

CORPORATE DIVIDEND POLICY DETERMINATION AND IMPLICATIONS FOR SHAREHOLDER WEALTH

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“CORPORATE DIVIDEND POLICY DETERMINATION AND IMPLICATIONS FOR SHAREHOLDER WEALTH”** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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ABBREVIATION

AGM :	Annual General Meeting
CAGR :	Compound Annual Growth Rate
CSR :	Corporate Social Responsibility
DPR :	Dividend Payout Ratio
DPS :	Dividend per Share
EPS :	Earnings per Share
IPO :	Initial Public Offering
MBS :	Master in Business Studies
NEPSE:	Nepal Stock Exchange
NRB :	Nepal Rastra Bank
P/E :	Price to Earnings Ratio
P/E Ratio:	Price-to-Earnings Ratio
ROE :	Return on Equity
SEBON:	Securities Board of Nepal

ABSTRACTS

This research explores the relationship between corporate dividend policy and shareholder wealth in the context of Nepalese commercial banks. Investors analyze a company's dividend policy, considering factors such as Dividend per Share (DPS), Earnings per Share (EPS), Dividend Payout Ratio (DPR), and Price-to-Earnings (P/E) ratio, to assess its potential for generating returns and creating shareholder value. Effective dividend policies, characterized by consistent and attractive dividends, are seen as a sign of a company's financial stability and growth prospects. Investors are more likely to invest in companies with a strong track record of dividend payments, as it fosters trust and attracts capital. Conversely, poor dividend policies can deter investors and negatively impact shareholder wealth.

Dividend policy influences investors in several ways. Investors rely on financial statements, analyst reports, and market data to assess a company's dividend policy and its implications for shareholder wealth. Strong dividend policies can lead to higher Market Price per Share (MPS), increased investor interest, and potentially lower required rates of return. Dividend policy also impacts a company's risk profile. Effective dividend policies, transparency, and consistent communication can attract risk-averse investors. Conversely, poor dividend policies, lack of transparency, or inconsistent communication can increase perceived risk and discourage investors.

In conclusion, corporate dividend policy plays a significant role in determining shareholder wealth. Investors assess a company's dividend policy to evaluate its ability to generate returns and manage risk. Positive perceptions of a company's dividend policy attract investment and enhance shareholder wealth, while negative perceptions can deter investment and reduce shareholder value. Understanding this connection is crucial for both investors and companies seeking to maximize shareholder wealth in the Nepalese banking sector.

Keywords: corporate dividend policy, shareholder wealth, Dividend per Share (DPS), Earnings per Share (EPS), Dividend Payout Ratio (DPR), Price-to-Earnings (P/E) ratio, Market Price per Share (MPS), investor behavior, stock market.

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The financial decisions a company makes significantly impact its attractiveness to investors. One crucial aspect of this decision-making process is the company's dividend policy, which determines how much of its profits are distributed to shareholders in the form of cash payouts (Brigham & Ehrhardt, 2008). Understanding the relationship between corporate dividend policy and shareholder wealth is paramount in the financial world.

Similar to how management efficiency influences investment choices (Horngren, Datar, & Rajan, 2018), dividend policy plays a vital role in attracting and retaining investors. Efficient management practices often translate to sound financial performance and a focus on long-term value creation (Horngren et al., 2018). Investors, seeking companies with the potential for sustainable growth and profitability, value such efficient management. Similarly, a well-defined and consistent dividend policy can signal management's commitment to shareholder value and attract investors seeking consistent returns (Brigham & Ehrhardt, 2008).

Extensive research has been conducted on the connection between investment choices and various factors such as financial performance indicators, market sentiment, and risk measurements. One of the most crucial elements investors consider is management efficiency, as it reflects the team's ability to generate value for shareholders (Horngren et al., 2018). However, dividend policy also holds significant weight in investment decisions. Studies like "The effect of efficiency of investment decisions on firm value" by Agung et al. (2021) highlight how efficient capital allocation through dividends can increase profitability and investor confidence, ultimately boosting market value.

There are two main schools of thought regarding the relationship between dividend policy and shareholder wealth: the dividend relevance theory and the signaling theory. The dividend relevance theory, championed by Miller and Modigliani (1961),

suggests that in a perfect market with no taxes or transaction costs, dividend policy has no impact on firm value. They argue that investors can achieve the desired level of payout by selling shares themselves (Miller & Modigliani, 1961). However, this theory assumes a perfect market, which is not always the case.

The signaling theory, on the other hand, proposes that dividends act as a signal from management to investors about the company's future prospects (Lintner, 1964). Companies with strong future cash flow expectations are more likely to pay higher dividends, signaling confidence in their financial health. Conversely, companies with limited future cash flow prospects might resort to lower or no dividend payouts, potentially indicating financial constraints. Investors, based on this signal, can then make informed investment decisions.

Several studies have explored the connection between a company's reported earnings and the efficiency of its investment decisions (Cherkasova & Rasadi, 2017). Cherkasova and Rasadi (2017) suggest that companies with higher quality earnings tend to make better investment choices, ultimately benefiting shareholders. This aligns with the signaling theory, as companies with strong financial performance are more likely to implement a sustainable dividend policy, attracting investors seeking consistent returns.

Furthermore, research like "Suboptimal Investments and M&A Deals in Emerging Capital Markets" by Cherkasova & Zakharova (2016) sheds light on the negative impact of weak corporate governance on investment decisions. This research suggests that companies with poor corporate governance structures might engage in suboptimal investments that negatively affect investor confidence and firm value. A sound dividend policy, established through good corporate governance, can help mitigate such risks and signal a commitment to long-term shareholder value creation.

In conclusion, understanding the relationship between corporate dividend policy and shareholder wealth is crucial for both companies and investors. Investors, seeking to maximize their returns, consider dividend policy alongside other factors like management efficiency (Hornsgren et al., 2018). Companies, on the other hand, can leverage dividend policy as a tool to attract and retain investors, ultimately improving firm value (Brigham & Ehrhardt, 2008). Exploring the dividend relevance theory and

the signaling theory, along with their practical implications, is essential in navigating the complex world of corporate finance.

1.2 Problem Statement

A company's financial health is reflected in its ability to generate earnings and distribute dividends to shareholders (Zafar et al., 2012). However, determining the optimal balance between dividend payouts and reinvestment in the company is a complex decision. This balance can signal a company's financial strength to the market and influence its overall performance (Zafar et al., 2012). While dividend payments can be seen as rewarding shareholders, the impact of dividend policy on shareholder wealth remains a debated topic, with diverse findings across different geographical contexts (Farrukh et al., 2017).

For effective investment decision-making, it is critical to comprehend the linkages between key financial indicators such as dividend per share (DPS), earnings per share (EPS), retained earnings, and price-earnings ratio (P/E), and their impact on the market price per share (MPPS) as the dependent variable. Dividend policy is a crucial factor that can significantly influence the market value of a firm's stock and the returns received by its shareholders. However, there remains a gap in understanding how these specific aspects of dividend policy interact to determine MPPS. Existing research has primarily focused on the determinants of dividend policy and stock valuation, with limited exploration of the interplay between DPS, EPS, DPRs, P/E, and MPPS. This knowledge gap hinders investors from fully incorporating the impact of these financial indicators into their investment decisions, potentially leading to suboptimal choices. The complexities of market dynamics and investor behavior further complicate this relationship, emphasizing the need for a deeper investigation into how these variables affect shareholder wealth. This study aims to address this issue by providing a comprehensive analysis of how DPS, EPS, DPRs, and P/E interact to determine MPPS in various market contexts. It seeks to present a thorough understanding of the relative importance of each variable in influencing stock prices and the potential mediating or moderating effects among them. With this information, investors can make more informed decisions, and companies can optimize their financial policies to enhance shareholder value. The findings of this research will contribute to the existing literature on stock valuation and market efficiency. It will

offer valuable insights for investors, corporate managers, and policymakers in understanding the complexities of stock price determination and the role of key financial indicators in driving market performance.

- What are the key determinants of corporate dividend policy that influence shareholder wealth?
- Are dividend per share (DPS), earnings per share (EPS), retained earnings, and price-earnings ratio (P/E) significantly related to the market price per share (MPPS)?
- Does the interaction of DPS, EPS, retained earnings, and P/E influence the market price per share and, consequently, shareholder wealth?

1.3 Objectives of the Study

The major purpose of studying Corporate Dividend Policy Determination and Implications for Shareholder Wealth is to identify the relationship between the independent variables and the dependent variables. The specific purpose of the study are as follows:

- To evaluate the key determinants of corporate dividend policy that influence shareholder wealth.
- To examine the significance of the relationship between dividend per share (DPS), earnings per share (EPS), DPR, and price-earnings ratio (P/E) with the market price per share (MPPS)
- To analyze the interaction of DPS, EPS, DPR, and P/E in influencing the market price per share and, consequently, shareholder wealth.

1.4. Research Hypothesis

A research hypothesis is a precise, understandable, and testable proposition or forecast of the likely results of a scientific research study based on specific characteristics of a population, such as presumptive differences between groups on a specific variable or relationships between variables. The following hypotheses are explored in this inquiry, focusing on the relationship between corporate dividend policy and shareholder wealth.

In this study, we are interested in how dividend policy affects the market price per share (MPPS) and, consequently, shareholder wealth. The hypotheses propose specific connections between these variables. The research design will then determine how we measure and analyze these variables to test the validity of the hypothesis.

Dividend per Share and Market Price per Share

The dividend per share (DPS) is a critical component of corporate dividend policy that significantly influences investor perceptions and market valuations. Companies that consistently provide attractive DPS signal financial stability and profitability to investors, fostering confidence in their future performance. This reliable income stream is often perceived as a hallmark of effective management practices, enhancing the company's market price per share (MPPS).

H1: Dividend per share positively influences the market price per share.

Earnings Per Share and Market Price per Share

Earnings per share (EPS) serves as a vital indicator of a company's profitability and financial health. Investors closely monitor EPS as it reflects a company's ability to generate earnings for shareholders. Higher EPS values are typically associated with strong management efficiency and operational success, leading to increased investor confidence and a higher market price per share.

H2: Earnings per share has a significant positive relationship with the market price per share.

Dividend Payout Ratio and Shareholder Wealth

The Dividend Payout Ratio (DPR) is a critical financial metric that indicates the proportion of earnings a company allocates to shareholders in the form of dividends. A higher DPR suggests that a company is returning a significant portion of its earnings to shareholders, which can enhance investor satisfaction and attract income-focused investors. This investor sentiment can lead to an increase in shareholder wealth, as companies with favorable dividend policies are often perceived as financially stable and committed to returning value to their investors.

H3: The Dividend Payout Ratio has a positive relationship with shareholder wealth.

Price-Earnings Ratio and Market Price per Share

The price-earnings ratio (P/E) is a key valuation metric that reflects investor expectations regarding a company's future growth prospects. A higher P/E ratio

indicates that investors are willing to pay a premium for a stock, often due to perceived strong management efficiency and growth potential. This investor sentiment can lead to an increase in the market price per share, as companies with favorable P/E ratios are viewed as more attractive investments.

H4: Price-earnings ratio has a positive relationship with the market price per share.

1.5 Rationale of the Study

this study on corporate dividend policy and its implications for shareholder wealth lies in the significant impact that dividend decisions have on investor perceptions and market valuations. Understanding how key financial metrics—dividend per share (DPS), earnings per share (EPS), DPR, and price-earnings ratio (P/E)—influence the market price per share (MPPS) is essential for both corporate managers and investors.

