produced on stock values in Chile. The outcomes led to the conclusion that the transformation of capital structure and the stock prices is significantly related. This was determined during the analysis of the data. This conclusion shows that through stringent management of the financial leverage that the businesses use, they have the opportunity to enhance their performance in the market. This research does not only contribute to the body of information that has been published in the past but it also offers the investors and corporate managers in the region with valuable insights that they can implement. This can be attributed to the fact that the findings are full of information, which has not been discovered in any other published works. To collect data, the researchers relied on event researches and instrumental variable regressions throughout the process of studying seventy publicly listed companies of their own choice. The approach adopted facilitated a full examination of market responses to changes in capital structure since it helped in capturing substantial data trends owing to the fact that it enabled capture of the data. This investigation was done throughout a period of several months. Also, the implications of such findings can be improved investment tactics and decision-making in the Chilean financial market by individuals who are keen on making informed judgment based on trustworthy information. This is to serve the interests of the individuals who are interested in decision making. In the process of their study, they came to the conclusion that the ownership of the blockholders has a negative impact on the stock prices whereas the issuing of the equity has a positive impact on the stock prices. Their results showed a negative impact by blockholder ownership on stock prices and positive impact on stock prices by equity issuance. The data that they collected proved this. By illuminating on the complicated dynamics that are in play in the behavior of the market, these findings reveal the need to comprehend the roles that various ownership arrangements and equity strategies might play. The reason is that these observations highlight the intricate dynamics that are involved. With this knowledge being digested by the investors and analysts, it can lead to a re-evaluation of the processes that are already underway and a shift towards a more strategic attitude to managing portfolios. In addition, the study found that there is a link that follows a non-linear pattern between the reactions of stock prices, the use of financial leverage, and the potential for growth that exist between the three aspects. This was one of the findings of the research. This was one of the findings of the study. The study illuminates the significance of market decisions regarding ownership structure and capital. This paper provides evidence for the ongoing research that is being conducted on the influence that a drop in capital has on the pricing of Saudi stocks. An investigation of the influence that capital reduction announcements have on stock prices was carried out by [14] beginning in 2011 and continuing until 2023. Both regression analysis and an event study methodology were used in the research that was carried out today. During the course of their investigation, they came to the realization that reductions in capital cause beneficial reactions from the market as well as improvements in cumulative abnormal returns. According to these findings, investors may see drops in capital as an indicator of the corporation's stability or as a strategic repositioning of the organization. Both of these interpretations are possible. The ramifications of these findings for investors and policymakers in the area will be further investigated in this article via additional exploration. Crucial factors influencing this effect are return on equity, debt ratio, cash flow ratio, and firm size. Due to a lack of capital, the research suggests that Saudi bank stock values are falling. Dewantara and Indrawati [15, 16] investigated the effects of rights issues and debentures on the Colombo Stock Exchange's stock prices in 2023. From 2012 to 2019, the inquiry was ongoing. The figures indicate that anytime there were concerns about rights during the COVID-19 outbreak and the Global Financial Crisis, stock values decreased. This decline occurred throughout both of these periods. All throughout the time period, this was the situation. This adverse reaction was able to be seen due to the length of time that was available. The significant event that had been anticipated eventually took place. During times of crisis, investors may have responded unfavorably to the apparent dilution of their holdings, according to the results, which imply that this may have been the case. In light of this, gaining an understanding of the fundamental psychological processes that are at play among market players during these times may provide useful insights for future funding choices on the exchange. On the other hand, announcements of debentures prompted a range of responses from the sector, which illustrates that the Sri Lankan market does not totally conform to the idea of semi-strong market efficiency. The existence of this gap demonstrates that further study has to be conducted in order to get an understanding of the ways in which the behavior of the market is influenced by external variables such as the state of the economy and the sentiments of investors. The research of these links enables stakeholders to traverse the intricacies of the financial world more successfully and to arrive at investment decisions that are more personalized to their needs. This comes about as a consequence of the fact that these relationships have been investigated.

The results of this research shed some light on how capital structure can affect stock prices and investor behaviour. Using the example of Spire Missouri, Peterson [17] carried out a research which examined how regulations affect the capital structure and stock price of a corporation. Considering the results, regulatory frameworks can exert a considerable level of influence on financial decisions, which, in the long-term perspective, can affect the market perspectives and trigger confidence in investors. Due to this connection, the topicality of the knowledge of the internal and external factors within the framework of corporate finance strategy is put into clearer detail. In January of 2018, they reached a conclusion of negative reaction by investors after disclosure of equity ratio in a regulatory hearing indicated that Spire had a lower equity ratio as compared to expected. This made them feel that there was a negative response by the investors. The result of this is that it is estimated that the value of the shares went down between three and four percent. The data show that the causes of the fluctuations in law and the profitability of companies as well as the belief of investors are all interrelated in Saudi financial system. This data was obtained through the Stock exchange in Saudi Arabia. Due to this very incident, the necessity of preserving transparency and flexibility concerning the reporting of financial information of the firms is brought into even greater focus. To maintain the trust of investors and to discourage stock prices fluctuations, companies must take the initiative in the way that they relate to the investors. The reason for this is because the laws are under constant revision. During the period of 1989 to 2020, the research conducted by Contaduríay Administración in 2022 aimed to investigate the influence of debenture issuance announcements on the returns of Brazilian stock markets. The findings indicate that the stock market exhibits a range of responses, including a reduction in the number of returns that are incorrect and an increase in the dispersion of returns within the market. Investors perceive a reduction in confidence as a consequence of the assumption that debt issuance is a sign of less liquidity or more leverage. This view caused investors to feel less confident in the market. It may be concluded that the results of the inquiry provide credence to the pecking order idea. In light of this, it is very necessary for companies to pay careful attention to the financial strategies and communication tactics that they use when engaging with investors. By handling difficulties that are associated with liquidity and leverage in an appropriate manner, businesses have the power to create a more solid reputation among their stakeholders. Because of this, it is possible that in the long run, the stock performance will be more favorable. The circumstances that have an effect on the capital structures of non-financial businesses that are listed on the Saudi Stock Exchange are the subject of the investigation that

