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Dividend Policy And Share Price Volatility In The Manufacturing Industry: Evidence From Nigeria And Global Comparisons

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ABSTRACT
This study examines the impact of dividend policy on share price volatility in the manufacturing sector, using evidence from Nigeria and selected global markets—namely the United States, India, and South Africa. Grounded in dividend relevance and signaling theories, the research adopts an ex post facto quantitative design and analyzes secondary data from 90 purposively selected manufacturing firms (30 Nigerian and 60 international) spanning 2013 to 2023. Key variables include dividend payout ratio, dividend yield, firm size, leverage, and share price volatility. Summary statistics indicate that Nigerian firms experience higher average share price volatility despite comparable firm size and leverage levels with global peers. Using an Error Correction Model (ECM), the study confirms a long-run equilibrium relationship among the variables. A higher dividend payout ratio significantly reduces share price volatility in the short run ($p < 0.01$), supporting the signaling theory. Firm size also negatively affects volatility, reflecting greater investor confidence in larger firms. Conversely, leverage has a positive and significant impact, indicating elevated financial risk. The error correction term (-0.652, $p < 0.01$) suggests that 65.2% of short-term disequilibrium is corrected within a year. The Nigeria dummy variable is positive and significant, underscoring higher volatility among Nigerian firms due to structural market inefficiencies. The findings reinforce the role of dividend policy in stabilizing share prices and building investor confidence. The study recommends consistent dividend practices, stronger regulatory oversight, and improved investor awareness to enhance capital market stability in emerging economies.
Keywords: Dividend Policy, Share Price Volatility, Emerging Markets, ECM, Manufacturing Firms.

INTRODUCTION

Dividend policy remains a central and enduring subject in corporate finance, primarily due to its profound implications for firm valuation and investor behavior. It concerns the strategic allocation of earnings between shareholder distributions in the form of dividends and earnings retention for reinvestment. The academic discourse on whether dividend policy influences firm value has been long-standing and divided. While some scholars argue that dividend decisions impact share prices and investor perceptions, others—most notably Miller and Modigliani (1961)—assert that in perfectly efficient markets, dividend policy is

irrelevant. Recent studies, however, suggest that the real-world context, particularly in emerging economies, may deviate from such theoretical assumptions (Al-Malkawi et al., 2022).

In practice, dividend announcements are often interpreted by investors as signals of a firm's financial health and future prospects (Bassey & Moses, 2021). A consistent or increasing dividend payout is generally viewed as an indication of earnings stability and management confidence, thus fostering positive investor sentiment. Conversely, reductions or omissions in dividends are frequently seen as distress signals, often resulting in adverse market reactions and increased share price volatility. Nonetheless, the precise relationship between dividend policy and share price volatility remains contested and under-explored, particularly in less mature financial markets.

Share price volatility reflects the degree of fluctuation in a firm's stock value over time, influenced by a complex interplay of market sentiment, earnings reports, macroeconomic variables, and firm-specific policies such as dividend payments (Adediran & Obademi, 2023). Empirical evidence from developed economies has demonstrated that firms with stable and transparent dividend policies tend to experience lower levels of stock price volatility. Dividends, in such cases, provide a predictable stream of returns and help mitigate investor uncertainty (Jabbouri et al., 2023).

However, in emerging markets like Nigeria, where financial systems are often characterized by information asymmetries, regulatory inefficiencies, shallow liquidity, and relatively unsophisticated investor bases, dividend policy may assume an outsized role in influencing market dynamics (Afolabi et al., 2022; Oladimeji & Salawu, 2021). In such contexts, dividends are not merely financial distributions but also serve as critical informational cues. Nigerian retail investors, in particular, tend to rely heavily on dividends as a source of steady income, often due to limited investment alternatives and a prevailing preference for cash flow over capital appreciation.

The Nigerian manufacturing sector presents a particularly relevant case for investigating the link between dividend policy and share price behavior. As a cornerstone of national economic diversification and industrial development, the sector is marked by cyclical operational patterns and variable profitability. Dividend decisions in this sector, therefore, have the potential to significantly shape investor expectations and influence share price volatility. Yet, despite its economic significance, there is a noticeable paucity of empirical research specifically examining this relationship within the Nigerian manufacturing context.

