

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTANCY**

**EFFECT OF DIVIDEND POLICY ON STOCK PRICE VOLATILITY: EVIDENCE FROM ZIMBABWE STOCK EXCHANGE (ZSE).**

**BY**

**B192391B**

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Registration number: B192391B

Author**:** Nisha Lyn Chigutei

Degree**:** Bachelor of Accountancy (Honors) Degree

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Permanent address: St No. 13946 Gleneagles Gardens, Harare, Zimbabwe.

# Dedication

First and foremost, the author dedicates her research to her beloved mother without whom she would not be the person she is today. Secondly, she dedicates it to her father for his unwavering support and wisdom, among other things. It extends also to all parents out there who selflessly stand firm in support of their children’s visions and aspirations even if it means foregoing theirs.

# Abstract

The primary goal of this thesis is to examine how a firm’s dividend policy correlates with share price fluctuations. The study focused on the impact of dividend policy, earnings per share, payout ratio, share price volatility, and dividend yield on the company's share value. Out of the 61 financial officers of ZSE-listed firms, only 40 responded to the questionnaires issued to them. Data analysis was done using SPSS version 20. The investigation established a connection between the dividend policy and share price volatility and furnished answers to the research questions. Findings were presented utilizing tables. Using Pearson correlation analysis, the researcher figured out that there was only a slight interrelation between share price changes and payout ratio. Furthermore, there was a negative relationship between share price and dividend yield, and the dividend yield and payout ratio of ZSE-listed firms had a minimal yet unfavorable influence on stock price volatility. The study was also able to uncover and research the connection between dividend policy and share price volatility for some ZSE-listed firms. To portray the results, tables were used. The inquiry using Pearson correlation analysis only found a weak association between the components of share price fluctuations and payout ratio. The study recommended that, for investors to effectively evaluate and distribute their funds to the most promising companies, it is essential for every company listed on ZSE to reveal details regarding their operations and performance. It is important for listed companies to recognize that even the slightest changes in dividend policy factors can significantly influence the stock prices, hence it is crucial to consider and incorporate these indicators. Thus, it is suggested that listed companies on the ZSE should strive to establish effective dividend policies that will enhance the financial gain of their shareholders.

**Key words: dividend policy, share price volatility, payout ratio, Earnings Per Share, dividend yield, share price,**

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# ****List of abbreviations****

**ZSE- Zimbabwe Stock Exchange**

**DP- Dividend Policy**

**DY- Dividend Yield**

**SPV- Share Price Volatility**

**SP- Share Price**

**PR- Payout Ratio**

**EPS- Earnings per share**

**SPSS- Statistical Package for the Social Sciences**

#

# ****INTRODUCTION****

## ****Introduction****

There has been a lot of theoretical and empirical research, but it is still unclear whether dividend policy and share price risk are related. Large dividend payments lower risk, which influences stock value and acts as a forecaster of future earnings. The inverse correlation between dividend yields and payout rates and common stock fluctuations has been explained by a number of theoretical mechanisms, including the time span impact, rate of return effect, exchange pricing effect, and information effect. The aim of this study is to explore the connection between DP and SPV.

## Background to the study

In light of several studies on dividend policy, investors place a high value on dividend decisions since they have a crucial influence on a company's share value and are one of the most vital financial decisions that the firm's board must make (Minimol, 2020; Tinashe, 2015; Mbulawa, Okurut, Ntsosa, & Sinha, 2020; Pelcher, & Bolton, 2021). Dividends are payments provided by corporations to their shareholders, indicating corporate earnings distributions to the shareholders as the firm's owners (Tinashe, 2015).

All corporate organizations, including banks, must make three key decisions if they are to work to maximize shareholder wealth (Jakata & Nyamugure, 2012). These decisions relate to the type of investment to be made (investment decision), how to fund that investment (funding decision) and what to do with the profits made (dividend decision),

That is, how much profit is distributed as dividends to shareholders and how much profit retained for the future investment purposes. (Minimol, 2020).

The total value and types of assets used by an organization are determined by investment decisions. Financial decisions shape the company's capital structure and serve as a basis for investment decisions (Ping & Murapiro, 2021). The third decision, the dividend decision, which is the goal of this research, is about determining the firm’s dividend payment policy by determining the amount of cash that will be paid out to shareholders (Kumaraswamy, Ebrahim & Mohammad, 2019).

These decisions are based on whether potential investors and shareholders prefer capital gains to income. As a result, companies implement dividend policies with the main aim of increasing shareholder wealth, or in other words increasing the price/value of their shares (Ping & Murapiro, 2021). For example, finance managers must decide whether to accept a high payment rate and then borrow funds from the capital market for investment purposes, or choose a low payment rate and use retained earnings to fund the investment opportunities available during that period (Kumaraswamy, et al., 2019).

The systematic risk that investors who hold common stock face is known as common stock volatility (Tinashe, 2015). It is a risk measure that represents the rate of change in a security's price over time. In general, the higher the volatility, the more likely it is that an investment will make or lose money in a short space of time (Minimol, 2020). Volatility is a measure of a security's price change. This means, if a stock is categorized as volatile, its price will fluctuate widely over time, making forecasting its future price more difficult (Mbulawa, et al., 2020). The higher the return, the less risky the investment.

**Table 1: Inflation Rates**

|  |  |
| --- | --- |
| YEAR | INFLATION RATE (%) |
| 2019 | 255.29 |
| 2020 | 557.21 |
| 2021 | 92.54 |

The table above shows Zimbabwe's rising inflation rates from 2019 to 2021. Due to the volatile macroeconomic environment, leading to a contracting economy and hyperinflation, many companies have been forced to make significant structural changes to increase operational efficiencies (Minimol, 2020). Companies like Econet and Dairiboard have had to enlarge operations locally and globally to protect themselves from Zimbabwe's economic meltdown. As a result of the dampening effect of the economic downturn, several ZSE companies have adopted conservative dividend policies. In this volatile economic environment, most businesses kept the majority of their funds on hand because raising funds and capital in the money and capital markets was prohibitively expensive due to high interest rates (Tinashe, 2015).

In Zimbabwe, 64 companies are listed on the ZSE, representing different economic sectors such as commodities, consumer goods, finance, manufacturing, real estate and mining. 61 companies are still operating after the other 3 were suspended. For example, Old Mutual, Meikles Africa Limited and Dairiboard all spend large cash dividends and as a result, their payout ratios are high. According to Imara Edwards (1998), the average payout ratio for listed companies that are mature and on the rise on the ZSE is 48% and 25%, respectively. A later study by Imara Edwards (2008) showed that due to the country's severe economic problems, wages for the same type of company have fallen significantly since 1997, from 48% to 19% for non-business workers and established businesses and 25% to 7% for growing businesses. Some companies no longer pay dividends to shareholders and these include Falcon Gold and Hwange Colliery Company. Due to the unpredictability of the economy, which is marked by hyperinflation, high borrowing costs, and negative growth rates, Zimbabwean firms have been pressured to preserve the vast bulk of their earnings in order to finance expansion and development at a relatively low cost, lower than high-priced capital markets. According to Azhagaiah and Sabari (2008), the market price of a firm’s stock represents shareholders’ wealth, which is determined by capital investments, funding decisions, and dividend decisions. The main goal of administration is to maximize shareholder securities, that is, to maximize company value as measured by stock prices. Shareholders appreciate cash dividends, but they also appreciate the extra earnings per share that come from reinvested earnings. An optimal dividend policy will maximize a firm’s share price, thereby maximizing shareholder wealth and ensuring faster economic growth. One of the region's most important emerging markets is the Zimbabwe Stock Exchange (ZSE). For investors seeking a high-risk premium, it is recognized as a great-risk and high-return market. No study has looked at the role of yields and dividend payments in Price Effect tests, despite numerous attempts to separate long-term market behaviors and related concerns. The idea of this research is to determine the long-term effects of dividend policy factors like payout ratio and DY on SPV.