Nouf Alabdulkarim [18] has been doing during the course of his study. For the purpose of shedding light on the influence that the idiosyncrasies of the Saudi economy have on leverage, profitability, and firm size, a fixed-effects regression model is applied starting in 2010 and continuing through 2021. This model is used to analyze the data obtained from the Saudi economy. The executives of the company have the ability to improve their financial plan with the assistance of this study, which provides them with knowledge that is of critical importance. The research that was carried out by [19] explores the responses of the Saudi market to the announcements of rights problems that were made by sixty-five different firms within the Saudi market between the years 2013 and 2023. These announcements were made between the years 2013 and 2023. The responses to rights offers that are intended at investment or debt repayment are investigated by us via the use of event research approaches. These analyses are carried out by us. When rights offers are presented with the goal of paying off debt, it seems that the market responds in an adverse way. This conclusion is based on the data. Following the disclosure of the problem by the corporation, the share prices on the first trading day following the disclosure are lower than they were the day before. It is possible to notice this pattern.

The results of the research shed light on the multiple opportunities for financial support that were made available during the COVID-19 epidemic. Given the consequences of these results, it is possible that businesses may need to reevaluate their approaches to the market in order to get further investment. It would seem that investors are more interested in cash offerings that indicate the possibility of growth than those that are merely geared at reducing debt level. With this information, it seems that financial troubles have a negative impact on the attitude of investors toward such offers, which ultimately results in a decrease in market confidence. It may be necessary for businesses that are attempting to stabilize their finances via rights offers to use communication tactics that are more open in order to alleviate the fears of investors and improve the perceived value of their offerings.

3.1 Comparing The Two Studies Reveals Some Important Findings

The majority of foreign research (Chile, Brazil, Sri Lanka) focused on changes in capital structure via the issuance of debt or equity and found that debt financing had a negative impact on the stock market. Several studies have shown that when capital reduction announcements indicate either improved financial performance or increased operational efficiency, they may elicit favorable responses (e.g.,[14]

The majority of studies conducted in Saudi Arabia have focused on factors that influence capital structure or rights offers [18,19]. Although capital reduction announcements are becoming more and more relevant to corporate restructuring activities, none of these studies have looked at them. Because the event research technique continues to be the most popular strategy for assessing market responses to financing choices, it is an excellent framework for the study that is now being conducted.

3.2 Study Gap

There have been a number of studies that have researched the effects of capital reduction announcements on share prices in the Saudi financial market (Tadawul), despite the fact that a number of studies have investigated stock price reactions and capital structure adjustments in both emerging and existing markets. The fact that Saudi businesses are increasingly using capital reductions as a means of reducing accumulated losses or improving their financial structure makes this gap especially relevant. To add salt to injury, a prior Saudi research did not undertake an extensive analysis of the short-term and long-term consequences that announcements of this sort have on the mood of investors and the performance of the market. This is a disappointing omission. It is possible that stakeholders and policymakers in the area may be able to obtain important insights if they are able to get an understanding of these trends. The influence that capital reduction strategies, such as loss mitigation and capital reorganization, have on market responses should be taken into consideration, and a study of these consequences should be carried out. Utilize financial indicators like as profitability, liquidity, and leverage in order to have a better knowledge of the reactions of investors. This will allow you to make strategic decisions. It is necessary to carry out an investigation in order to ascertain the degree to which the Saudi market is capable of processing financial data in comparison to other economies that are experiencing rapid growth. This method will not only aid us in gaining a more comprehensive comprehension of the volatility of the market, but it will also be of assistance to us in the process of formulating tactics that have the potential to increase investor confidence during periods of uncertainty. Conducting an examination of the response of the Saudi market to financial indicators in contrast to developing nations may allow stakeholders to find optimal practices and prospective areas for improvement. This may be accomplished by comparing Saudi Arabia to emerging countries. In order to fill this information vacuum, the purpose of this study is to investigate the impact that announcements of capital reductions have on changes in stock prices in the Saudi market. Specifically, the research will focus on the Saudi market. This will be accomplished via the use of an event study methodology. Through the use of this method, one will be able to get one-of-a-kind empirical data about the effectiveness of the market, the responses of investors, and the signaling function that decisions concerning capital restructuring play in emerging nations. It is likely that the results of this research might provide significant insights for investors as well as governments who are looking for methods to promote market stability and attract foreign investment. This is something that is achievable. If stakeholders do a study of market reactions to announcements of capital reduction, they will be able to more effectively manage the issues that rising economies bring, as well as make decisions that are informed and that support economic growth. This will allow them to make choices that are both informed and that encourage economic progress.

4. METHODOLOGY

This study is taking a mathematical approach to investigate the relationship existing between the capital changes and the share price changes. The figures indicate that both capital structure changes and share prices changes have a strong association. This connection has been found to be important. This research illuminates the necessity of strategic financial management, which was not known before. Considering that the companies might have to review the decisions they make regarding their capital structure at length in a bid to maintain their share prices constant.

Perhaps, a further research is needed to determine the influence of these relationships on the buyer behaviour and market dynamics. Such thing must be investigated further. This news can have the ability to dramatically change the perception of buying and financial professionals about market dynamics. The Saudi Stock Exchange (Tadawul) is a scheme that identifies the companies whose shares declined during 2020-2024. It is achieved through examination of their financial documents and information of legitimate sources such as Tadawul site. These enterprises are trying to seek locations where their capital is declining. Through observation of these companies, the researcher may uncover trends that may alter the manner in which investments are undertaken and the degree of risk undertaken in future. This assists them to identify patterns.

Secondly, to make more effective decisions the stakeholders need to know the effect of capital structure changes on the rate of share price stability. The event research method is carried out using an event window that will capture the day of announcement and five to ten days before and after the announcement to determine the effect that news items have on stock prices. This we achieve through the event window. To gain a better insight into the impact of these news articles, this paper will assess the impact that such news articles have on the stock prices. The use of statistical tools like t-tests would help to determine whether the decrease in capital .significantly impacts the stock values. The aim of the research is to find the patterns which can possibly indicate the way the market reacts to the announcement of capital reductions. This shall be achieved through analysis of stock prices fluctuations that shall occur during the event window which shall have been set specially in that regard.