Dividend policy is crucial as it directly affects an investor's expected returns and signals a company's financial health. By examining the relationship between DPS and MPPS, this study aims to reveal how dividend practices influence investor confidence and decision-making. Earnings per share (EPS) reflects a company's profitability and is a key factor in investment choices. Analyzing the connection between EPS and MPPS will highlight how earnings impact market perceptions and share valuations.

DPR indicate a company's commitment to reinvestment and long-term growth. Understanding their effect on MPPS will shed light on investor expectations regarding future performance. Additionally, the price-earnings ratio (P/E) serves as an important indicator of market sentiment. Investigating its relationship with MPPS will clarify how investors value a company based on its earnings potential.

In summary, this study seeks to explore the interplay among DPS, EPS, DPR, and P/E in determining market price per share, providing insights for corporate managers to optimize dividend policies and for investors to make informed decisions, ultimately enhancing shareholder wealth.

1.6 Limitations of the Study

The limitations of the study are as follows:

- Only four independent variables (DPS, EPS, DPR, P/E) were considered, which may affect the study's outcomes if additional variables were included.
- The study uses secondary data sources, which may limit the accuracy and relevance of the findings based on the quality of the data.
- The specific context and sample size may constrain the ability to generalize the results to other markets or industries.
- Issues with data availability and reliability may impact the analysis of the independent and dependent variables.
- Complex interactions among the independent variables may complicate the interpretation of their effects on market price per share (MPPS).
- Secondary data from financial reports or market analyses may be subject to reporting biases, affecting the validity of the findings.

CHAPTER II

LITRATURE REVIEW

A literature review is the process of locating, acquiring, reading, and evaluating the research literature in the area of the student's interest (Baskota, 2004). The main objective of the study is to learn what has been accomplished in the area of the research subject under consideration. A literature review is a critical analysis of existing scholarly work on a particular topic. It provides a comprehensive overview of the key research, theories, and debates surrounding your chosen field of study Fink, A. (2014). In this chapter, an effort has been made to evaluate some of the fundamental writings on the lending process. Learning not to accumulate is an essential and necessary step in the research process.

Dividend policy refers to the guidelines that companies follow when deciding how much profit to distribute to shareholders in the form of dividends. The literature on dividend policy has evolved significantly, with various theories and empirical studies contributing to our understanding of how these policies affect firm value and shareholder wealth. Notable contributions include the signaling theory, which posits that dividend announcements convey information about a company's future prospects, and the clientele effect, which suggests that different investor groups prefer different dividend policies based on their individual tax situations and income needs (Fink, A., 2014).

The impact of dividend policy on shareholder wealth has been a focal point in financial research. Studies have shown that a well-structured dividend policy can enhance a company's market valuation by attracting investors who favor regular income from dividends. Key factors influencing dividend decisions include the firm's profitability, cash flow stability, and the overall economic environment. Additionally, corporate governance practices, such as board structure and executive compensation, play a crucial role in shaping dividend policies and, consequently, shareholder wealth (Ed-Dafali et al., 2023).

2.1 Theoretical Review

Theoretical literature evaluations serve as the foundation for building a strong research project. This process involves a meticulous search for relevant sources, encompassing academic journals, books, and conference proceedings. Once this comprehensive search is complete, a critical assessment of the gathered literature is undertaken. This assessment involves identifying and summarizing the key issues, theories, and concepts that underpin the research topic. By systematically dissecting the existing body of knowledge, we gain a deeper understanding of the current state of research and establish a solid platform for further investigation. The hypotheses of a research project act as guiding principles, providing a framework for exploration and analysis. These hypotheses are formulated based on the theoretical underpinnings established through the literature review process. They represent tentative and testable propositions that aim to explain the relationships between variables under investigation. By clearly articulating the hypotheses, we establish the specific direction of the research and lay the groundwork for the development of a robust research methodology.

Dividend Irrelevance Theory

The dividend irrelevance theory, proposed by Miller and Modigliani (1961), posits that in a perfect capital market, a company's dividend policy has no effect on its overall value. This means that whether a company chooses to pay out dividends or retain earnings for reinvestment does not impact its stock price. However, this theory is based on several assumptions, such as perfect markets, no taxes, and no transaction costs, which may not hold true in the real world.

According to the theory, investors can create their desired dividend payout by simply selling a portion of their shares. This implies that the company's actual dividend policy is irrelevant as investors can achieve their desired level of dividend income through their own actions. The theory emphasizes that companies should focus on maximizing their investment opportunities and reinvesting earnings if they can generate a higher return than what investors could achieve on their own.

While the dividend irrelevance theory offers a valuable framework for understanding dividend policy, it's important to consider its limitations. The theory's assumptions of perfect markets, no taxes, and no transaction costs may not hold true in real-world scenarios. Factors such as market imperfections, tax implications, and investor preferences can influence the impact of dividend policy on shareholder wealth.

Signaling Theory

The signaling theory, proposed by Lintner (1956), suggests that dividends serve as a powerful communication tool for companies to convey information about their future prospects to investors. A consistent and growing dividend policy can signal a company's financial strength, commitment to shareholders, and confidence in its future earnings potential. When a company increases its dividend payments, it sends a positive signal to investors, indicating that the company is generating sufficient profits to sustain the dividend and that management believes in the company's future growth prospects. This can boost investor confidence and lead to increased demand for the company's shares, resulting in a higher stock price.

Conversely, a reduction or omission of dividends can be interpreted as a negative signal, suggesting that the company may be facing financial difficulties or uncertainty. Investors may perceive this as a sign of weakness and may be less willing to invest in the company, leading to a decline in stock price. It's important to note that the signaling effect of dividends can be influenced by various factors, such as the overall market environment, industry trends, and investor sentiment. However, a well-executed dividend policy can be a valuable tool for companies to communicate their financial health and attract investors.

Agency theory

Agency theory is a fundamental concept in corporate finance that explores the relationship between shareholders (principals) and managers (agents). This relationship is characterized by a potential conflict of interest, as managers may have their own personal goals that may not always align with the best interests of shareholders.

Key concepts in agency theory include:

- **Principal-Agent Relationship:** Shareholders, as the owners of the company, are the principals. Managers, who are hired to run the company on behalf of the shareholders, are the agents.
- **Agency Costs:** These are the costs incurred by shareholders to monitor and control managers' actions to ensure they act in the best interests of the company. Agency costs can arise from managers pursuing personal goals, such as maximizing their own compensation or job security, at the expense of the company's shareholders.
- **Incentive Alignment:** To mitigate agency costs, companies often implement incentive schemes to align the interests of managers with those of shareholders. These schemes typically involve tying managerial compensation to the company's performance, such as stock options or performance-based bonuses.

Bird-in-Hand Theory

The Bird-in-Hand Theory is a financial principle suggesting that investors prefer the certainty of dividend payments over the potential for uncertain future capital gains. This theory was developed by Myron Gordon and John Lintner as a counter-argument to the Modigliani-Miller dividend irrelevance theory, which posits that dividend policy does not affect a firm's value in a perfect market.

Key Concepts of the Bird-in-Hand Theory

Preference for Certainty: The theory is based on the adage "a bird in the hand is worth two in the bush," meaning that investors value the immediate, guaranteed returns from dividends more than the speculative potential of future capital gains. This preference stems from the inherent uncertainty associated with capital gains, which can fluctuate based on various market conditions and company performance.

Risk Aversion: Investors are generally risk-averse; they prefer stable and predictable returns. Dividends provide a tangible return on investment, while capital gains depend on market performance and can be volatile. This risk aversion leads investors to favor companies that consistently pay dividends, as these payments are viewed as a sign of financial health and stability.

Impact on Stock Valuation: According to the Bird-in-Hand Theory, companies that offer high dividend payouts are often more attractive to investors, which can lead to higher stock prices. This is because the certainty of receiving dividends can enhance investor confidence and demand for the stock.

Dividend Policy Implications: The theory suggests that a company's dividend policy can significantly influence its market valuation. Firms that maintain a consistent and reliable dividend payout may be able to command a premium in the market, as investors are willing to pay more for the perceived safety and reliability of dividends.

2.2 Empirical Review

Kuo et al. (2013) analyzed the impact of the 2008 financial crisis on dividend policies. They found that many firms significantly reduced their dividend payouts during the crisis as a strategy to conserve cash and manage financial risk. The research highlighted that companies facing economic uncertainty often prioritized liquidity over returning capital to shareholders, reflecting a shift in corporate priorities during challenging times. This investigation underscored how external economic conditions influenced corporate dividend decisions and illustrated how firms adapted their policies in response to market pressures, ultimately affecting shareholder wealth.

According to Lintner's (1956) research, companies exhibited a strong inclination toward maintaining consistent dividend payouts, which were closely linked to their current earnings and historical dividend distributions. Lintner argued that managers were typically hesitant to alter dividend payments in ways that could later be reversed, as such actions might convey negative signals to investors regarding the firm's financial stability. He highlighted that the consistency of dividends was essential for building investor confidence, as shareholders often interpreted regular dividend payments as indicators of a company's reliable earnings and overall soundness. This understanding suggested that a well-structured dividend policy could enhance shareholder trust and potentially lead to increased valuations for the firm.

Miller and Modigliani's (1961) analysis presented a transformative view on dividend policy, asserting that, in ideal market conditions, dividend policy did not influence a firm's value. They maintained that a firm's intrinsic value was determined solely by its investment decisions and earning capacity, rather than by how dividends were

distributed to shareholders. Their argument emphasized that investors could effectively create their own "dividend" by selling shares if they required cash, thus making the firm's dividend policy irrelevant. This assertion sparked considerable debate and prompted further inquiry into the implications of dividend policy in less-than-perfect markets, shedding light on the complexities of investor behavior and market dynamics.

Gordon's (1963) exploration introduced the "bird-in-hand" theory, which suggested that investors preferred the certainty of receiving dividends rather than relying on the uncertain prospects of future capital gains. He posited that current dividends were valued more highly than potential future profits, primarily because dividends provided immediate cash flow to investors. Gordon's findings indicated that companies that offered higher dividends were often seen as less risky investments, signaling financial stability and profitability. This theory highlighted the significance of dividend policy in shaping investor expectations, suggesting that firms could improve their market valuation by adopting a consistent and generous approach to dividend distribution.

Fama and Blasi's (1968) investigation provided compelling evidence that dividends significantly affected stock prices. Their findings supported the idea that dividends acted as a signal of a firm's stability and profitability, influencing how investors perceived the firm and how the market behaved. They discovered that announcements of dividend increases typically led to rising stock prices, reflecting positive investor sentiment and confidence in the firm's future earnings potential. Conversely, reductions in dividends were often met with negative reactions from the market, as investors interpreted such actions as indicators of financial distress. This research underscored the vital role of dividends in corporate finance and investor relations, emphasizing the necessity for firms to carefully consider their dividend policies in relation to market expectations.

Fama and Blasi (1968) conducted a seminal study examining the relationship between dividend policies and stock price behavior. They explored the implications of dividend announcements on shareholder wealth, emphasizing the signaling effect that dividends can have on investors' perceptions of a firm's financial health. Their research highlighted that dividend changes often convey information about future

earnings prospects, which can lead to significant stock price adjustments in response to dividend announcements.

Aivazian, V., Booth, L., & Cleary, S. (2003) examined the determinants of dividend policy in emerging markets. Their study found that firm characteristics like profitability and debt levels significantly impact dividend policies in these markets. The authors also noted that dividend policies in emerging markets differ from those in developed markets.

Brav et al. (2005) conducted an extensive survey that examined the views of financial executives regarding dividend policies. Their results indicated that many executives regarded dividends as a residual decision, made only after evaluating investment opportunities and financing requirements. The study revealed that the perspectives of managers on dividends were frequently influenced by personal tax considerations and the preferences of shareholders. Executives expressed a desire to balance the need to return capital to shareholders with the necessity of retaining earnings for reinvestment in growth opportunities. This nuanced understanding of dividend policy highlighted the challenges corporate managers face in aligning their decisions with both shareholder interests and the long-term strategic objectives of the firm.