## Statement of the problem

Economic activity and employment levels in Zimbabwe declined between 1997 and 2008, threatening the country's macroeconomic stability (Minimol, 2020). The ensuing economic crisis created an uncertain and unstable operating environment, forcing many companies to adopt conservative payment policies to preserve their capital base in the face of the significant and growing economic meltdown in Zimbabwe at the time. The issue is that when companies implemented strict payment policies and some even refused to pay dividends, investors began to question whether it was still financially rewarding to fund money in the ZSE (Pelcher & Bolton, 2021). The basis of this research is to examine the effect of dividend policies and payment adjustments on a firm’s stock price, as well as the nature of the dividend relationship policies and a company's stock price (Jakata & Nyamugure, 2012). Therefore, the objective of this thesis is to determine whether there is an advantage in investing in the stock market, even when companies retain most of their earnings and some companies pay no dividends at all.

## Research Objectives

1) To identify the impact of the dividend policy on the share value of the firm.

2) To examine the impact of earnings per share (EPS) on the share value of the firm.

3) To analyze the effects of share price volatility on payout ratio.

4) To explore the effects of share price on dividend yield.

## Research Questions

1) How does the dividend changes policy affect the share value of the firm?

2) How earnings per share (EPS) influences the share price of the firm?

3) How does share price volatility affects payout ratio?

4) How does share price affects dividend yield?

## Research Hypotheses

H0: There is no significant relationship between SPV and DP.

H1: There is a significant relationship between SPV and DP.

## Significance of the study

### To the researcher

The study is crucial to the researcher because it will provide the researcher with an in-depth understanding of how SPV and DP of firms in Zimbabwe work. The study is critical for the researcher because it will help her gain expertise in the field and be able to provide consultative services to firms in the telecommunications industry.

### To the institution

The institution will gain a thorough understanding of the role of SPV and dividend share price, as well as their impact on the organization as a whole. As a result, the university will have the opportunity to assess the students' ability to comprehend and apply the principles taught during the program's duration. The educational establishment can use the study as a starting point of literature review for continued study and as library material.

### To the ZSE customers

The weightiness of the study is in how it will help management and investors on the ZSE make more informed financial decisions. It will make them knowledgeable on the issue regarding the correlation between the variables in developing markets, allowing for comparison with other comparable markets.

## Assumptions

According to Wargo (2015), research assumptions are statements that are assumed to be true for a short period of time or for a specific purpose. In this study, certain research assumptions were used to observe the relationship between dividends and SPV.

The assumptions are;

1. Secondary sources will provide reliable and validly information that can be computed statistically using SPSS.

2. All the financial institutions listed on the ZSE have financial reports and they publish them.

## Delimitations of the study

### Geographical Delimitation

The survey will be limited to firms that are listed under the ZSE. The sample will be chosen from institutions on the ZSE.

### Conceptual delimitation

The research will be guided by the dividend theory which speaks more on the significance of a dividend policy in an organization.

## Limitations

The research will be conducted within a year. Though the researcher is aware of the coming project, the time is not sufficient for a comprehensive study given the fact that the researcher has academic modules, family obligations and work commitments. This is a limitation especially when one considers that the study is a cross sectional study therefore limited time for data collection. This bred hardships in exhausting all data that could possibly be collected from the field.

Another limitation of the study is insufficient resources. The investigator has limited resources that could allow for more intensive data collection as there is a cost involved. Gathering the information for the study requires a large number of data packages.

Because this study relies solely on secondary sources, its findings may be inapplicable. It is unusual for desktop research to provide all of the solutions. Secondary data collection objectives and methods may not be appropriate for the problem at hand. It's possible that some of the solutions to your problem are missing because it was designed to solve a different problem than the one, you're working on. Furthermore, the data acquisition techniques employed are unable to provide the type of data required to support the business decisions that must be made (e. g. qualitative research methods are not ideal for judging whether or not to proceed). To address this, the researcher seeks numerical data that can be calculated and analyzed using SPSS.

## Definition of terms

**Share price volatility:** A stock's volatility is the rate at which its price increases or decreases over a given period of time. Higher volatility in stock prices almost always indicates greater risk and allows an investor to effectively forecast prospective price changes.

**Distribution of dividends:**A corporation's dividend policy determines the format of dividends paid to shareholders. Since investors can sell a piece of their portfolio or shares if they need more capital, some analysts contend that dividend policies are technically worthless.

**ZSE:**The Zimbabwe Stock Exchange, is the country's officially recognized stock exchange. Despite the fact that it has only been open to foreign investment since 1993, it has a history that dates back to 1896. The exchange currently has 63 securities and a dozen members. The two major indices are the ZSE All Share and the ZSE, which can be found under ZSE.

## Summary

The first chapter introduced the study and detailed how and why the problem statement was created. The chapter then went on to develop and formulate a research question, as well as the study's research objectives under different economic conditions. The introduction provided a historical overview of several of the most important theories on DP and SPV by citing key authors.

#

# LITERATURE REVIEW

## Introduction

This section will give a run-through of the literature review related to the current study. The chapter will look at the theoretical framework to guide the study and empirical review for analyzing past studies that have been conducted.

## Conceptual framework

**Figure 1: Conceptual Framework**

**Independent Variables Dependent Variable**

Dividend Yield

Share Price Volatility

Payout Ratio

Dividend Policy

### Conceptualization of Terms

**Table 2: Conceptualization of terms**

|  |  |  |
| --- | --- | --- |
| **1** | **Variables**Price Volatility | The annual stock value range for each year is multiplied by two after being divided by the overall average of high and low share values. It is possible to utilize a square root transformation to change the average variance measurements for all available years into standard deviations. This approach surpasses the conventional method of estimation, which merely relies on opening and closing prices. |
|  | Dividend PolicyPayout ratio (POR) | Divide total dividends by total profits to calculate the payout ratio. This method eliminates outliers caused by low or negative net income in particular years. When the total dividend exceeds the total cumulative earnings, the payout ratio becomes one. |
|  | Dividend Yield (DY) | The variable was determined by adding all annual cash dividends paid to ordinary shareholders and dividing the sum by the stock's average annual market value. The years that were available were averaged. |
|  |  |  |

### Dividend Policy

The company's dividend policy governs the distribution of its earnings, including how much is kept, how much is used to fund new initiatives, and how much is released as dividends (Ayo, 2022). Olowe and Moyosore (2010) examined, using secondary data from the years 2006 to 2008, the variables that influence the amount of dividend payouts in the banking sector of Nigeria. The study used the pooled regression method and a number of independent variables, including profitability, liquidity, corporate tax and debt to equity ratio. The crucial variable is payout policy. The findings of this study suggest that factors including profitability, liquidity, size, and activity mix are beneficial for dividend payout.

These elements influence dividend distribution in a clear and immediate way and are statistically significant. It has also been demonstrated that variables including revenue growth, debt-to-equity ratio, and loan-loss provision all have a detrimental effect on dividend policy; nonetheless, it is challenging to draw any firm conclusions given the nature of capital adequacy. Mehta (2012) conducted research on the factors influencing dividend policies with the goal of identifying factors influencing dividend policies in listed companies in the United Arab Emirates over a five-year period starting in 2005 and concluding in 2009.

The secondary data that were gathered for the study were looked into using the methods of correlation and multiple regression. The study's ultimate finding was that the choice to distribute dividends by companies listed in the United Arab Emirates appeared to be most significantly influenced by the profitability of the company and its size. In order to identify the variables that influence dividend policy, Badu (2013) conducted his research on listed financial institutions in Ghana between the years of 2005 and 2009 using both cross-sectional and time series data. Here are the results of his research. In this study, independent variables were profitability, the age of the growing company, the amount of available collateral, leverage, liquidity, and cash flow. Dividend distribution strategy served as the dependent variable.

This relationship is strong since it has shown a statistically significant and favorable association between age and liquidity. These conclusions are based on a regression analysis. Furthermore, the study's results revealed that there is no statistically notable link between profitability, collateral availability, and dividend payment.

### Share Price Volatility

Simply put, the fluctuation of the rate of return on share prices is referred to as share price volatility, and traditionally, this metric has been measured only using closing prices. It has been demonstrated that the utilization of extreme values, such as the high and low prices, results in a significantly more accurate estimation (Rahmi, 2021). According to Guo (2002), the systematic risk that shareholders in a company are exposed to comes in the form of SPV. When there is a high level of volatility, there is also a larger level of short-term gain or loss. If a stock is described as volatile, then its price will see significant shifts over the course of time, and it will be impossible to predict with precision what its price will be in the future. When it comes to their investments, investors almost universally want to take on less risks because doing so benefits the portfolio as a whole. To put it another way, the attractiveness of a certain stock increases in proportion to the stock's low level of volatility (Hussainey, 2010). The correlation between the dividend policies of companies and the erratic behavior of their stock prices is a topic that has been researched by a variety of academics at a variety of eras and in a variety of contexts (Fama & French, 2021).

