DIVIDEND POLICY AND STOCK PRICE VOLATILITY OF LISTED FIRMS IN SRI LANKA

K. Tharsika

Department of Accounting, Faculty of Management Studies and Commerce, University of Jaffna, Sri Lanka

Corresponding author (email: tharsik@univ.jfn.ac.lk)

INTRODUCTION

Maximizing the wealth of the company's shareholders' wealth is any business's primary objective (Purwanti, 2020). The shareholders' wealth is directly related to the company's market value as determined by the share price (Lingesiya & Jeyan Suganya, 2021). The movement of share prices can be either bullish (up) or bearish (down), known as Stock Price Volatility (SPV) (Mohanavel et al., 2022). The determination of share price depends upon various elements, with the primary determinant being the interplay between the demand and supply of a particular share within the market. It mainly depends on the proportion of dividends paid out by a particular company because investors buy company shares to receive a more significant return on their investment (Masum, 2014).

Dividend policy plays a crucial role in determining a firm's financial health and value. Management must make an essential decision to balance the interests of shareholders and the company's growth prospects. The impact of dividend policy on stock price volatility has been extensively studied in various countries, but limited research has been conducted in the context of Sri Lanka (Lingesiya & Jeyan Suganya, 2021). Therefore, this study aims to fill this gap and shed light on the relationship between dividend policy and stock price volatility in Sri Lankan listed companies. According to Hussainey et al. (2011), there was a significant negative relationship between the dividend policy of a firm and the volatility of its stock price and a weak positive relationship between dividend yield and stock price volatility. However, Gunaratne et al. (2015) revealed that dividend yield negatively impacts stock price volatility, and the dividend payout ratio indicates a positive insignificant relationship with share price volatility. Hence, the unavailability of consensus between the previous researchers is essential to the subject of extensive research in the field of finance. This study aims to investigate the impact of dividend policy variables (such as dividend yield, dividend payout ratio, and dividend per share) on stock price volatility and provide insights and recommendations for companies and investors regarding the optimal dividend policy to minimize stock price volatility.

METHODOLOGY

This study used quantitative techniques and a deductive approach to assess the relationship between dividend policy and stock price volatility of Sri Lankan listed companies from 2016/17 to 2021/22. This study's population of interest consists of 289 listed companies on the Colombo Stock Exchange (CSE) as of May 31, 2023. The research sample consists of 50 listed companies chosen at random.

Figure 1 displays the conceptual framework for this research after reviewing the pertinent literature. The SPV is a dependent variable, and three dividend policy variables are used as independent variables in this study: Dividend Payout, Dividend Yield, and Dividend per Share.

Figure 1
Conceptual Framework

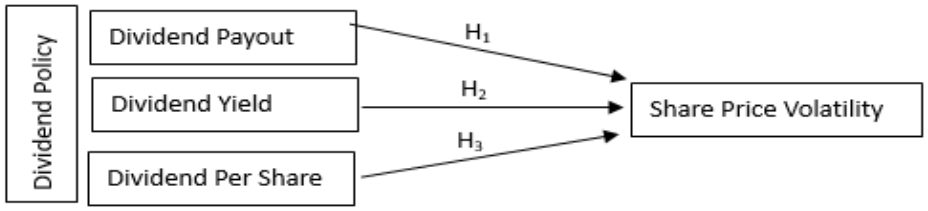

Table 1
Variables Used to Study the Dividend Policy and Share Price Volatility

Variables	Measures	Symbols
Independent variable - Dividend Policy		
Dividend Payout	Dividend Per Share/ Earnings Per Share	DPO
Dividend Yield	Earnings Per Share / Market Price Per Share	DY
Dividend Per Share	Total dividend to ordinary shareholders /No. of Common Stock Outstanding	DPS
Depended variable- Share Price Volatility		
Share Price Volatility	$\sqrt{\frac{(MPSh - MPSI)}{\left(\frac{MPSh + MPSI}{2}\right)^2}}$ MPSh=Highest Market Price Per Share MPSI=Lowest Market Price Per Share	SPV

The researchers developed the following hypotheses based on the conceptual framework above.

H_1: There is a significant relationship between dividend payout and share price volatility.

H_2: There is a significant relationship between dividend payout and share price volatility.

H_3: There is a significant relationship between dividend per share and share price volatility.

The data for the empirical analysis is gathered from the selected company's annual reports, which are available on the CSE and the company websites. EViews 12 generates Spearman Rank Correlation and Ordinary Least Squares for the quantitative data (OLS).

RESULTS AND DISCUSSION

Table 2
Results of the Spearman Rank Correlation Analysis

	DPO	DY	DPS	SPV
DPO	1			
DY	0.187***	1		
DPS	0.312***	0.197****	1	
SPV	-0.072	-0.09	-0.170***	1

Table 2 displays the results of the Spearman rank correlation analysis on the selected variables to identify multicollinearity issues. SPV had a weakly negative correlation with DPS (r=-0.170, p 0.00), but the other two selected variables, namely DPO and DY, are insignificantly correlated with the SPV. When an independent variable is highly correlated with one or more of the other independent variables in the research model, this is referred to as multicollinearity (Allen, 1997). According to Akoglu (2018), Spearman's correlation coefficient value is more significant than 0.80, indicating a strong correlation between the variables. DPO, DY, and DPS are independent variables in this study. None of the independent variables are highly correlated with each other (r<0.8). Therefore, this result concludes that there are no multicollinearity issues.

Table 3

Result of OLS Regressions

	Coefficients	***t Stat***	***P-value***
Constant	0.39	24.67	0.00
DPO	-0.001	-0.264	0.792
DY	0.001	0.566	0.573
DPS	-0.001	-3.349	0.001***
R Square			0.34
Adjusted R Square			0.17
F-statistic			1.99
Prob(F-statistic)			0.00

The results of the OLS regressions of firm performance for the sub-samples are shown in Table 03. The independent variables examined in this study show that DPS (α = -0.001, P < 0.001) exhibited a statistically significant negative impact on SPV. This result is consistent with the findings of Lingesiya and Jeyan Suganya (2021), nevertheless, it contradicts the findings of Araoye et al. (2019). However, DPO (α = 0.001, P > 0.05) and DY (α = 0.001, P > 0.05) have not demonstrated a significant impact on SPV. The findings of Mehmood et al. (2019) and Sugathadasa (2018) are consistent with this study's conclusion that DPO has no impact on SPV. However, it conflicts with research by Nguyen et al. (2020) that discovered a substantial correlation between DPO and SPV.

The research results, therefore, support the H_3 that DPS has a significant impact on the SPV. However, H_1 and H_2 are inconsistent with the study's conclusion that DPO and DY have no significant effect on SPV. The regression model results showed that the three dividend policy attributes explained 34 percent of the variance in SPV (R^2=0.34, F (3,247) =1.99, p<0.01).

CONCLUSION AND IMPLICATIONS

This study aims to investigate the impact of dividend policy on the SPV of listed firms on the CSE between 2018 and 2022. The regression analysis results indicate that DPS has a significant negative relationship with SPV. However, neither DPO nor DY have demonstrated any significant impact on SPV. Investors can reduce investment risks by considering a company's dividend per share, as it dramatically impacts share price fluctuations. Policymakers and top management can use the insights from this study to understand how a company's dividend policy impacts shareholder wealth. Moreover, it is recommended that future studies be conducted to expand the scope of the investigation to other stock markets in the Asian region.

***Keywords*:** Dividend policy, listed companies, stock price volatility

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