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DIVIDEND POLICY AND CAPITAL INVESTMENT ON SHARE PRICE VOLATILITY IN NIGERIA

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ABSTRACT:

*This study examined how dividend policy and its interaction with capital investment affects share price volatility in Nigeria banking industry from 2013-2022. The study used a sample of 13 commercial banks quoted on the Nigeria stock exchange Preliminary analyses were also conducted, such as descriptive statistics and correlation matrix. In analyzing the data, the study adopted panel multiple regression to identify the possible effects of dividend policy and capital investment on share price volatility. The study employed Pooled and panel data regression with least square dummy variable as time and organizational dummies were created to account for any effect which vary over time and across section. The result showed that dividend per share and dividend pay-out ratio has a significant positive effect on share price volatility while dividend yield shows a significant negative effect on share price volatility while earnings volatility is insignificant. However the interaction of dividend yield and capital investment (dy*capinv) indicates a 5% significant negative influence on share price volatility this implies that in every 5% reduction in dividend yield and capital investment there will be a 5% reduction in share price. We concluded that corporate managers of the banks quoted on the Nigerian stock exchange can use dividend policy as a tool to control/manage share price volatility. We therefore, recommends that banks should try and improve on their financial performance that will enable consistent increase in the dividend per share for positive impact on market value.*

1. INTRODUCTION

As a result of the processes of globalization and financial liberalization in developing nations like Nigeria which attracted a large amount of capital investment from developed nations such as the United States and China, this led to the stock market boom with the banking sector maintaining an important proportion of the total market capitalization but the impact of the global financial crisis of 2008 on the Nigerian economy which brought about capital flight and the fall in prices of

most asset cost of corporate and bank borrowing rose substantially and financial market volatility rose to levels never seen before , the Nigeria stock market has continued to drop, this is because firm value volatility is a consequence of instability, unpredictability, and risks. It affects investors' interests and leads to the differences between buying and selling prices according to Guo (2002) it is a systematic risk faced by investors who possess ordinary stock investments, it is also seen as the measure used to define risk, and represents the rate of change in the price of a security over a given time. Therefore, the greater the volatility, the greater the chances of a gain or loss on investment in a short period of time. A volatile stock is a stock whose price would greatly change over time and future price will be difficult to determine with certainty (Guo, 2002).

Dividend policy therefore plays a very vital role to the growth and survival of every firm. Dividend decision is one of the most important decisions that managers of corporate bodies may take (Fawaz, 2014). It influences the primary aim of shareholders which is maximization of shareholders' wealth through dividend. Companies are therefore required to maintain an appropriate balance between pay-out ratio and retention ratio (Khan, Aamir, Qayyum, Nasir & Khan 2011). In as much as dividend policy is a very vital decision among managers of corporate bodies, the theory of corporate finance also stated that managers are also faced with two major decisions which include investment and financing decisions because both decisions also affect the market value of firm, According to Ye and Tiong (2000). Capital investment decision requires careful consideration, because they are exposed to high levels of financial, political, and market volatility. capital investments, especially in real business assets represent an important, complex and life-giving role of financial management and due to the fact that such decisions have long-term effects on the economic and financial position, financial performance, stability and business growth of corporation, especially in terms of scarce and limited financial resources it is necessary to find out how the market reacts to capital investment and dividend policy, does it increase or reduce share price? Therefore, this study attempts to answer three basic question (1) does dividend policy affect share price volatility? the basic objective of this paper is to examine whether capital investment plays any moderating role in relationship between dividend policy and share price volatility in the Nigerian banking industry.

Many studies have been done in Nigeria on dividend policy and share price volatility such as Okafor, Mgbame and Chijioke (2011) with focus on the Nigerian stock market Otitolaiye and Siyanbola (2020), Araoye (2019) in Nigeria using dividend pattern. But not much has been done to create an interaction between dividend policy and capital investment and their effect on share price. Therefore this study is aimed at filling the gap in financial institutions in Nigeria by

interacting capital investment and dividend policy and determining its effect on share price volatility

1.1 Objectives of the Study

The main objective of the study is to determine the effect of dividend policy and capital investment on share price volatility while our specific objective include:

1. to determine the effect of dividend yield on share price volatility.
2. to ascertain the effect of dividend payout ratio on share price volatility.
3. to examine the effect of dividend per share on share price volatility.
4. to evaluate the moderating effect of dividend yield and capital investment on share price volatility.