## Theoretical Framework

### Dividend Preference Theory

Dividend payments, according to Gordon (1959), can significantly lower investor uncertainty. Dividends are viewed by some market players as a certain reward, but capital gains are uncertain. Investors in companies that don't pay dividends take longer to get rid of their concerns than investors in companies that do (Athari, 2021). This is because dividends are paid out consistently whereas capital gains can fluctuate (Athari, 2021). Investors are willing to pay a premium for shares that have a large recurring dividend payment because they want to reduce uncertainty as fast as possible and because it increases the stock's value. The capital return is maximized with a high dividend yield.

### The agency theory of dividends

In a perfect market, managers and stockholders of a company would not have any competing interests, according to Miller and Modigliani (1961). As a result, neither the managers' interests nor the shareholders' interests would be served by acting in each party's own self-interest. A volatile market may not always entail this. A manager may act selfishly if they invest huge sums of money in a failing project, for example. The costs incurred by shareholders when supervising firm management are referred to as agency expenses because of the disagreements between shareholders and managers. Dividend payments, in accordance with Jensen's (1986) research, can lessen shareholder-manager agency issues. Shareholders may be harmed because managers could have less opportunity to donate excess free cash flow to charitable endeavors.

According to Jensen's (1986) research, companies with a lot of extra free cash flow have a much higher agency expense. In order to lower agency costs and encourage managers to enhance corporate performance, the author said that employing leverage to the company's capital structure, which ties managers to specific commitments and lowers their options, is one strategy. Easterbrook (1984) cautioned against increasing dividend payments gradually though, since doing so could grow leverage to unjustified levels and raise the possibility of a share price decline. Managers, for example, may need to borrow more money to cover the cash outflow from dividend payments. Easterbrook discovered that dividend payments are effective when manager monitoring costs are low. Institutions, according to Chang, Kang, and Ying (2016), their dividend payments should be used as a monitoring tool so as to manage the risk of agency problems.

### Residual theory of dividends

The idea is bedrock on the hypothesis that the organization might not be able to obtain outside financing due to its high cost. The business finances its investment through retained earnings. The percentage of earnings that is not distributed to investors is referred to as retained earnings. The corporation only distributes dividends on residual earnings, which are earnings left over after all suitable investment opportunities have been funded, in accordance with the residual theory of DP (positive NPV). According to management, the residual dividend policy prioritizes investments over distributions.

As a result, the dividend decision of the firm is influenced by:

* The firm’s investment options
* Internal fund availability. If internal funds are insufficient and all investments are financial in nature, the remaining funds are distributed as dividends.

As a result, the split policy is entirely passive and has no effect on the company's stock price.

### Modigliani and Miller (MM) Approach

This hypothesis was put forth in 1961 by Franco Modigliani and Merton Miller, who claimed that rather than the distribution of profits, the firm's worth is decided by the firm's fundamental purchasing power and risk. As a result, rather than choosing to pay dividends, the company's worth is defined by its investment choices. But he was relying on some presumptions in his reasoning.

MM's scenario assumptions

* Capital markets are ideal, and all investors make rational decisions.
* Shares have no transaction costs associated with them.
* The company's dividend policy is distinct from its investment policy. This assumption implies that neither the firm's required rate of return nor new investments made with retained earnings will change.

The arbitrage theory is the foundation of the MM hypothesis. Switching and compensation processes are part of the arbitration process. The arbitration results in two transactions that exactly or completely cancel each other out. Dividend payments and capital raises are two separate operations. Dividend payments will force the company to raise capital from outside sources because it uses retained earnings to fund new investments. According to arbitrage theory, the dividend effect is precisely offset by the effect of raising additional equity.

Dividends paid to shareholders (since they require outside money) result in a decrease in the SP. Therefore, a decrease in the market value of the shareholders' shares completely cancels out the dividends that were paid to them. Investor apathy toward dividends and retained earnings, predicts MM. Future expected earnings of the company will be the sole determinant of the fair share price.

### Dividend Relevance Theory

Dividend decisions influence a company's market value, according to Dividend Relevance Theory, and thus dividends are material. According to this theory, most investors are reluctant to make investments and would rather receive dividends today than future investment appreciation and dividends. Dividend policy, according to dividend relevance theory, influences stock price.

As a result, an optimal dividend policy that maximizes shareholder wealth must be determined, according to this theory.

### Dividend Signaling Theory

This idea expresses that a firm's declaration of a greater dividend payout conveys a clear message about the company's promising future prospects. In reality, an organization's stock price is impacted by changes to its dividend policy: raising the dividend results in a rise in the stock price, while lowering the payout results in a fall in the stock price. Unlike the M&M model, many observers came to the conclusion that shareholders prefer dividends to potential capital gains. Shareholders and investors should view the enhanced dividend payout as a sign of the firm’s potential future financial success.

A rise in dividend payout is generally regarded as a positive indicator, indicating that a company's performance is getting better.

## Empirical Review

**Profilet (2013). The relationship between a company's dividend policy and its stock price volatility.**

The interrelation between a firm’s SPV and its dividend policy was investigated by Profilet in 2013. The study concentrated on independent factors such as payout ratio, payout volatility, and asset growth. Using methods including ordinary least squares, multiple regression analysis, and correlation analysis, the research was carried out in the UK and entailed the gathering and analysis of data from 599 businesses between the years of 2010 and 2012. The final findings showed that there is a positive association between payout ratio and SPV, while there is a clear negative interrelation between dividend yield, financial stability, size, and population growth with volatility of stock prices.

**Adekunle, Ishola & Ayodeji (2022). Effect of dividend policy on share price volatility of selected companies.**

The purpose of this study was to look into how SPV is influenced by dividend policies of businesses listed on the Nigerian Exchange. Finding possible sources of volatility and solutions to decrease them was the main goal. The study used EGARCH methodology and an ex post facto research strategy to achieve this. 49 businesses were randomly selected for the panel data analysis out of 162 businesses. The results showed a strong correlation between DP and SPV. According to the study's findings, corporations should give dividends first priority, and investors should think about choosing companies with a stable payout ratio. It was determined that dividend policy significantly affects the fluctuation of stock prices.

**Francois Wehncke (2018). Dividend policy and share price volatility: evidence from the Johannesburg stock exchange.**

The primary goal of the study was to decide whether there was an interrelation between the DP of firms with JSE listings and SPV. The focus of this research was to examine and assess, for a number of JSE-listed companies, the correlation between the policy of dividends as well as share fluctuations in prices under various economic circumstances. The study employed both quantitative and descriptive statistics. The argument makes the claim that a company's DP and SPV are incompatible. Further investigations revealed that the significant factor was not the dividend policy ratio, but rather the corporation's dividend payment ratio.

**Lingesiya & Jeyan (2021). Dividend policy and share price volatility: evidence from listed non-financial firms in Sri Lanka**

Experts have examined dividend payout, dividend yield, and dividend per share to assess an organization's dividend policy. The goal of the study is to evaluate the potential effects of dividend policy on the Colombo Stock Exchange's SPV. Given that their size has a notable unfavourable impact on this parameter, the study finds that large firms are more likely to experience excessive SPV. The data shows that, compared to dividend per share, dividend yield has a significantly favorable effect on SPV. As a result, the importance of parameters like company size, dividend yield, and dividend per share in determining price volatility cannot be overstated. Share price volatility can be maintained and shareholder value can be increased by using dividend policy as a safety mechanism.

**Natasha, R., Rikus, V., & Lana, H. (2017) The effect of earnings per share categories on share price behaviour.**

The authors concluded that basic EPS better captured changes in share price behavior. This happened as a result of the perception that EPS was a key accounting measure of risk, entity performance, and corporate success. The major goal of this study was to determine whether sort of EPS—basic, diluted, or headline—was most closely associated to the stock prices of the listed firms. Share price volatility is used to predict potential future increases in stock prices since it typically reflects changes in EPS. It has not been proven which category best describes how basic, diluted, and headline EPS affect share prices. In order to provide more precise predictions of share price behavior, this study suggested that investors use new EPS categories when making investment decisions. When making investing decisions, investors shouldn't merely focus on headline EPS.