Moreover, comparative analysis with international counterparts is essential for situating local findings within broader global frameworks. By examining dividend policy and share price volatility across both domestic and global manufacturing firms, this study seeks to identify meaningful patterns, anomalies, and insights that can inform policy decisions and investment strategies. Such comparative inquiry is crucial for developing a nuanced understanding of how dividend policy operates under varying market conditions and institutional frameworks.

Objectives of the Study

i. To examine the effect of dividend policy variables (dividend yield and dividend payout ratio) on share price volatility among listed manufacturing firms in Nigeria.
ii. To compare the relationship between dividend policy and share price volatility in Nigeria with that of South Africa global manufacturing firms

Research Questions

i. What is the relationship between dividend policy (dividend yield and payout ratio) and share price volatility in Nigeria's manufacturing sector?
ii. Does dividend policy influence share price volatility in Nigeria's manufacturing sector, and how does this compare with global trends?

Hypotheses

i. H_{01}: There is no significant relationship between dividend policy (dividend yield and payout ratio) and share price volatility in listed manufacturing firms in Nigeria.
ii. There is no significant difference in the influence of dividend policy on share price volatility between Nigeria's manufacturing sector and selected global manufacturing sectors.

Review of Related Literature

Dividend policy

Dividend policy refers to a company's strategic framework for deciding how profits are distributed to shareholders, typically through cash dividends or retained within the business for reinvestment and growth. It encompasses several key dimensions such as dividend payout ratio (the proportion of earnings paid out as dividends), dividend yield (dividends as a percentage of share price), frequency of payments, and dividend stability or variability. The primary objective of a dividend policy is to balance the dual interests of rewarding shareholders while maintaining adequate resources for business sustainability and growth (Al-Malkawi et al., 2022; Nuhu & Adegbite, 2023).

The academic debate on whether dividend policy affects firm value and stock price dates back to Miller and Modigliani's (1961) Dividend Irrelevance Theory, which postulated that in a perfect market, dividend decisions do not influence firm value. However, later studies challenged this notion by introducing imperfections such as taxation, information asymmetry, and investor preferences, suggesting that dividend decisions could have real economic effects, including on share price behavior and volatility (Jensen & Meckling, 1976; Gordon, 1962).

Share Price Volatility

Share price volatility is a statistical measure of the dispersion of returns for a given security or market index. In practical terms, it reflects how much a stock's price fluctuates within a given time frame and serves as a proxy for investment risk and market uncertainty. High volatility is typically associated with greater risk and uncertainty, while lower volatility is often linked to market stability and investor confidence (Oladimeji & Salawu, 2021; Jabbouri et al., 2023).

Volatility can be influenced by a range of internal and external factors. Firm-specific drivers include dividend announcements, earnings performance, management changes, and leverage levels, while macro-level variables include interest rates, inflation, exchange rate movements, and political events (Bello et al., 2022). Among these, dividend announcements are particularly important as they are often interpreted by investors as signals of a firm's current financial performance and future prospects (Bhattacharya, 1979; Afolabi et al., 2022).

Empirical evidence suggests that firms that maintain stable and predictable dividend payments tend to exhibit lower share price volatility. This is because regular dividends reduce information asymmetry and reassure investors about the firm's profitability and stability, leading to reduced uncertainty in valuation (Jabbouri et al., 2023; Chen et al., 2021). For example, a recent cross-market study by Sharma and Kaur (2023) found that dividend-paying manufacturing firms in India exhibited significantly lower stock volatility compared to their non-dividend-paying counterparts, consistent with the signaling and bird-in-hand theories.

Conversely, companies with inconsistent, declining, or no dividend payments often face greater market speculation, as investors may perceive such actions as indicators of financial distress or poor future outlook. This can lead to increased share price swings, particularly in emerging markets like Nigeria, where retail investors dominate and dividend income often forms a core part of investment motivation (Adegbite & Ogunmuyiwa, 2023; Moyo et al., 2022).

In the context of Nigeria's manufacturing sector, dividend policy assumes added importance due to the sector's role in economic diversification, its exposure to cyclical risks, and the general volatility of the Nigerian capital market. Investors in Nigeria tend to have a strong preference for cash dividends due to limited alternative investment opportunities, low financial literacy, and underdeveloped capital appreciation mechanisms (Ogunleye & Eke, 2023). This makes dividend decisions a critical determinant of both investor confidence and share price stability.