1.2 Research Hypotheses

H_{01} There is no significant effect of dividend yield on share price volatility

H_{02} There is no significant effect of dividend payout ratio on share price volatility

H_{03} There is no significant effect of dividend per share on share price volatility

H_{04} There is no significant effect of dividend yield and capital investment on share price volatility.

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Share price volatility

Thi and Nam (2019) defined Stock price volatility as a change in stock prices over time. Antonie Kotze (2005) also defined volatility as a price series or an economic indicator that changes a lot and swings wildly he also stated that Volatility is the variation or dispersion or deviation of an asset's returns from their mean. While Ahmad, Alrjoub, and Alrabba. (2018) refers it as the degree of movement in the price of an equity, asset or index over a certain time-period. Some Authors such as Park, Jung and Chul (2017) see volatility as a systematic risks they therefore defined it as the standard deviation of daily market returns they also stated that the stock market tend to become more volatile as a result of an increase in systemic risk as well as an increase in idiosyncratic risk. In line with Aabo et al. (2017); Guo (2002) also defined Share price volatility as a systematic risk investors who possess ordinary shares face. Okafor et al. (2011) sees it as a method used to define risk, and represents the rate of change in the price of a security over a given period of time. These scholars also stated that, the greater the volatility, the greater the chances of a gain or loss in investment within a short period of time. Volatility is a measure related to the variance of a security

price. Therefore if a stock is tagged as being volatile, its price would greatly change over time, and will be more difficult to say with certainty what its future price will be. In this case, investors prefer a less risky stock because the lesser the amount of risk, the better the investment (Gordon, 1959). In other words the lesser the volatility of a given stock, the greater its desirability to investors.

2.1.2 Dividend Policy

Dividend policy have continue to remains one of the most controversial issues in corporate finance and financial analysts have continue to engage in modeling and examining corporate dividend policy as it affects performance and researchers over the years have defined dividend policy differently such as Nissim and Ziv (2001) defined dividend policy as the regulations and guidelines that accompany uses to decide on whether to make dividend payments to shareholders. According to them, dividend are commonly seen as the distribution of earnings in real assets among shareholders of the firm in proportion to their ownership. It is basically the benefit of shareholders as a return for the risk and investment and is determined by different factors in an organization.

Basically, these factors include financing limitations, investment chances, and choices, firm size, pressure from shareholders and regulatory regime. Nwude (2003) also defined it as the guiding principle for determining the portion of a company's profit after taxes to be paid out to shareholders as dividend at end of a particular accounting period. He further stated that aim of dividend policy is to maximize the wealth of shareholders which is dependent on capital gain and current dividend. Emekekwue (2005) also see it as the portion of a firm's profit after tax that is distributed to shareholders as return on investment. He also agreed with Nwude (2003) that the main purpose of dividend policy is to determine the portion of the company's earnings that would be paid out to shareholders as dividend or held back as retained earnings. Retained earnings which is an important sources of financing of firm's projects. While Samuel and Wilkes (2005) refers it as management's long term decision on how to deploy cash flows from business activities that is, how much to invest in the business and how much to would be paid to shareholders as returns. The determination of the amount of dividends to be paid to shareholders is an important decision that companies undertake since the main objective of the firm is to maximize the shareholders wealth as measured by the price of the company's common stock.

2.1.3 Capital Investment

According to Desai, Wright and Chung, (2012), capital investment involves strategic investments which have long-term commitments of corporate policy that enhances particular technologies, products, and markets, Similarly Omilabua, Alao, and Situ (2018) stated that they involve strategic investments that help to create flexibility of operations or have the potential of generating profitable opportunities, in the future. Omilabua et al. (2018) further stated that capital investment is a critical aspect of a firm's operations in order to ensure optimum profit to the company as it involves a planning process of investment in long term assets. Shah and Noreen (2016) defined asset growth as the rate of the change in total assets between the beginning of the year and the end of the year. Similarly, Siyanbola and Otitolaiye (2020) stated that asset growth shows how well the company has grown from year to year and that higher growth in assets indicates that the company is performing well and can expand which in turn will have an impact on the stock price volatility. While Hilton, Maher and Selto (2012), refers capital asset expenditure as the resources, other than human capital, which a firm acquires and utilizes for productive activities or profit-making purposes.