**Abdullah Masum (2014). Dividend policy and its impact on stock price- a study on commercial banks listed in Dhaka stock exchange.**

The potential impact on a company's stock price of decisions made on its dividend policy is yet uncertain. The study found that some people don't think dividend policies matter because they think a company's value should be based more on its ability to generate revenue from its main business and its risk profile than on how it distributes its profits as dividends. According to the author, stock values are affected equally by internal and external forces. After accounting for variables that show a positive correlation with share prices, such as EPS and ROE, the correlation between dividends and stock prices is explained using a panel data technique. The results of this study showed that dividend policies substantially increase stock values.

**Nilam Panchal (2017) How does dividend policy impact the value of the firm?**

The choice of whether or not to pay dividends is one issue that has troubled the majority of finance managers for a number of years. These choices are significant because they affect the amount of money that goes to investors and the amount that is kept for investment. The goal of this study was to ascertain the immediate and long-term impacts of the firm's DP on market performance. The primary focus of this study was on a company's market performance throughout the short- and long-term. The information required for this study was obtained through secondary data. The research showed that while a company's dividend policy was a crucial instrument for influencing how the market performed, its influence had diminished as a result of many market-available elements.

**Lihard Lumapow & Ramon Tumiwa (2017). The effect of dividend policy, firm size, and productivity to the firm value.**

The authors were interested in the effects of business size, productivity, and DP on firm value. Information for the aforementioned study was gathered by means of panel data research. The trials' findings showed that dividend policy significantly impacted firm value in a negative way. Finally, firm value was positively and significantly impacted by both the company's productivity and its productivity's effect on firm value.

**Alistar Murapiro (2021) Research on dividend policy determinants: Evidence from non-financial firms in Zimbabwe.**

The author used a sampling test of 26 non-financial corporations in Zimbabwe to analyze the variables impacting dividend policies. It primarily focused on the variables affecting dividends per share. Risk, firm size, leverage, available investment options, and liquidity are a few of these factors to take into account. The study's main focus was on the ZSE-listed enterprises. According to the study, larger companies will pay higher dividends that are also more reliable. Both liquidity and the availability of investments showed a negative correlation. The three hypotheses are bird in hand, dividend relevance, and signaling technique all had an impact on dividend policy.

**Muryani Arsal (2021) Impact of earnings per share and dividend per share on firm value.**

This study focused on the Indonesian stock exchange between 2014 and 2017. It examined the effect of dividends and diluted profits per share on the price of the firm's securities. Utilizing information from six food companies, these traits were studied. It showed that, when taken separately, earnings per share had an outstanding and affirmative on the value of the firm. However, the value of the corporation is not greatly impacted by the dividend per share. The study's findings suggest that when making investment selections, investors may take EPS into account. According to the study's findings, management should develop a dividend policy and a business plan that take into account both internal and external elements if they want to raise the firm's worth.

**Joseph Wanda (2022) Impact of earnings per share on stock price volatility: A study of listed companies on Nairobi securities exchange in Kenya.**

SPV influences the investment decisions of investors. The goal of this thesis was to determine how the volatility of EPS affected the volatility of stock prices. The data was gathered from reports on an annual basis of publicly traded firms. According to data, EPS and share price volatility are mutually exclusive. Firm size and expansion are negatively associated with SPV. The study discovered that EPS has an influence on the erratic share prices of companies with publicly traded stock.

## Impact of the dividend policy on the share value of the company

According to Drake and Fabozzi (2010), there are many ways to describe a company's dividend policy, including no dividends, consistent growth in dividends per share, a stable payout ratio, and modest regular payments with irregular extra payouts. There are many different types of dividends that are used, depending on the maturity, growth, and profitability of the companies. The dividend irrelevance theory by Miller and Modigliani contends that there is no connection between a firm’s share price and its dividend payout schedule. This claim holds that a corporation’s share value is determined by its profitability as opposed to its dividend payout practices. According to the signaling hypothesis, dividend policies may provide insight into a firm's future prospects.

Dividend policy is still a difficult topic even after years of theoretical and empirical research on its association with stock price risk (Pelcher & Bolton, 2021). In addition to having an impact on share price (Tinashe, 2015) and serving as a predictor of future profitability (Jakata & Nyamugure, 2012), high dividends also reduce risk. The relationship between dividend yield and distribution rates and common stock volatility has been the subject of several theories. These impacts include price arbitrage, the information effect, the yield effect, and the time effect.

Dividend policy studies show that dividend decisions are highly valued by investors because they have a notable influence on a firm’s share price and are one of the most crucial financial decisions that corporate boards must make. Several researchers have offered theoretical and empirical perspectives on dividend decisions. A dividend, according to Drake and Fabozzi (2010), is cash, stock, or any other type of property a firm distributes to its shareholders.

## The effects of share price volatility on payout ratio

According to Athari (2021), a company with an unfavourable payment and a low dividend yield may be more valuable in terms of future investment possibilities. As a result, adjustments in long-term return predictions may be more vulnerable to stock price swings. As a result, despite low pay rates and dividend yields, rising enterprises have price stability (Minimol, 2020). This could be because dividend yields and payout ratios are considered as signs of potential growth. Companies with low payouts and low dividend yields may face heightened market volatility if expected earnings from expansion potential are less predictable than current forecast returns on assets. Dividend yield is more important than payout rate, which is affected by duration and arbitrage. Dividend policies can help anticipate future improvements and market opportunities (Tinashe, 2015). The duration and yield effects both assume timing differences in the firm’s underlying cash flow. If the connection between risk and dividend policy persists after accounting for growth, it suggests arbitrage or information effects.

Pelcher and Bolton (2021) computed CAPM betas for 307 US companies and found a statistically weighty link between beta and dividend payment. For 1000 US companies, Ayo (2022) discovered a strong correlation between value line CAPM, betas, and dividend payment. To explain stock returns, Fama and French (2021) look at dividends as well as other cash flow factors like accounting earnings, investment, industrial production, and so on. Jakata and Nyamugure (2012) investigate how dividend policy affects volatility rather than returns in stock prices. The most difficult component of performing an empirical analysis of the link between dividend policy and stock volatility or returns is establishing proper controls for the variables of interest. The accounting system, for example, generates data on a range of relationships that many people perceive as risk indicators. To study the significance of the link between DY and SPV, Jakata and Nyamugure (2012) recommend utilizing the following control variables: operating profitability, firm size, and degree of growth. These variables have a substantial effect on both stock performance and dividend yield.

According to Jakata and Nyamugure (2012), Chrysler was experiencing operating losses and embarking on a major cost-cutting campaign in 1993. Chrysler ended the year with a $4.8 billion losses but paid a $120 per share dividend. As you can see, Chrysler's future is bleak, but the company's dividend policy has remained unchanged. Maintaining a consistent dividend was critical for Chrysler as it pursued its unprofitable years, as the market viewed the 'dividend declines and resulting fall in stock price negatively. It didn't have enough revenue to cover cash dividends on common stock, but it kept paying them.

## The effects of share price on dividend yield

Dividend yield as explained by Investopedia, is the money paid to shareholders by a firm for possessing a stock of its stock divided by its current stock price. This means that, when a share price increases, the dividend yield of a stock decreases and vice versa. As a way of attracting investors, the finance managers of a company might increase the dividend payments, but if the share prices increase, it results in a lower dividend yield. This leads to a conclusion that there is an inverse relationship between the share price and dividend yield.

## Impact of earnings per share (EPS) on the share value of the firm

This ratio is regarded as the most essential component in determining the firm and share value. The earnings per share ratio is used by most investors to make investing decisions. Earnings per share, as defined by Gibson Charles (2009), is the amount of income earned on a share of common stock during an accounting period. It reflects the firm's success in running the business. Because higher EPS shows a firm's growth and financial health, there is a favourable interrelation between EPS and share value. A drop in EPS signifies a drop in the firm's share price. Other key elements that may affect the firm's share value are interest rates and economic conditions such as inflation. Clients should evaluate other factors while investing, such as cashflows, profitability ratios, and business growth, rather than focusing solely on earnings per share %.

## Research gaps

A great deal of research has focused on the interrelation between a firm’s dividend approach and the fluctuations of its stock prices, but the results have been conflicting. This implies that additional investigation is called for in order to determine how dividend policies impact stock volatility. Additionally, it may be difficult to generalize the findings of these studies because they were limited to industrialized nations, where conditions may be very different from those in developing countries like Zimbabwe.