Globally, while the trend of reinvesting profits for growth is common among tech and growth-oriented firms, manufacturing firms tend to adopt more conservative dividend policies to reflect their relatively stable cash flows and asset-heavy business models. Comparative studies across markets show that the impact of dividend policy on volatility is shaped by institutional environments, investor composition, tax regimes, and regulatory practices (Al-Malkawi et al., 2022; Chen et al., 2021).

Global Evidence and Comparisons

Empirical findings from global markets generally affirm the stabilizing effect of dividend policy on share price volatility. However, the magnitude and direction of this relationship vary considerably across different regions, sectors, and institutional environments. These differences stem from factors such as investor composition, market efficiency, corporate governance practices, and macroeconomic volatility.

United States: Strong Institutional Influence

In the U.S., one of the most developed and efficient capital markets, studies have consistently shown that dividend-paying firms experience reduced share price volatility, especially in capital-intensive sectors like manufacturing. Chen, Zhou, and Lee (2021) examined 500 publicly listed manufacturing companies and found that firms with higher dividend payouts exhibited significantly lower stock return volatility, particularly those with strong institutional investor presence.

The rationale behind this trend is twofold. First, institutional investors tend to favor firms with predictable income streams, encouraging management to maintain stable dividend policies. Second, the strict regulatory environment and transparent disclosure norms in the U.S. enhance the credibility of dividend signals, thereby moderating investor overreaction and stabilizing stock prices. Moreover, dividends in this context serve as a check on managerial discretion, aligning with agency theory expectations (Alzahrani & Lasfer, 2020).

South Africa: Macroeconomic Moderation

In South Africa, which represents a hybrid market with both developed and emerging market features, the relationship between dividend policy and share price volatility has been found to be moderated by macroeconomic variables such as interest rates, inflation, and currency fluctuations. Moyo, Ncube, and Khumalo (2022) investigated industrial firms listed on the Johannesburg Stock Exchange and reported a significant negative relationship between dividend payout ratios and stock price volatility. However, they noted that the impact of dividends was more pronounced in larger firms and during stable economic periods.

Their findings suggest that firm size and economic context play crucial roles in determining how dividend policy affects market behavior. In times of high inflation or interest rate hikes, even dividend-paying stocks may exhibit heightened volatility, as macroeconomic uncertainty overrides firm-specific signals.

Key Cross-Market Insights

Across the global spectrum, the following key insights emerge:

i. Market Maturity Matters: In developed markets, dividend policy has a strong stabilizing effect due to investor sophistication and better regulatory enforcement. In contrast, in emerging or frontier markets, dividends carry stronger signaling value, especially where financial reporting is weak.

ii. Investor Composition Is Critical: The presence of institutional investors tends to dampen volatility by promoting governance and long-term strategies. Conversely, retail-driven markets are more reactive to dividend changes, which can either reduce or increase volatility depending on the perceived strength of the signal.

iii. Macroeconomic and Firm-Specific Conditions Interact: External shocks such as inflation, political uncertainty, or economic downturns can undermine the stabilizing role of dividends. Moreover, firm size, leverage, and ownership structure also mediate the effect of dividend decisions on stock price movement (Al-Malkawi et al., 2022).

iv. Disclosure and Transparency Enhance Signal Strength: In markets where financial disclosures are reliable, dividend announcements act as credible signals, leading to investor confidence and lower volatility. In contrast, weak transparency dilutes the signaling effect.

Implication for Comparative Analysis with Nigeria

This global evidence provides important context for evaluating the Nigerian manufacturing sector. Compared to the U.S., Nigeria's market lacks strong institutional investor presence and consistent regulatory enforcement. Similar to India and South Africa, Nigeria exhibits high information asymmetry, macro instability, and retail dominance, which can magnify the influence of dividend decisions on share

price volatility. Therefore, comparative analysis is not only justified but essential for contextualizing dividend policy effectiveness within the broader global landscape.

RESEARCH METHODOLOGY

This study adopted a quantitative, ex post facto, and comparative research design. The population comprises all publicly listed manufacturing firms on the Nigerian Exchange Group (NGX) as well as a purposive sample of manufacturing firms listed in the U.S. (NYSE/NASDAQ), India (BSE/NSE), and South Africa (JSE). These firms were chosen due to the availability of consistent dividend and price data over the study period. A purposive sampling technique was employed to select firms that: Are listed on their respective exchanges for at least 10 years (2013–2023)..The final sample comprises:30 Nigerian manufacturing firms,20 firms each from the U.S., India, and South Africa, making a total of 90 firms. The study relies on secondary data collected from: Annual financial statements and reports of listed firms (2013–2023), Data will be analyzed using descriptive statistics, correlation analysis, and panel regression analysis. The choice of panel regression (fixed or random effects) is due to the longitudinal nature of the data (i.e., firm data over 10 years). STATA 17 and SPSS will be used for data cleaning, correlation, and regression analysis.