The conclusions can therefore help analysts and investors to know the dynamics of the stock market. The paper will also examine the future potential impacts of such announcements on the stability of the market and on the market sentiment of investors. This will be done in addition to the former point. It aims at gaining a deeper insight of the way the performance of stocks is influenced by the workings of the companies as time passes through by performing an analysis of past data and current trends.

5. EXAMINING AND EVALUATING

In the study, the event research methodology is applied in order to examine the impact of announcement of capital reduction on the stock prices as well as shareholder value. The target of the main attention of this organization is the Saudi companies listed on the Tadawul stock exchange. The data show that the date of the publication of these reports is correlated with the response of the stock price. Also, the data indicate that the reactions of the market vary based on the magnitude of the enterprises involved in it and also based on its current financial position.
The aim of this study is to investigate the aberrant stock returns that occur within a symmetric 11-day window, where the value of τ may vary from -5 to +5, right around the day of the announcement, when τ is equal to 0. Investors who desire to alter their trading tactics in reaction to announcements made by firms may find the results of the study to be valuable. As a result of developing an awareness of the many factors that influence market movements, stakeholders may be to make decisions in a financial environment that is constantly evolving.

We can determine whether these news releases are giving the market some signals that are positive, negative or independent using t-statistics, p-values, the daily Average Abnormal Returns (AAR) and the Cumulative Average Abnormal Returns (CAAR). This is what we can use to make a wise judgment regarding the market. With such measurements, we can estimate the impact of the statements and find certain patterns that can influence the future actions of the traders. It is a possibility that investors will be in a position to attain better portfolio performance due to their heightened capability to forecast market volatility and implement the relevant changes in their tactic.

The approach has direct answers to three main research questions: (1) the speed of market response; (2) whether a reduction in capital is associated with a financial crisis; and (3) whether it could indicate a planned financial restructuring to generate long-term value. The following methodology provides the answer to all of these questions. The following methodology will assist you in knowing how the market works and improving your financial decision-making. By combining past data and these measurements we can see the trends that inform us about the sentiments of the investors and the economy in general. As well as understanding of these factors can assist you to make better financial choices, it has served to understand how the market operates. By combining past data and these measurements we can see the trends that inform us about the sentiments of the investors and the economy in general.

Table 1 shows the Average Abnormal Returns (AAR), along with their t-statistic p-values, significance levels, and what they mean over an 11-day event window (τ = -5 to +5) that starts on the day that companies listed on the Saudi Stock Exchange (Tadawul) say they are lowering their capital. This paper will not only reveal how the market responded immediately, but will also reveal the long-term implications of such types of news. Financial plans and approaches to risk management in the market can be improved under the understanding of these trends.

TABLE 1. Daily Average Abnormal Returns (AAR) and Market Response Surrounding Capital Reduction Announcements (Event Window: τ = −5 to +5)

Day (τ)	Mean AAR	t-stat	p-value	Significance	Interpretation
−5	0.011	1.49	0.157	–	Mildly positive, not significant
−4	0.002	0.47	0.647	–	Flat, market stable
−3	0.011	1.81	0.092	10%	Small, marginal rise before event
−2	**−0.013**	**−2.47**	**0.027**	**5%**	**Significant negative abnormal return**
−1	−0.004	−0.90	0.384	–	No reaction immediately before event
0	0.001	0.13	0.896	–	**No immediate market response**
+1	0.001	0.12	0.909	–	Flat continuation
+2	0.002	0.54	0.595	–	Still no significant reaction
+3	−0.001	−0.14	0.888	–	Neutral
+4	0.011	1.82	0.091	10%	**Marginal positive reaction**
+5	−0.003	−0.38	0.706	–	Decline back to neutral

The time before the announcement typically lasts between five and three days. During days -5 and -4, the market exhibits gains that are marginally positive but do not meet the criteria for statistical significance. Consequently, the pattern indicates that investors may begin to speculate about what the subsequent news will be; yet, the fact that there have not been any significant returns demonstrates that market participants are uncertain about what to anticipate. As the date of publication draws nearer, there is a possibility that the market could undergo a shift, which may result in investors reacting more forcefully. It is possible for traders to induce instability by establishing their positions based on various notions of the possible outcomes that may occur during this phase of speculating. As the event date approaches, it is crucial to closely monitor any changes in trade volume or mood that could potentially influence the subsequent events. The Average Abnormal Return (AAR) hits +1.1% on day 3, which results in a level of significance that is only marginally significant at the 10% level ($p = 0.092$). This signal shows that the market is either anticipating a change in opinions prior to the announcement or is doing so with a cautiously hopeful attitude. The response that was notable before to the occurrence ($\tau = -2$) At the 5% level of significance, the second day demonstrates a distinct negative abnormal return of -1.3% ($t = -2.47$, $p = 0.027$), which exhibits statistical significance. A clear and persuasive demonstration is provided by this data that demonstrates that those merchants were aware of the problem or that they were experiencing feelings of dissatisfaction prior to the official announcement. It is possible that the market had financial problems or other undesirable repercussions that were predicted. On the basis of these data, it would seem that the attitude of investors and the upcoming news may vary in a number of different and confusing ways. They provide the impression that market players may be responding to information that is not yet available to the wider public. Furthermore, due to the fact that expectations are inconsistent, it is possible that stock prices may fluctuate even further as the day of the announcement draws nearer. When the release is near (τ = -1 to +1), the returns are statistically negligible and practically zero on days -1, 0, and +1 (p-values were more than 0.38). Additionally, the Average Abnormal Return (AAR) remains close to ±0. After observing this pattern, it appears that traders are exercising caution and waiting for official news before engaging in significant transactions. As a result of this, the functioning of the market may become less assured, which may prompt purchasers to determine whether they should continue to hold onto their stocks or participate in actions that might be considered hazardous while they contemplate the potential outcomes. There is one percent. This result demonstrates that the market responded slowly to the news, implying the information was already priced in or considered stale. It is possible for traders to alter their methods in response to news that will be released in the near future, which causes stock prices to be more volatile. Market participants must be alert to any mood shifts, as the mere idea of what could happen can create tension. Interval after the introduction (where τ is between +2 and +5) Even on day three, it appears that the market is not reacting too much to the news. It is possible that purchasers may look for signals of the market's strength or weakness as they analyze the significance of the statement. Due to this careful observation, there is a chance that energy will continuously accumulate in either direction, potentially leading to changes in trade and commerce options in the coming days. While the Average Abnormal Return (AAR) rises to 1.1% on day +4, this rise does not satisfy the threshold for statistical significance ($p = 0.091$), which indicates that the increase is not statistically significant. It is likely that the news will be reevaluated at a later time as part of a strategic restructuring approach. This phenomenon is something that should be taken into mind while taking these aspects into consideration. This influence, on the other hand, becomes less noticeable over the course of five days, which leads to returns that are marginally negative (-0.3%) and eventually return to a statistically neutral position. It is clear from observing this tendency that ephemeral emotions have the potential to affect early acts, but that decisions that are made over a longer period of time need more thorough analysis. Because of the fact that the market is still attempting to comprehend the significance of the news, traders can choose to make adjustments to their strategies, which might lead to a range of returns depending on whether or not trust is enhanced. In light of these modifications, it is now abundantly clear that the firm must maintain communication with its investors to successfully manage the expectations of those investors. The fact that there is a correlation between announcements and market movements exemplifies the very complicated nature of the manner in which investors think about and evaluate the objectives of corporations. The only return that is statistically significant is the one that takes place before the announcement (day -2), which may suggest that information was distributed ahead of the release or that people were selling prior to the announcement.