2.2 Theoretical Review

2.2.1 Dividend Relevance Theory

This study is anchored on the dividend relevance theory developed by Developed by Gordon (1963) and Lintner (1962), the dividend relevance theory argues that there is a direct relationship between the market value of a company and its dividend policy. The dividend relevance theory include bird in hand theory, the clientele theory, Agency theory and signaling theory. The bird in hand theory believes that under conditions of uncertainty and imperfect information investors are interested on how the earnings stream is split between dividends and retained earnings because dividend signals to shareholders how well a company is doing and that investors value current dividend over future dividend or capital gains that dividend today ia more valuable than uncertain future cash flow (Gitman & Zutter, 2012), while the Walter (1963) argued that dividend policy should be dependent on the investment opportunity available to the company or firm. He was of the opinion that so long as there are investments opportunities from which the firm earns its rate of return which is higher than the firms weighted average cost of capital the firm should pay dividend to its shareholders. But if there are no such opportunities, the firm should payout a part of its profits. This opinion tends to highlight the information content of dividends. That is, the payment or omission of dividend by a firm is a means of announcing to the public what the firm‟s future will look like. A firm that pays no dividend will be looked like as a weak firm with little or

no future prospect and vice-versa. Going further, Walter (1963) came up with model explaining how dividend policy affects the value of a share in the stock exchange.

2.3 Empirical Review

Fawaz (2014) studied the impact of dividend policy on Share Price Volatility in Jordan with a sample of 53 quoted companies using multiple regression from 2001-2013 the study found a significant negative relationship between share price volatility with dividend payout

Amaramiro, and Njoku (2019) examined the impact of Dividend Policy on Corporate Performance in Nigeria with a sample of 10 companies listed on the Nigeria stock exchange using multiple regression the researchers concluded that there is no significant relationship between dividend policy out and corporate performance

Osegbue Ifureze and Ifurueze (2014) examined the relationship between dividend payment and corporate performance of 18 publicly listed banks in Nigeria, using panel data regression technique from 1990-2010 the study concluded that, there is no significant relationship between dividend payment and corporate performance of Nigerian banks

Shah and Noreen (2016) also worked on stock price volatility and role of dividend policy in Pakistan using multiple regression analysis with a sample of 50 firms quoted on the Karachi Stock Exchange 2005-2012 the study concluded a significant negative relationship between dividend payout ratio and share price volatility

Ilaboya and Omoye (2012) investigate Earnings, dividend and share price volatility in Nigeria stock exchange.. By using ordinary least squares (OLS) regression method, the researchers found that, there is no significant connection between dividend payout ratio and stock price volatility.in Nigeria.

Kunle and Oloruntoba (2019) investigated dividend policy's impact on share price in Nigeria with focus on Zenith bank Plc, form 2007-2016. The results showed that dividend payout ratio, have an insignificant negative impact on Zenith bank's share price. This finding indicates that dividend payout ratio is a weak predictor of Zenith bank's share price.

Odum, Odum, Omeziri, and Egbunike (2019) examined the impact of dividend payout ratio on the firm's value. With sample of breweries and beverage companies listed on the Nigerian stock exchange using Panel Ordinary Least Square Regression Techniques for the periods 2007-2016. The results indicated a significant positive impact the value of the firm. Finally,

Nazir, Nawaz, Anwar, and Ahmed (2010) in the determinants of stock price volatility in Pakistan with a sample size of 73 firms from Karachi Stock Exchange (KSE) from 2003-2008 using ordinary least square regression. The result showed a significant negative effect of the dividend yield to stock price volatility during the period.

Idewele and Murad (2017) examined the relationship between Deposit Money banks' financial performance and dividend policy from 2009 to 2014 with a sample size of 15 deposit banks using the Pooled Least Squares regression technique. The study showed a negative and insignificant relationship between dividend yield and financial performance.

