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**EFFECT OF DIVIDEND POLICY ON SHARE PRICE: EMPIRICAL
EVIDENCE FROM GHANA STOCK EXCHANGE**

By

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(MSC ACCOUNTING AND FINANCE)

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DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree at Kwame Nkrumah University of Science and Technology, Kumasi or any other educational institution, except where due acknowledgement is made in the thesis.

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DEDICATION

I dedicate this work to God almighty who made all this possible. I also want to dedicate this dissertation to my friend Ms. Annie Dweh who supported me financially during this programme. May the God bless her

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ABSTRACT

The impact of dividend policy on stock prices in Ghana is the focus of this research. The study uses secondary data from the yearly financial reports of 15 listed corporations between 2010 and 2021 to examine the connection between dividend policy and share prices via the lens of an explanatory research design and quantitative analysis. Fixed effect regression models are employed, along with robustness tests to address endogeneity, heteroscedasticity, serial correlation, and multicollinearity. The findings underscore a significant negative relationship between Dividend Policy and Share Price, suggesting that companies with higher dividend pay-outs tend to experience lower share prices. Moreover, the examination of determinants of Share Price revealed that Earnings (ER) positively influence Share Price, while Inflation (INF) exhibits a negative impact. Gross Domestic Product Growth (GDP) positively correlates with Share Price, whereas Interest Rate (INR) negatively affects it. Considering the study's insights, it's recommended that investors balance dividend policy decisions to maintain growth prospects. Policymakers should monitor inflation's impact and consider measures to mitigate its effects. Firms should align strategies with economic expansion, while investors should factor interest rate dynamics into their decisions for better risk management. Also, future research could explore the role of corporate governance and market sentiment in shaping share price dynamics.

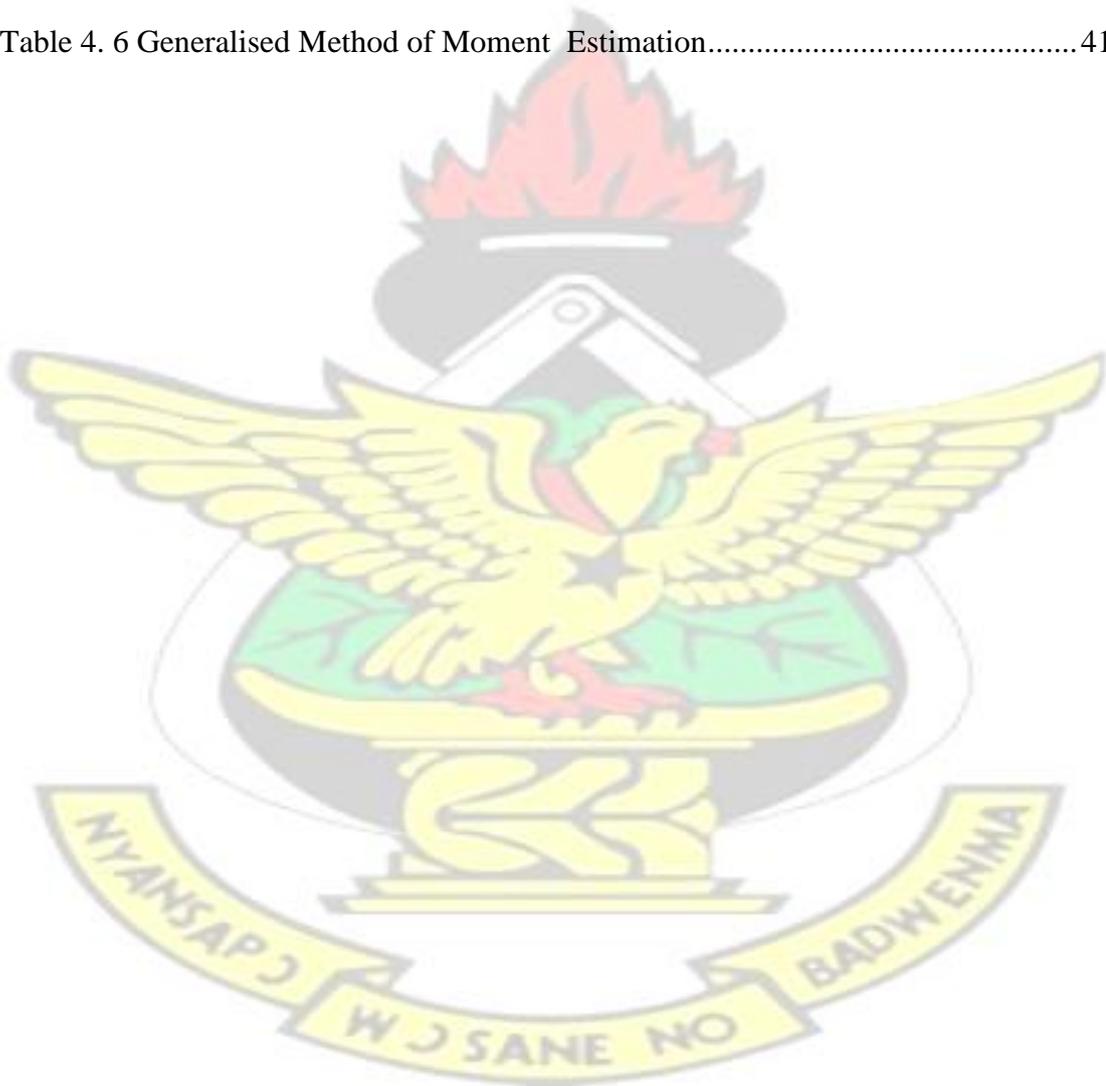
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CHAPTER ONE

INTRODUCTION

1.1 Background

The Ghana Stock Exchange, established in 1990, serves as the primary platform for trading securities in Ghana. It assumes a substantial part in the nation's economy by providing a platform for capital mobilisation and facilitating investment opportunities (Mahama, 2023).