DeAngelo and DeAngelo (2006) found that dividend policies are closely tied to a firm's life cycle stage. Mature firms with fewer growth opportunities are more likely to pay dividends, while younger firms prioritize reinvesting earnings for growth over payouts. The authors introduced the earned/contributed capital mix as a critical factor, with firms having a higher proportion of earned capital more inclined to pay dividends. Their findings highlight the importance of considering a firm's life cycle when formulating dividend strategies.

Amidu and Abor (2006) examined the determinants of dividend payout ratios for listed firms in Ghana, finding that profitability has a significant positive impact on dividend payouts, as more profitable firms tend to distribute higher dividends. Their study also revealed that cash flow is positively related to dividend payouts, indicating that firms with higher operating cash flows are more likely to pay dividends. Conversely, tax rates negatively affect dividend payout ratios, suggesting that higher taxes discourage dividend distributions. Additionally, the type of industry influences

dividend policies, with firms in certain sectors exhibiting different payout behaviors. Firm size was also found to be positively associated with dividend payouts, as larger firms generally tend to pay higher dividends. The authors concluded that profitability, cash flow, tax, industry type, and firm size are key determinants of dividend payout ratios for Ghanaian firms, emphasizing the importance of these factors in formulating effective corporate dividend policies in emerging markets.

Al-Malkawi (2007) examined the determinants of corporate dividend policy in Jordan using the Tobit model and found that larger firms tend to pay higher dividends, while profitability positively influences dividend payouts. Conversely, growth opportunities and debt levels are negatively associated with dividend ratios, indicating that firms with greater growth prospects and higher leverage pay lower dividends. Additionally, ownership structure impacts dividend policies, as firms with higher managerial ownership and government control tend to distribute fewer dividends. This study highlights the importance of considering firm characteristics, such as size, profitability, growth opportunities, debt, and ownership structure, in formulating effective dividend strategies in Jordan.

Andres, Betzer, Goergen, and Renneboog (2009) analyzed the dividend policies of German firms and found that they typically pay out a lower proportion of cash flows but a higher proportion of reported profits compared to UK and US firms. Their study indicated that dividend decisions are primarily based on cash flows due to conservative accounting practices and the need to retain earnings for legal reserves. Additionally, German firms exhibit flexible dividend policies, often willing to cut dividends in response to temporary declines in profitability, highlighting the unique characteristics of dividend policies shaped by local financial practices and regulations.

Guizani and Kouki (2012) explored the effects of corporate governance mechanisms on dividend policies in emerging markets. Their findings indicated that effective governance practices, such as board independence and ownership concentration, were positively correlated with higher dividend payouts. The study suggested that firms with robust governance structures were more likely to prioritize shareholder interests and distribute profits through dividends. This insight emphasized the critical role of governance in shaping dividend policies, indicating that well-governed firms could

enhance shareholder wealth by implementing transparent and consistent dividend strategies.

Guizani and Kouki (2012) examined corporate managers' perceptions of dividend policies in Tunisia, finding that stability in dividend payments is prioritized and viewed as a signal of financial health. The study highlighted that current earnings, future growth prospects, and cash flow availability are crucial factors in dividend decisions. Additionally, managers believe that dividend policies can impact shareholder wealth and the cost of capital, emphasizing the need to align dividend strategies with shareholder interests.

Arko et al. (2014) examined the effects of earnings management and corporate governance on dividend policy in Ghana. They found that effective corporate governance positively influences dividend payouts, while earnings management practices can negatively impact dividend policies. The authors emphasized the importance of transparent financial reporting and robust governance mechanisms in shaping dividend decisions, suggesting these factors are crucial for enhancing shareholder wealth in Ghanaian firms.

Jabbouri (2016) investigated dividend policy determinants in MENA emerging markets, finding that larger, more profitable firms with lower growth opportunities and leverage tend to pay higher dividends. Ownership concentration also negatively affects payouts. The study highlights the importance of firm characteristics in shaping dividend policies in emerging markets, emphasizing the need for tailored strategies in these contexts.

Baker and Jabbouri (2016) conducted a survey that revealed how managers took investor preferences into account when making dividend decisions. Their findings indicated that factors such as profitability, earnings stability, and prevailing market conditions were crucial in shaping dividend policies. The study emphasized that managers recognized the importance of aligning their dividend strategies with shareholder expectations, as investors typically favored firms that maintained consistent and reliable dividend payouts. This alignment of interests suggested that effective communication between management and shareholders was essential for fostering trust and enhancing firm valuation.

Hossain et al. (2017) surveyed managers in Bangladesh to understand their perceptions of dividend policy. The findings revealed that managers largely agreed with the bird-in-hand theory, indicating that investors prefer dividends today due to uncertainty about future price appreciation. Additionally, the study highlighted that dividend policy affects corporate cost of capital and corporate value, with managers advocating for a balance between current dividends and future growth.

Khan et al. (2018) investigated the influence of dividend policy on firm performance and shareholders' wealth in Pakistan. Their research, which included a sample of 51 companies from the PSX index over a period from 2006 to 2015, found that dividend policy is positively linked with earnings per share and share price. The study supported several theories related to dividends, including the bird-in-hand theory and signaling effect theory

Ullah et al. (2021) examined the relationship between shareholders' wealth and dividend policy in chemical, oil, and gas sector companies listed on the Pakistan Stock Exchange. Their analysis showed a strong relationship between shareholders' wealth and dividend policy, indicating that higher dividend payouts positively affect market prices. The study emphasized that consistent dividend payments are crucial for enhancing shareholder wealth.

Bhatta and Duwal (2021) conducted a review that identified a significant negative relationship between dividend policy and stock price volatility. Their research suggested that firms with stable dividend policies experienced lower levels of stock price fluctuations, providing a sense of security to investors. The study concluded that increasing dividends could serve as a mechanism to reduce stock price volatility, thereby enhancing investor confidence and market stability. This insight highlighted the potential advantages of a well-structured dividend policy in mitigating risk and promoting long-term shareholder wealth.

Agrawal et al. (2021) explored the impact of eliminating the Dividend Distribution Tax (DDT) on Indian corporate firms amid COVID-19 disruptions. The study found that changes in dividend policy following DDT elimination significantly influenced shareholder wealth, with firms adjusting their payout strategies in response to market

conditions.

Mamoud et al. (2021) focused on the residual dividend theory in Indonesian companies. Their findings indicated that capital expenditure and working capital negatively affect the dividend payout ratio, aligning with the residual dividend theory. This suggests that companies prioritize reinvestment over dividends when capital expenditures are high.

Monika (2022) emphasized the critical role of dividend policy as a fundamental financial decision impacting firm value. The study found that stable and consistent dividend payouts were preferred by investors, as they signaled financial health and reliability. Monika's research indicated that firms prioritizing dividend payments could enhance their overall market valuation, suggesting that effective dividend strategies were integral to maximizing shareholder wealth. This comprehensive analysis underscored the importance of understanding the dynamics of dividend policy within the broader context of corporate finance.

Ed-Dafali, Patel, and Iqbal (2023) conducted a bibliometric review of the dividend policy literature, combining quantitative and qualitative techniques to systematically analyze the field. Their study identified key themes, influential authors, and emerging trends in dividend policy research, providing a comprehensive overview of the current state of the literature.

Tran's (2024) review discussed various theories, including signaling, bird-in-hand, and agency theory, that explained the relationship between dividend policies and firm value. He noted that market frictions, such as taxes and transaction costs, could influence dividend decisions, complicating the dynamics between dividends and shareholder wealth. Tran's research emphasized the necessity for firms to consider these theoretical frameworks when formulating their dividend policies, as understanding the underlying motivations and market conditions could lead to more effective financial strategies.

Narang et al. (2024) conducted an analysis that revealed how board size and the percentage of female directors significantly influenced dividend decisions. Their

findings suggested that diverse corporate governance structures played a vital role in shaping dividend policies, with firms exhibiting greater diversity often adopting more shareholder-friendly practices. The study indicated that effective governance could lead to improved dividend policies, ultimately benefiting shareholders and enhancing firm performance. This research contributed to the understanding of how corporate governance impacts financial decision-making and shareholder wealth.

Summary Table

S.N.	Authors	Methodology	Variables	Major Findings
1	Lintner, (1956)	Empirical Study	Dividend policies, Managerial decision-making	<ul style="list-style-type: none"> i. Firms prefer stable dividend payouts ii. Managers avoid making dividend changes
2	Miller, and Modigliani (1961)	Theoretical Study	Dividend policies, Firm value	<ul style="list-style-type: none"> i. Dividend policy does not affect firm value in perfect markets. ii. Firm value is determined by investment decisions and earning power.
3	Gordon, (1963)	Heckman's twostep analysis.	Dividend policies, Shareholder preferences	<ul style="list-style-type: none"> i. The "bird-in-hand" theory suggests investors prefer the certainty of dividends over uncertain future capital gains. ii. Current dividends are valued higher than potential future gains..

4	Fama, and Babiak, (1968)	Instrumental variable model	Dividend policies, Stock price	<ul style="list-style-type: none"> i. Dividends have a significant impact on stock prices. ii. The study supports the notion that dividends signal firm stability.
5	Fama, and French, R.(2001)	Empirical analysis of dividend policy trends in the U.S.	Dividend policy, firm characteristics	<ul style="list-style-type: none"> iii. Fewer U.S. firms pay dividends over time, and those that do tend to be larger, more profitable, and have fewer growth opportunities. iv. Dividend policy is influenced by firm life cycle and industry.
6	Aivazian, Booth, and Cleary, (2003)	Empirical analysis of dividend policies in emerging markets	Dividend policy, firm characteristics	<ul style="list-style-type: none"> v. Firm characteristics like profitability and debt levels significantly impact dividend policies in emerging markets. vi. Dividend policies in emerging markets differ from those in developed markets.

7	Brav, Graham, Harvey, and Michaely, (2005)	Survey Research	Dividend policies, Managerial perspectives	<ul style="list-style-type: none"> i. Financial executives view dividends as a residual decision after investment decisions. ii. Managerial perspectives on dividends are influenced by personal taxes and shareholder preferences.
8	Amidu, and Abor, 2006)	Empirical analysis of dividend policy determinants in Ghana	Dividend policy, firm characteristics	<ul style="list-style-type: none"> i. Profitability, cash flow, and tax are key determinants of dividend policy in Ghana. ii. Dividend policy is influenced by industry type and firm size.
9	DeAngelo, and DeAngelo, (2006)	Theoretical analysis of dividend policy under life-cycle theory	Dividend policy, firm life cycle	<ul style="list-style-type: none"> i. Firms in different stages of their life cycle have different dividend policies. ii. Mature firms with fewer growth opportunities dividends

10	Andres, Betzer, Goergen, and Renneboog,(2009)	Empirical analysis of dividend policy in Germany	Dividend policy, corporate governance	<ul style="list-style-type: none"> i. Ownership structure and control rights significantly impact dividend policy . ii. Firms with higher managerial ownership tend to pay lower dividends.
11	Al-Malkawi,(2009)	Empirical analysis of dividend policy determinants in Jordan	Dividend policy, firm characteristics	<ul style="list-style-type: none"> i. Firm characteristics like profitability and debt levels significantly impact dividend policies in emerging markets. ii. Dividend policies in emerging markets differ from those in developed markets
12	Guizani, and Kouki, (2012)	Empirical Study	Dividend policies, Corporate governance	<ul style="list-style-type: none"> i. Corporate governance mechanisms affect dividend policies in emerging markets. ii. Good corporate governance practices are associated with higher dividend payouts.

