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DIVIDEND POLICY AND SHARE PRICE VOLATILITY: EVIDENCE FROM LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract
This study examines the impact of dividend policy on share price volatility of listed deposit money banks in Nigeria. Data for the study were extracted from the annual reports and accounts of twelve (12) deposit money banks in Nigeria from 2014-2018. The study uses share price volatility as dependent variable and dividend per share, earnings per share and bank size as explanatory variables. Descriptive analysis, correlation analysis and regression model were used to perform the data analysis. Random effect regression analysis was utilized to confirm the empirical finding of the study. The results show that dividend per share and earnings per share have a positive and significant impact on share price volatility of listed deposit money banks in Nigeria. The finding of

the study revealed that dividends were relevant to investors, indicating that the signaling theory was relevant, and investors believed in information being transferred in the dividend policy decision. The study recommends that the board and management of banks should ensure that good dividend policy is put in place and earnings per share policies are maintained because it has been empirically proven to improve share price movement.

***Keywords**: Dividend per Share, Earnings per Share, Share Price Volatility, Banks, Nigeria*

1. Introduction

The global economic crisis of 2008 affected all major sectors of the economy and the Nigerian banking sector was not immune to this effect. The aftermath of the crisis and resultant economic depression in 2016 also resulted in the volatility of the banks' financial assets. Similarly, the fall in the price of crude oil worldwide due to the global health crises of COVID 19 pandemic further increased the exposure of emerging economies to shocks in financial assets, particularly share prices (Fasanya & Akinde, 2019). Share Price Volatility (SPV) is a persistent floatation in the price of a share, relative to its average value. SPV is used to explain the risk of a common share, whereby, the greater the volatility of a common share, the greater its risk ((Hieu, Anh, Chung & Lien, 2020). The problem of high instability of the financial sector has adversely affected the proper functioning of the market, thereby making it difficult to predict the future share price (Jahfer & Mulafara, 2016).

Furthermore, the dividend policy decision is an avenue through which companies can achieve its objective of wealth maximization it creates for its shareholders (Pelcher, 2019). Investors consider dividend policy as one of the main factors in deciding their investment decision as they may perform more accurate financial analysis on the firm if they have a better information on dividend yield and dividend payout ratio (Hooi, Albaity & Ibrahimy, 2015). Thus, the impact of dividend policy on share price volatility is considered a crucial investment decision for investors. According to Neelanjana and Hassan (2019), share price volatility is the degree of price change in share or stock for a certain period of time. Therefore, a higher volatility, will lead to higher risk of substantial loss or gain. Consequently, this will make forecast of a company future share price more difficult.

The theoretical framework of this study is the signalling theory linked to the contentious issue of two school of thoughts; dividend relevance and dividend irrelevance. Lintner (1956); Erasmus (2013); and Wolmarans (2000) as cited in (Pelcher, 2019) posit that investors are of the belief that a company paying dividends, signals good information about the company to the investors, This view suggests that dividend decisions certainly have an impact on share prices, because payments of dividend signal information to investors, which causes a resultant reaction.

On the other hand, the second school of thought pioneered by Miller and Modigliani (M&M) is of the view that, if a consistent dividend policy is implemented by a company, it would make no difference to shareholders' wealth because the profit belongs to the shareholders, thereby, rendering dividend payouts, and ultimately dividend policy, irrelevant. Contemporary studies of Rashid and Rahman, (2008); and Kamyabi and Nazemi (2014) support the dividend irrelevance school of thought.

The relevance of dividend or otherwise on share prices has contentiously been discussed for long, however, rational investors make investment decisions considering the risks attached to the prospected investment with the expectation of making a profit. Therefore, fluctuations in share prices will definitely be of special interest to investors. The impact of dividend policy on share price volatility is therefore an important consideration for the investment decision of investors. However, even though a lot of empirical researches on the impact of dividend policy on share prices have been conducted in Nigeria and other countries Dalyop et al., (2020). Venugopal and Jampala, (2019), Premathilaka and Karunarathne, (2019) Adesina et al., (2017), Şamiloğlu et al., (2017) uses share price and proxy by market price per share (MPS) of closing price of the firm's share at the end of year while the study Ntui et al., (2015) proxy share price by price volume (Venugopal & Jampala, 2019) use share price and proxy by equity market price.