Araoye et,al (2019) examined the effect of dividend policy on stock price volatility in Nigeria with data from 188 active trading companies listed on the Nigerian stock exchange using panel data random effect regression the result shows a 1% significant positive effect of dividend per share on share price volatility they therefore concluded that every 1% growth in dividend per share will cause share price to increase by 0.213% ,

Egolum and Onyeogubalu (2021) investigated the impact of dividend per share on share prices of selected consumer goods firms listed in the Nigeria stock exchange from the period of 2009-2018 using linear regression the researchers found a positive effect of dividend per share on share price and concluded that dividend per share is accountable for about 21.7% changes in the share prices of consumer goods firms listed in the Nigeria Stock Exchange.

Adefila, Oladipo and Adeoti (2013 studied the effect of dividend policy on the market price of shares in Nigeria with a sample size of 15 quoted companies on the Nigeria stock exchange the study concluded that, there is no association between dividend paid to shareholders and market prices of shares.

Okafor et,al (2011) in dividend policy and share price volatility in Nigeria using asset growth as a control variable and multiple least square regression technique the results indicates a significant negative impact on share price volatility, in line with expectations that as firm exhaust their growth opportunities, they will distribute more earnings as dividends, leaving their shares less risky.

3. MATERIAL AND METHOD

The study is an ex post facto design we used secondary data by obtaining financial information covering all commercial banks in Nigeria from 2013-2022. The reason for the selection of the banking industry is because when compared with other quoted companies in Nigeria the baking industry have to an extent been consistent with payment of dividend and it is the financial hub of Nigeria. The study used panel data and covered the period of 10 years from 2013-2022. This period

is adopted to draw a reliable conclusion focusing only the period after the global financial crisis which led to a drastic in value of shares. It consist of 13 commercial banks quoted on the Nigeria stock exchange with at least a minimum of National Authorization which consist of bank that are allowed to operate nationwide. The nature of the study necessitated the use of secondary data and data were directly taken from NSE fact book, others from published financial statement of the banks and others from daily market report upload on banks website and Nigeria stock exchange

In specifying our panel regression model for the effect of dividend policy and capital investment on share price volatility, our models were computed based on models used by previous studies such as Hussainey Mgbeme and Aruoriwo (2011); Okafor et,al (2011) Shah and Noreen (2016); in this respect 4 models were specified the first model include 3 conventional dividend policy variables which include dividend payout ratio (DPR) dividend yield (DYD) dividend per share (DPS) in other to control for variables that potentially drive dividend policy earnings volatility (ErnVT) was included in the second model as a control variable while the third model include the moderating variable CapIN. Finally the fourth and fifth model are the moderating variables of dividend payout ratio, dividend yield and capital investment DivYD*CapIN which are included to address the research objective

$$SPV_{it} = \alpha_0 + \alpha_1 DPR_{it} + \alpha_2 DYD_{it} + \alpha_3 DPS_{it} + \alpha_4 EVT_{it} + \alpha_5 CAIV + \alpha_6 (DYD * CAIV)_{it} + d_t + u_{it}$$

Where

SPV=share price volatility= $\sqrt{\left(\frac{H-L}{\frac{H+L}{2}}\right)^2}$

DPR= dividend payout ratio = $\frac{Dps}{Eps}$

DYD= dividend yield = $\frac{DPS}{market\ price}$

DPS= dividend per share $\frac{PROPOSED\ DIVIDEND}{NO\ OF\ ORDINARY\ SHARES}$

EVT= earnings volatility= $\sqrt{\left(\frac{EBIT}{TA}\right)^2}$

CINV= capital investment= $\frac{\Delta total\ asset}{total\ asset\ at\ the\ beginning}$

4. RESULT AND DISCUSSIONS

4.1 Data Analysis

In this study, we investigated the effect of dividend policy on share price volatility using capital investment as a moderating variable in Nigeria banking industry from 2013-2022 with a sample size of 13 banks making a total 130 observations. To ensure adequate observation for statistical testing, we adopted panel data two way error correction model in other to account for

organizational and time heterogeneity with assumption for disturbance µit and identify the possible effect on share price volatility. To this end we conducted descriptive statistics and correlation matrix. Pooled and panel data regression with least square dummy variable and the poolability test was used to choose between ordinary pooled regression and least square dummy variable regression.

variable regression.