## Chapter Summary

The preceding literature analysis reveals varied perspectives on dividend policies and their impact on stock price volatility. Various authors arrived to various conclusions. The literature review started with a review of numerous published findings to validate the hypotheses and ended with a debate of the theoretical methods. It gives concise but critical insights into the evolution of capital structure and how this framework influences DP and SPV. Another literature study contrasted theoretical assumptions with realistic expectations.

#

# RESEARCH METHODOLOGY

## Introduction

This part of the study illustrates how the researcher will conduct the research. The chapter explains the study's approach and justification, the research’s design and justification, the research’s population, the sampling process, the variables under study and their conceptualization, data gathering, and data survey.

## Background of the study

The ZSE is the official stock exchange of the country. Although it has a history dating back to 1896, international investment has only been permitted since 1993. The exchange has about a dozen participants, and there are currently 61 stocks listed. The Rhodesia Stock Exchange was renamed the Zimbabwe Stock Exchange when Zimbabwe gained independence from Britain in 1980. With the collapse of the Zimbabwean economy and hyperinflation, the Zimbabwean dollar became obsolete, and the US dollar was recognized as the official currency for exchange transactions in February 2009. Trade was extremely light in March 2009, with few international investors willing to take a risk on the market. The vast majority of stocks are trading in the cent range, with at least 26 others not trading at all. On June 26, 2020, the Zimbabwean government announced that the stock exchange would close on June 29, 2020, in order to implement measures aimed at addressing the RTGS dollar, which has been plagued by significant inflation since its inception. The exchange will reopen on August 3, 2020.

## Research Approach

Due to the researcher's intention to employ statistical tools to assess the influence of the independent variable (SPV) on the dependent variable (DP), which a qualitative methodology cannot achieve alone, the thesis will be both qualitative and quantitative in character. A questionnaire guide will also be utilized to acquire additional data that a quantitative method might miss. In contrast to the inductive approach, the researcher is remarkably motivated to uncover frequencies, percentages, and other numerical explanations. In addition, the objective of the continuing study is to generalize the findings of all companies listed on the ZSE, which is at odds with the objective of the inductive technique, used to explain occurrences rather than generalize them. In their works, researchers like Rigby and Jones (2020) employed a quantitative methodology.

### Justification for research designs used

The study will use a survey research approach because it would involve gathering information from several companies listed on the ZSE. Due to the fact that the study encompassed multiple companies, the researcher was unable to employ a case study. The researcher was unable to apply the experiment strategy because the current investigation will not be carried out in a laboratory, despite the inclusion of controlled factors like company size and firm leverage. The majority of experiment results do not necessarily translate into practical applications, which is one of their drawbacks (Bryman, 2016).

## Population

A population is a group of persons, an organization, or a nation that share a certain trait. A sample taken from a population is used to draw some research's results. A population, in the words of Pritha Bhandari (2020), is the total group about which you wish to draw conclusions. There are currently 61 equities listed on the exchange, as was mentioned in the background, and there are roughly a dozen participants. The mining and industrial industries make up the ZSE. The ZSE businesses will be further divided into six sectors by the researcher. Commodities, financial services, consumer products, real estate, manufacturing, and mining are a few of these.

**Table 3: Population of ZSE Industries**

|  |  |
| --- | --- |
| **ZSE enterprises** | **Population** |
| **Basic materials** | **3** |
| **Financial services** | **14** |
| **Oil and gas** | **1** |
| **Industrials** | **17** |
| **Consumer services** | **9** |
| **Consumer goods** | **12** |
| **Telecoms** | **2** |
| **Health care** | **2** |
| **Total** | **61** |

## Sampling procedure

According to Shona (2019), a sample is a particular population from which you would gather data. The selection of a sample that accurately depicts the entire group is crucial for a sound conclusion.

### Simple Random Sampling

The researcher will employ probability sampling, more particularly simple random sampling, to choose companies from the ZSE. When a subset of participants is chosen at random from a larger population, this is known as simple random sampling. Mining and industry make up the two sectors that make up the ZSE. The ZSE businesses will also be further divided up into eight sectors by the researcher. Commodities, financial services, consumer products, telecommunications, manufacturing, and mining are just a few of these. Agroprocessing businesses make up the majority of the commodities sector. Retail food and beverage sectors, clothes and furniture stores, and supermarkets all fall within the consumer sector. Publicly traded banks and insurance firms are examples of financial entities. Engineering, building, and enterprises with value additions are all included in manufacturing. Exploration and processing of priceless minerals are the main priorities of mining firms. Companies that create, oversee, and own properties are included in the listed property industry. The researcher will then choose forty businesses from the eight industries.

Sample size tables, which explained how to calculate the sample size from a particular population, were used to determine the sample size.

n= N/(1+Ne²)

where:

n = Sample Size

N=Total Population

e= Margin of error

The margin of error, which was determined by the researcher using a 95% Confidence Interval, was as follows: 1- 0.95 = 0.05. As a result, the researcher selected 51 companies that are listed on the ZSE as a sample for this study.

**Table 4: Sample Size**

|  |  |
| --- | --- |
| **ZSE Enterprises** | **Sample** |
| **Basic materials** | **2** |
| **Financial services** | **14** |
| **Oil and gas** | **1** |
| **Industrials** | **13** |
| **Consumer services** | **8** |
| **Consumer goods** | **10** |
| **Telecoms** | **2** |
| **Health care** | **2** |
| **Total** | **51** |

## Data Collection

The researcher wants to collect both primary and secondary data on the ZSE and the companies that are listed there. The data will focus on the important factors under investigation, such as dividend policy and SPV. Data for this study will be gathered via questionnaires. Additionally, the researcher will compile financial records from companies that are listed on the ZSE, including reports, publications, and gazettes.

### Data collection procedures

The researcher gathered primary data in the following ways:

1. by emailing questionnaires out and retrieving them from recipients;
2. by setting up phone and/or email appointments with the listed companies' research analysts, risk officers, and finance managers;
3. by emailing questionnaires out and retrieving them from recipients.

## Data sources

### Primary data

Through surveys and questionnaires, we were able to collect this kind of information directly from the key sources. Ajayi (2017) explained primary data as information gathered directly from the source by the researcher, such as through questionnaires, case studies, and interviews. All of this is being gathered for that particular and ongoing task.

### Secondary Data

These facts can be discovered in books, journals, websites, and publications. The ZSE websites and the websites of the listed companies allowed the researcher to obtain this data. The benefit of using secondary data is that it is authentic and easily accessible because it will be publicized. Nevertheless, employing internal secondary data carries a high level of risk because management may post fake information on websites to attract clients.

## Research Instruments

In order to gather valuable data, questionnaires were frequently used. This was due to their commitment to obtaining precise and correct answers to study inquiries. After evaluating the advantages and disadvantages of several instruments, the researcher was aware of the need to choose the best one. To the finance and administrative officers of the businesses registered on the ZSE, questionnaires were sent by email.

### Questionnaires

The Oxford Dictionary defines questionnaires as comprehensive lists of questions that permit several study subjects to answer to them. The researcher's review of the literature, the research questions, or the study's goals served as the basis for the questionnaire's questions. The benefits of questionnaires include;

1. much cheaper to administer
2. enabled the researcher to minimize data collection time

However, questionnaires have the following disadvantages;

1. They are prone to misunderstanding and misinterpretation
2. Some questions may be disregarded, that is, respondents’ participation is not guaranteed.

## Data presentation and Analysis Procedure

The numerical results of the investigation will be analyzed and presented using tables and graphs. A statistics program like SPSS (statistics Package for Social Sciences) is an illustration. Because it forecasts the degree of variation of the DV from the IV, the researcher will utilize linear regression analysis to examine the correlations between the variables under study.

### Qualitative Data

Pearson Correlation analysis was used to examine quantitative data on the correlations between the factors of SPV and payout ratio. Using SPSS version 20, the researchers also generated measures of central tendency such as mean, mode, and median.

### Qualitative Data

The qualitative data in this study was examined using descriptive statistics. The researcher used percentage frequencies to highlight trends and opinions on the components of share price volatility and dividend policies.

## Ethical Considerations

**Figure 2: Ethical Considerations**

The aforementioned ethics will be used throughout the study.

**Avoiding harm:** The researcher must make every effort not to harm the study's participants, which in this case are the firms selected from the ZSE.

