Impact of Dividend Payout on Share Price Volatility

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Abstract

Appropriate dividend distribution policy can not only set a good corporate image, but also to build the confidence of investors in the company's future prospects, thus creating a good corporate financing environment, the company long-term stable development. This paper is an attempt to analysis the impact of dividend payout on share price volatility. Here 15 listed hotel and travel companies are selected for this research on random sampling method. SPSS 16 used for analysis. Analyzed results revealed Dividend payout, Net assets per share and Earning per share statistically significantly predict the Share price Volatility, $F(3, 126) = 14.613$, $p < .05$. This results shows that Dividend payout has significant positive impact on share price changes $p<0.01$ and 25.8% of variability of share price explain by Dividend payout.further correlation analysis resuls revealed that there is positive significant relationship between dividend payout and share price volatility. Therefore this study recommended to selected companies to concentrate on distribution of income which influences on share holdes' wealth.

Keywords: dividend payout, share price volatility, net asset per share, Earning per share

Introduction

In an ever-increasing economy, globalization, liberalization and privatization together with rapid strides made by information technology, have brought intense competition in every field of activity. To maintain the competitiveness of, and add value to the companies, today's finance managers have to make critical business and financial decisions which will lead to long-run perspective with the objective of maximizing the shareholders' wealth.

Appropriate dividend distribution policy can not only set a good corporate image, but also to build the confidence of investors in the company's future prospects, thus creating a good corporate financing environment, the company long-term stable development.

Some questions were developed by Linter (1956) who investigated 28 American companies and found firm have desire to pay dividend as follows:

- Is it better to keep dividend payments at the present amount or alter it?
- Do shareholders want to have fixed dividend payments, or they prefer dividend payments updated with earnings?
- What kind of investor dividend policy should attract? Younger or older?

Dividend is the most inspiring factor for the investment on shares of the company and is thus desirable from the stockholder's point of view. In one hand the payment of dividend makes the investors happy. But in the other hand the payment of dividend decreases the internal financing required for making investment in golden opportunities. This will hamper the growth of the firm, which in turn affects the value of the stock. Earnings are also treated as financing sources of the firms. The firm retains the earning; its impact can be seen in many factors such as decreased leverage ratio, expansion of activities and increase in profit in succeeding years.

Dividend policy decision is one of the three decisions of financial management because it affects the financial structure, the flow of funds, corporate liquidating and investors' attitudes. Dividend decision of the firm is a very crucial controversial area of financial management. The main aspect of dividend policy is to determine the amount of earning to be distributed the shareholder and the amount to be retained in the firm.

Normally many researchers examined the impact of dividend payout on share price volatility. But only few researches were done in Sri Lanka at this time duration.

Objective of Research

The research objectives, which would guide this study, are as follows;

- ❖ To what extent dividend pay-out have impact on share price volatility
- ❖ To find out the relationship between dividend pay-out and share price volatility
- ❖ To Determine factors that influence dividend policy investing in banking sector's Securities

Problem statement

Research problem focus on "Impact of Dividend payout on the share price volatility in Sri Lankan". Dividend policy is an integral part of financial management decision of a business firm. Dividend refers to that portion of a firm's net earning which are paid out to the shareholders. Whether dividend payout has an influential on share

price volatility is the most critical question in dividend policy.If the firm pays a low dividend, there will be high retained earnings for future investment opportunities. If the investment opportunities did not materialize, then dividends would be increased and share price falls (i.e. shareholders' value falls) and the shareholders will be Disappointed [Pandey, (1983)].Dividend policy has presented different issues to academicians and practitioners. What should the selected companies' dividend policy be? What should the investors do about dividend policy? Does dividend policy really matter? These and more would be examined in the course of this study.