Therefore, there are very few studies that have been conducted taking the risks of share price volatility into consideration, especially in Nigeria, such as the studies of Ahmad et al., (2019) consider the average of low and high market prices of the share in a year while this study is different by considering the average of all share price in a year. Also, the earning per share (EPS) was use as independent variable

in the study as against dividend yield considered by most studies because the share price and its volatility determine ordinary shareholders ownership value and investors intentions toward the company. Therefore, to the best of the researchers' knowledge, there is no study conducted in Nigeria on dividend policy and earning per share and share price volatility, and this study aims to fill that gap. The study is further justified by providing adequate knowledge to the policy makers, investors, managers of companies and financial institutions by examining the impact of dividend policy measures on share price volatility (SPV). In order to achieve the objective of the study, the following null hypotheses will be tested:

H_{01}: There is no significant relationship between Dividend Pay-out (DP) and Share Price Volatility (SPV) of listed DMBs in Nigeria.

H_{02}: There is no significant relationship between Earnings Per Share (EPS) and Share Price Volatility (SPV) of listed DMBs in Nigeria.

2. Literature Review

Conceptual and Theoretical Framework

Dividend policy refers to a firm's policy which indicates that what proportion of earning or profit should be distributed among shareholders and what proportion or percentage of earning should be retained for reinvestment opportunity (Ahmad et al., 2019), Dividend is distribution of money to investors from the profit of the bank. It is expected that banks with better resource management and higher revenues have higher dividend payout. Dividend policy as firm's dividend payout policy that mangers follow in deciding the pattern and size of cash distribution to shareholders in the form of dividend (Kolawole et al., 2018).

Dividend policy is one of the important company financial decisions and this policy guides banks on methods to adopt in paying dividends to its shareholders, which is considered as a major return by the shareholders on their investments (Raza, Ramakrishnan, Gillani, & Ahmad, 2018). Theories have revealed the relationship between dividend policy and share price. For instance, the theory of dividend irrelevance asserts that in an efficient and perfect market where there are no information asymmetry or taxes and transaction costs, the company's dividend policy has no influence on its market value reflected through company's share price, and that the company has no appropriate dividend policy (Raza et al., 2018).

Share price volatility is the degree of change in the share or stock price relative to its average value of company. The share price volatility is seen to explain the risk of a common stock, thus, the greater the volatility of a stock, the higher the risk (Hieu et al., 2020). The finance literature comprises of different theories underpinning dividend policy such as the theory of bird in hand, signaling theory, agency theory and clientele effect theory, dividend irrelevance and relevance theory.

Modigliani and Miller (1961) proposed the irrelevance theory as proposition more than 50 years ago. M&M argued that the dividend payout policy does not have an influence on firm value in a perfect capital market. The theory assumed that the firm's investment and financing decisions are determined independently of the dividend policy (Priya & Mohanasundari, 2016). Furthermore, the relevant theory is explained by two main theories; Bird-in-the-hand theory and Signaling theory. The bird-in-the-hand theory argued that investors prefer dividend income to capital gains. On the other hand, the signaling theory evealed that decisions on dividend payout provide information to investors about the firm's future value (Jakata and Nyamugure, 2014). However, the clientele effect theory shows that the company has different customer groups and these customer groups have different interests, so changes in dividend policy can cause a group of customers to host (Hieu et al., 2020).

Agency theory states that when managers are assigned responsibility to maximize the wealth of shareholder, then the shareholder can scrutinize mangers economically. Thus, the conflict of interest originates between shareholders (principals) and management (agents). Therefore, paying dividends to investorsmay reduce the possibilities of managers acting selfishly because dividend payment increases the accountability and transparency of managers to the stakeholders. However, Raza et al., (2018) argued that firm value influence by dividend payout and ultimately obliged managers to sources for external financing through the capital market.