The lack of a significant response on or after the release day, coupled with a slight increase at the window's end, suggests that some purchasers view a drop in capital positively. Many would regard it as a step to financial order instead of anarchy. In terms of organization operations, this can be a revealing view just how much investors 'feelings, and perspective-of-market press commentators really matter. By doing so, companies have an obligation to be overly careful with the way they handle these style of comments in order to try and erase any misconceptions and create positive viewpoints. We can approach this pattern from several angles. The pre-announcement selling strategy, for instance, demonstrates that individuals may be concerned about the near term; nonetheless, the market does not necessarily see things in a negative light.

This is consistent with firms possibly having different perceptions of current events (fear or an opportunity to increase value). The difficulty of understanding the mechanics of market reactions is often obscured, as investors' emotions and the way companies deal with them can significantly affect stock performance. When all is said and done, companies that prefer to hold on to their market share and the trust of investors, have an obligation to communicate in a clear and meaningful manner.

TABLE 2. presents the findings of an event study analyzing aberrant stock returns on the announcement day ($\tau = 0$) of capital reductions by companies listed on the Saudi Stock Exchange.

Day (τ)	AAR	t-stat	p-value	CAAR	Significance
−5	0.0107	1.4948	0.1572	0.0107	—
−4	0.0020	0.4677	0.6472	0.0127	—

Day (τ)	AAR	t-stat	p-value	CAAR	Significance
−3	0.0107	1.8100	0.0918	0.0233	Marginal (10%)
−2	**−0.0133**	**−2.4672**	**0.0271**	0.0100	**Significant (5%)**
−1	−0.0040	−0.8987	0.3840	0.0060	—
0	0.0007	0.1328	0.8963	0.0067	—
+1	0.0007	0.1164	0.9090	0.0073	—
+2	0.0020	0.5439	0.5951	0.0093	—
+3	−0.0007	−0.1441	0.8875	0.0087	—
+4	0.0113	1.8166	0.0907	0.0200	Marginal (10%)
+5	−0.0027	−0.3846	0.7063	0.0173	—

The average of the differences between the expectations and the actual returns are to be determined by the market model. This discussion can give important facts about how the market works and how investors behave, and probably, professionals can alter their strategies due to this controversy. Once buyers redirect their focus on actively monitoring these changes, they can potentially explore possible opportunities or challenges that cannot be noticed right away. This information enables them to enhance their decision making skills and the net effect is increased returns that they get on their investments. To be able to manage risk appropriately and make intelligent decisions regarding money, a solid understanding of such differences is essential. The Average Abnormal Return (AAR) in this particular situation is zero provided the null hypothesis is put into consideration. Top of that, it gives an example of the chances of finding the AAR in the case that the null hypothesis is proven to be right. If the value of a result is less than 0.05, then it is considered to be statistically significant at the 5% level of statistical significance. CAAR, which is an abbreviation that stands for cumulative average abnormal return, is a measurement that illustrates the changes that have taken place in the market over a certain amount of time.

All of the AARs are added together to arrive at the final total. Through the examination of the CAAR, potential buyers may get a more comprehensive understanding of the ways in which certain news releases or events may have an impact on the long-term performance of your stock. This all-encompassing strategy not only assists in the validation of financial strategies, but it also demonstrates how markets react to influences from the outside world. The Most Important Statistical Findings Consist of: The pre-event period, denoted by τ, ranges from -5 to -2. Considering the t-value of -2.467 and the p-value of 0.0271, the Average Abnormal Return (AAR) for a value of ϱ equal to -2 is -0.0133, which is equivalent to 1.33%. This is statistically significant at the 5% level. This is the only day in the whole period that meets the standard importance levels, which means that the market had a clear negative reaction before the public release. This is strong evidence of information leaking or trading ahead of time. At ϱ = -3, AAR = 0.0107, t = 1.810, and p = 0.0918, which means that there is only a small amount of significance at the 10% level. This means that there is either initial optimism or a change in expectations. The Average Abnormal Return (AAR) for Event Day (ϱ = 0) is 0.0007, with a t-value of 0.133 and a p-value of 0.896. This means that the result is not at all significant. The market doesn't react on the day the news comes out, which suggests that everyone either knew or had already thought about it. This lack of response could mean that the market is proficient at processing information, and traders had already priced in what the news might mean. Therefore, further research may be necessary to determine the long-term impact of these events on company success and investment behavior. Understanding these changes can help you understand how the market works and what makes people decide to spend. Furthermore, looking at data from the past about similar statements could show trends that help you guess how the market will respond in the future. post-Event Window (ϱ = +1 to +5): All of the daily Average Abnormal Returns (AARs) are statistically not important ($p > 0.59$), except for ϱ = +4, where AAR = 0.0113, t = 1.817, and p = 0.0907, which means they are only slightly important at the 10% level. This finding could mean that the news will be looked at again later, which could be good for value. There is an increase in the CAAR, which goes from 0.0067 on day 0 to 0.0200 on day +4. On day +5, it drops to 0.0173, which is a modest reduction. This figure suggests that there will be a somewhat positive net total influence over the course of time. Taking into account this trend, it is possible that it will take some time for market players to fully appreciate the importance of the news, which may result in a positive first response followed by a period of stability. With the assistance of more study, we may be able to ascertain the factors that led to these swings in investor mood within the time that we investigated. Utilizing a pattern: At a value of $\tau = -3$, the CAAR reaches its highest point of 0.0233. Following the negative shock, it experiences a severe decline at a value of $\tau = -2$. Throughout the event, the CAAR persists between 0.006 and 0.007 and then quickly recovers. The fact that the CAAR has maintained a positive value (with a minimum value of 0.0060) suggests that the overall influence on the market is sometimes negative and sometimes positive. Despite the fact that negative shocks do have an immediate influence on the behavior of the market, the result clearly illustrates that buyers continue to have significant power.