**Avoiding plagiarism:** Plagiarism is defined as using another author's ideas without acknowledging them, as well as using and crediting another person's knowledge. To avoid plagiarism, the researcher would cite any content copied from another source while rewriting it (Pradhan et al., 2017).

**Anonymity:** Anonymity is crucial when conducting research. To protect their privacy, the researcher will ensure that all companies participating in the study remain anonymous.

## Chapter Summary

The preceding chapter has looked into all of the channels that can be used to gather or analyze data, and methods for selecting firms and other information found in a research methodology section. The researcher's decisions were all supported by previous research. The findings of the study and their analysis will be demonstrated in the chapter four.

#

# DATA PRESENTATION, ANALYSIS AND DISCUSSION

## 4.0 Introduction

A breakdown of the pertinent research methodologies that were employed to collect the data was provided in the preceding chapter. This comprised of the research design, the target population, the sample size, and the research tools to be employed. Based on the objectives outlined in chapter one, this chapter offers the research's results. SPSS version 20 and Microsoft Excel were used for the data analysis.

## Analysis of quantitative data

### Questionnaire response rate

51 questionnaires were distributed by the researcher to ZSE-listed companies. Only 40 of the 51 companies were able to complete the questionnaires. This indicates a 78.43% response rate. Sector, in the words of Chad (2023), is a wide economic category that includes industries. The ZSE now has 8 sectors where listed firms can be found. Many companies belong into the categories of financial services, industrials, and consumer products, according to statistics the researcher obtained about the listed companies. In other words, it is very likely that many businesses will fall into one of the three categories. The table below might provide a realistic image.

**Table 5:Response rate by category**

|  |  |  |  |
| --- | --- | --- | --- |
| **ZSE Category** | **Sent** | **Returned** | **% Returned** |
| **Telecoms** | 2 | 1 | 50% |
| **Oil and gas** | 1 | 1 | 50% |
| **Basic materials** | 2 | 2 | 100% |
| **Financial Services** | 14 | 8 | 57.14% |
| **Consumer goods** | 10 | 11 | 90.9% |
| **Health care** | 2 | 2 | 100% |
| **Industrials** | 13 | 10 | 76.92% |
| **Consumer services** | 8 | 5 | 62.5% |
| **Total** | **51** | **40** | **78.43%** |

**Source: Primary data**

### Work experience in the organisation

The results of the questionnaires indicated that the financial staff of businesses listed on the ZSE had experience ranging from less than one year to more than ten years. The percentage of employees with less experience was 12.5%. For those employees with more working experience in the organization shows that the business has been stable and in good process for workers to stay there for quite a while. The fact that the respondents had significantly more job experience than those with little experience is. demonstrated on the table below.

**Table 6: Respondents' work experience**

|  |
| --- |
| **Work experience** |
|  |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 1 year | 5 | 12.5 | 12.5 | 12.5 |
| between 1 and 5 | 6 | 15.0 | 15.0 | 27.5 |
| between 5 and 10 | 20 | 50.0 | 50.0 | 77.5 |
| above 10 | 9 | 22.5 | 22.5 | 100.0 |
| Total | 40 | 100.0 | 100.0 |  |

**Source: Primary data**

### Number of years the organization has been in operation

This is how the company's performance, stability, and sustainability in research are evaluated. It is also a way to monitor a business' expansion and progress. The table below shows that while some businesses have been there for between five and ten years, most have been around for more than ten. Just under one quarter of the companies on the ZSE list have been in service for less than 5 years. Companies that have more years in operations gain a lot of advantages from investors because they have existed for a long time. This is different from those that have existed for a few years. Some investors might be scared to put investment in such companies since they would be monitoring their progress.

**Table 7: Number of years the business has been in operation**

|  |
| --- |
| **Number of years in operation** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | less than 1 year | 2 | 5.0 | 5.0 | 5.0 |
| between 1 and 5 years | 8 | 20.0 | 20.0 | 25.0 |
| between 5 and 10 years | 20 | 50.0 | 50.0 | 75.0 |
| above 10 years | 10 | 25.0 | 25.0 | 100.0 |
| Total | 40 | 100.0 | 100.0 |  |

**Source: Primary data**

### Indicate the payout ratio of your company for the last financial period

Jason (2023) discovered that historically, a dividend payout ratio of roughly 41% has been considered to be the most secure. A decent payout ratio is one that falls between 0 and 35%; 35 to 55 percent is considered a healthy payout ratio and is suitable from the point of view of dividend investors. Since the corporation is required to distribute half of its earnings as dividends, anything above 55% is seen as high. Payout ratios above 75% are thought to be extremely high and unsustainable. The table below lists businesses with safe payout ratios as well as those with unsustainable ratios. The table shows that no corporations have payout ratios that are dangerous or unsustainable, which are expressed as percentages above 75.

**Table 8: Pay-out ratios last financial period**

|  |
| --- |
| **Pay-out ratio** |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 0-35% | 8 | 20.0 | 20.0 | 20.0 |
| 35-55% | 25 | 62.5 | 62.5 | 82.5 |
| 55-75% | 7 | 17.5 | 17.5 | 100.0 |
| Total | 40 | 100.0 | 100.0 |  |

**Source: Primary data**

### The impact of the dividend policy on the share value of the company (Objective 1)

The impact of each element of the DP on the firm’s share value is displayed in the table below. The table makes it abundantly evident that each element has an effect on the share value of a corporation in a unique way.

**Table 9: Effects of dividend policy components on the share value of the firm**

|  |  |
| --- | --- |
| **Components** | **(%)** |
|  | **1** | **2** | **3** | **4** | **5** |
| Percentage of gains a firm plan to pay out in dividends | 0 | 0 | 22.5 | 22.5 | 55 |
| Frequency of dividend payments | 0 | 0 | 0 | 57.5 | 42.5 |
| Strategy by which shareholders will be paid their dividends | 0 | 0 | 15 | 65 | 20 |

**Source: Primary data**

The results, according to Nilam Panchal (2017), showed that dividend policy was a crucial instrument for influencing a company's market success, although its significance had diminished due to other market considerations. The table shows that the way in which shareholders will be paid has an impact on the company's share price. To put it another way, paying dividends in cash means that investors will enjoy it, whereas paying dividends in shares is seen negatively and could result in a decline in stock prices. The dividend irrelevance theory and the bird-in-hand theory can both be used to explain this. The bird-in-hand argument contends that investors would rather receive a payment today than wait for the chance of a better stock price in the future. The dividend irrelevance theory claims that the manner in which dividends are paid has no bearing on the share value.

A company might pay for dividends through four different ways. These include cash dividends, share dividends, property dividend and scrip dividends. Most companies pay their shareholders through cash dividends. This is when a shareholder gets a fixed amount of cash per share. This has an influence on the share value of firm because the firm’s value might increase because shareholders prefer cash dividends.

Property dividend is when shareholders are paid by receiving shares of a subsidiary company. This mostly happens when the company is not liquid enough to cater for the needs of the shareholders.

Another form of paying dividends is through stock and scrips. When the company pays the shareholder by issuing bonus stocks, this is what is called stock dividends. This is where a shareholder received a bonus issue for every share held by the holders. These just improve the number of shares but no value is changed from the issue of bonus share. A company might pay shareholders by use of scrips notes such as a promissory note which states when the next payment of dividends is to be done.

The rate at which dividends are paid has no influence on the stock price. However, the timing of the payments may have an impact. The stock price could increase in the days leading up to the dividend payment date, for instance, if a company announces that it will pay a dividend on a particular day. The information in the table indicates that dividend payments are infrequent and never have an impact on the firm’s stock price.

According to Jason (2023), 41% has historically been the safest dividend payout ratio. The industry dictates what portion of income a firm intends to distribute as dividends. There are some slower-growing industries that produce large amounts of relatively consistent cashflow and these may have a higher payout ratio. A lower dividend payout ratio is required for businesses in swiftly growing industries, particularly those with irregular cash flows and more unstable balance sheets. The optimal value is less than 50%.

The information in the table below makes it evident that a corporation's share price is influenced by the proportion of profits that are distributed as dividends. It is without a doubt true that the dividend payout ratio has a beneficial effect on a firm’s share value.