13	Kuo, Philip, and Zhang, (2013)	differences- indifferences estimation approach	Dividend policies, Financial crisis	<ul style="list-style-type: none"> i. The 2008 financial crisis significantly impacted dividend policies in the U.S. market. ii. Firms reduced dividend payouts during the crisis to preserve cash and manage risk.
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14	Arko, Abor, Adjasi, and Amidu, (2014)	Empirical analysis of dividend policy determinants in Ghana and South Africa	Dividend policy, firm characteristics	<ul style="list-style-type: none"> i. Profitability, growth opportunities, and risk significantly influence dividend policy in Ghana and South Africa. ii. Differences in institutional and legal environments contribute to variations in dividend policies between the two countries.
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15	Baker, and Jabbouri, (2016)	Two Stage Multinomial Model	Dividend policies, Investor preferences	<ul style="list-style-type: none"> i. Managers consider investor preferences whenmaking decisions ii. Factors such as profitability and stability of earnings influence dividend
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16	Jabbouri, (2016)	Empirical analysis using data from MENA markets	Corporate dividend policy, firm characteristics	<ul style="list-style-type: none"> i. Firm size, profitability, and growth opportunities are key determinants of dividend policy in emerging markets. ii. Companies with higher profitability tend to pay higher dividends.
17	Ali, and Khurram, (2017)	Quantitative analysis	Demographic factors, GDP growth	<ul style="list-style-type: none"> i. Demographic factors significantly influence economic growth in South Asia. ii. Economic growth is linked to improved shareholder wealth.
18	Fama, and French, (2018)	Literature review	Dividend discount model	<ul style="list-style-type: none"> i. Comprehensive review of dividend discount models and their applications in finance.
19	Ghosh, and Sahu, (2020)	Empirical analysis	Corporate dividend policy, shareholder wealth	<ul style="list-style-type: none"> i. Positive correlation between dividend policy and shareholder wealth in Indian firms. ii. Firms with higher dividends tend to attract more investors and enhance market value.

20	Gupta, and Sharma, (2021)	Quantitative analysis	Dividend policy, share price	<ul style="list-style-type: none"> i. Dividend policies significantly influence share prices in emerging markets. ii. Companies with consistent dividend payouts experience higher market valuations.
21	Bhatta, and Duwal, (2021)	Systematic Literature Review	Dividend policy, Stock price volatility	<ul style="list-style-type: none"> i. Dividend policy has a significant negative relationship with stock price volatility. ii. Increasing dividends can reduce stock price volatility and provide stability to investors.
22	Mollah, and Zaman, (2022)	Empirical study	Corporate governance, dividend policy	<ul style="list-style-type: none"> iii. Strong corporate governance positively influences dividend payout ratios in Bangladesh firms.
23	Monika (2022)	Ordinary least squares and Probit model	Dividend policy, Firm value	<ul style="list-style-type: none"> i. Dividend policy is a core financial decision impacting firm value. ii. Stable dividend payouts are preferred by investors and enhance firm value.

24	Ed-Dafali, Patel, and Iqbal, (2023)	Bibliometric review of dividend policy literature	Dividend policy, shareholder wealth	<ul style="list-style-type: none"> i. Identifies trends and gaps in the dividend policy literature, emphasizing the importance of shareholder value. ii. Highlights the need for further research on the impact of dividend policy on firm value.
25	Corporate Finance Institute (2023)	Descriptive analyses of dividend policies	Dividend policy, payout ratios	<ul style="list-style-type: none"> i. Companies must balance between retaining earnings for growth and paying dividends to shareholders. ii. Regular dividend policies are preferred by investors seeking stable returns.
26	Wang, and Zhang, (2023)	Empirical analysis	Corporate social responsibility (CSR), dividend policy	<ul style="list-style-type: none"> i. CSR initiatives positively influence companies' dividend policies in China's market context. ii. Firms that prioritize CSR are likely to enhance their reputation and attract more investors through dividends

27	Narang, Gupta, and Tripathy, (2024)	Meta-Analysis	Corporate governance, Dividend policy	<ul style="list-style-type: none"> i. Board size and percentage of female directors significantly impact dividend decisions. ii. The study finds that dividend measurement proxies moderate the relationship between corporate governance and dividend policy.
28	Tran, (2024)	Random-Effects Probit mode	Dividend theories, Market frictions	<ul style="list-style-type: none"> i. Various theories (signaling, bird-in-hand, agency theory) explain the relationship between dividend policies and firm value.. ii. Market frictions can influence dividend decisions.

2.3 Research Gap

A research gap refers to a specific area within the field of corporate finance where existing knowledge is insufficient or inconclusive. This gap highlights the need for further exploration and investigation, allowing researchers to contribute new insights and advance the discipline. Identifying these gaps is essential for scholars, as it enables them to focus their efforts on areas that require additional study and can lead to meaningful contributions to the field.

In the context of corporate dividend policy determination and its implications for shareholder wealth, several gaps exist in the current literature. While numerous studies have explored the factors influencing dividend policies, there remains a lack of consensus on how these policies directly affect shareholder wealth across different

market contexts. According to Fink (2019), a well-defined research gap not only identifies where existing research falls short but also emphasizes unanswered questions or unexplored aspects within a specific area of inquiry.

For instance, while many studies have examined dividend policies in developed markets, there is limited research on how these policies operate in emerging markets, where cultural, economic, and regulatory factors may significantly influence dividend decisions. A systematic review by DeAngelo et al. (2004) indicates that the majority of existing research has focused on developed economies, leaving a notable gap regarding the unique characteristics of dividend policies in emerging economies. This lack of investigation presents an opportunity for further research.

Additionally, existing literature often overlooks the interplay between corporate governance and dividend policy, particularly in the context of minority shareholder protection. A study by La Porta et al. (2000) highlights the critical role of corporate governance in shaping dividend policies, yet few studies have specifically addressed how these practices affect the dividend policies of firms in emerging markets. This oversight suggests a need for further exploration into how governance structures impact dividend decisions and shareholder wealth.

Furthermore, while the relationship between management efficiency and dividend policy is acknowledged, the specific mechanisms through which management performance influences dividend decisions and, consequently, shareholder wealth remain underexplored. Research by Baker and Powell (2000) indicates that understanding management's perspective on dividend policy is essential, yet there is a gap in investigating how various dimensions of management efficiency—such as operational, financial, and strategic effectiveness—impact dividend policies and shareholder perceptions.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the key factors influencing corporate dividend policy determination and its implications for shareholder wealth, including profitability, growth opportunities, and firm size. It discusses various theories related to dividend policy, such as signaling and bird-in-hand, and highlights the challenges managers face in aligning dividend strategies with shareholder expectations and corporate financial goals.

This research design outlines the methodological approach and analytical framework for investigating Corporate Dividend Policy Determination and Implications for Shareholder Wealth. Section 3.2 discusses the conceptual and empirical challenges associated with this research. Section 3.3 presents the population sample and sampling design. Section 3.4 describes the nature and sources of data used in the study. Section 3.5 outlines the data collection instrument. Section 3.6 addresses the reliability of the data collection method. Section 3.7 discusses the quantitative methods employed for data analysis. Section 3.8 provides a detailed description of the research framework and variables.

3.2 Research design

Research design refers to the framework, structure, and strategy developed to address research questions and manage variability. This study employs a descriptive and causal-comparative research design to examine the various factors influencing dividend decisions and stock market prices. Secondary data and information are collected from various reliable sources for this purpose. The study utilizes a quantitative analysis method, employing both descriptive and causal-comparative research designs to achieve its objectives.

3.3 Population and Sampling Design

The data collection activity consists of taking ordered information from reality and transferring it into some recording system so that it can later be examined and

analyzed for patterns. Population or universe refers to the entire group of people, events or things of interest that the researcher wishes to investigate. In most of cases, we are not able to collect data of whole population or universe (an aggregate of the set of result of an operation). Bonus share issue is a recent phenomenon in Nepalese corporate firms. It came into practice after the incorporation of joint venture banks in mid-eighties as a result of Government's economic liberalization policy. As we well know the drawbacks of imperfect & underdeveloped capital market, it is ironically challenging to collect financial data, specially the share price of a particular date. The analysis of share issue has been regularly practice but due to large data & limited time the study duration is selected of recent five years. Among the samples those corporate firms will be ignored who are not actively trading during the study period.

Since, large number of corporate firms have issued bonus share so it is not possible to collect all the data of these corporate firms due to various constraint. So, we take only few corporate firms who are actively trading in stock market. We are taking past ten years report of different commercial banks which have published dividend to the shareholder. To analyzed the five commercial bank to perform the report analysis they are:

1. Nabil bank Ltd
2. Himalayan bank Ltd
3. Nepal Bank Limited
4. Agricultural Development Bank Limited
5. Everest Bank Limited

3.4 Nature Source of Data

A data source refers to the origin or location where data is stored and retrieved. This can be any physical or digital site where information is maintained in a format accessible and process able by computers or humans. The research primarily relies on secondary data as its source of information. Secondary data refers to information that has been collected by others and is used for a specific research purpose. It is considered "processed" data, as it is gathered from existing sources rather than collected firsthand by the researcher. Secondary data addresses the specific research questions and objectives and is obtained from various reliable sources, such as

reports, databases, and publications. In this manner, the data is compiled, and conclusions are drawn based on the analyzed outcomes to gather their opinions, preferences, or experiences. In this way, data will be gathered, totaled, and judgments are made based on percentage outcomes

3.5 Instrument of data collection

This investigation involved a comprehensive approach, drawing on a variety of statistical and scientific techniques. To ensure a rigorous and reliable study, data collection, organization, analysis, and interpretation all followed the established model provided by the Faculty of Management at Tribhuvan University. The research employed causal analysis where appropriate, and numerical analysis when it was the most suitable method. To facilitate efficient data processing and analysis, the study utilized SPSS, a powerful statistical software program.

3.6 Method of analysis

To study the relationship between dividends and stock prices, the theoretical statement of the model is that the price of stock would depend on Dividend Per Share, DPR Per Share and Price earnings. The regression model (linear and log-linear) is employed to test and analyze the cause and effect relationship between dependent and independent variables, where Market Price Per Share (MPS) is dependent variable and Dividend Per Share (DPS), DPR Per Share (REPS), Price earning ratio (P/E)_{t-1} and lagged market per share (MPS)_{t-1} are independent variables. Following data collection, the information was entered into SPSS, a statistical software program. SPSS then facilitated the necessary analyses and calculations to explore the relationships between the factors affecting management efficiency (independent variable) and investment decision (dependent variable).

Mean

The mean, also known as the arithmetic mean, is a statistical measure that represents the average of a set of numbers. It's essentially the sum of all the values in the set divided by the total number of values. The arithmetic mean is the most common used technique for identifying central tendency. The population value is averaged and divided by the entire number of observations to determine the value.