DATA PRESENTATION AND ANALYSIS

Table 4.1: Summary Statistics by Country

Country	Dividend Payout Ratio (Mean ± SD)	Dividend Yield (Mean ± SD)	Firm Size (Mean ± SD)	Leverage (Mean ± SD)	Share Price Volatility (Mean ± SD)
Nigeria	0.363 ± 0.169	0.069 ± 0.029	9.52 ± 0.45	0.572 ± 0.23	0.419 ± 0.14
Global	0.394 ± 0.186	0.066 ± 0.029	9.58 ± 0.53	0.565 ± 0.24	0.369 ± 0.15

Interpretation:

Nigerian firms have slightly lower average dividend payout ratios than their global counterparts.

Dividend yields are similar across both groups, though Nigerian firms show marginally higher values. Share price volatility is higher among Nigerian firms (0.419) compared to global firms (0.369), indicating more unstable stock performance. Firm sizes and leverage levels are comparable, suggesting that differences in volatility may not be solely due to size or capital structure.

Regression Analysis and Hypothesis Testing

Error Correction Model (ECM) Analysis and Hypothesis Testing

Table 4.2: ECM Regression Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**p-Value**
Intercept	0.391	0.074	5.28	0.000
ΔDividend Payout Ratio	-0.164	0.047	-3.49	0.001
ΔDividend Yield	-0.223	0.172	-1.30	0.194
ΔFirm Size	-0.021	0.006	-3.50	0.001
ΔLeverage	0.107	0.029	3.69	0.000
Nigeria (dummy variable)	0.036	0.017	2.12	0.036
Error Correction Term (ECT_{t-1})	-0.652	0.084	-7.76	0.000

Interpretation of ECM Results

The error correction term (ECT_{t-1}) is negative and statistically significant (–0.652, $p < 0.01$), confirming the existence of a long-run equilibrium relationship among the variables. This means that any short-term deviation from the equilibrium share price volatility is corrected by approximately 65.2% in the following period, suggesting a strong and stable adjustment process.

The short-run coefficient for dividend payout ratio (ΔDividend Payout) is negative and significant (–0.164, $p = 0.001$), indicating that increases in dividend payouts help reduce share price volatility in the

short term. This supports the signaling theory and affirms the role of dividends in reducing investor uncertainty.

Dividend yield (ΔDividend Yield) also has a negative coefficient (–0.223) but is not statistically significant (p = 0.194), implying that while it may contribute to lower volatility, its influence is inconsistent across firms or market environments.

Firm size (ΔFirm Size) has a negative and significant impact (p = 0.001), reaffirming that larger firms experience lower volatility due to their stability, broader operations, and higher investor confidence.

Leverage (ΔLeverage) remains positively and significantly related to volatility (p = 0.000), showing that firms with higher debt levels are perceived as riskier, leading to greater fluctuations in their stock prices.

The Nigeria dummy variable is positive and significant (p = 0.036), indicating that, even after controlling for firm-level variables, Nigerian manufacturing firms face higher share price volatility than their international counterparts—reflecting structural inefficiencies, regulatory limitations, and market sentiment in emerging economies.

Hypothesis Testing Summary

Hypothesis	**Result**
H_0: Dividend policy does not significantly influence share price volatility.	**Rejected**
H_1: Dividend policy significantly influences share price volatility.	**Accepted**
H_0: There is no difference between Nigeria and global firms in this relationship.	**Rejected**
H_1: There is a significant difference based on market environment.	**Accepted**

DICUSSION OF FINDINGS

The findings of this study provide robust evidence on the influence of dividend policy on share price volatility within the manufacturing sector, drawing on comparative data from Nigeria and selected global markets. The results support several theoretical assumptions and align with prior empirical studies.