**Table 10: Descriptive statistics of the dividend policy components**

|  |
| --- |
| **Descriptive Statistics** |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| Percentage of profits a company plans to pay out in dividends | 40 | 3 | 5 | 4.33 | .829 |
| Frequency of dividend payments | 40 | 4 | 5 | 4.43 | .501 |
| Method by which shareholders will be paid their dividends | 40 | 3 | 5 | 4.05 | .597 |
| Valid N (listwise) | 40 |  |  |  |  |

Given that the standard deviation is close to the mean in the table above, it is clear that a lower standard deviation is quite dependable. It follows that in this instance, two table-derived components with a lower standard deviation are more dependable. Investment risk increases with a bigger standard deviation. From the table above, it can be noted that most respondents had the same opinion that the frequency of dividend payments affected the share value of the firm and from the conclusions drawn from the components of dividend policies affecting share value, there is a favourable link between the two variables.

### Impact of earnings per share on the share price of a firm (Objective 2)

The data used by the researcher to analyze the information in the table was gathered from the SPSS. The table is explaining the extent to which EPS affect the firm’s share value.

**Table 11: Effects of earnings per share on the share price of firm**

|  |
| --- |
|  |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | to a moderate extent | 3 | 7.5 | 7.5 | 7.5 |
| to a large extent | 15 | 37.5 | 37.5 | 45.0 |
| to a very large extent | 22 | 55.0 | 55.0 | 100.0 |
| Total | 40 | 100.0 | 100.0 |  |

**Source: Primary data**

Earnings per share are typically viewed as the most crucial criteria to determining the firm value, according to Rashidul, I., Tahsan, K., Tommy, C., and Ashique (2014). According to the table below, a company's share price is significantly and very significantly influenced by its earnings per share. This is because EPS is a vital accounting indicator for evaluating risk, entity performance, and business success. Commonly, share price behavior reflects changes in EPS. It's employed to forecast potential future share price increases. When making investing decisions, investors should take into account more than just headline earnings per share (EPS), according to study by Natasha R., Rikus V., and Lana H. (2017). This is because another EPS category can offer more reliable cues about the direction of share prices. It is clear from the research that there are additional factors besides earnings per share that influence a company's share price, including inflation, the health of the economy, and interest rates.

The share prices of publicly traded companies can be significantly impacted by their earnings per share. Investor demand for a firm is more likely to be high when it generates positive earnings and EPS, which drives up the price of its stock. The demand for a company's stock may decline as a result of lower-than-anticipated earnings or negative EPS, which would reduce the stock's market value.

Additionally, EPS affects a company's capacity to raise money through the issuance of new shares or debt. Firms with higher EPS are often considered to have a more stabilized finance portfolio and to have a better possibility of raising capital. In general, EPS is a crucial metric that can significantly affect how investors see a firm and its market value.

EPS has vital effect on a company’s share price. A higher EPS means the share price is high and vice versa. An increase in EPS states that a firm’s financial gain is improving and it is generating more income per share. This leads to an increase in demand of the firm’s stocks and it also attracts investors due to the rise in share prices.

Conversely, a decrease in EPS suggests that a company has been facing a decrease in its profitability. This causes the investors to sell the shares and once this happens it means the share will no longer be on demand since this causes the share prices to be lowered.

If the company reports higher EPS than investors expect, the market will place upward pressure on the share price. However, if the company reports lower EPS than anticipated, it can signify a weak performance, resulting in a decrease in demand for shares and a fall in share price. Therefore, EPS plays a crucial role in deciding a firm's share price, as a higher EPS usually leads to a higher SP, while a lower EPS leads to a lower SP.

### The effects of share price volatility on payout ratio (Objective 3)

The table successfully demonstrates the impact of each component of share price volatility on the company's payout ratio. It amply demonstrates that each element does have an impact on payout ratio.

**Table 12: Effects of share price volatility on pay-out ratio**

|  |  |
| --- | --- |
| **Components** | **(%)** |
|  | **1** | **2** | **3** | **4** | **5** |
| Strength | 0 | 0 | 0 | 55 | 45 |
| Duration | 0 | 0 | 0 | 42.5 | 57.5 |
| Persistence | 0 | 0 | 10 | 52.5 | 37.5 |

**Source: Primary data**

The table demonstrates that there are three significant price movements that affect stock prices, and each of these has a weighty impact on the firm’s payout ratio. According to Minimol (2020), businesses with low payouts and dividend yields may experience higher market volatility if projected revenues from expansion prospects are less trustworthy than anticipated returns on assets, and the opposite may also be true.

The payout ratio can be impacted in a variety of ways depending on the degree of share price volatility. An excessively volatile stock price may lead investors to believe that a company is riskier than others. In this situation, the company can choose to lower its payout ratio in order to retain more earnings and reinvest in the company, lowering risk and boosting the possibility of future growth. The payout ratio of a corporation can be significantly impacted by the strength of share price volatility, as seen in the table below.

The ongoing share price volatility may have an impact on payout ratio. Investors can assume that a company is struggling if share price volatility in a company lasts for a long time. To improve its financial situation, the corporation could need to reduce its payout ratio in order to preserve earnings. The volatility may only last a short time in which case the business will manage to get through the difficulties and keep its payout ratio. Using this information in conjunction with the information in the table above, it can be seen that a firm's payout ratio is significantly impacted by the persistence of SPV.

The payout ratio of the corporation may be impacted by the length of a share price fluctuation. In terms of the consequences, the table below reveals that the percentages are larger in the mostly and always sections. A company may be able to retain its typical payout ratio if a share price movement is just temporary. However, if the variations continue for quite some time, the company may elect to reduce its payout ratio in order to keep more earnings on hand to invest in the company and better control the volatility. Although it typically results in dividend reductions, this can certainly contribute to the company's long-term viability.

Companies should, however, take into account other pertinent aspects, such as cash flows and the firm's financial performance, in addition to share price variations.

To ascertain the relationships between the elements of SPV and payout ratio, the researcher used a Pearson correlation test. The information in the table below demonstrates that there is only a slight connection between the elements of SPV and payout ratio. The inverse relationship between the two variables is demonstrated by a negative association between payout ratio and duration and this states that there is no relationship on between the two mentioned variables.

**Table 13: Pearson Correlation**

|  |
| --- |
| **Correlations** |
|  | Pay-out ratio | Strength | Duration | Persistence |
| pay-out ratio | Pearson Correlation | 1 | .283 | -.283 | .276 |
| Sig. (2-tailed) |  | .076 | .077 | .084 |
| N | 40 | 40 | 40 | 40 |
| Strength | Pearson Correlation | .283 | 1 | -.239 | -.314\* |
| Sig. (2-tailed) | .076 |  | .138 | .048 |
| N | 40 | 40 | 40 | 40 |
| Duration | Pearson Correlation | -.283 | -.239 | 1 | -.186 |
| Sig. (2-tailed) | .077 | .138 |  | .250 |
| N | 40 | 40 | 40 | 40 |
| Persistence | Pearson Correlation | .276 | -.314\* | -.186 | 1 |
| Sig. (2-tailed) | .084 | .048 | .250 |  |
| N | 40 | 40 | 40 | 40 |
| \*. Correlation is significant at the 0.05 level (2-tailed). |

**Source: Primary data**

### Effects of share price on dividend yield

The table below shows the effect of the share price components on the dividend yield. From the table below, it can be identified that each component has a certain effect on the dividend yield of a company.

**Table 14: Effects of share price on dividend yield**

|  |  |
| --- | --- |
| **Components** | **(%)** |
|  | **1** | **2** | **3** | **4** | **5** |
| Increase in stock prices | 0 | 0 | 2.5 | 42.5 | 55 |
| Constant stock prices | 0 | 0 | 0 | 77.5  | 22.5 |
| No changes | 0 | 0 | 0 | 30 | 70 |
| Decrease in stock prices | 0 | 0 | 0 | 50 | 50 |

Inverse correlation exists between share price and DY. This implies that the dividend yield will decrease while stock prices rise and vice versa. The table demonstrates the inverse link between each stock price factor and dividend yield.

The dividend yield will typically decline when the stock price rises. This is so because the dividend payment is set, meaning that investors must pay more for every dollar of annual dividend income at a higher stock price. As a result, the dividend yield declines as the stock price rises. The data gathered shows that an increase in stock prices primarily and consistently affects the DY. As a result, the dividend yield drops, which may make the company less alluring to income-seeking investors.