Formula,

$$\text{Mean } (\bar{X}) = \frac{\text{Sum of total numbers } (\sum X)}{\text{Number of samples } (n)}$$

Where X = value of responses of each dependent and independent variable

N = Number of statements

Standard Deviation

The standard deviation is a statistical measure that tells you how spread out the data points are in a set of numbers relative to their mean (average). Standard deviation acts like a ruler, measuring how spread out the data points are in a set, relative to their average (mean). It tells you not just how far individual points deviate from the average, but also how often these deviations occur. Think of it like a compass – it shows both the direction and the distance from the mean. Another term for standard deviation is "root mean square deviation," which reflects the mathematical formula used to calculate

Formula,

$$SD = \sqrt{\frac{\sum(x-\bar{x})^2}{n-1}}$$

Where,

SD = Standard deviation

N= No of observation

\bar{x} = Mean

Correlation

The strength and direction of the connection between variables can be measured using a correlation coefficient. In this study, a correlation matrix was employed to analyze the Likert scale data, and the correlation coefficient helped us examine the relationship between the independent and dependent variables. It's important to remember that correlation doesn't imply causation – it simply tells us how much the variables tend to change together. This relationship can be positive or negative, ranging from -1 to +1. A strong positive correlation (closer to 1) indicates that

changes in one variable are likely accompanied by significant changes in the other. Conversely, a value near zero suggests little to no association between the variables.

$$r = \frac{\sum(x_i - \bar{x})(y_i - \bar{y})}{\sqrt{(\sum(x_i - \bar{x})^2)\sum(y_i - \bar{y})^2}}$$

where:

r : represents the correlation coefficient (values range from -1 to +1)

Σ : represents the summation symbol (sum of all the terms)

x_i : represents the value of the independent variable for the i -th observation

\bar{x} : represents the mean of the independent variable

y_i : represents the value of the dependent variable for the i -th observation

\bar{y} : represents the mean of the dependent variable

Regression

Regression analysis is a powerful statistical toolbox that helps us understand the relationships between variables. It goes beyond simply identifying a connection; it allows us to estimate how much the dependent variable (the unknown value we're trying to predict) changes as the independent variables (the known factors we can measure) change. Imagine you're studying the factors affecting housing prices (dependent variable). Regression analysis can help you estimate how much the price might change based on factors like square footage (independent variable) and neighborhood (another independent variable). It can even be used to make predictions about future relationships between variables. This technique doesn't tell us if one variable causes the other, but rather how strongly they're linked.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e \dots \dots \dots (i)$$

Where,

Y : Market price per share (dependent variable).

β_0 : Intercept of the regression equation (expected value of Y when all X s are zero).

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: Coefficients for independent variables (change in Y for a one-unit increase in the corresponding X).

X1: Dividend per share (DPS).

X2: Earnings per share (EPS).

X3: DPR.

X4: Price-earnings ratio (P/E Ratio).

X5: Control variables (additional factors affecting Y).

e: Error term (unexplained variation in Y).

3.7 Reliability

Reliability in a thesis refers to the consistency and trustworthiness of research. Reliability analysis is a critical tool used in various disciplines to assess the consistency and dependability of a system, product, or measurement. Through statistical methods and failure analysis, reliability analysis identifies weakness and areas for improvement. This approach ensures safety, cost-effectiveness, and optimal performance. Within the realm of research, reliability reigns supreme as the cornerstone of trust. It refers to the consistency and trustworthiness of the research methods employed. Reliability analysis acts as a critical tool across various disciplines, allowing researchers to meticulously assess the consistency and dependability of a system, product, or measurement. This meticulous approach is crucial for establishing the credibility of research findings. Through the application of statistical methods and failure analysis, reliability analysis helps identify potential weaknesses and areas for improvement within the research design.

3.8 Research framework and definition of variables

A research framework serves as a foundational structure that organizes and directs the research process. It encompasses the overall design, approach, and theoretical basis guiding a study (Flick, 2014). This framework aids in structuring research questions, data collection methods, data analysis procedures, and the interpretation of findings (Creswell, 2014). Corporate dividend policy is a crucial aspect of financial markets, significantly impacting shareholder wealth and drawing interest from investors, firms, and researchers. The conceptual framework visually illustrates the interconnections between various factors influencing dividend decisions. This study focuses on how

Dividend per Share, Earnings Per Share, DPR, and Price Earnings Ratio affect investment decisions and shareholder value. The theoretical framework incorporates established concepts such as Agency Theory and Market Efficiency Hypothesis to analyze how these factors shape corporate dividend policies. To investigate these relationships, the research will utilize secondary data, employing quantitative analysis methods to assess the impact of these variables on shareholder wealth while considering control variables like risk tolerance and investment objectives.

Figure 1:

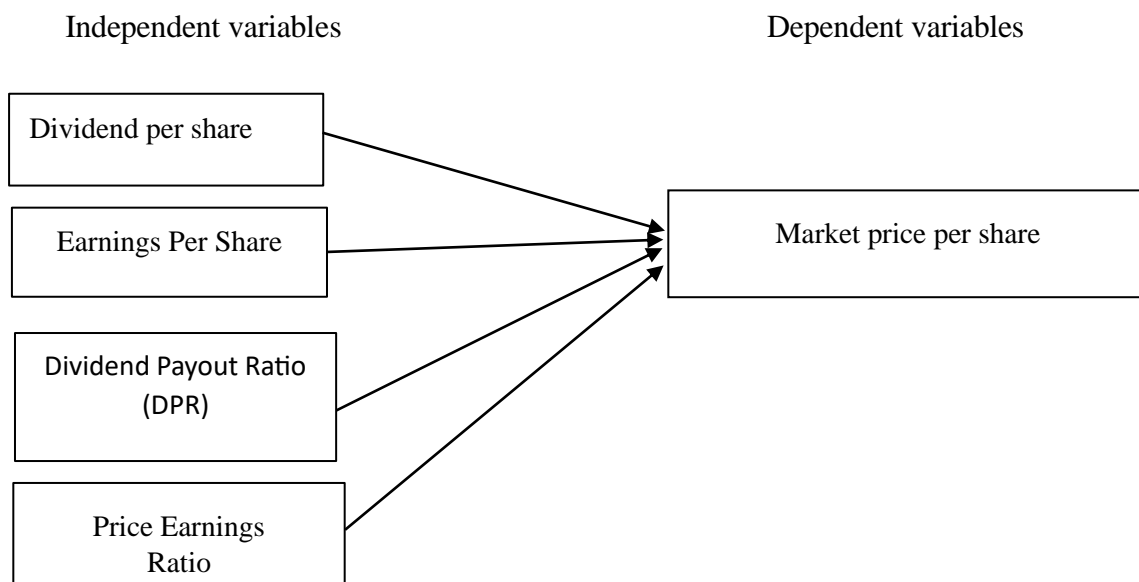


Figure 1 Diagrammatical representation of conceptual framework.

Source: Bhatta, and Duwal, (2021)

Definition of the Terms

The terminology used in the study paper is covered in the section that follows:

Dividend per Share (DPS)

Dividend per Share (DPS) is a crucial metric that represents the amount of cash distributed to shareholders for each outstanding share they own. It is a crucial indicator of a company's profitability and its commitment to returning value to its shareholders. DPS is calculated by dividing the total dividends declared by the company during a specific period by the number of outstanding shares. A higher DPS

often signals a company's strong financial health and can attract investors seeking income through dividends. Companies with a consistent track record of paying dividends may be viewed more favorably by the market, as it demonstrates their ability to generate stable cash flows and their willingness to share profits with shareholders. However, it is essential to note that a high DPS may also indicate that a company is not reinvesting enough in its future growth, which could potentially limit its long-term prospects. Companies must strike a balance between paying dividends and retaining earnings for investment in order to maximize shareholder value.

$$\text{DPS} = \frac{\text{Total Dividends Declared}}{\text{Total Outstanding Shares}}$$

Earnings per Share (EPS)

Earnings per Share (EPS) are a key financial metric that indicates the profitability of a company on a per-share basis. It is calculated by dividing the net income available to common shareholders by the weighted average number of shares outstanding during a specific period. EPS is essential for assessing a company's financial performance and is often used by investors to compare profitability across companies. A higher EPS suggests greater profitability and can influence stock prices positively. EPS is a useful tool for evaluating a company's growth potential, as it provides insight into the amount of profit generated for each share outstanding. Companies with a consistently high EPS are often seen as attractive investments, as they demonstrate their ability to generate strong returns for shareholders. However, it is important to note that EPS can be influenced by various factors, such as accounting methods, share buybacks, and the company's capital structure. Investors should consider EPS in conjunction with other financial metrics to gain a comprehensive understanding of a company's performance and growth prospects.

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Shares Outstanding}}$$

Dividend Payout Ratio (DPR)

The Dividend Payout Ratio (DPR) is a financial metric that indicates the proportion of earnings a company distributes to its shareholders in the form of dividends. It is calculated by dividing the total dividends paid by the net income available to common shareholders. The DPR is crucial for assessing a company's dividend policy and

financial health. A higher DPR suggests that a company is returning a significant portion of its earnings to shareholders, which can be attractive to income-focused investors. Conversely, a lower DPR may indicate that the company is reinvesting more of its earnings back into the business for growth opportunities.

$$\text{DPR} = \frac{\text{Dividend Per Share (DPS)}}{\text{Earnings Per Share (EPS)}}$$

Price-Earnings Ratio (P/E Ratio)

The Price-Earnings Ratio (P/E Ratio) is a valuation metric that compares a company's current share price to its earnings per share. This ratio provides insight into how much investors are willing to pay for each dollar of earnings, reflecting market expectations about future growth. A higher P/E ratio may indicate that the market expects future growth, while a lower ratio could suggest that the stock is undervalued or that the company is facing challenges. The P/E ratio is widely used by investors to assess the relative valuation of companies within the same industry or across different sectors. However, it is important to note that the P/E ratio can be influenced by various factors, such as the company's growth prospects, risk profile, and the overall market conditions. Additionally, the P/E ratio should be considered in conjunction with other financial metrics, such as the company's dividend policy, return on equity, and debt levels, to gain a comprehensive understanding of its valuation. By analyzing the P/E ratio in the context of a company's overall financial performance and growth prospects, investors can make more informed decisions about the potential risks and rewards associated with investing in the company.

$$\text{PE Ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

Market Price per Share

Market Price per Share is the current trading price of a company's stock in the market. It reflects the perceived value of the company by investors and is influenced by various factors, including company performance, market conditions, investor sentiment, and economic factors. The market price is essential for calculating the P/E ratio and assessing the overall market valuation of the company. It is important to note that the market price can be volatile and may not always accurately reflect the intrinsic value of the company. Factors such as market speculation, investor psychology, and external events can cause the market price to deviate from the

company's fundamental value. Investors should consider the market price in conjunction with other financial metrics and qualitative factors to make informed investment decisions. By analyzing the market price in the context of a company's financial performance, growth prospects, and competitive position, investors can better assess the potential risks and rewards associated with investing in the company.

CHAPTER IV

RESULTS AND ANALYSIS

4.1 Introduction

Building upon the established research methodology, this chapter takes a deep dive into the analysis and interpretation of secondary data collected on various factors influencing investor decision-making. The tools and techniques previously outlined, such as statistical software and spreadsheet applications, will be instrumental in dissecting and presenting this data in a way that sheds light on the research questions and objectives set forth in the initial chapter.

Data analysis and presentation are the cornerstones of any research endeavor, and this chapter serves as the platform for meticulously examining the information gathered from diverse sources. This secondary data encompasses a wide range of factors that potentially influence investor behavior, offering a comprehensive picture of the decision-making landscape. Through the application of analytical techniques, we will explore the intricate interplay between investor perceptions of management efficiency and other relevant factors, ultimately revealing how these elements combine to influence investment choices in the stock market.

This chapter will delve into specific details of the data analysis process. Descriptive statistics will be employed to summarize key characteristics of the data, providing a foundational understanding of the information at hand. Furthermore, advanced techniques like regression analysis will be utilized to uncover potential correlations and causal relationships between investor perceptions of management efficiency and their investment decisions. By meticulously examining these relationships and controlling for other relevant factors, we aim to isolate the precise influence of management efficiency on investor behavior.