Literature review

The basis of these research studies has at its origin the two opposing dividend theories, namely, relevant or irrelevant dividend theories. Underlying these two theories are investor preference for dividends and/or capital gains

Abdullah Al Masum(2013) his empirical estimation based on the Fixed Effect and Random Effect Model show significant negative relation between Dividend Yield and Stock Price while Retention Ratio has a negative but statistically insignificant relationship with Stock Market Prices.

further shown that Return on Equity and Earnings per share have statistically significant positive impact on stock price and Profit after Tax has a significant negative impact on Stock Market Prices of the commercial banks of Bangladesh

Michael, Faith (2013) analyzed results revealed that The organizational performance, using EPS was correlated and a positive significant relationship was established; that was dividend paid this year is a signal to performance of the following year(s). This finding thus established the relevance of dividend policy. Therefore they recommended that optimal dividend policy that would better the lots of shareholders both in the short-run and long-run should be adopted.

The Yang Qi-yuan, LI Li in 2004, all A-share listed companies sample empirical results of the analysis showed that "the state-owned nature" of listed companies in the formulation of policy dividend payout ratio is not very great importance to the solvency indicators.

RimzaSarwar and Nadia Naseemtheir(2014) analyzed thatEarnings per share and dividend per share had positive impact on shareholders' wealth further they added The dividend paying companies had positive impact on their internal shareholders and outsiders called investors to invest in bulk due to the strong economic condition of company. Therefore it proved that dividend paying companies show strong economic condition. They recommended that investors prefer bird in hand type of dividend policy and the accounting standard bodies like international chartered accountants enforce standards on dividend policies.

FathiaThafani AR., M.A. Mohamed Abdullah(2014) Their results of the study revealed that there was a significant relationship between dividend payout and corporate profitability in terms of return on assets, return on equity and earnings per share. A positive significant relation was found between dividend payout and return on assets and return on equity for the whole sample while significant negative relationship was found between dividend payout and earnings per share as far as the dividend paying samplewas concerned

Dewasiri N J and Weerakoon Banda Y K(2014) examined impact of dividend policy on stock price volatility: Evidence from Sri Lanka" this analysed results revealed cross section random effect model revealed that there was a significant negative impact from dividend payout, a significant positive impact from company size and no evidence of significant impact from dividend yield on stock price volatility. Granger causality tests revealed that there is no short term impact from dividend pay-out on stock price volatility and it showed a feedback exist between company size and stock price volatility in any lag level findings suggested that, high dividend pay-out would lead to less volatile stock price, whilst higher dividend yield pave the way towards more volatility in stock price in the short run.

Werner-Ria Murhadi(2008) analyzed results shown that signaling theory still relevant in influencing movement of share price. Besides, research finding also supported agency theory developed by Jensen in seeing influence of free cash flow to share price. For the influence of structure of ownership to share price, the result supported entrenchment argument. While influence of structure of ownership to dividend policy found by result which do not support agency theory. Life Cycle theory in this research was obtained by result which was research confirmation before all, where there were influences of cycle step of company life to dividend policy

Sumninder and Prabhjot(2013) their analysis results revealed states that the dividend paying companies are concerned; there was a significant impact of dividend policy on shareholders' wealth in IT sector companies

GejaLakshmi S and Azhagaiah,R(2015)from their Descriptive statistics revealed that the data were normal whereas when the assumptions needed to be fulfilled for ordinary least square (OLS) are tested, the data were found to be homoskedastic and free of auto correlation .their results proved that DPS and RPS had significant positive co-efficient on EPS before global financial meltdown of FMCG firms in India. DPS LAGPER and LAGMPS had significant positive co-efficient on EPS after global financial meltdown of FMCG firms in India. Hence, it was inferred from the results that the shareholders' wealth was dependent on the DPS,

RPS, Lagged price earnings ratio, and Lagged market price per share. On the whole, the results revealed that the selected variables viz DPS, RPS, LAGPER and LAGMPS had significant impact on earnings per share (SW).

Methodology

In this research, secondary data collection was used to analysis the impact of dividend payout on share price volatility.15 hotel and travel companies are selected for this research on random sampling method.