Empirical Studies

Several studies have been conducted on dividend policy by different researchers at different periods. Hieu et al., (2020) examine the effect of dividend policy on share price volatility of 260 companies listed on Hochiminh Stock Exchange (HOSE) in Vietnam from 2009 to 2018. The findings show a negative relationship

between dividend payout ratio and stock price volatility. In addition, it found that earnings volatility had positive influences on share price volatility while firm's size had negative effect on share price volatility. Additionally, Manaseer (2019) analyzed the impact of dividend policy on share price volatility of 20 insurance companies listed in the Amman Stock Exchange. The result of the regression model revealed that payout ratio is significant and negative influencing share price volatility.

Neelanjana and Hassan (2019) examining the influence of dividend policy on share price volatility of 35 manufacturing companies in Malaysia for the time period starting 2008 to 2017 used multiple linear regression, and the results showed that dividend payout, firm size and earning volatility had a significant negative influence on share price volatility, while dividend was found to be insignificant on share price volatility. On the other hand, Pelcher, (2019) analyzed the influence of dividend policy on share price volatility of listed firms on the Johannesburg Stock Exchange Limited (JSE)from 2007 to 2016. The results of the study indicate that the influence of dividend payout ratio is positive and insignificant on share price volatility.

Also, the study of Sugathadasa, (2019) examined the relationship between dividend policy and share price volatility of 30 selected companies listed in Colombo Stock Exchange in Sri Lanka, from 2014 to 2017. Findings of this study indicate that dividend payout ratio and dividend yield have negative impact on share price volatility. More so, Sew et al. (2015) examine the 319 companies from various sectors listed on the Kuala Lumpur Stock Exchange. The study indicated that dividend payout was strongly related to the volatility of stock prices, with a negative sign of relationship.

Ahmad et al., (2019) examines the influence of dividend policy on share price volatility of commercial banks listed at Pakistan stock exchange. The sample of study is 17 for the time period 2014 to 2017. Multiple regression analysis was applied. The finding of the study shows that EPS shows a highly significant positive impact on the share MP and the dividend show a significant but negative impact on the share MP.

Haque et al. (2019) investigated the impact of dividend policy on stock price volatility based on 11 years' (from 2004 to 2014) data collected from 35

manufacturing companies listed in Dhaka Stock Exchange (DSE) of Bangladesh. Multiple regression analysis was used to analyse the data. The findings of the study suggest that, among predictive variables, dividend yield and size of the firm had major impacts on share price volatility. Also, Zainudin et al. (2018) analysed the impact of dividend policy on stock price volatility of industrial products firms listed on Bursa Malaysia. The sample of 166 industrial products public-listed firms from the year 2003 to 2012. Using Baskin's framework, the empirical results indicate that dividend policy was a strong predictor of stock price volatility of industrial products firms in Malaysia, particularly during the post-crisis period.

Jahfer and Mulafara, (2016) examined the effect of dividend policy on share price volatility of Colombo stock market (SPV) Sri Lanka, for the period 2009–2013. Regression results indicate that DPR is insignificant and positive effect on the movement of stock prices. Further, size is significantly negatively affecting price volatility, suggesting that the larger the firm, the less volatile the stock price. On the other hand, Hooi, Albaity, and Ibrahimy (2015) examine the influence of dividend policy on share price volatility of 319 companies from Kuala Lumpur stock exchange, Malaysian. Dividend yield and dividend payout were found to be negatively affecting share price volatility and were statistically significant. Firm size and share price were negatively affected. Positive and statistically significant earnings volatility and long-term debt on price volatility were also found.

3. Methodology

In order to analyze the impact of dividend policy on share price volatility, relevant data were collected from annual reports and accounts of the sampled banks listed on the Nigeria Stock Exchange during the period 2014 to 2018. The target population consists of deposit money banks listed on the Nigeria stock exchange. Banks that do not have complete data during the period of the study were excluded. Consequently, a sample of 12 listed deposit money banks were selected using convenience random sampling method.

The data were analyzed using Random Effect GLS Regression. The descriptive statistical methods such as calculation of mean, variance and standard deviation were used. Correlation matrix and multiple regression analyses were also used to analyze the impact of dividend policy (independent variable) on share price volatility (dependent variable). In line with previous studies, bank size was included as a control to account for differences in the size of banks for the study.