The insights gleaned from this analysis of secondary data will contribute significantly to understanding the investor landscape. By illuminating the factors that influence investment decisions, we can paint a clearer picture of how investors perceive management efficiency and how companies can utilize this knowledge to refine their practices and ultimately attract and retain investors.

4.2 Results

The basic objective of this study is to analyze the factors determining the share price Joint venture banks in Nepal. The presentation and analysis of data in this study has done through the help of financial statements of the year from FY 2070/71 to FY 2079/80.

4.2.1 Earnings Per Share

The profitability and ability of common stockholder's investment can be measured in many other ways. The income of per share is calculated by dividing the earning available to common shareholders by the total number of common stock outstanding. The higher earning indicates the better achievements in turns of profitability of the bank by mobilizing their funds and vice versa.

Table 1

EPS of the Banks

Fiscal Year	NABIL	EBL	ADBL	HBL	NBL
2070/71	83.68	31.72	31.58	33.1	25.35
2071/72	57.24	27.01	24	33.37	24.26
2072/73	59.27	22.64	21.45	43.03	23.51
2073/74	59.86	25.71	22.67	33.55	22.38
2074/75	49.51	21.45	20.62	23.37	24.26
2075/76	47.69	21.72	24.75	27.13	22.67
2076/77	37.24	31.72	16.08	14.31	20.3
2077/78	26.1	31.46	20.62	15.04	21.45
2078/79	27.82	31.45	27.14	14.37	22.67
2079/80	26.09	31.46	24.75	15.04	11.28
MEAN	47.45	27.634	23.366	25.231	21.813
S.D	17.63	4.24	3.98	9.83	3.78
C.V	2.69	6.52	5.87	2.57	5.78

(Source. From Annual Reports of NABIL, EBL, HBL, ADBL, & NBL. 2070/71to 2079/800)

Table 1 presents the average Earnings per Share (EPS) of NABIL, EBL, ADBL, HBL, and NBL as 47.45, 27.63, 23.37, 25.23, and 21.81 respectively. Among these banks,

NABIL exhibits the highest average EPS, indicating superior profitability compared to its peers. The standard deviation for NABIL's EPS is the greatest at 17.63, reflecting a higher variability in its earnings over the years. Additionally, the coefficient of variation (CV) for NABIL stands at 2.69, signifying that its EPS has the most significant dispersion relative to its mean among the sample banks. In contrast, EBL, ADBL, HBL, and NBL show lower average EPS figures, which may be attributed to factors such as slower net profit growth, a higher number of shares outstanding due to bonus share declarations, and an increased capital base that dilutes EPS despite stable profits. Overall, while NABIL maintains a leading position in terms of average EPS, other banks are gradually improving their performance in recent years.

4.2.2 Dividend Per Share (DPS)

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure has calculated by dividing the total dividends paid by a business, including interim dividends, over a period by the number of outstanding ordinary shares issued.

Table 2

DPS of the Banks

Fiscal Year	NABIL	EBL	ADBL	HBL	NBL
2070/71	65	62	15	21.05	0
2071/72	36.84	36.57	15.79	42.1	0
2072/73	45	73.67	21.05	31.57	0
2073/74	48	34.74	21.05	26.31	0
2074/75	34	20	21.05	15.78	0
2075/76	34	25	30	22	25
2076/77	35.26	10.53	15.78	20	16
2077/78	38	10.32	21.05	26	17
2078/79	30	20.68	13	19.11	12
2079/80	11	20.53	0	0	0
MEAN	37.71	31.40	17.37	22.39	7
S.D	13.08	20.11	7.38	10.32	9.08
C.V	2.88	1.56	2.35	2.17	0.77

(Source. From Annual Reports of NABIL, EBL, HBL, ADBL, & NBL. 2070/71 to 2079/80)

Table 2 illustrates the average Dividend per Share (DPS) of NABIL, EBL, ADBL, HBL, and NBL as 37.71, 31.40, 17.37, 22.39, and 7 respectively. Among these banks,

NABIL has the highest average DPS, indicating a more favorable return to its shareholders compared to its peers. The standard deviation of NABIL's DPS is 13.08, suggesting a moderate level of variability in its dividend payments over the ten fiscal years analyzed. Additionally, the coefficient of variation (CV) for NABIL stands at 2.88, indicating that it experiences a relatively higher degree of variation in DPS compared to other banks in the sample. This analysis highlights that while NABIL offers a higher average DPS, the variability suggests that shareholders may experience fluctuations in dividend payments, which could be influenced by the bank's financial performance and dividend policy decisions over time.

4.2.3 Dividend Payout Ratio (DPR)

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders via dividends. The amount that is not paid to shareholders is retained by the company to pay off debt or to reinvest in core operations.

Table 3

Dividend Payout Ratio

Fiscal Year	NABIL	EBL	ADBL	HBL	NBL
2070/71	0.78	1.95	0.47	0.64	0.00
2071/72	0.64	1.35	0.66	1.26	0.00
2072/73	0.76	3.25	0.98	0.73	0.00
2073/74	0.80	1.35	0.93	0.78	0.00
2074/75	0.69	0.93	1.02	0.68	0.00
2075/76	0.71	1.15	1.21	0.81	1.10
2076/77	0.95	0.33	0.98	1.40	0.79
2077/78	1.46	0.33	1.02	1.73	0.79
2078/79	1.08	0.66	0.48	1.33	0.53
2079/80	0.42	0.65	0.00	0.00	0.00
MEAN	0.83	1.20	0.78	0.94	0.32
S.D	0.27	0.84	0.35	0.47	0.41
C.V	3.11	1.43	2.23	1.99	0.78

(Source. From Annual Reports of NABIL, EBL, HBL, ADBL, & NBL. 2070/71 to 2079/80)

Table 3 presents the average Dividend Payout Ratio (DPR) of NABIL, EBL, ADBL, HBL, and NBL as 0.83, 1.20, 0.78, 0.94, and 0.32 respectively. Among these banks,

NABIL has the lowest average DPR, indicating a more conservative approach to distributing earnings compared to its peers. The standard deviation for NABIL's DPR is 0.27, suggesting a moderate level of variability in its payout ratio over the ten fiscal years analyzed. Additionally, the coefficient of variation (CV) for NABIL stands at 3.11, which indicates that it experiences a relatively higher degree of variation in DPR compared to the other banks in the sample. This analysis highlights that while NABIL maintains a lower average DPR, its variability suggests that dividend policies may fluctuate based on financial performance and strategic decisions regarding retained earnings versus shareholder returns.

4.2.4 P/E Ratio

The P/E ratio is a measure of the price paid for a share relative to the annual earnings per share. It is calculated by dividing the current stock price by the earnings per share. A high P/E ratio suggests that the stock is expensive, while a low P/E ratio suggests that the stock is undervalued. The P/E ratio is used by investors to determine the market value of a stock compared to its intrinsic value.

Table 4

P/E ratio of the banks

Fiscal Year	NABIL	EBL	ADBL	HBL	NBL
2070/71	28.82	70.93	16.59	27.19	10.85
2071/72	32.37	113.99	20.83	28.17	21.85
2072/73	25.39	167.62	19.72	37.18	15.01
2073/74	21.13	46.13	14.12	25.78	13.85
2074/75	17.37	29.14	20.03	19.47	13.11
2075/76	16.10	25.78	16.77	18.21	14.12
2076/77	33.06	22.07	33.27	43.26	17.00
2077/78	63.33	21.96	23.86	33.11	21.49
2078/79	29.30	17.17	11.94	22.41	12.48
2079/80	19.74	19.90	9.90	13.70	21.37
MEAN	28.66	53.47	18.70	26.85	16.11
S.D	12.91	47.79	6.31	8.60	3.88
C.V	2.22	1.12	2.96	3.12	4.15

(Source. From Annual Reports of NABIL, EBL, HBL, ADBL, & NBL. 2070/71 to 2079/80)

Table 4 displays the average Price-to-Earnings (P/E) ratio of NABIL, EBL, ADBL, HBL, and NBL as 28.66, 53.47, 18.70, 26.85, and 16.11 respectively. Among these banks, EBL has the highest average P/E ratio, indicating that investors are willing to pay a premium for its shares compared to the other banks in the sample. The standard deviation for EBL's P/E ratio is notably high at 47.79, suggesting significant variability in its valuation over the analyzed fiscal years. In contrast, NBL has the lowest average P/E ratio at 16.11, which may imply that it is perceived as undervalued or has lower growth expectations compared to its peers. The coefficient of variation (CV) for NABIL stands at 2.22, indicating a moderate level of variability relative to its mean P/E ratio. This analysis highlights that while EBL commands a higher average P/E ratio, the substantial variability could reflect fluctuating investor sentiment or market conditions affecting its perceived value over time. The P/E ratio is a critical measure used by investors to assess a bank's market value relative to its earnings, providing insights into growth expectations and overall financial health within the banking sector.

4.2.5 Market Price Per Share (MPS)

The Market Price per Share (MPS) represents the current trading price of a single share of a company's stock in the market. It is influenced by various factors, including the company's financial performance, investor sentiment, market conditions, and overall economic indicators. A higher MPS indicates that investors are willing to pay more for ownership in the company, often reflecting expectations of future growth and profitability. Conversely, a lower MPS may suggest that the stock is undervalued or that the company is facing challenges. MPS is a critical metric for investors as it helps assess the market valuation of a company and serves as a basis for calculating other financial ratios, such as the Price-to-Earnings (P/E) ratio. Investors use MPS to make informed decisions regarding buying, holding, or selling shares based on their analysis of the company's performance and market trends.

Table 5*Market Price Per Share (MPS)*

Fiscal Year	NABIL	EBL	ADBL	HBL	NBL
2070/71	2412	2250	524	900	275
2071/72	1853	3079	500	940	530
2072/73	1505	3795	423	1600	353
2073/74	1265	1186	320	865	310
2074/75	860	625	413	455	318
2075/76	768	560	415	494	320
2076/77	1231	700	535	619	345
2077/78	1653	691	492	498	461
2078/79	815	540	324	322	283
2079/80	515	626	245	206	241
MEAN	1287.7	1405.2	419.1	689.9	343.6
S.D	551.50	1138.45	92.49	383.48	83.58
C.V	2.33	1.23	4.53	1.80	4.11

(Source. From Annual Reports of NABIL, EBL, HBL, ADBL, & NBL. 2070/71 to 2079/80)

Table 5 presents the average Market Price per Share (MPS) of NABIL, EBL, ADBL, HBL, and NBL as 1287.7, 1405.2, 419.1, 689.9, and 343.6 respectively. Among these banks, EBL has the highest average MPS, indicating that investors are willing to pay a premium for its shares compared to the other banks in the sample. The standard deviation for EBL's MPS is significantly high at 1138.45, suggesting substantial variability in its market valuation over the analyzed fiscal years. In contrast, NBL has the lowest average MPS at 343.6, which may imply a lower market perception or growth expectations compared to its peers. The coefficient of variation (CV) for NABIL stands at 2.33, indicating a moderate level of variability relative to its mean MPS. This analysis highlights that while EBL commands the highest average MPS, the considerable variability could reflect fluctuating investor sentiment or market conditions affecting its perceived value over time. The MPS is a critical indicator used by investors to assess the market valuation of a bank relative to its earnings and growth potential.

4.3. Descriptive Analysis

Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way such that patterns might emerge from the data.