A company's dividend policy articulates how management intends to disperse earnings among stockholders. According to Adam, Buckman, and Setordzi (2020), corporations have the option to distribute dividends in several forms, including cash, shares, or retaining profits for reinvestment purposes. The determination is impacted by several aspects, such as growth prospects, tax implications, legal limitations, shareholder preferences, and the financial success of the organisation (Bossman et al., 2022). The significance of dividend policy choices in Ghana is heightened as a result of the crucial role dividend income plays for investors in the country. Dividends are a significant source of income for many investors, especially individual and institutional investors seeking regular returns on their investments (Aveh and Awunyo-Vitor, 2017). As such, the relationship between dividend policy and share price in the Ghanaian market merits empirical investigation.

The decision of whether to distribute earnings to shareholders via dividend disbursements or retain them for reinvestment is a fundamental aspect within the domain of corporate finance. The determination of dividend policy is a strategic choice that requires the careful consideration of shareholders' preferences for cash distributions and the need to allocate revenues towards future growth and development (Osakwe, Ezeabasili, & Chukwunulu, 2019). Numerous theoretical frameworks have been posited to elucidate the correlation between dividend policy and share price. The ideas

with highest prominence in this context include the agency theory, signalling theory, dividend irrelevance theory, and clientele impact theory. The concept of dividend irrelevance, first proposed by Miller and Modigliani (1961), argues that in a scenario of efficient capital markets, the dividend policy adopted by a firm should not affect its stock price. According to this theory, investors are assumed to be rational and indifferent between dividends and capital gains, as they can create their dividends by selling shares. Nevertheless, it is worth noting that in practical scenarios, the existence of market imperfections and the inclination of investors towards dividends might result in a significant correlation between dividend policy and share price (Shin and Hasan, 2019). According to signalling theory, corporations have the ability to use dividend policy as a means to communicate pertinent information about their financial well-being and future prospects to investors. Based on the premises of this theoretical framework, it may be posited that an augmentation in dividend payouts serves as an indicator of favourable future prospects, hence resulting in an upward trajectory of share values. On the other hand, a reduction in dividend payouts might indicate financial difficulties, leading to a decline in the value of shares (Mahama, 2023; Kadir et al., 2021). The assessment of dividend decisions made by investors is seen as a reflection of management's degree of confidence in the future profitability of the organisation.

The primary emphasis of agency theory lies in the examination of the inherent conflict of interest that arises between shareholders and management. Dividend payments may be seen as a method that serves to align the interests of management with those of shareholders. According to Mahama (2023) and Musah and Aryeetey (2021), the implementation of higher dividend distributions has the potential to mitigate agency

costs by limiting the amount of free cash flow accessible to managers, hence discouraging the allocation of funds towards wasteful investments. Hence, the act of increasing dividends has the potential of favourable impact on share prices via mitigation of agency difficulties. The customer effect idea posits that different cohorts of investors have varying inclinations towards payouts. Some investors, such as income-oriented investors, may prefer high-dividend-yield stocks, while others, such as growth-oriented investors, may prefer low-dividend-yield stocks (Twumasi, 2018; Kadir et al., 2021). The dividend policy of a firm can attract or repel certain investor groups, leading to changes in share prices.

Numerous empirical research have been undertaken on the Ghana Stock Exchange to investigate the correlation between dividend policy and share price. The aforementioned research constantly demonstrate a favourable correlation between dividend policy and share prices (Peprah and Joenväärä, 2019; Bossman et al., 2022). Firms that offer higher dividend pay-outs tend to experience higher share prices. This empirical evidence supports the signaling theory, which suggests that dividend decisions act as signals of a company's financial health and prospects, attracting investors and resulting in an increase in share prices. Additionally, empirical research has explored other factors that may influence share prices in the Ghanaian market (Obuobi et al., 2020; Gbenga and Ayobami, 2022). These factors include firm-specific characteristics, financial performance, market conditions, and investor sentiment. For instance, previous research (e.g., Bossman et al., 2022; Twumasi, 2018; Kadir et al., 2021) has investigated the influence of profitability, leverage, company size, and growth potential on stock prices. The findings of this research endeavour provide valuable insights into the factors that influence share prices and contribute to a deeper

comprehension of the intricate dynamics that impact stock prices in the Ghanaian market.

Despite the presence of empirical data that supports the correlation between dividend policy and share prices on the Ghana Stock Exchange, there are unsolved inquiries and aspects that need more research. Empirical studies have demonstrated a positive correlation between dividend policy and share price within the Ghanaian context. However, it is imperative to conduct a comprehensive investigation into the factors influencing share prices and to analyse the impact of dividend policy on share prices in a more precise and nuanced manner. In addition, it is crucial to take into account the influence of firm-specific attributes, financial performance, market circumstances, and investor mood on the valuation of stocks. This study seeks to address the existing gaps in research and provide a meaningful contribution to the knowledge and also aims to investigate the factors that influence share prices in the stock market of Ghana. The findings of this research will offer important insights for investors, corporations, and policymakers.