This sort of tweak can be extremely important for thinking about your longer-term investment strategy and the way markets recover. [I]f smart buyers can identify cheap assets and buy them, that ability to recover from setbacks is an opportunity for them. In addition to this, by studying these patterns we may even inform as to the behaviour of investors and markets at future such shocks. Connect to the Interpretive or Round Table (From a Practical Perspective) The second table, which includes rounded figures and words such as "Flat, market stable" or "Significant negative abnormal return," compiles all of the previously provided data. From the point of view of methodology: For forming conclusions, the estimated p-values (such as 0.027 vs. 0.0271) and rounded average abnormal returns (such as -0.013 instead of -0.0133) are statistically identical; the changes are minor and have no influence on the results. Labels for interpretation, such as "marginal positive reaction" for ϱ = +4, which need careful interpretation rather than strong statements, properly demonstrate the statistical reality. The marginal significance ($p \approx 0.09$) is an example of such a label. This approach, which is more complex, emphasizes how important it is to take into consideration the reality of the financial situation in connection to other issues. Despite the fact that the statistical measures provide us with a platform for understanding the results, the peculiarities of the data encourage academics to use care when making conclusions and to make certain that they accurately reflect the functioning of the market. It is essential to take notice that the interpretive table does not have all of the required information; on the other hand, the statistics table does contain CAAR. In spite of the fact that there was a significant negative shock at $\tau = -2$, as shown by CAAR, the overall effect over a span of eleven days is generally beneficial. The fact that there was a large negative shock does not change the reality that this is the case. Because of this, the anxiety that was brought about just by the bad AAR is reduced to a lesser extent. The completion of a comprehensive research is essential in order to get a deeper comprehension of the ways in which marketplaces react to alterations. This is due to the fact that having such an evaluation carried out is very necessary due to the intricacy of the material in question. Scholars may be able to develop more accurate plans and projections in line with their separate professions if they have a better understanding of the interplay between short-term and long-term effects. This is because scholars will have a better understanding of how these two types of impacts interact with one another. In the section that is titled "Results," it is vital to provide the whole table, which includes the CAAR in addition to specific p-values. This is done in order to guarantee that the study can be observed and replicated several times. When it comes to explaining the most important themes, which are the repercussions of policy changes and the growth of accessibility, the interpretive form is the superior choice. On the other hand, the interpretive form is the better alternative. When it comes to addressing the implications of policy, it is recommended to use the interpreted form. This is especially true in circumstances when simplicity is of the highest significance. When using this method, it is simpler to comprehend information that is difficult to comprehend, which in turn makes the process of decision-making simpler. Researchers have the ability to deepen the link between the results of scientific research and the practical applications of that study by offering explanations that are not just clear and correct but also technically exact. This is by providing explanations that are presented in a manner that is clear and accurate. When everything is said and done, the two tables are a useful complement to one another. The first table serves to verify that the numbers are true, while the second table offers an explanation of the facts. Although they may momentarily decrease market sentiment before the announcement, when viewed as a whole, they provide credibility to the fair conclusion that announcements of capital reduction by Tadawul are not mainly negative news. This is the case, even though it may temporarily lower the market mood. When investors are aware of these characteristics, it is possible that they may eventually respond more effectively to news releases from corporations. This could improve their overall approach to investing. These details help you understand market reactions and compel you to consider how firms communicate. It is possible that purchasers will be better prepared to grasp future opportunities if they make use of these notions, rather than responding quickly to some initial market emotions. The average abnormal return (AAR) for businesses that are related to a certain business event, such as an announcement of a drop in capital, is shown in Figure 1. This figure provides a visual depiction of the AAR. An analysis of variance (AAR) is shown over a period of eleven days, with a value of τ ranging from -5 to +5, with day 0 being the date of the occurrence.