Table 6

Descriptive Statistics

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
DPS	50	0.00	73.68	23.18	16.87	284.46
EPS	50	11.28	83.68	29.0988	13.51702	182.71
DPR	50	0.00	3.25	0.81	0.59	0.35
PEratio	50	9.90	9.90	9.90	9.90	705.02
MPPS	50	206	3795	829.10	746.175	556777.23

The table presents descriptive statistics for the financial metrics analyzed, with a total number of observations being 50, as indicated by the symbol 'N'. The average Dividend per Share (DPS) is Rs. 23.18, with a minimum value of Rs. 0.00 and a maximum value of Rs. 73.68 across the sample banks. The average Earnings per Share (EPS) is Rs. 29.10, with a minimum of Rs. 11.28 and a maximum of Rs. 83.68 observed in the overall sample. The average Dividend Payout Ratio (DPR) stands at 0.81, ranging from a minimum of 0.00 to a maximum of 3.25, indicating variability in dividend distribution among the banks. The Price-to-Earnings (P/E) ratio has a consistent value of Rs. 9.90 across all observations, reflecting uniformity in this metric among the sample banks. Lastly, the average Market Price per Share (MPPS) is Rs. 829.10, with values ranging from a minimum of Rs. 206 to a maximum of Rs. 3,795, demonstrating significant differences in market valuation among the banks in the sample over the analyzed period.

4.4 Correlation Analysis

This study delves into the potential relationship between corporate dividend policy and shareholder wealth creation. Correlation analysis, a powerful statistical tool, will be employed to uncover the strength and direction of this connection. Correlation coefficients measure the degree of linear association between two numerical variables. In this context, they will tell us how closely changes in a company's dividend policy are linked to changes in shareholder wealth. A positive correlation would suggest that as a company maintains a favorable dividend policy, characterized by consistent or increasing dividends, shareholder wealth tends to increase. Conversely, a negative correlation might indicate that an unfavorable dividend policy, such as declining or inconsistent dividends, is associated with lower shareholder wealth. By calculating correlation coefficients between dividend policy metrics (independent variables) and shareholder wealth indicators (dependent variables), we aim to quantify the magnitude and direction of their association. This analysis will provide valuable insights into how effectively shareholder wealth responds to a company's dividend policy decisions. The independent variables in this study will include Dividend per Share (DPS), Dividend Payout Ratio (DPR), and Earnings per Share (EPS), as they collectively represent a company's dividend policy. The dependent variable will be Market Price per Share (MPPS), which serves as a proxy for shareholder wealth. Through this correlation analysis, we hope to uncover the nuances of the relationship between dividend policy and shareholder wealth, enabling companies to make informed decisions that optimize returns for their investors while maintaining financial stability and growth.

Table 7*Correlation Analysis*

		Correlations				
		MPPS	EPS	DPS	DPR	PE ratio
MPPS	Pearson Correlation	1				
	Sig. (2-tailed)					
EPS	Pearson Correlation	.462**	1			
	Sig. (2-tailed)	.001				
DPS	Pearson Correlation	.817**	.567**	1		
	Sig. (2-tailed)	.000	.000			
DPR	Pearson Correlation	.622**	-.056	.770**	1	
	Sig. (2-tailed)	.000	.697	.000		
PE ratio	Pearson Correlation	.865**	-.022	.623**	.761**	1
	Sig. (2-tailed)	.000	.879	.000	.000	
N		50	50	50	50	50

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

Relationship between Market Price per Share (MPPS) and Independent Variables

Earnings per Share (EPS): A moderate positive correlation ($r = .462$, $p < 0.01$) exists between market price per share (MPPS) and earnings per share (EPS). This indicates that companies with higher earnings per share tend to have a higher market price per share, suggesting that investors value profitability when determining stock prices.

Dividend per Share (DPS): A strong positive correlation ($r = .817$, $p < 0.01$) was found between market price per share and dividend per share. This suggests that as companies increase their dividends, the market price of their shares also tends to rise, reflecting investor confidence and satisfaction with consistent dividend payouts.

Dividend Payout Ratio (DPR): There is a moderate positive correlation ($r = .622$, $p < 0.01$) between market price per share and dividend payout ratio. This indicates that companies with higher dividend payouts relative to their earnings tend to experience a

higher market price per share, reinforcing the notion that attractive dividend policies can enhance shareholder wealth.

Price-to-Earnings Ratio (P/E Ratio): A very strong positive correlation ($r = .865$, $p < 0.01$) exists between market price per share and the price-to-earnings ratio. This suggests that investors are willing to pay a premium for shares of companies with favorable earnings prospects, indicating strong investor sentiment towards growth potential

4.5 Regression Analysis

Regression analysis is a powerful statistical tool used in research and various other fields. It helps us understand the connections between variables, specifically focusing on how one variable (independent) influences another (dependent). Unlike correlation analysis, which simply measures the strength of a relationship, regression analysis allows us to determine the direction and magnitude of this influence.

This technique goes beyond simply identifying relationships. It provides a framework for building models that explore the influence of multiple independent variables on a single dependent variable. These models allow researchers to not only assess the impact of each independent variable but also understand how these variables interact with each other.

Table 8

Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992 ^a	.984	.983	96.963

a. Predictors: (Constant), P/E ratio, EPS, DPR, DPS

In the above table, $R = 0.992$, indicating a very high correlation among the independent variables (P/E ratio, EPS, DPR, DPS) and the dependent variable (Market Price per Share). This suggests that the combination of these financial metrics significantly influences the market price of shares, implying that effective

management of these variables can enhance shareholder wealth. The model summary also presents the R-squared value, which is 0.984, indicating that the independent variables account for 98.4% of the variation in market price per share. This high R-squared value demonstrates that the model explains a substantial portion of the variance in market price, suggesting that while these factors are critical, there may be other relevant characteristics influencing market price that were not included in this analysis.

Table 9

ANOVA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	26859001.086	4	6714750.271	714.194	.000 ^b
1	Residual	423083.414	45	9401.854		
	Total	27282084.500	49			

a. Dependent Variable: MPPS

b. Predictors: (Constant), PEratio, EPS, DPR, DPS

The table shows that the F-statistic value is 714.194 with a significance level of 0.000, indicating a p-value of less than 0.01. This suggests that the overall model is a good fit, demonstrating a statistically significant relationship between the independent variables (P/E ratio, EPS, DPR, DPS) and the dependent variable (Market Price per Share). The high F-statistic indicates that the independent variables collectively explain a significant portion of the variance in the dependent variable, reinforcing the validity of the model in analyzing the impact of these financial metrics on shareholder wealth.

4.6 Multiple Regression Analysis

Multiple regression is a statistical technique specifically designed to analyze the relationship between a single outcome variable (dependent variable) and several factors that might influence it (independent variables). Unlike simple regression, which focuses on just one influencing factor, multiple regression allows us to consider

a broader picture. This method works by using the known characteristics of the independent variables (predictors) to estimate the value of the dependent variable.

Table 10

Multiple Regression Analysis

Coefficients^a						
Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
	(Constant)	-351.839	90.665		-3.881	.000
	EPS	14.451	3.659	.262	3.950	.000
1	DPS	15.802	4.608	.357	3.429	.001
	DPR	-395.521	106.890	-.312	-3.700	.001
	PE ratio	24.868	.822	.885	30.249	.000

a. Dependent Variable: MPPS

The findings of the regression model predicting Market Price per Share (MPPS) using the factors of Earnings per Share (EPS), Dividend per Share (DPS), Dividend Payout Ratio (DPR), and Price-to-Earnings (P/E) ratio are summarized in the table. Each variable demonstrates a distinct impact on MPPS, with EPS, DPS, and P/E ratio showing significant positive effects, while DPR exhibits a significant negative relationship.

Hypothesis One (H1): Dividend per Share (DPS) positively influences the Market Price per Share (MPPS) and is supported by the results ($\beta = 15.802$, $t = 3.429$, $p < 0.01$). This indicates that an increase in DPS is associated with a rise in MPPS, reflecting investor confidence in the company's ability to generate returns for shareholders through dividends.

Hypothesis Two (H2): Earnings per Share (EPS) has a significant positive relationship with MPPS and is also supported by the findings ($\beta = 14.451$, $t = 3.950$, $p < 0.001$). This suggests that higher earnings per share contribute to an increase in market price per share, indicating strong profitability.

Hypothesis Three (H3): The Dividend Payout Ratio (DPR) has a positive relationship with shareholder wealth but shows a negative impact on MPPS ($\beta = -395.521$, $t = -3.700$, $p < 0.01$). While higher payout ratios may initially seem favorable, this result indicates that excessively high payouts can signal reduced reinvestment into growth opportunities, leading to lower market valuations.

Hypothesis Four (H4): The Price-Earnings (P/E) ratio has a significant positive relationship with MPPS and is supported as well ($\beta = 24.868$, $t = 30.249$, $p < 0.001$). This indicates that a higher P/E ratio reflects strong investor expectations for future earnings growth, positively influencing share prices.

4.7 Major Findings

This research is based on the study Corporate Dividend Policy Determination and Implications for Shareholder Wealth. The following findings are drawn from the data examination and analysis.

- ❖ Table 1 show that the average Earnings per Share (EPS) of NABIL, EBL, ADBL, HBL, and NBL are 47.45, 27.63, 23.37, 25.23, and 21.81 respectively. NABIL has the highest average EPS among the sample banks, indicating superior profitability compared to its peers.
- ❖ Table 2 indicates that the average Dividend per Share (DPS) for NABIL, EBL, ADBL, HBL, and NBL are 37.71, 31.40, 17.37, 22.39, and 7 respectively. NABIL's average DPS is the highest among these banks, suggesting a strong return to shareholders.
- ❖ Table 3 reveals that the average Dividend Payout Ratio (DPR) for NABIL, EBL, ADBL, HBL, and NBL are 0.83, 1.20, 0.78, 0.94, and 0.32 respectively. NABIL has the lowest average DPR compared to its peers, indicating a more conservative approach to dividend distribution.
- ❖ Table 4 shows that the average Price-to-Earnings (P/E) ratio for NABIL, EBL, ADBL, HBL, and NBL are 28.66, 53.47, 18.70, 26.85, and 16.11 respectively. EBL has the highest average P/E ratio, suggesting strong investor expectations for future earnings growth.
- ❖ Table 5 presents the average Market Price per Share (MPS) for NABIL, EBL, ADBL, HBL, and NBL as 1287.7, 1405.2, 419.1, 689.9, and 343.6 respectively. EBL has the highest average MPS among the sample banks.

- ❖ Table 6 shows descriptive statistics with a total of 50 observations (N). The average EPS is Rs. 29.10 with a minimum of Rs. 11.28 and a maximum of Rs. 83.68. The average value of DPS is Rs. 23.18 with values ranging from Rs. 0 to Rs. 73.68 across all banks in the study period.
- ❖ Table 7 shows correlation coefficients between MPS and EPS ($r = 0.462$), DPS ($r = 0.817$), and DPR ($r = 0.622$). All correlations are statistically significant at the $p < 0.01$ level.
- ❖ Table 8 indicates that R^2 is approximately 0.984, meaning that independent variables explain about 98.4% of the variation in MPS.
- ❖ Table 9 presents ANOVA results showing an F-statistic of 714.194 with a p-value of less than 0.001, indicating that the model is statistically significant and fits well.
- ❖ Table 10 summarizes regression coefficients where EPS ($\beta = 14.451$), DPS ($\beta = 15.802$), and P/E ratio ($\beta = 24.868$) positively influence MPS significantly ($p < 0.01$), while DPR has a negative impact ($\beta = -395.521$).

4.8 Discussion

The relationship between corporate dividend policy and shareholder wealth is a critical area of study, particularly in the context of Nepalese commercial banks. This research highlights how dividend policy decisions impact investor perceptions and market valuations. The findings suggest that a well-defined dividend policy can significantly enhance shareholder wealth, aligning with the views of Egbeonu et al. (2016), who argue that dividends serve as a measure of a company's profitability and financial health.