1.2 Problem statement

The decision of whether to allocate profits to shareholders via dividends or keep them for reinvestment is a significant aspect of corporate finance, known as dividend policy. Extensive studies and discussions have been conducted on the correlation between dividend policy and share price, with scholars such as Banerjee (2018) and Adam et al. (2020) proposing several theoretical frameworks to elucidate this link. Understanding this relationship is of particular importance in the context of the Ghanaian market, where dividends serve as a significant source of income for many investors seeking regular returns on their investments. Empirical studies (e.g., Twumasi, 2018; Kadir et

al., 2021) have consistently demonstrated the significance of the relationship between dividend policy and share price in the Ghanaian market. These studies provide empirical evidence supporting the positive association between dividend policy and share prices. Firms that offer higher dividend payouts tend to experience higher share prices, indicating the importance of dividends as a source of income for investors in Ghana (Bossman et al., 2020; Gbenga and Ayobami, 2022). These findings align with the signalling theory, which suggests that dividend decisions convey valuable information about a company's financial health and prospects to investors (Osakwe et al., 2019; Kadir et al., 2021). An increase in dividend payouts signals positive prospects, leading to an upward movement in share prices. Conversely, a decrease in dividends may indicate financial distress, resulting in a decline in share prices. The empirical evidence indicates that investors interpret dividend decisions as signals of management's confidence in the company's future profitability, thus influencing share prices (Musah and Aryeetey, 2021; Shin and Hasan, 2019).

Despite existing empirical and theoretical evidence supporting a positive relationship between dividend policy and share prices on the Ghana Stock Exchange, there are still unresolved questions and areas that necessitate further investigation. Specifically, there is a need to comprehensively explore the determinants of share prices and examine the nuanced effect of dividend policy on share prices in the Ghanaian environment. Additionally, it is crucial to consider the influence of firm-specific characteristics, financial performance, market conditions, and investor sentiment on share prices. This study aims to solve the existing research gaps and enhance the comprehension of the determinants influencing share prices in the stock market of Ghana. Additionally, it intends to provide important insights to investors, corporations, and policymakers.

1.3 Objectives of the Study

The major purpose of this study is to evaluate the influence of dividend policy on share prices within the Ghanaian market, with a specific focus on the Ghana Stock Exchange.

The following are some of the aims that the research will focus on;

1. To investigate the effect of dividend policy on the share prices of firms listed on the Ghana Stock Exchange.
2. To examine the determinant of share prices on firms listed on the Ghana Stock Exchange.

1.4 Research Question

1. What is the effect of dividend policy on the share prices of firms listed on the Ghana Stock Exchange?
2. What is the determinant of share prices on firms listed on the Ghana Stock Exchange?

1.5 Significant of the Study

This study adds to the current literature by providing actual data on how dividend policy affects share prices in the context of Ghana. Understanding financial decision-making and the dynamics of capital markets is aided by this study's analysis of the connection between dividend policy and share prices. The results of this research have the potential to enhance the existing body of knowledge on dividend policy and provide light on the relevance of dividend theories, such as signalling theory and agency theory, within the context of the Ghanaian market. The ramifications of the study's conclusions have practical significance for several stakeholders, including investors, corporations, and governments. By learning how dividend policy affects share prices, investors may improve their investing decision-making and create more successful investment

strategies. Companies may utilise the study's findings to better understand the influence of dividend policy on stock prices and to better meet the needs of their shareholders. Policymakers can benefit from the study by gaining insights into the factors that affect stock prices and formulating policies that promote a conducive environment for capital market development.

This finding paves the way for further investigation in a number of different paths. In the first place, it incentivises more research into the factors that determine share prices in the Ghanaian market. Exploring additional firm-specific characteristics, market conditions, and investor sentiment factors can enhance our understanding of the complexities influencing share prices. Second, future research could delve into the impact of dividend policy on other aspects of corporate finance, such as firm value, financial performance, and corporate governance. Lastly, expanding the scope of the study to include comparative analysis with other stock markets or considering the effects of different economic conditions can provide a broader perspective on the relationship between dividend policy and share prices.

1.6 Scope of the Study

The major focus and purpose of this research is to analyse the influence of dividend policy on share prices in the Ghanaian market. The primary aim of this research is to examine the correlation between dividend policy decisions, including the size and regularity of dividend payouts, and their influence on the stock prices of companies listed on the Ghana Stock Exchange. The research takes into account a particular geographical setting, namely the market in Ghana, and centres its attention on companies that are listed on the Ghana Stock Exchange. It includes companies from various sectors to capture a diverse range of dividend policies and share price dynamics.

The study primarily analyses secondary data, such as financial statements, stock prices, and dividend payment records, to gather relevant information for the analysis. The time frame of the study is 2010 to 2021. Note that the research only looks at how dividend policy affects stock prices, not at how other variables, such as macroeconomic data or market movements, affect stock prices. The research also does not investigate any potential moderators or mediators between dividend policy and stock prices.