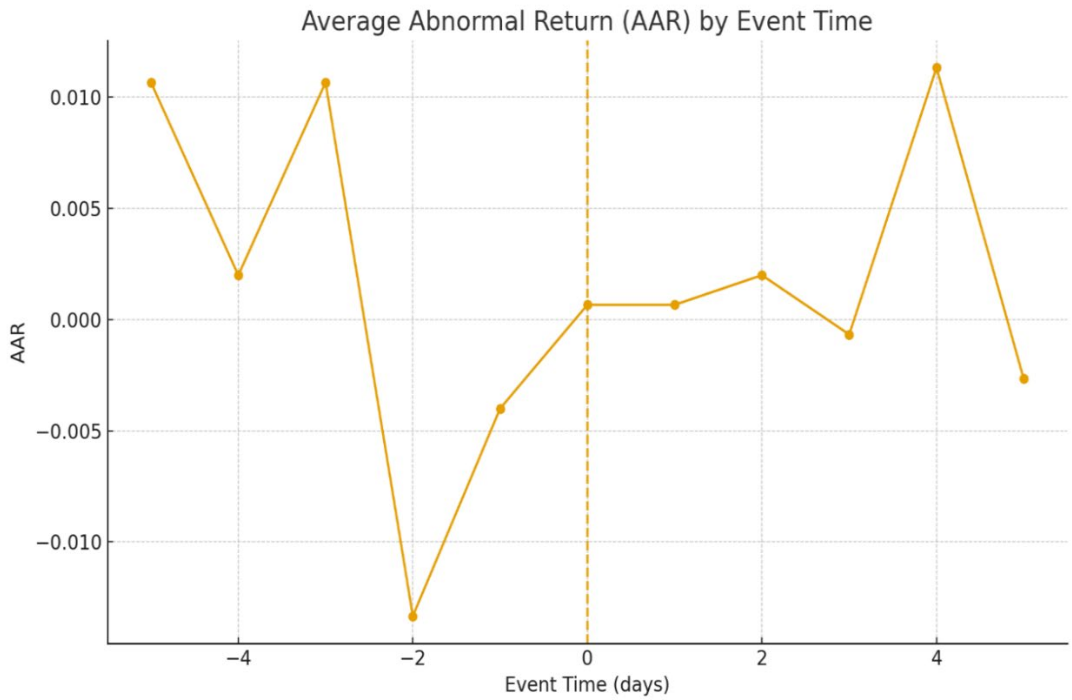

Figure 1.the daily Average Abnormal Return (AAR)

A statistically significant difference was seen on day -2 ($p = 0.027$), which indicates that there may be pre-announcement leaking or investor pessimism. This is the most significant difference observed. On the other hand, the fact that there was no reaction on day 0 lends credence to the observation that the market is only partially efficient. The post-event high that occurred on day +4 ($p = 0.09$) suggests that investors are likely viewing the event as a strategic restructure rather than a negative outcome. The fact that the high occurred on day +4 demonstrates this. As a result, this demonstrates that the interpretation could be delayed and relatively optimistic. In the AAR trajectory, a "V-shaped" decrease is observed, with day -2 marking the point of greatest intensity for the drop. Following this decrease, there is a gradual recovery, a late positive spike on day +4, and a delayed rebound. This leads to a cumulative influence that is somewhat positive throughout the whole window, which is consistent with the trends that were found in the CAAR. This data suggests that even when the market initially reacts negatively in anticipation, it does not maintain a pessimistic mindset. The result suggests that announcements of capital reductions may be read contextually, perhaps as activities that enhance value rather than as indicators that are purely negative. It is shown in Figure 2 that the Cumulative Average Abnormal Return (CAAR) is calculated across an 11-day event window (where τ might vary from -5 to +5), with day 0 being the date of the occurrence. In the following illustration, we are able to witness a dynamic pattern of market response: The Cumulative Average Abnormal Return (CAAR) is around 0.0107 at the beginning of day five of the experiment. After then, it starts to progressively climb until it reaches its peak point of roughly 0.0233 on day three. This is the moment at which it achieves its highest point. This indicates that a positive attitude or anticipation is already present at an early point in the process.

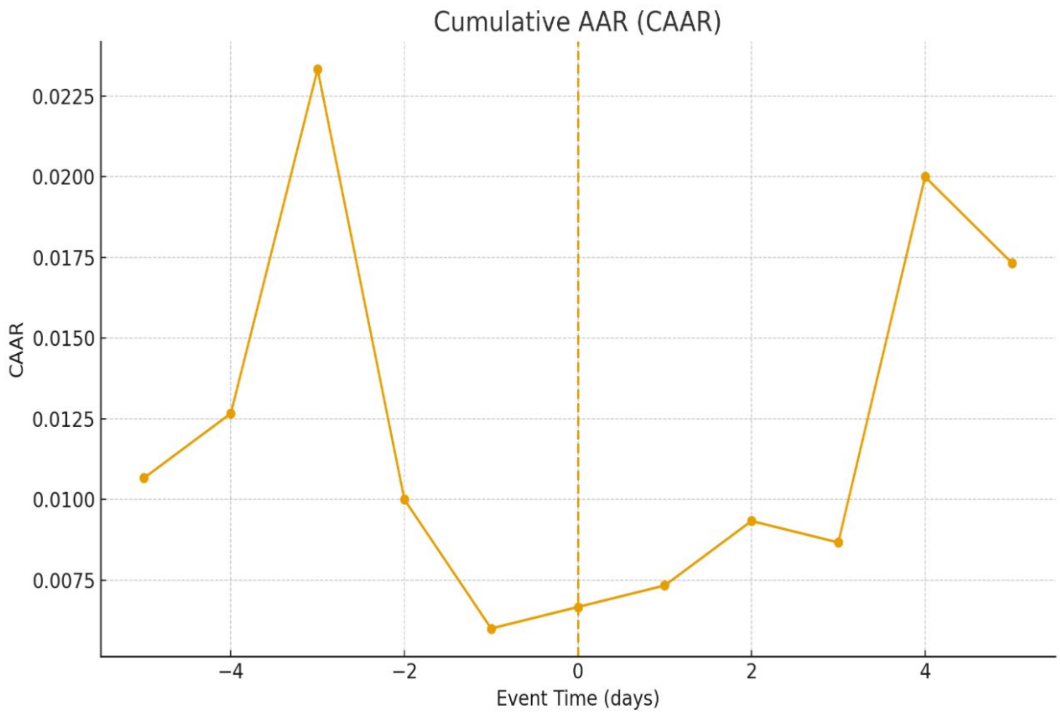

Figure 2.The Cumulative Average Abnormal Return

On day 2, it decreases precipitously to 0.0100 due to a significant and unexpected loss. The fact that this shift has occurred may indicate that purchasers are anxious or feel pressured to sell before the news is made public. Due to the fact that there is less time left, the CAAR reaches its lowest value, which is around 0.0067. At this moment, the value of τ is equal to zero, which indicates that the statement does not immediately produce any results. The fact that the CAAR increased after that indicates that investors may be reevaluating the significance of the fact that the outcome was obtained. As the price of the stock has been continuously increasing, it is quite probable that a new value will be established in the near future. It is possible that this new value may shift as a result of new knowledge or by changes in the market. The CAAR will gradually increase over the course of the next few months until it reaches its greatest peak, which will amount to around 0.015 at the conclusion of the tracking period. As purchasers consider the ways in which the news may impact things in the long term, this growing tendency may indicate that they are becoming more confident in their purchasing decisions. As the level of trust continues to increase, it is essential to keep a careful check on anything that is occurring in the outside world that has the potential to alter the way people believe. After reaching a low of 0.0093 on the second day, the value had increased to around 0.0200 on the fourth day. This demonstrates that purchasers are beginning to consider the possibility that the event may be beneficial to them. Although the number was somewhat lower on the fifth day, it remained quite stable at approximately 0.0173.