Conceptualization

| Dividend payout | ⟶ | Share price changes |

Figure 1
Developed by researchers
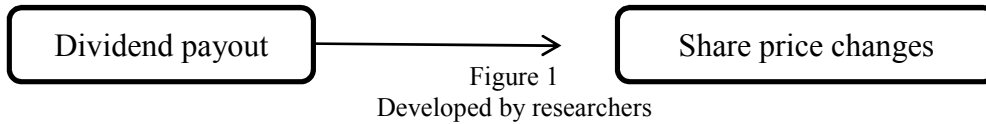
Operationalization

Concept	Variable	Indicators	Measurement
Dividend policy	Determinants of dividend	Dividend Payout	Dividend per share /Earning per share
olders ' Wealth	Capital gain	Share Price Volatility	$\dfrac{(SP\ 1 - SP\ 0)}{SP\ 0}$
Corporate Earnings	Earnings variables	Earning per share	Earnings per share / no of shares
Corporate performance	Asset utilization per equity share	Net Asset Per share	Net Asset/ no of shares

Earnings per share and Net asset per share are selected as control variables

Hypotheses

The following hypotheses are developed for testing.

H1: there is significant impact of dividend payout on share price volatility

H2: there is significant association between Dividend payout on share price volatility

Data Analysis and Discussion

Correlation analysis used to find the association between dividend payout and share price volatility and regression analysis used to examine the impact of dividend payout on share price volatility. SPSS package is used for analysis purpose

Table 1 Model summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.508[a]	.258	.240	3.80719663

[a.] Predictors: (Constant), Net Asset Per share , Dividend payout, Earning Per share

Above table 1 explores that model summary of the Linear Regression analysis. R can be considered to be one measure of the quality of the prediction of the dependent variable. Value of .508 represent good level of prediction. r^2 explains 25.8% of variability of share price explain by Dividend payout

Table 2 ANOVA

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	635.418	3	211.806	14.613	.000[a]
	Residual	1826.338	126	14.495		
	Total	2461.756	129			

[a.] Predictors: (Constant), Net Asset Per share , Dividend payout, Earning Per share

[b.] Dependent Variable: Share price Volatility

Above table 2 indicates that ANOVA table shows overall regression model is a good fit for the data. this analysis results revealed Dividend payout , Net assets per share and Earning per share statistically significantly predict the Share price Volatility , $F(3, 126) = 14.613$, $p < .0005$ therefore regression model is a good fit of the data

Table 3 Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.042	.377		.111	.912	-.705	.789
	Dividend payout	83.473	12.887	.497	6.478	.000	57.971	108.975
	Earning Per share	-.041	.035	-.171	-1.157	.249	-.111	.029
	Net Asset Per share	.005	.003	.234	1.577	.117	-.001	.010

a. Dependent Variable: Share price Volatility

Table 3 expresses the coefficient of this analysis. This results shows that Dividend payout has significant positive impact on share price changes $p<0.01$. But Earning per share and Net asset per share had not significant impact on Share price volatility $p>0.05$. Multiple regression models is as follows

Share price volatility = 0.42 +83.473 dp-0.041 EPS+0.005 NAS

From this analyzed results, researcher can claim that there is significant impact on Dividend payout on share price volatility. Therefore (H1) Hypotheses is accepted.

Table 4Correlations

		Dividend payout	Earnings Per share	Net Asset Per share
Share price Volatility	Pearson Correlation	.493(**)	.020	.071
	Sig. (2-tailed)	.000	.821	.424
	N	130	130	130

** Correlation is significant at the 0.01 level (2-tailed).

Table 4 explores correlation among the variables. Correlation analysis expressed that there is significant relationship exist between share price volatility and dividend payout. r indicate the strength and direction of relationship. Therefore r value is 0.493 noted that the positive direction and 49.3% of relationship exist between these two variables. But earning per share and net asset per share had not significant relationship between share price volatility.

Hypothesis two is there is significant association between Dividend payout on share price volatility

Conclusion

Present paper is an attempt to analysis the impact of dividend payout on share price volatility. Here 15 listed hotel and travel companies are selected for this research on random sampling method. SPSS 16 used for analysis. Analyzed results revealed Dividend payout, Net assets per share and Earning per share statistically significantly predict the Share price Volatility, $F(3, 126) = 14.613$, $p < .05$. This results shows that Dividend payout has significant positive impact on share price changes $p<0.01$ and 25.8% of variability of share price explain by Dividend payout.further correlation analysis resuls revealed that there is positive significant relationship between dividend payout and share price volatility. Therefore this study recommeded to selected companies to concentrate on distribution of income which influences on share holdes' wealth.

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