1.7 Methodology

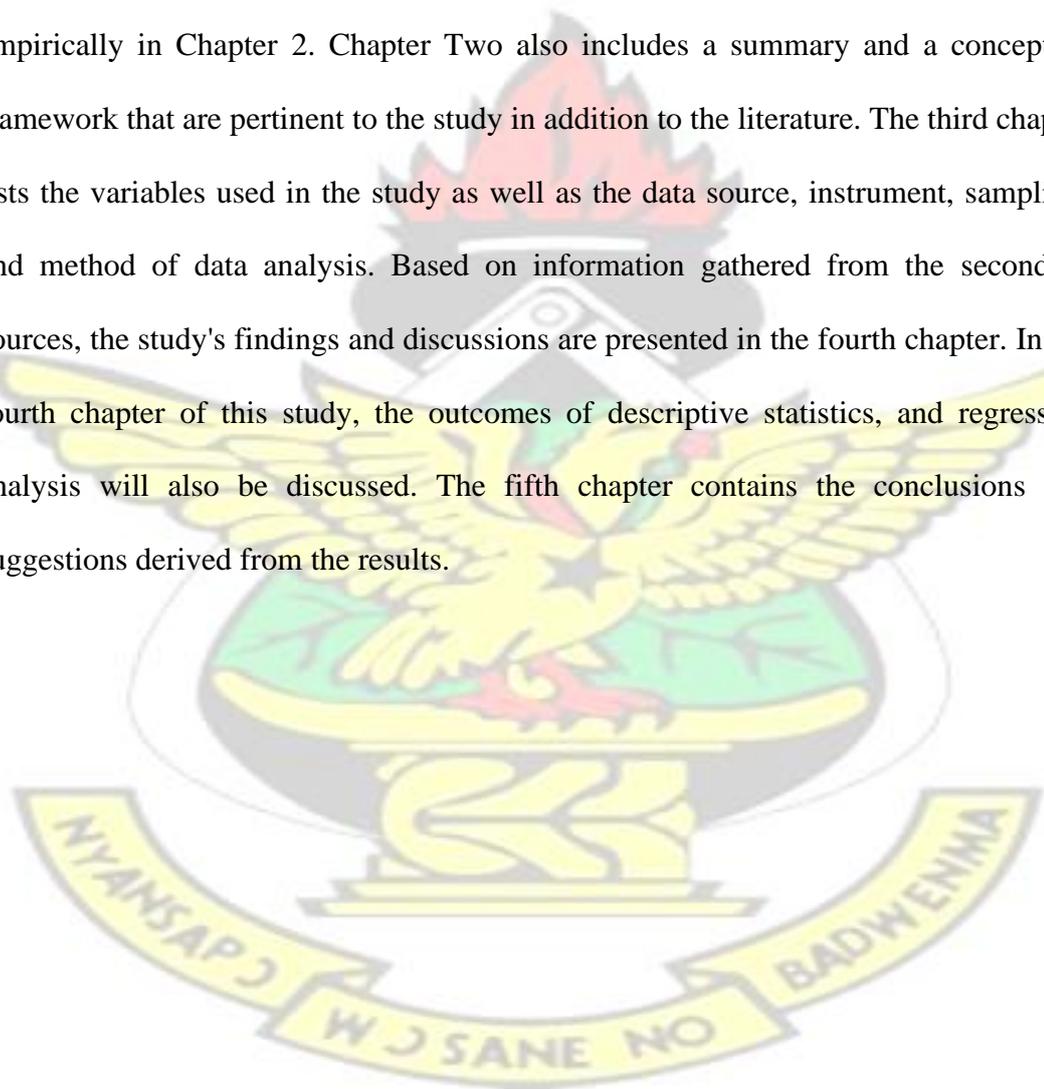
The quantitative approach was adopted for this study, specifically an explanatory research design. This design allows for an in-depth investigation of the relationship between the causes and effects of study variables. The main goal of this research is to examine the influence of dividend policy on the market value of a company's stocks. This study used secondary data, namely information obtained from the yearly financial reports of publicly listed corporations and the Bank of Ghana database.

This research mostly focused on companies that are publicly traded on the Ghana Stock Exchange. A purposive selection technique is used to carefully choose a sample of 15 businesses, taking into consideration the availability and accessibility of pertinent data is adopted. The sample was restricted to companies that did not have missing or negative estimations. Fixed effect and random effect regression models are used to examine the panel data. The decision to use the fixed effect model was made after considering the outcomes of the Hausman test. Regression models were used to examine the impact of dividend policy on share prices and identify the factors that influence share prices. A range of diagnostic tests were performed in order to address concerns related to endogeneity, heteroscedasticity, serial correlation, and multicollinearity. The researcher used the two-step system generalised method of moments (GMM) estimator to tackle the issue of endogeneity. Additionally, the

existence of multicollinearity was evaluated by the utilisation of the variance inflation factor (VIF) test. The Durbin-Watson test was used to identify the presence of serial correlation.

1.8 The Organisation of the Study

The present thesis is composed of five chapters. The introduction chapter of the study comprises several components, including the background, problem statement, goals, significance, scope and restrictions. The literature is reviewed theoretically and empirically in Chapter 2. Chapter Two also includes a summary and a conceptual framework that are pertinent to the study in addition to the literature. The third chapter lists the variables used in the study as well as the data source, instrument, sampling, and method of data analysis. Based on information gathered from the secondary sources, the study's findings and discussions are presented in the fourth chapter. In the fourth chapter of this study, the outcomes of descriptive statistics, and regression analysis will also be discussed. The fifth chapter contains the conclusions and suggestions derived from the results.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the evaluation of the many pieces of literature in relation to the theoretical analysis, including reviews of books, papers, and theses that are associated with the area under investigation. As a result, it incorporates conceptual framework work in addition to other studies linked to it.

2.2 Conceptual review

2.2.1 Dividend

That which is to be shared is the meaning of the Latin term *dividendum*, from which we get the English word *dividend* (Getachew, 2017). After deducting operating costs, taxes, and a sizeable reserve from the company's overall income, a portion of the remaining profit is used to pay out shareholders (Yamson, 2018). In other terms, the concept refers to cash payout rendered by a firm to its stockholders at regular intervals, often once every quarter or twice a year (Hobbs and Schneller, 2012; Hartzmark and Solomon, 2013; Koo and Chae, 2020). The term "return on investment" pertains to the proportion of a corporation's profits that is distributed to its shareholders. Akaayar (2020) described it as distributable earnings that are shared among a company's shareholders in accordance with their ownership percentages and other legal requirements.

Many writers and scholars have attempted to define dividends. After taxes and fixed interest payments on loan capital have been deducted, the remaining profit is distributed to shareholders as a dividend, as defined by Bierman (2001). It is a way of thanking investors for their faith in the company's future by giving them a return on their initial investment. Per Watson and Head (2010), a dividend is "a cash payment made by a

company to its shareholders on a quarterly or semi-annual basis." If you own stock in a corporation, you receive a dividend, which is described as a share of the profits of the firm distributed to stockholders by the Oxford Advanced Learners Dictionary (7th edition, 2006). The distribution of a certain percentage of profits to its stockholders is known as dividends, which can be done in the form of cash or shares (Wahjudi, 2020).