Even though there were ups and downs before the event, it has had a good effect overall. There is a chance that owners will feel anxious for a short time because of comments made about the drop in capital, but there is also a chance that these comments will not cause long-term losses. In line with the theory, the hypothesis says that markets might see these kinds of actions in a different way. They might see them as intentional changes to the way money is handled instead of clear signs of a crisis. From this point of view, buyers need to think carefully about the long-term effects of activities that lower a company's capital, since these activities may eventually make the company more financially safe. It's possible that stakeholders will be better able to handle early market responses and spot possible chances if they pay more attention to the strategy goals that support these claims.

Finally, some thoughts on the evaluation: This research shows that when the Saudi Stock Exchange announces a capital drop, the market does not clearly become less stable. The results of the study go against the common opinion that these kinds of actions are always bad. The results show that pre-announcement negativity is followed by a cumulative effect that can be neutral or very positive. This result means that buyers might not see these comments as signs of a financial disaster but as proof that they are good at managing their money. With the economy as a whole in such bad shape right now, a drop in capital could show how dedicated a business is to long-term control and survival.

As far as this perspective is concerned, the progression of the economy is connected to the improvement of standards in the workplace, the environment, society, and the government. It serves as a reminder that the goals and expectations of investors change over time, and it also provides individuals the opportunity to reflect on long-held opinions about the manner in which firms should organize their financial operations.

It's possible that the market will react differently to these moves over time. For that to happen, it means that being honest in business is growing in popularity. Being honest and doing the right thing are becoming more and more important to businesses, so this could happen. So, the operations of the company should not only be judged badly but also in light of their institutional and strategic structure. It's even more important to think about how Saudi Arabia's stock market has changed over time and how it will change as part of Vision 2030. By adhering to a comprehensive strategy that encourages firms to ensure that their objectives are in accordance with morality, you can reduce the level of instability in the economy. People may remain loyal to a company for a longer period of time if the company implements these improvements and improves its relationship with its workers.

6. OBSERVATIONS AND SUGGESTIONS FOR IMPROVING THE SITUATION

Outcome: According to the statistics, however, announcements of capital reductions on the Saudi Stock Exchange (Tadawul) do not elicit a market reaction that is statistically significant or positive on the day that they are made. The data confirms this observation. The fact that this is the case shows that the market may perceive these disclosures to be a standard financial strategy or that investors have already taken them into account when making their assessments. Therefore, businesses that are considering making changes to their capital structure have to make strategic communication a top priority to address and alleviate any concerns that stakeholders may have. The data that are given here call into question the traditional belief that these specific business practices always indicate that the organization is experiencing financial problems. Conversely, the information indicates that the shareholders can experience reduction of capital as a strategic monetary choice that is aimed at raising the long-term worth of the enterprise, as opposed to understanding it as a sign of financial distress. The facts in both interpretations hold and this is supported by the evidence. This shift in perception leads to the consideration of the necessity to offer financial options in a positive manner, as well as the need to keep financial system open. Both these come into the limelight due to the change. Businesses can restore their image with investors and become more competitive in the market in case they offer a correct description of the logic of introducing capital changes. This trend is brought about by the increased willingness of buyers to safeguard their wealth. This notion that the mood of the investors is altered as market players attempt to understand the reason why the loss occurred is reinforced by the fact that the investors are usually negative before news, but their overall returns lie between neutral and very positive. This is due to the fact that the individuals in the market are investigating into the cause of the drop. The moves made here are very comparative with the economic transformation that the Saudi Arabia has envisioned in the year 2030 that is focused on the growth and efficiency of financial markets. The connection between this strategy and the national objective that safeguards the financial system against potential risks in the long run leads to the rise in the degree of trust that the investors place in the strategy applied.

Businesses may be able to build the confidence of investors through the compliance with standards, development of new ideas and growth and become leaders in the necessary fields. The program has an undertaking to ensure a healthy growth, debt reduction and better government performance. These actions ought to improve the foreign investment through diversification of the economy and lessening its dependence on oil and other fossil fuels. The development of a successful market that will enable the expansion of both local and foreign businesses in the Kingdom of Saudi Arabia is one of its objectives.

The Kingdom will achieve this goal by promoting the creation of new technology and entrepreneurial thinking among people. Recommendation and advice on the action to take: The analysis of the reduction in capital expenditures, in terms of geopolitical view, should be as follows: To remove capital expenditures, should not be thought of as a solution of the losses that are already made, but as an element in a broader plan of a company recovering its finances. In case these companies adopt this approach, investors will enjoy a higher level of confidence in the long-term performance of these companies and this in effect will lead to a rise in their shares. Perhaps, businesses putting these assessments at the first place in the list of their priorities would be in a better position to respond to the changes in the market and take up new opportunities in an economy that is experiencing a transformation. The utilization of this strategy enables firms to better utilize their capital, enhance the worth of their stock, and have the financial policies properly aligned with the long-term sustainability goals they have established to themselves. Through this new approach, a business is able to grow more and transform, and this makes them more effective in a market that is constantly changing. Those companies that can meet these standards are more likely to get finance and strategic alliances both of which will help them to expand their operations and improve their competitive edge. The companies should also engage with investors by offering them the precise information regarding the goals and the results that are expected to be achieved by the reduction of capital. This will minimize the chances of the purchasers interpreting the objectives and consequences of the capital reduction in an incorrect manner. It should be more transparent and involved as well. Such a direct involvement assists in developing trust among the stakeholders and promotes transparent communication and intercourse. Consequently, the investing community will know and do well to each other than before. Companies in which the focus on communication is high can be more prepared to handle the problems in a systematic way and take advantage of emerging growth and partnership opportunities on behalf of their workers. The people in control of the market and the financial sector should come up with clear-cut rules to regulate the activities that decreases capital to make everything smoother, transparent, and safer to the investors.