The same result can be achieved by maintaining constant stock prices as well as by raising them. The dividend yield will remain the same as long as the stock price doesn't change. It is crucial to keep in mind, though, that a company's stock price is not always constant and can be impacted by a number of variables, including investor attitude, market movements, inflation, and market developments.

The dividend yield will not change if the share price stays the same. Only when the dividend payout remains constant does this happen. The table below demonstrates that the share price's various components all have the same impact on the company's dividend yield. This means that if the share price remains stable, it may be a sign that investors are neutral toward the company and may not modify their opinion of its future possibilities for growth or value.

The negative relationship still exists if stock prices fall, as can be seen from everything that has been said so far. The dividend yield will therefore rise if the price of an equity declines. Because the annual dividend payment is set, this occurs because investors are paying less for each dollar of annual dividend income when the stock price is lower. For investors, this increases the stock's appeal. A sudden drop in share value, however, may also be a sign of monetary issues.

## Summary

The researcher's findings regarding the connections between payout ratio, divided yield, and SPV were introduced in the chapter above. The aspects that were being investigated have been depicted through expressive insights. The final portion of the research, therefore, concludes the investigation by looking at the conclusion and suggestions.

#

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## Introduction

The study’s opinions and suggestions that were made after taking the study's findings into account are covered in this section.

## Summary of the study

The study looks into how dividend policies have an impact on the volatility of stock prices among Zimbabwean firms listed under the ZSE. The study's goals include determining the correlation between dividend yield and stock prices, determining the connection between payout ratios and SPV, and determining how dividend policies impact the share prices of ZSE-listed firms.

## Summary of the findings

### Impact of dividend policy on the share value of the company (Objective 1)

1. The researcher found a connection between the elements of the dividend policy and the cyclicality of share prices of ZSE-listed companies. The results pointed out that the firm's share value was positively impacted by every facet of the dividend policy. Consequently, this suggests that the DP had an effect on the stock price of the firm. The results suggest that any changes to a company's dividend policies have an instantaneous effect on its SP. This suggests that there is a positive interrelation between the two factors.
2. The researcher's conclusion indicates that a company's dividend policy does not entirely determine the stock price. The share value of the corporation may also be impacted by additional factors including inflation and the firm's liquidity.

### Impact of earnings per share on the share value of the firm

1. The effect of EPS on the company's share price is more powerful.
2. Stock prices rise as a result of positive EPS.
3. Prices drop as a result of negative EPS, which also reduces market value.
4. The worthiness of a company's shares and its EPS have a constructive interrelation because a greater EPS reflects a company's expansion and financial stability.
5. A company's stock price is impacted by EPS as well as other economic variables like interest rates and inflation.

### Effects of share price volatility on payout ratio

1. The pay-out ratio is more significantly impacted by how strongly a share price fluctuates. Due to the high risk involved, investors avoid placing money on a market that is this unstable.
2. Price fluctuation that persists indicates that a company is struggling.
3. The fluctuations of the stock price is also influenced by cashflows and financial performance.
4. The researcher's analysis of the Pearson correlation revealed a weak association between the elements of share price fluctuations and pay-out ratio. There was also evidence of a bad correlation between longevity and pay-out ratio.

### Effects of share price on dividend yield

1. The variables are inversely related. This implies that a rise in stock prices causes a fall in dividend yield, and vice versa. It's not always a concern, though, as variations in stock prices may be brought on by the company's financial issues.

## Conclusions

1. This study looked into how dividend policy affected stock price volatility. According to the study, dividends are either relevant or irrelevant, as proposed by the major schools of thought.
2. There was a strong connection linking the stock price and the dividend policy of a firm. This proved that changes to a firm's dividend policy has an immediate impact on the stock price of the firm. The study's conclusions showed that the DP unquestionably has an affirmative influence on share price variations.
3. The dividend yield had an inverse association with stock price. However, the study found that EPS and company share value have a favourable and notable association.
4. The results support the irrelevance theory put forth by Modigliani and Miller in 1961, which contends that an organization's dividend distribution plan has no bearing on its stock price at the time it is implemented or the total amount of profits distributed to shareholders. Therefore, regardless of whether a company pays dividends or how it sets its distribution rules, its valuation will be determined using the capitalized value of its projected future income.
5. These data demonstrate that the movement of share prices on the ZSE is generally influenced by a number of other external and internal factors besides dividend distribution and policy.

## Recommendation of the study

The research proved an interrelation between SPV and dividend policy.

The study recommends that:

1. Every company listed on the ZSE need to be transparent about its operations and financial results so that investors can evaluate the market and place their money with the finest companies.
2. No matter how minor, the implications of the dividend policy indicators should be taken carefully by listed companies since they nevertheless have a major impact on share market prices.
3. Companies that are listed on the ZSE should make an effort to create dividend policies that will increase shareholder wealth.

## Areas of further study

The researcher recommends future research to be done on the following;

1. It is required to carry out more study to look at other elements that might have a higher impact on the instability of the stock price, such as inflation, interest rates, and exchange rate volatility.
2. Since the analysis did not focus on specific companies that are unique to any sector or industry, more research into alternative industries is required.

## Summary

The findings, conclusions, recommendations, and areas for additional research were compiled and presented in this chapter.

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# APPENDIX A: Questionnaire- research analysts, risk officers and finance managers

**RE: Request to participate in a research study**

Dear Prospective Participant

I, Nisha Lyn Chigutei (B192391B), am a final year student at Bindura University of Science Education. I am pursuing a Bachelor of Accountancy (honours) degree. I am doing a research project titled, “Share price volatility and dividend policy of firms in Zimbabwe with the focus on Zimbabwe stock exchange (ZSE).2019-2021”

I am kindly requesting you to fill and complete the questionnaire below to assist me in coming up with valid conclusions for this research project. All information will be treated with the greatest degree of confidentiality and will be used for academic purposes only.

Feel free to contact the researcher on email nishalynchigutei@gmail.com for enquiries. Your cooperation will be greatly appreciated.

B192391B

# QUESTIONNAIRE

* Do not write your name on the questionnaire

**SECTION A: DEMOGRAPHIC AND ORGANIZATIONAL PROFILE**

1. Work experience in the organisation *(indicate with an* ***X*** *where applicable)*

Less than 1 year 

Between 1 and 5 years 

Between 5 and 10 years 

Above 10 years 

1. Indicate the payout ratio of your company for the last financial period *(indicate with an* ***X*** *where applicable)*

0-35% 

35-55% 

55-75% 

75-95% 

95-150% 

1. Number of years the organisation has been in operation (Indicate with an X where applicable)

Less than 1 year 

Between 1 and 5 years 

Between 5 and 10 years 

Above 10 years 

1. Industry in which the company operates *(Indicate with an X where applicable)*

Telecoms 

Industrials 

Health care 

Consumer services 

Consumer goods 

Basic materials 

Financial services 

Oil and gas 

**SECTION B**

1. How does the following dividend policy components affect the share value of the company? *(Indicate with an* ***X*** *where applicable)*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Component** | **Never** | **Rarely** | **Usually** | **Mostly** | **Always** |
| Percentage of profits a company plans to pay out in dividends |  |  |  |  |  |
| Frequency of dividend payments |  |  |  |  |  |
| Method by which shareholders will be paid their dividends |  |  |  |  |  |

1. Impact of earnings per share on the share value of the firm *(indicate with an* ***X*** *where applicable)*

Never 

Rarely 

Usually 

Mostly 

Always 

**SECTION C; Extent of measurement**

1. Do the following components of share price volatility have an effect on the payout ratio? *(On the scale provided indicate with an* ***X*** *the extent which your organisation measures the following components)*

**1=Never 2=Rarely 3=Sometimes 4=Often 5=Always**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Components** | **1** | **2** | **3** | **4** | **5** |
| Strength |  |  |  |  |  |
| Duration |  |  |  |  |  |
| Persistence |  |  |  |  |  |

1. Do the following share price changes affect dividend yield? *(On the scale provided indicate with an* ***X*** *the extent which your organisation measures the following components)*

**1=Never 2=Rarely 3=Sometimes 4=Often 5=Always**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Components** | **1** | **2** | **3** | **4** | **5** |
| **Decrease in stock prices** |  |  |  |  |  |
| **Increase in stock prices** |  |  |  |  |  |
| **Constant stock prices** |  |  |  |  |  |
| **No changes** |  |  |  |  |  |

**Thank you for your time!**