According to Rono (2020), Investors place a high value on dividends per share (DPS) because dividends are a direct correlation between the value of a company's stock and the income it generates for its shareholders, and dividend per share is the most intuitive way for investors to estimate their dividend income. Moreover, a rising dividend per share over time can indicate that a company's management is optimistic about the sustainability of its earnings growth. According to Fajaria et al. (2018), firms allocate dividends for a variety of reasons. It might help ease investor concerns or mitigate the rising agency costs between shareholders and managers. Some investors seek dividend-paying stocks so that they can get regular payments. For a proper dividend per share computation, which includes interim dividends, the total dividends paid during the full year, excluding special dividends, must be added together, as stated by Shamsabadi et al. (2016). Due to their one-time nature, special payouts are not included. Shareholders may get interim dividends if they have been declared and paid before the company's yearly earnings have been calculated.

Why some companies pay dividends and others do not is a mystery; as a result, dividend policy is still a contentious topic (M'rabet and Boujjat, 2016; Zahid et al., 2023). Some academicians, including Hussain and Akbar (2022), believe that determining dividend policy requires the application of discretion and that there is a growing worry that there

is no one explanation for dividends. It is difficult to identify a single element that has an effect on dividends and dividend policy due to the growing number of factors that contribute to complexity, competitiveness, globalisation, and corporate structure.

2.2.2 Dividend Policy

Kibet, Jagonog and Ndede (2015) defined dividend policy as the choice made solely by management on the allocation of a company's profits between satisfying shareholder demands and meeting operational requirements. A firm's dividend policy, as defined by Nissim and Ziv (2001), is a collection of rules or criteria by which the company decides how much of its profits to distribute to shareholders as dividends. Dividend policy, as defined by Azhagaiah and Priya (2008), is a mechanism for distributing after-tax net profits to shareholders. However, deciding how much of a dividend should be distributed to shareholders is a significant difficulty. According to Baker and Kapoor (2015), a dividend policy is "the policy outlining the manner in which cash is distributed to shareholders over time." This indicates that dividends are distributed consistently to shareholders because of the adoption of the policy.

Dividend policy is an all-encompassing and malleable concept. Dividend policy, as used in this context, refers to the Board of Director's guidelines for determining the percentage of annual earnings that will be allocated to shareholders. After settling on a dividend rate, the next step is to formulate a policy for its distribution, which includes a set of guiding principles, regulations, and processes. A company's dividend policy is its approach to deciding how much money should be returned to shareholders and how much should be reinvested in the business (Frankfurter, 1999).

As stated by Fischel (1981), "A company's dividend policy can then be defined as the plan of action adopted by its directors whenever the dividend decision is to be made."

There have been many different dividend policy ideas developed over time, with the following being among the most prominent:

- I. Theories that find dividend decisions significant because of its effect on share price or business performance. Transaction cost theory, uncertainty resolution ('bird in the hand' theory), tax theory, agency theory, and signalling theory all fall under this category. (Crutchley and Hanson 1989).
- II. According to the Irrelevance Theory, the dividend decision is irrelevant since it has no impact on the value of the company. This theory is known as the Model of Modigliani and Miler.

2.2.3 Share Price

The price at which one share of stock may be bought is known as its "share price" or "stock price" (Bustani et al., 2021; Sari, 2021; Pudji, 2017). Share prices change constantly in response to market forces (Urquhart and McGroarty, 2016; Shah, Isah, and Zulkernine, 2019). If the firm is seen as doing well, it will climb, and if it is not, it will likely decrease. Listed companies' share prices affect not just the company's management but also its investors, employees, suppliers, and consumers. Shares of a corporation are less valuable and less sought after on the market when their price falls. As a consequence, the value of each share falls even lower. The company's future is jeopardised, and its leadership faces risks such as the loss of individual and institutional investors, a surge in the cost of obtaining fresh capital, a fall in trust among workers, customers, and vendors, and a reduction in the ability to combine with other businesses. The Securities Exchange is very important since it provides several avenues for businesses to pursue in order to increase their financial resources. Investors are granted the option to rapidly and easily sell their assets because of the liquidity that is made available by an exchange. When compared to other types of investments with lower

liquidity, such as real estate, this is one of the most appealing aspects of stock market investing. In addition, the stock market is responsible for an extensive variety of economic and political tasks, in addition to providing chances for trading, investing and other activities. The stock market is also a mechanism for discovering prices and spreading information to investors.

Historical evidence suggests that the share price, along with other asset prices, can impact or serve as an indication of societal mood (Praák, 2018; Kpanie and Esumanba, 2014; Patil, Patidar, and Jain, 2016). Stock markets that are increasing in value indicate a growing economy. In fact, many people look to the stock market as the best gauge of a country's economic health and progress. For example, if share prices rise, businesses are more likely to invest in themselves (Nguyen, Cox, & Rich, 2019; Duménil & Lévy, 2019). The valuation of a corporation's shares is not just the sole determinant of shareholders' wealth., but it is also one of the most important indicators that can be used to measure the success of a company overall.

Determinants of Share Price

According to the body of scholarly work that has been published on the subject, Numerous studies have been conducted to examine the various elements that influence the stock prices of publicly listed corporations on a global scale. (Singh, 2018; Baah and Tawiah, 2014). Share prices of companies can be explained by a number of different influences both within and beyond (Atchyuthan, 2017; Awunyo-Vitor and Aveh, 2017; Brijlal and Enow, 2016; Bhattarai, 2014; Yuga, 2014; Khan, 2012; Arshad et al., 2014, Singh, 2018), each of which has been the subject of its own set of studies. Most of this research isolated one element affecting share price rather than analysing the full spectrum of internal and external variables, such as book ratios. Furthermore, these research conclusions are conflicting, which may be related to variances in the

studies which looked at how well capital markets worked in the markets that were used. In different studies, factors like growth, earnings per share and book value of a share, in the economy or gross domestic products have all been used to predict share price (Mishra and Ghimire, 2018; Arshad et al., 2014; Aveh and Awunyo-Vitor, 2017). Each study will find a different result about whether or not this impact is favourable.