Table 1 Summary statistics.

Variables	Mean	Min	Max	Std. Dev
spv	0.67	0	1.83	0.28
dps	26.05	0	1289.86	155
dpr	9.99	-2.62	.000038	5.80
dy	0.65	0	31.028	3.70
ev	4.31	0.000845	263.80	29.72
capinv	1.58	-.99	131.21	12.59

Table 1 shows the result of the descriptive statistics of the dependent and independent variables, the mean (average) for each of the variable, their maximum values, minimum values and standard deviation. With the emphasis on the indicators of interest. Price volatility of Nigerian banks stock during the 2013–2022 period is observed at an average of 0.65% with a standard deviation of 0.28%.

Table 2 Correlation Matrix

Variables	Spv	Dps	Dpr	Dy	Ev	capinv
spv	1.0000					
dps	-0.0648***	1.0000				
dpr	-0.0792***	0.9665	1.0000			
dy	-0.0617***	0.9974	0.9477	1.0000		
ev	-0.1200***	0.9201	0.9068	0.9068	1.0000	
capinv	0.1514***	-0.0327**	-0.0338**	-0.0329**	-0.0305**	1.0000

Notes: *, **, ***are statistical significance at the 1%, 5% and 10% levels respectively; t-statistics in () are based on White heteroscedasticity-consistent std. errors Source: Authors' Computations

Table2 indicates the correlation matrix of this research which measures the relationship between the dependent and independent variables. The above table indicates a significantly negative association between the dependent and independent variables except for the moderating variable capital investment which shows a significant positive association.

4.3 Regression result

Table 3 Two way error correction model

	OLS			
	Spv	spv	spv	spv
	[1]	[2]	[3]	[4]
Constant	-.19051	-.52678	2.122841	15.58
	(-0.31)	(-0.50)	(1.09)	(1.35)
dps	-.067584	.3411985	.2875368	0.2521443
	(-1.37)	(1.69)	(1.50)	(1.41)***
dpr	.0331128	|.08894	.20600	0.239
	(-1.37)	(1.32)	(1.72)	(2.12)**
dy	.0028218	-.47247	-.56076	-0.5031089
	(0.06)	(-2.01)	(-2.06)	(-2.13)**
ev	-.0969041	-.06888	.101196	0.0967843
	(-1.04)	(-1.56)	(0.88)	(0.86)
capin	.0113469		-.00059	0.0651324
	(0.31)		(-1.01)	(1.26)
Dy*capinv	-11.20587			-11.90217
	(-2.34)			(2.15)**
Net Effect				-7.6713
Time Dummies	Yes	yes	yes	yes
No of Obs.	130	130	130	130
R-Squared	0.5358	0.0001		
F-Statistic				0.00(27.63)
Pool test				0.0000

Notes: *, **, ***are statistical significance at the 1%, 5% and 10% levels respectively; t-statistics in () are based on White heteroscedasticity-consistent std. errors

Source: Authors' Computations.

Table 3 above presents the result of the empirical findings of the two way panel data error correction model, column 1 reflects the result of the OLS pool regression which assumes that all the samples are the same therefore it denies the heterogeneous nation of the samples banks while column 2-5 shows the result of the least square dummy variable regression which accepts the heterogeneous nature or individuality of the sampled bank. Column 2 shows the result of only the effect of the major variables of dividend policy and its control variable while column 3 indicates

the result of the independent variables and the moderating variable column 4 finally column 4 reflected the result of the interaction between dividend yield (Net effect) for this reason our interpretation will be focused on column 4

4.3 Tests of Hypotheses

4.3.1 Hypothesis One

H_0: There is no significant effect of dividend yield on share price volatility in Nigeria

Dividend yield show a 5% significant negative influence on share price volatility, this implies that for every 5% increase in share price will reduce by 0.503% and vice versa this result is similar to that of Nazir,et,al(2011) okafor et,al (2019) who concluded a significant negative effect of dividend yield on share price volatility.