The positive correlation between Dividend per Share (DPS) and Market Price per Share (MPS) indicates that companies with robust dividend policies are more attractive to investors. This is consistent with the notion that dividends provide a degree of confidence regarding a company's future cash flows, as noted by Ifitikhar et al. (2017). The results demonstrate that higher DPS not only reflects strong financial performance but also contributes to an increase in MPS, reinforcing the importance of dividend distributions in enhancing shareholder value.

Moreover, the significant positive relationship between Earnings per Share (EPS) and MPS further emphasizes the role of profitability in driving investor interest. As

highlighted by Shrestha and Shakya (2021), higher EPS signals better financial health, leading to increased market valuations. However, it is essential to consider the implications of the Dividend Payout Ratio (DPR). The negative impact of DPR on MPS observed in this study suggests that excessively high payout ratios may deter investors by indicating less reinvestment in growth opportunities, which aligns with findings from Jensen and Meckling (1976) regarding agency costs.

Investor behavior also plays a crucial role in understanding these dynamics. Traditional finance theories assume rational decision-making based on financial metrics; however, behavioral finance highlights the influence of emotions and biases on investment choices (Tversky & Kahneman, 1970). This underscores the need for companies to effectively communicate their dividend policies and financial strategies to align investor expectations with actual performance.

Additionally, the Price-to-Earnings (P/E) ratio serves as a vital indicator of market valuation. The strong positive correlation between P/E ratio and MPS suggests that investors are willing to pay a premium for shares of companies perceived to have strong future earnings potential. This finding is consistent with existing literature emphasizing the significance of P/E ratios in investment decision-making

.In conclusion, while traditional theories like Miller and Modigliani's dividend irrelevance theory suggest that dividend policy does not affect shareholder wealth, this research supports the relevance theory proposed by Gordon and Walter, which posits that dividends significantly influence market valuation. Future research should aim to bridge gaps by incorporating insights from both financial metrics and behavioral perspectives to provide a comprehensive understanding of how corporate dividend policy affects shareholder wealth. By doing so, companies can better tailor their strategies to meet investor expectations and enhance overall shareholder value.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Introduction

This chapter serves as the culmination of our exploration into the relationship between corporate dividend policy and shareholder wealth in Nepalese commercial banks. It succinctly summarizes the entire study, highlighting the key findings gleaned from the analysis.

5.2 Summary

This research investigates the connection between a company's dividend policy and shareholder wealth. Specifically, it examines how various aspects of dividend policy—such as Dividend per Share (DPS), Earnings per Share (EPS), Dividend Payout Ratio (DPR), and Price-to-Earnings (P/E) ratio—affect Market Price per Share (MPS). Correlation analysis, a statistical tool that measures the strength and direction of relationships between variables, is employed to explore these associations. The independent variables include DPS, EPS, DPR, and P/E ratio, while MPS serves as the dependent variable.

The research aims to illuminate how shareholder wealth responds to a company's dividend policy decisions. Understanding this relationship can benefit both investors by informing their investment strategies and companies by highlighting dividend policies that enhance shareholder value. Data was collected from the financial statements of Nepalese commercial banks to examine the relationships between dividend policy metrics and shareholder wealth indicators

.The findings reveal several key determinants that positively impact shareholder wealth. Notably, a strong positive correlation was found between DPS and MPS, indicating that companies with robust dividend policies tend to have higher market valuations. Similarly, EPS demonstrated a significant positive relationship with MPS, suggesting that higher profitability is associated with increased shareholder wealth. However, the analysis also revealed a negative correlation between DPR and MPS, indicating that excessively high payout ratios may signal reduced reinvestment in growth opportunities

.In essence, this research highlights that effective corporate dividend policies contribute significantly to enhancing shareholder wealth. Companies that maintain clear and sustainable dividend strategies are more likely to attract investment by demonstrating financial stability and growth potential. These insights offer valuable guidance for companies seeking to optimize their dividend policies to maximize shareholder value in the competitive landscape of Nepalese banking.

5.3 Conclusion

This thesis has explored the critical factors influencing corporate dividend policy and its implications for shareholder wealth in the context of Nepalese commercial banks. By analyzing data gathered from financial statements and market performance indicators, the study has illuminated various aspects of dividend policy that contribute to enhancing shareholder value.

The findings highlight the importance of several key determinants. A well-defined Dividend per Share (DPS) and strong Earnings per Share (EPS) emerged as positive influences on Market Price per Share (MPS), indicating that companies with robust dividend policies and high profitability are more attractive to investors. Furthermore, the analysis identified a significant negative relationship between Dividend Payout Ratio (DPR) and MPS, suggesting that excessively high payout ratios may deter investment by signaling limited reinvestment in growth opportunities. Beyond these core findings, the research reveals additional insights into how effective corporate dividend policies can enhance shareholder wealth. While a positive association was found between DPS and MPS, further research may be needed to fully understand how different dividend strategies can be optimized to maximize positive impacts on shareholder value.

Overall, this research underscores the multifaceted nature of corporate dividend policy in relation to shareholder wealth. By focusing on effective dividend strategies, maintaining strong earnings performance, and balancing payout ratios with reinvestment needs, companies can significantly improve their attractiveness to investors. These insights provide valuable guidance for corporate management seeking to refine their dividend policies and enhance their investment appeal in the competitive landscape of the Nepalese banking sector.

5.4 Implications

This research carries significant implications for both investors and companies seeking to navigate the share market, particularly in the context of corporate dividend policy and its impact on shareholder wealth in Nepalese commercial banks. Investors can leverage these findings to make informed investment decisions by prioritizing companies with demonstrably strong dividend policies. This includes focusing on firms that exhibit consistent Dividend per Share (DPS), robust Earnings per Share (EPS), and favorable Price-to-Earnings (P/E) ratios. By prioritizing such companies, investors are more likely to identify those poised for long-term value creation, which transcends immediate financial performance.

Theoretical Implications

The findings of this study contribute to several key theories in finance:

- **Clientele Effect Theory (Jensen, 1986):** This theory posits that companies attract investors with specific preferences through their dividend policy. Investors seeking steady income are more likely to invest in firms that consistently pay dividends. The positive correlation found between DPS and Market Price per Share (MPS) in this study underscores how a company's dividend policy shapes its investor base, signaling financial health and future plans.
- **Analyst Herding (Hirshleifer et al., 2004):** The study highlights the phenomenon where analysts tend to issue similar recommendations, potentially leading to biased investment decisions. Understanding the impact of comprehensive research reports could empower investors to critically evaluate the information they receive rather than relying solely on analyst opinions.
- **Value Investing (Graham & Dodd, 1934):** The principles of value investing emphasize fundamental analysis and independent research. This study suggests that readily available research reports can empower investors to conduct their own analyses, promoting informed decision-making and potentially leading to better investment outcomes.
- **Shareholder Primacy (Friedman, 1970):** While traditional views advocate for maximizing profits for shareholders, this research indicates that social and environmental factors (ESG) are increasingly considered by

investors alongside financial performance. This contributes to the growing literature on sustainable investing and stakeholder theory.

- **Agency Theory (Jensen & Meckling, 1976):** This theory discusses the conflict of interest between managers and shareholders. The findings suggest that strong corporate governance practices can mitigate agency problems, enhancing investor confidence and attracting investment.

Practical Implications

The practical implications of this research are numerous:

- **Investment Strategies:** Findings on the relationship between corporate dividend policy metrics—DPS, EPS, P/E ratio—and shareholder wealth can empower investors to incorporate these factors into their analysis. This could lead to the development of more comprehensive investment strategies that consider not just financial metrics but also a company's commitment to effective dividend policies.
- **Critical Evaluation of Information:** If the research highlights potential biases in analyst reports or the importance of comprehensive financial disclosures, it emphasizes the necessity for investor skepticism. Investors can benefit from developing skills to critically evaluate research reports and other information sources, leading to more informed decisions.
- **Integration of ESG Factors:** The exploration of social and environmental factors can inform investors about the growing importance of these considerations in investment decisions. This aligns with sustainable investing principles and stakeholder theory, allowing investors to identify companies prioritizing ESG practices alongside financial performance.
- **Investor Targeting and Communication:** Companies can leverage this research to understand investor preferences regarding dividend policies. By effectively communicating their strategies and long-term visions, particularly regarding DPS and EPS growth, companies can attract investors who align with their goals.
- **Strengthening Corporate Governance:** If strong governance practices positively affect investment decisions—as linked to Jensen & Meckling (1976) and Bebchuk et al. (2004)—it emphasizes the practical value of

good governance. Companies can utilize these findings to implement effective governance structures that foster investor confidence.

- **Transparency and ESG Integration:** Research on the potential impact of ESG factors can encourage companies to prioritize transparency in their social and environmental practices. By demonstrating a commitment to sustainability, companies can appeal to a growing segment of investors who value ESG integration alongside financial performance metrics.

Policy Implications

This research also offers several policy implications:

- **Standardized Dividend Policy Metrics:** Regulatory bodies can facilitate the development of standardized metrics for measuring and reporting corporate dividend policies. This would enhance transparency and comparability across firms within the banking sector.
- **Enhanced Investor Education:** Regulatory bodies should collaborate with financial institutions to develop investor education programs focused on understanding dividend policies—specifically how DPS, EPS, DPR, and P/E ratios impact shareholder wealth.
- **Strong Corporate Governance Codes:** Encouraging the adoption and enforcement of robust corporate governance codes can foster investor confidence and enhance company attractiveness in the market.

By addressing these implications, both investors and companies can navigate the complexities of corporate dividend policies more effectively, ultimately contributing to improved shareholder wealth in the share market.

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ABSTRACTS This research explores the relationship between corporate dividend policy and shareholder wealth in the context of Nepalese commercial banks. Investors analyze a company's dividend policy, considering factors such as Dividend per Share (DPS), Earnings per Share (EPS), Dividend Payout Ratio (DPR), and Price-to-Earnings (P/E) ratio, to assess its potential for generating returns and creating shareholder value. Effective dividend policies, characterized by consistent and attractive dividends, are seen as a sign of a company's financial stability and growth prospects. Investors are more likely to invest in companies with a strong track record of dividend payments, as it fosters trust and attracts capital. Conversely, poor dividend policies can deter investors and negatively impact shareholder wealth. Dividend policy influences investors in several ways. Investors rely on financial statements, analyst reports, and market data to assess a company's dividend policy and its implications for shareholder wealth. Strong dividend policies can lead to higher Market Price per Share (MPS), increased investor interest, and potentially lower required rates of return. Dividend policy also impacts a company's risk profile. Effective dividend policies, transparency, and consistent communication can attract risk-averse investors. Conversely, poor dividend policies, lack of transparency, or inconsistent communication can increase perceived risk and discourage investors. In conclusion, corporate dividend policy plays a significant role in determining shareholder wealth. Investors assess a company's dividend policy to evaluate its ability to generate returns and manage risk. Positive perceptions of a company's dividend policy attract investment and enhance shareholder wealth, while negative perceptions can deter investment and reduce shareholder value. Understanding this connection is crucial for both investors and companies seeking to maximize shareholder wealth in the Nepalese banking sector. Keywords: corporate dividend policy, shareholder wealth, Dividend per Share (DPS), Earnings per Share (EPS), Dividend Payout Ratio (DPR), Price-to-Earnings (P/E) ratio, Market Price per Share (MPS), investor behavior, stock market. i ii CHAPTER I INTRODUCTION 1.1 Background of the Study The financial decisions a company makes significantly impact its attractiveness to investors. One crucial aspect of this decision-making process is the company's dividend policy, which determines how much of its profits are distributed to shareholders in the form of cash