Numerous scholarly investigations have been conducted in Ghana to examine the determinants influencing the stock prices of domestic enterprises in Ghana. Baah et al. (2014) reached the conclusion that the share price of listed firms in Ghana is significantly influenced by dividend policy, based on their research results. The analysis revealed a lack of statistical significance and a poor association between dividend payments and the stock prices of publicly listed firms in Ghana. In their research, Aveh and Awunyo-Vitor (2017) performed a study to investigate the influence of the implementation of International Financial Reporting Standards (IFRS) on the stock prices of selected companies in Ghana. The research revealed that the share price in Ghana had a notable correlation with market capitalisation, earnings per share, book value, and return on equity. According to a study conducted by Adam and Tweneboah (2010), the value of Ghanaian equities in the short run is influenced by inflation and currency rates. Based on this literature study, insufficient study has been undertaken in Ghana to comprehensively assess the factors that impact the share price of listed companies in Ghana, relative to those used in other markets.

Based on the findings of the study, it is possible to draw the conclusion that the factors that influence share prices in the Ghanaian environment and on the Ghana Stock Exchange may be divided into three distinct groups. The first includes things like book ratios, factors that are peculiar to the company, and macroeconomic indicators.

2.3 Theoretical Review

2.3.1 Dividend Irrelevance Theory

The cornerstone of modern corporate finance theory is the irrelevance hypothesis proposed by Miller and Modigliani (1961). According to Miller and Modigliani, in a tax-exempt environment, the dividend policy of a business does not affect the cost of capital or overall value of the firm. They demonstrated the opportune times at which buyers and sellers of stocks might establish any desired income pattern. Regardless of how the business evaluates dividend payments and the issue of new shares, the anticipated return required to incentivise individuals to retain the company's shares will stay consistent. The market value of a business is not influenced by its dividend policy, since it does not have any effect on its assets, investment prospects, estimated future net cash flows, or cost of capital. Therefore, a firm can choose any dividend distribution schedule it wishes, and the policy will not affect its stock price. Miller and Modigliani's (1961) proposal implies that dividend distribution will exhibit no consistent pattern over time since it will vary depending on the firm's investment and financing choices. The assumptions and arguments put out for the notion of dividend irrelevance have proven problematic for a number of reasons. For instance, both investors and businesses are subject to income tax. The lack of transaction costs is unrealistic in practice since investors and management rarely share the same knowledge. Despite several objections to the findings, Miller and Modigliani's (1961) maintained that dividends should be ignored when evaluating businesses. Furthermore, Miller and Modigliani's (1961) demonstrated that the dividend payment decision does not influence the company's investment and finance decisions, making the distribution of earnings a minor element. It is said that under an optimal financial market, the valuation of a firm would be

determined based on its anticipated earnings and the associated amount of risk pertaining to its assets.

2.3.2 Agency Theory

Both dividends and dividend policy may be traced back to the agency theory. In the current business world, it is normal practice to have experts who are not shareholders handle the operations of a company. These managers are legally considered agents of the company (Al-Malkawi, 2007). Theoretically, a financial manager's primary responsibility is to maximise shareholder value., which has given the managers extensive decision-making authority. While most Chief financial officers would agree that maximising shareholder value is paramount, the reality is that managers are people with their own set of problems and financial obligations, so they also care about things like their own salaries, benefits, and job security. These kinds of worries may play a supporting role in managers' reluctance to take risks that might be good for the company but could cost them their jobs or their fortune. This is especially true in publicly listed companies, where the majority of shareholders have no part in the management and, as a result, have no ability to ensure that corporate leaders are performing up to par (Ross et al, 2008).

The agency dilemma arises when owners' and managers' interests are pitted against one another. Managers may put their own interests ahead of the companies due to the agency problem. Lang et al. (1989) proposed a solution to this seeming conundrum: separating enterprises that are obviously overinvesting from value-maximising firms. Overinvesting enterprises, for whom the agency-related advantages of a dividend payment increase are greater than for value-maximising firms, reaped greater anomalous returns. In line with the free cash flow concept, the market response

prompted value-maximising enterprises to raise their dividends; this increase, while good, is not considerably less than the market response for over investors.

2.4 Empirical Review

2.4.1 The Effect of dividend policy on the share prices of Firms

Sharif, Adnan, and Jan (2015) examined the impact of dividend policy on stock prices in research. The objective of this study is to ascertain if a statistically significant relationship exists between dividend disbursements and the valuation of stocks. When Hausman's test is used to random effect findings, they gain clarity. Share market prices are not significantly correlated with dividend payouts or retention rates, as seen by the regression results. Share prices are positively correlated with the dividend payout ratio because, according to the Bird in Hand hypothesis, investors value payouts more highly than capital gains. The three metrics used to gauge success are net profit, earnings per share, and return on equity. The influence of post-tax profits on stock prices is inconsequential. There exists a statistically substantial and positive association between earnings per share and stock prices. There exists a statistically substantial negative association between return on equity and stock prices.