That is what being controlled by the government involves. With such recommendations implemented, making financial information filing easier could be made a possibility. This could be aided by laying down prescriptions and best practices. The businesses can more easily align their objectives with the principles of government institutions. This increases the stability of the market. Recommendation to Investors: We must work on assisting investors to comprehend capital restructuring procedures and the implication of these procedures on the value of a company in the long term. This is a major problem particularly in developing nations. The spreading of such information is extremely important in countries, which are not highly developed. With information and tools found in these areas being the top of our list, we can help the purchasers make more informed choices and explore the complicated financial markets. Besides helping people to make money out of what they own, this cautious decision does not only allow individuals to improve their economic condition, but it also allows them to preserve it. This understanding of such concepts will help us to build a stronger grouping of investors who can stay together even when the economy is in a down turn. Such a move will probably bring dynamicness to the industry as both intelligent buyers are the future of new ideas and continual growth.

7. FUTURE WORK

When doing additional research, it has been recommended that modern econometric methodologies should be employed, the behavioral nature of investor responses should be researched, and cross-border comparisons should be also involved. As a by-product, therefore, there is an opportunity to possess an extensive understanding of the implications of long-term value. The character of academics to identify the patterns that can be missed in the previous is achieved by the utilization of an extensive number of perspectives as well as advanced analytical devices. Perhaps such a comprehensive study is the one that is currently under discussion that, eventually, can lead to the development of stronger investment policies and regulation frameworks in a range of various markets. It is possible that the application of the findings can lead to the creation of more sustainable financial systems and this, in its turn, will prompt more stability and confidence among investors. Besides that, the application of multidisciplinary approaches, which can involve sociology and psychology, could possibly give a more holistic ground to the objective of understanding the dynamics of the market. In doing a new study, one should consider utilizing the latest approaches to statistics, examine the investor behavior and compare the results received in other countries. In doing this, we will be in a position to have a deeper insight into how the long term value of things will affect things. Through these figures, we shall be in a better position to include more about the way the market works and this will enable buyers to be more knowledgeable. Additionally, the utilization of behavioral financial procedures has the prospects of shedding light on the psychological factors that affect the decisions that investors take. By integrating these elements, the researchers can have a better view of how the market functions and enhance the effectiveness of the entire investment strategy. The approaches based on multiple fields can help to unveil the characteristics of market movements and investments that are still unknown. There is a possibility that it may bring up the quality of research in the academic discourse. They would benefit by using the various means and perspectives when conducting their study. This would enable them to determine the significant variables that influence the emotions and choices that investors are faced with. There is a possibility that we may understand better the working of the global financial markets and how these markets affect countries in the case that we study these markets. The comprehensive nature of this approach does not only contribute to the enhancement of academic discourse, but it also provides guidance to policymakers and investors that are applicable to the situation in which they are placed. Once we consider several of these various perspectives, we can expand our ability to predict market trends and develop economic policies that are more robust.

8. CONCLUSION

Those who purchase stocks in the Saudi Stock Exchange do not always suffer losses when businesses announce that they are reducing expenditures on cash. The actions may not be perceived by the people in the market as the indication of the financial crisis, but rather as the evidence of smart money management and the clearly-considered strategy to get back on track. Buyers could be in a position to view the positive side of capital declines in such a manner, and this may make them have increased confidence in you. In case a firm intends to say such a statement, the firm may wish to inform the market what their long-term objectives are beforehand. The tendency to doubt precedes release, which is then neutral and positive market adjustments. This demonstrates that investors are able to distinguish between a company that behaves in a crisis like manner and one that is a component of a plan. This contrast demonstrates the relevance of the necessity to be truthful and allow people to participate in the process. It is through the eyes of business that the companies can transform the perception of how people perceive them. They will be able to grow and feel safe in the future because of this. Two things that could help the market respond better are building trust and maybe giving buyers more faith. This is why businesses that stress clear communication are more likely to build better relationships with owners. This makes their brand image last longer.

As stated by Saudi Arabia's Vision 2030, which encourages sustainable growth, effective governance, and a diverse economy, businesses that reduce their capital expenditures may also demonstrate that they are interested in enhancing their efficiency, making the most of their capital structure, and fostering the development of long-term value. This is in accordance with the goals of Vision 2030. It was with the intention of fostering a varied economy, sustainable development, and ethical government that Vision 2030 was conceived and first created. Taking this course of action is in line with the objectives of Vision 2030. By establishing a relationship with national objectives, companies not only elevate themselves to the position of industry leaders in their respective industries, but they also attract potential investors who are interested in participating in the firm. In the event that businesses adhere to these standards, they not only have the ability to contribute to the market as a whole, but they also have the ability to keep their competitive advantage over their competitors. Businesses are able to construct an environment that encourages the development of new ideas and flexibility when they take the initiative to do so. This, in turn, enables them to adapt more effectively to the requirements of the market, which are always moving and developing. This is not only a beneficial strategy to the businesses that employ it but also beneficial to the economy as a whole when all things are considered. This is due to the fact that it speeds up the rate of growth and increases the employment opportunities in a broad spectrum of different industries. Considering the results of this work, it is evident that the particular issue is extremely significant to examine the financial decisions that are made by enterprises in the frames of the greater whole of macroeconomics, institutions, and legislation. The findings of this study reveal the significance of evaluating the choices that are made by organizations, rather than basing on perceptions that are dishearten or those whose opinions are dictated by common sense. The significance of analyzing the choices that are made by companies is shown by this event. As a consequence of this all-encompassing perspective, we are able to have a more comprehensive understanding of the factors that influence the performance of the organization so that we can make better decisions. When companies combine these factors, they have the capacity to make rational decisions that will assist them in maintaining their company operations and achieving success over the course of time. These decisions will help them achieve lasting success. When companies do this, it helps them and strengthens the entire market. In the end, encouraging the expansion of businesses via the promotion of collaboration may result in the production of innovative ideas that are able to handle problems and make the most of possibilities.

DECLARATIONS

Conflict of Interest

The authors declare no conflict of interest.

Funding

No external funding received regarding this research.

Availability of data and materials

The generated datasets used and evaluated in this research study are provided within the manuscript.

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