Therefore, the following equation is tested including control variable in the model:

$$SPV_{it} = \beta_{0it} + \beta_1 DPS_{it} + \beta_2 EPS_{it} + \beta_3 BS_{it} + e$$

Where: SPV stands for the share price volatility, DPS stands for dividend per share, EPS stands for earning per share and BS stands for bank size.

4 Results and Discussions

Descriptive Statistics

Table 1 provides a descriptive statistic of the variables that were used in the study from 2014 to 2018. The SPV is 9.04% for the DMB listed in NSE during study period. DPS shows a mean value of 0.26, while the average mean value of earnings per share and firm size are 1.78% and 21% respectively. Table 1 shows that DPS has the lowest mean value and standard deviation, where bank size has the highest mean and SPV has the highest standard deviation between the variables. The DPS has the lowest minimum value and SPV has the highest maximum value.

Table1: Summary of Descriptive Statistics

Variables	N	Mean	Std Dev.	Minimum	Maximum
SPV	60	9.04	10.29	0.50	46.05
DPS	60	0.26	0.21	0	1.03
EPS	60	1.78	1.87	-1.27	7.04
BS	60	21.29	0.79	18.87	22.51

Pairwise Correlation Analysis

Table 2 below represents the results of the correlation coefficient to measure any correlation between the variables of the study at any level during the period of the study. The table reveals that there is a positive and significant relationship between SPV and DPS out of (r= 0.3309; p-value=0.0098) and this agrees with the studies which assured the positive influence of DPS on share price(Sugathadasa, 2019). EPS revealed a positive and significant relationship with SPV with (r=0.86 and p-value=0.00), similarly, this result conforms to the

results in(Ahmad et al., 2019). Finally, bank size shows a positive and significant relationship with SPV with a (r=0.35 and p-value=0.00) this result is consistent with the study of (Jahfer & Mulafara, 2016). Furthermore, DPS revealed a positive and significant relationship with EPS and bank size and, EPS shows a positive and significant relationship with bank size.

Table1: Table 2. Pairwise Correlation

Variables	SPV	DPS	EPS
BS			
SPV	1.0000		
DPS	0.3309*	1.0000	
	0.0098		
EPS	0.8586*	0.3171	1.0000
	0.0000	0.0073	
BS	0.3519*	0.3430*	0.5630*
1.0000			
	0.0058	0.0073	0.0000

Robustness Tests

Variance Inflators Factor (VIF)

To further substantiate the absence of multicolinearity between the exogenous variables, multicolinearity diagnostics tests were conducted using the tolerance value and the variance inflators (VIF). The mean value of VIF coefficient is 1.40 which is less than 10, indicating absence of multi-collinearity phenomenon.

Hetetroscedasticity Test

The Breush – Pagan test suggests the possible pressure of heteroskedasticity in the study model. A large chi-square would indicate that there is present of heteroscedasticity. In the result obtained from the heteroscedasticity test conducted in this study, chi-square value was 18.94 and the p-value was 0.0000 indicating the presence of heteroscedasticity. Therefore, the study conducted fixed and random effect test to take care of the individual differences within units.

Hausman test and Breusch-Pagan Lagrangria Multiplier Test for Random Effects

The Hausman test was used to determine the fixed or random effects of the cross-section method. The result of this test was significant at 0.3022, indicating random effects in the model. Furthermore, the Breusch-Pagan Lagrangian multiplier test for random effect is significant with a p-value 0.0207. Hence, the regression model of the hypothesis was fitted using the panel data with random effects.