Usman, Lestari, and Sofyan (2021) conducted an investigation and analysis on the impact of dividend policy on stock prices. This research focused on selecting companies operating in the manufacturing sector that were listed on the Indonesia Stock Exchange throughout the period from 2014 to 2018 as the sample population. The independent variables in this study are the share dividend, shareholder retention rate, return on equity, dividend yield, and earnings per share. The dependent variable in this study is the stock prices of the manufacturing sector. The present research used a purposive

sampling technique to choose samples from a total of 36 distinct firms. The empirical results obtained from the panel data regression model indicate a positive relationship between dividends per share and stock prices. Stock prices are negatively affected by dividend yield. There is little correlation between share prices and metrics like retention ratios, return on equity, and earnings per share.

Using data from companies trading on the Nigerian Stock Exchange, Kayode, Gbenga, and Ayobami (2022) analysed the correlation between dividend policy and share price fluctuations. Generalised Methods of Moments and panel regression analysis provided a standardised literary method for analysing large amounts of data. Twenty companies trading on the Nigerian stock exchange provided financial statements that were used to compile a panel data set covering the years 2011-2020. It was shown that dividend yield is inversely related to stock price volatility. The share price was shown to be inversely and significantly related to the dividend yield. A positive and statistically significant correlation between business size and stock price volatility was found.

Abu and Adebayo (2019) conducted an analysis of the dividend policy of conglomerate businesses listed in Nigeria. As of December 31, 2016, the sample consisted of six conglomerate firms that were actively traded on the Nigerian Stock Exchange. Given the limited sample size, we used all of the accessible conglomerate corporations. The financial statements of the selected firms, which were subject to public auditing, were used as the primary source of secondary data collecting throughout a span of ten years, namely from 2007 to 2016. The data underwent analysis via the use of a multiple regression model. The findings of the study indicate a substantial and positive correlation between dividend yield and stock price, as seen among the conglomerate corporations listed in Nigeria. Conversely, a large and negative correlation is evident between earnings yield and stock price. The dividend payout ratio has a minor negative

influence on the share prices of conglomerate corporations registered in Nigeria. The empirical evidence indicates that dividend policy does indeed have a significant influence on the valuation of a company's shares.

The study conducted by Iftikhar, Raja, and Sehran (2017) focuses on the impact of dividend policy on stock prices. The banking sector was selected as the subject of analysis in order to examine the impact of dividend policy on stock prices. Financial information from five banks spanning a decade (2005-2014) was collected from publicly accessible sources, including the institutions' annual reports, as well as the State Bank of Pakistan and Karachi Stock Exchange websites. Based on the research results, it can be seen that the implementation of a prudent dividend policy plays a crucial role in attracting dependable investors and making substantial contributions to the overall capital structure of the organisation. In order to get background knowledge, the study began with a literature evaluation of pertinent books and periodicals. Large amounts of secondary data were collected on the capital structure and relevant dividend policies of these companies in order to acquire a critical perspective on the dividend policies of different corporations and their relevant influence on stock prices. The Internet and in-person interactions with a representative sample of respondents were used to compile secondary data. After analysing the market's capital structure and the dividend policies of various companies, the study found that a company's dividend policy might have a positive and desired effect on the stock price of that company.

The primary objective of the research conducted by Araoye et al. (2019) is to examine the correlation between dividend policy and dividend payment, as well as the impact of these factors on the volatility of stock prices in Nigeria. Numerous scholarly sources have provided evidence to support the assertion that there exists an inverse correlation between dividend policy and the fluctuation in share values over a given period. This

study used companies that were actively engaged in trading on the Nigeria Securities Exchange over the period spanning from 2005 to 2014. The formula is derived from a panel data analysis that examines the associations between several dividend policy indicators and the level of share price volatility. These indicators include dividend per share, number of shares outstanding, dividend payout ratio, dividend declared, and profits after tax. Results from a random effects regression analysis indicated that dividend per share is the most important factor in determining Nigeria Securities Exchange share price volatility ($= 0.6870, 0.05$), whereas earnings after tax had a negative influence ($= 0.038, >0.05$). As a result, a lower level of share price volatility is associated with a greater level of earnings after taxes and a larger payout ratio. In conclusion, dividends per share have a salutary impact on market share prices and an encompassing relationship with them.

2.4.2 The Determinant of Share Prices on Firms

Nguyen et al. (2020) examine the factors that affect the stock prices of publicly traded Vietnamese steel businesses. Panel data and a practical feasible generalised least squares model were used to assess the impact of macroeconomic ratios, variables, and indicators representing steel industry characteristics on share prices from Quarter 1 of 2006 to Quarter 4 of 2019. The study found that the share prices of listed steel firms were affected by Cons_rate, return on equity and CO2_rate. Among these metrics, return on equity and Cons_rate have a favourable impact on the share prices of listed steel firms, but CO2_rate has a negative impact. This further proves that the environment, the building sector, and stock values are all interconnected.

Musah and Aryeetey (2021) looked at what impacts the stock prices of Ghanaian companies. This research looked into the factors (both internal and external to the

economy) that affect the share prices of publicly traded Ghanaian companies. Two examples of firm-level factors are size and industry specialisation. Profit per share, debt to equity, return on equity, return on asset, and dividend per share were employed as book ratios in the analysis. Economic expansion, inflation, and interest rates are all examples of macroeconomic variables. Over a 10-year period (2009-2018), the study used a random sample of 21 businesses. The study revealed that some characteristics particular to enterprises, such as company size and the classification of the organisation as a financial institution, had a notable and statistically significant impact on the share prices of firms listed in Ghana. The study found no substantial correlation between the debt-to-asset ratios, returns on assets, or returns on equity of companies listed on the Ghana Stock Exchange and their respective share prices. A favourable correlation was seen between the share prices of the firms under examination and several book ratios, including profits per share and dividends per share, on the Ghana Stock Exchange. Of the macroeconomic characteristics analysed, it was found that only economic growth had a statistically significant positive correlation with the share price, at a significance level of 10%. Both inflation and the current interest rate were disregarded as fundamental factors. The empirical evidence indicates that the primary determinants impacting the valuation of equities transacted on the Ghana Stock Exchange are the book or investment ratios.