From the descriptive statistics, it is clear that Nigerian manufacturing firms exhibit slightly lower average dividend payout ratios (0.363) than their global counterparts (0.394). Although dividend yields are similar across the board—slightly higher in Nigeria (0.069 vs. 0.066)—share price volatility is markedly higher among Nigerian firms (0.419 compared to 0.369 globally). This suggests that Nigerian firms, despite offering similar dividend returns relative to share prices, operate in a more volatile market environment. This heightened volatility may reflect macroeconomic instability, weak investor confidence, and market inefficiencies typical of emerging economies (Ologunde et al., 2020; Aregbeyen & Akinboade, 2012).

The Error Correction Model (ECM) results reinforce the notion of a long-run equilibrium relationship between dividend policy and share price volatility. The error correction term (–0.652) is significantly negative ($p < 0.01$), indicating that approximately 65.2% of short-term deviations from the equilibrium path are corrected in subsequent periods. This strong mean-reverting behavior confirms the long-run stability of the share price in relation to dividend policy and firm-specific fundamentals (Engle & Granger, 1987).

In the short run, the dividend payout ratio was found to have a negative and significant effect on share price volatility (–0.164, $p = 0.001$). This aligns with the signaling theory of dividends (Bhattacharya, 1979), which suggests that dividend announcements convey information about a firm's financial stability and future prospects, thereby reducing investor uncertainty and stabilizing share prices. This finding is also consistent with empirical evidence by Baskin (1989), who demonstrated that firms with higher dividend payouts tend to exhibit lower stock price volatility.

The dividend yield, though also negatively associated with volatility (–0.223), was not statistically significant ($p = 0.194$), suggesting an inconsistent role across firms and markets. This result is not uncommon in literature, as the yield is often influenced by market price fluctuations and may not consistently reflect corporate dividend intent (Allen & Michaely, 2003).

Firm size also shows a statistically significant negative relationship with share price volatility ($p = 0.001$). Larger firms tend to have more diversified operations, stronger corporate governance, and better access to

capital markets—factors that contribute to investor confidence and lower volatility (Demirgüç-Kunt & Maksimovic, 1998).

On the contrary, leverage is positively and significantly associated with volatility ($p = 0.000$), implying that firms with higher debt levels are seen as riskier by investors. This finding supports prior research which shows that increased financial leverage amplifies earnings volatility, translating into unstable stock prices (Booth et al., 2001; Modigliani & Miller, 1963).

The Nigeria dummy variable remains statistically significant and positively signed (0.036, $p = 0.036$), indicating that, all else being equal, Nigerian manufacturing firms are more volatile than their global counterparts. This outcome reflects deeper structural issues in the Nigerian capital market, such as poor regulatory oversight, limited institutional investor participation, and low investor protection (Okpara, 2010; Nwakanma & Nnamdi, 2021).

Collectively, these findings lead to the rejection of the null hypotheses and affirm that dividend policy significantly influences share price volatility, and that there are significant market-based differences between firms operating in Nigeria and those in more mature markets. The study thus reinforces the importance of consistent and transparent dividend policies in reducing market uncertainty, especially in emerging economies. It also emphasizes the need for regulatory reform, improved market infrastructure, and corporate governance enhancements to mitigate volatility and attract long-term investors.

CONCLUSION

In conclusion, this study offers strong empirical support for the role of dividend policy in influencing share price volatility within the manufacturing sector, drawing from data in Nigeria and globally. The findings reveal that a higher dividend payout ratio is associated with reduced stock price fluctuations, underscoring the value of stable dividend policies in fostering investor confidence. Additionally, firm-specific characteristics such as size and leverage are important determinants of volatility, emphasizing the need for sound financial structuring. Nigerian firms, in particular, exhibit greater volatility due to market inefficiencies and limited institutional investor activity. Overall, dividend policy emerges as a vital financial strategy, particularly in emerging markets where it serves as a key signal to guide investor decisions.

RECOMMENDATIONS

i. Corporate managers should maintain consistent and transparent dividend policies aligned with long-term profitability and manage debt responsibly to reduce volatility and enhance investor confidence.
ii. Regulators and policymakers should strengthen disclosure requirements and corporate governance frameworks while encouraging institutional investor participation through tax incentives and regulatory reforms.
iii. Investors, particularly in Nigeria, should interpret dividend consistency as a signal of reduced risk and assess firm fundamentals beyond dividend announcements when making investment decisions.
iv. Future researchers should extend the scope of this study to other sectors and explore qualitative dimensions such as investor sentiment, political risk, and dividend timing using a mixed-methods approach.

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