4.3.2 Hypothesis Two

H_0: There is no significant effect of dividend pay-out ratio on share price volatility in Nigeria

Based on the coefficient of 0.239 and a p.value of 5% dividend payout ratio indicates a 5% significant positive effect on share price volatility this implies that every 5% increase in dividend payout ratio increases the chances of share price fluctuation by 0.239%. This result is in line with the findings of Azhagaiah and Sabari (2008) who concluded that the market price of stock is determined by dividend and retained earnings. Therefore we reject our null hypothesis which states that there is no significant effect of dividend payout ratio on share price volatility.

4.3.3 Hypothesis Three

H_0: There is no significant effect of dividend per share on share price volatility in Nigeria

Dividend per share on share price volatility shows a 10% significant positive effect. This implies that at every 10% increase in dividend per share of the sampled banks share price is likely to increase by 0.252%. this finding is in line with that of Araoye et,al (2019) who found a significant positive effect of dividend per share on share price volatility and concluded that every 1% increase in dividend per share will increase share price by 0.213% it is also consistent with that Egolum and Onyeogubalu (2021) who concluded a significant positive impact of dividend per share on share price and stated that dividend per share is accountable for 21.7% change in share price. Therefore we reject our null hypothesis which states that there is no significant impact of dividend per share on share price volatility.

4.3.4 Hypothesis Four

H_0: Capital investment does not moderates the effect of dividend policy on share price volatility,

Columns 4 of Table 3 reveals that the coefficients of the interaction term are negative and statistically significant at the 5% level. To this end, with the influence of capital investment, the net effect of dividend yield on share price volatility is -7.6713 ([-11.9021× 0.65] + [0.0651) Thus, it is plausible to argue that the negative interaction of capital investment and dividend yield leads to a -76% decrease in share price volatility, on average, ceteris paribus. In the computation, the mean value of dividend yield is 0.65, the unconditional effect of capital investment is 0.0651 while the conditional impact from the interaction between capital investment and dividend yield is -11.9021. In the light of the above, a negative net effect implies that the investigated hypothesis is rejected.

4.3.5 Control Variable

Earnings volatility also indicates an insignificant positive effect on share price volatility this finding is in line with the findings of Thin and Nam, (2019) who concluded an insignificant positive effect of earnings volatility on share price volatility similarly capital investment also indicate an insignificant positive effect on share price volatility.

CONCLUSION AND RECOMMENDATIONS

The purpose of this study is to investigate the effect of dividend policy and capital investment on share price volatility. Using quoted banks within the period of 2013-2022. In other to achieve this aim, we obtained data based on prior research on dividend policy, capital investment and share price volatility. These variables include dividend per share, dividend payout ratio and dividend yield earnings volatility was introduced as a control variable while capital investment was introduced as a moderating variable. Based on these variables our hypothesis were postulated.

The F-statistics (27.63) and its p-value (0.0) show that, the share price volatility least square dummy variable model is generally significant and well specified. The F-statistic also shows that, the overall share price volatility least square dummy variable regression model is significant at 1% levels.

The result from our study indicates a significant positive effect of dividend pay share and dividend payout ratio on share price volatility this finding is consistent with that of Idewele and Murad (2019) and Odum et.al (2019)who concluded a significant positive effect of dividend payout ratio on share price volatility . While we conclude a significant negative effect of dividend yield on share price volatility this implies that banks providing higher dividend yield tends to be less risky

in terms of price fluctuation finding is consistent with that of Thin and Nam (2019), Baskin (1989), Nazir,et,al(2011) okafor et,al (2019) Therefore, On the basis of results of this study it can be concluded capital investment complements dividend policy to reduce share price volatility in Nigeria. According to Thin and Nam, (2019) they stated that an adaptive dividend policy for corporate management and risk diversification strategies for investors as well as practical implications for policymakers can influence stock price volatility.

Based on the above conclusion this study has the following recommendations:

i. The study recommends that banks should try and improve on their financial performance that will enable consistent increase in the dividend per share for positive impact on market value.
ii. Banks can also change their dividend payout ratio which will affect dividend yield; as a result volatility of their bank's stock can be controlled as per their corporate plans. The positive relationship between dividend payout ratio and share price volatility,
iii. Hence bank managers requiring to reduce their share price volatility could simply increase dividends and capital investment. Such banks can carry out a cost-benefit analysis to determine if an alternative means of financing (for example, debt) may be more appropriate to finance their operations instead of retained earnings.

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