Table 3: Robustness Tests

Variables	**Chi2 value**	**P-value**
Mean VIF	1.40	
Hettest	18.94	0.0000
Hausman Test	3.65	0.3022
Lagrangian Multiplier Test	4.16	0.0207

Regression Analysis

The findings from the regression analysis for the sampled banks is presented in table 4, which shows R2 (coefficient of determination) of 0.77. The R-Square which equally measures the overall fitness of the model indicates that the model explains about 77% of the variability of the systematic variation in share price volatility. Suggesting that about 23% is accounted for by other variables not captured by the model. Similarly, findings from the Fishers ratio (F-Statistics which is a proof of the validity of the estimated model) as reflected in table (4), presents a p-value that is less than 0.05 (p-value < 0.05); this invariably suggests clearly that simultaneously the explanatory variables (i.e. DPS, EPS and Bank Size) are significantly associated with the dependent variable, share price volatility.

Table 4: Random Effect GLS Regression Model .

Variables	**Coefficient value**	**P-value**
DPS	6.24	0.05
EPS	4.86	0.00
BS	-2.69	0.04
Constant	58.20	0.04
R^2 **0.771**		
F-Statistics (107.15) **0.000**		

Sources: Stata 13 software

The regression result in table 4 reveals that dividend per share has a significant positive impact on the share price volatility with a coefficient value of 6.24 and p-value of 0.05, which indicates that 1% increase in dividend per share will lead to an increase in the share price volatility by 6.24%. The finding shows that dividend per share and price volatility have a significant positive relationship. This means that the null hypothesis will be rejected, and the alternative hypothesis is accepted, suggesting that dividend per share impacts positively and significantly to share price movements. The finding signifies that the higher the dividend per share, higher will be the movement of share prices. Dividend per share could be an indication to the market that is likely to influence fluctuations in share prices, influencing managers to be vigilant before changing dividend policies concerning dividend per share. The finding is in accordance with Premathilaka and Karunarathne, (2019), Venugopal and Jampala, (2019) who supported that dividend per share continues to remain significant determinant of forecasting price volatility.

The result in table (4) presents that earnings per share has a significant and positive impact on share price volatility. This is evident in the coefficient value of 4.86 and a p-value = 0.000. This outcome implies that the more a bank makes or generates more earnings from operations, the more the share value will be enhanced. To this end, the study hypothesis which states that there is no significance relationship between EPS and SPV is rejected and the alternate hypothesis is accepted. This result is in tandem with the submission of Adesina et al. (2017). Finally, bank size has a coefficient value of -2.69 and p-value of 0.048 which shows that the bank size has a negative and significant influence on the volatility of share price. The bigger the size of the study, the more significant it could influence the volatility of the share price, the findings is in line with the research work of (Jahfer & Mulafara, 2016).

5. Conclusion and Recommendation

The findings from the study shows that dividend per share and earnings per share have a positive impact and significant on share price volatility, on the other hand, bank size had a significant negative impact on the volatility of share price of the sampled deposit money banks in Nigeria. This outcome suggests that the dividend policy of banks operating in Nigeria should favor high payout ratio for their share value to be enhanced. This will invariably shore up the fundamental and technical performance of their shares which will position them for improved performance

with resultant higher profit. The board and management of banks should ensure that good dividend policy is put in place because it has been empirically proven to improve share price movement. Listed Nigerian Deposit Money Banks directors and management should maintain the earnings per share policies because it has enhanced the valuation of their banks.

Finally, bank size had a significant negative influence on price volatility, suggesting that the larger the firm, the less volatile the share price, therefore, banks should maintain their current asset size or improve on it. Hence, the dividend policy is relevant in determining share price changes in the Nigeria stock market and board of directors and management of banks may change the volatility of their share prices by changing the dividend policy. Further, both management and investors are concerned about the volatility of share prices, this research provides a light on the pathway in discovering what determines share price and important factors to be considered by investors before making investment decisions, and management in formulating dividend policies. The finding of the study revealed that the dividends were relevant to investors, indicating that the signaling theory was relevant, and investors believed in information being transferred in the dividend policy decision.

The study considered variables such as Dividend per share (DPS), Earnings per share (EPS) and Bank size to measure their impact on share prices volatility. Though, there are other variables that affect share price volatility of banks with their attendant consequences on the share prices changes. The influence of other factors such as the dividend yield, profitability, capital structure of a company, taxation and inflation, on the dividend policy could be explored in the subsequent research with the attendant effects on the share price volatility.

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