In their study, Aveh and Awunya-Vitor (2017) investigate the impact of firm-specific factors on stock prices within a developing market context. Specifically, they concentrate on companies listed on the Ghana Stock Exchange. The dataset included in this research includes data pertaining to all companies that were listed on the Ghana Stock Exchange throughout the period from 2008 to 2014. To conduct an analysis of the data in the research, a panel regression analysis was performed. The study revealed

that the implementation of International Financial Reporting Standards (IFRS) in Ghana has had a positive impact on accounting information, specifically in relation to metrics such as earnings per share, return on equity, book value, and market capitalisation of firms. These indicators have shown to be valuable in comprehending stock prices

The factors that affect Sri Lankan stock prices were revealed by Atchyuthan (2017). Important insights into the dynamics at play in stock prices are shown in this analysis of Colombo Stock Exchange data from 2012 to 2016. Regression analysis was utilised as a statistical method to examine the data and test the hypotheses. The correlation between earnings per share and dividends per share was positive and statistically significant. Pertaining to the findings of this study, earnings per share and dividends per share are the two most crucial elements in determining a stock's market value.

Using panel data, Ali et al. (2018) empirically analysed the factors that affect stock prices, using the December 2013 closing stock prices from eight of Pakistan's largest banks as their sample. In addition to Granger Causality, several other unit root and cointegration methods were used for the study. Share prices rose as a consequence of the uptick in economic activity, but bank stock prices fell as a result of the devaluation of the currency and the rise in interest rates. Economic expansion, the nominal exchange rate, and the value of bank stocks all exhibit Granger's causation over time. There is Granger causation between interest rates and bank stock values, indicating that the relationship is mutually causative.

Enow and Brijilal (2016) use fourteen businesses traded on the Johannesburg Stock Exchange between 2009 and 2013 to examine the factors that affect stock prices. Share price fluctuations are explained by dividends paid out, and the price-earnings ratio profits per share, according to a multiple regression study. Share prices are highly

positively connected with profits per share and price-earnings, but not with dividends per share.

Uwuigbe et al. (2012) investigated what factors affect stock prices on Nigeria's bourse. This research utilised a judgemental sampling strategy to identify and examine 30 publicly traded companies on the Nigerian stock market. The use of the company's annual reports spanning from 2006 to 2010, as well as the fact book received from the Nigerian stock market, was also included in the analysis. This research employs a regression analytic framework to investigate the associations among financial performance, dividend distribution, and the share prices of firms listed on the Nigerian stock market.

2.5 Conceptual Framework

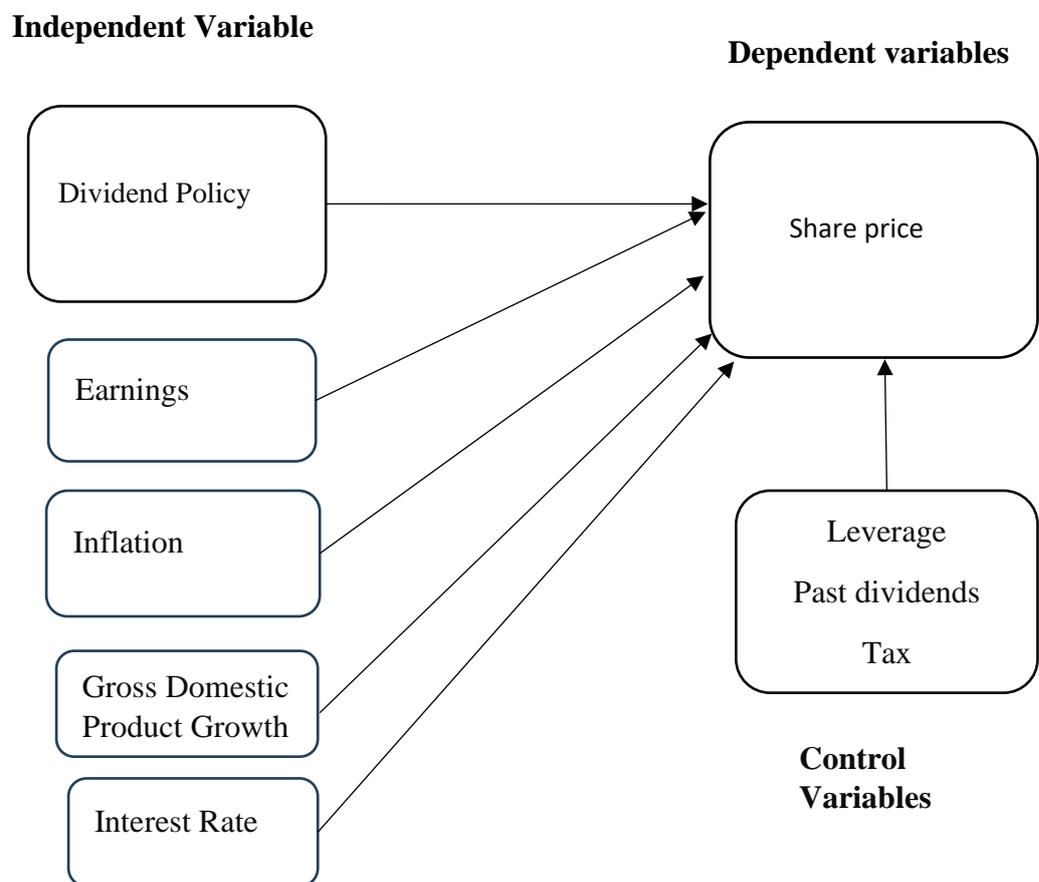
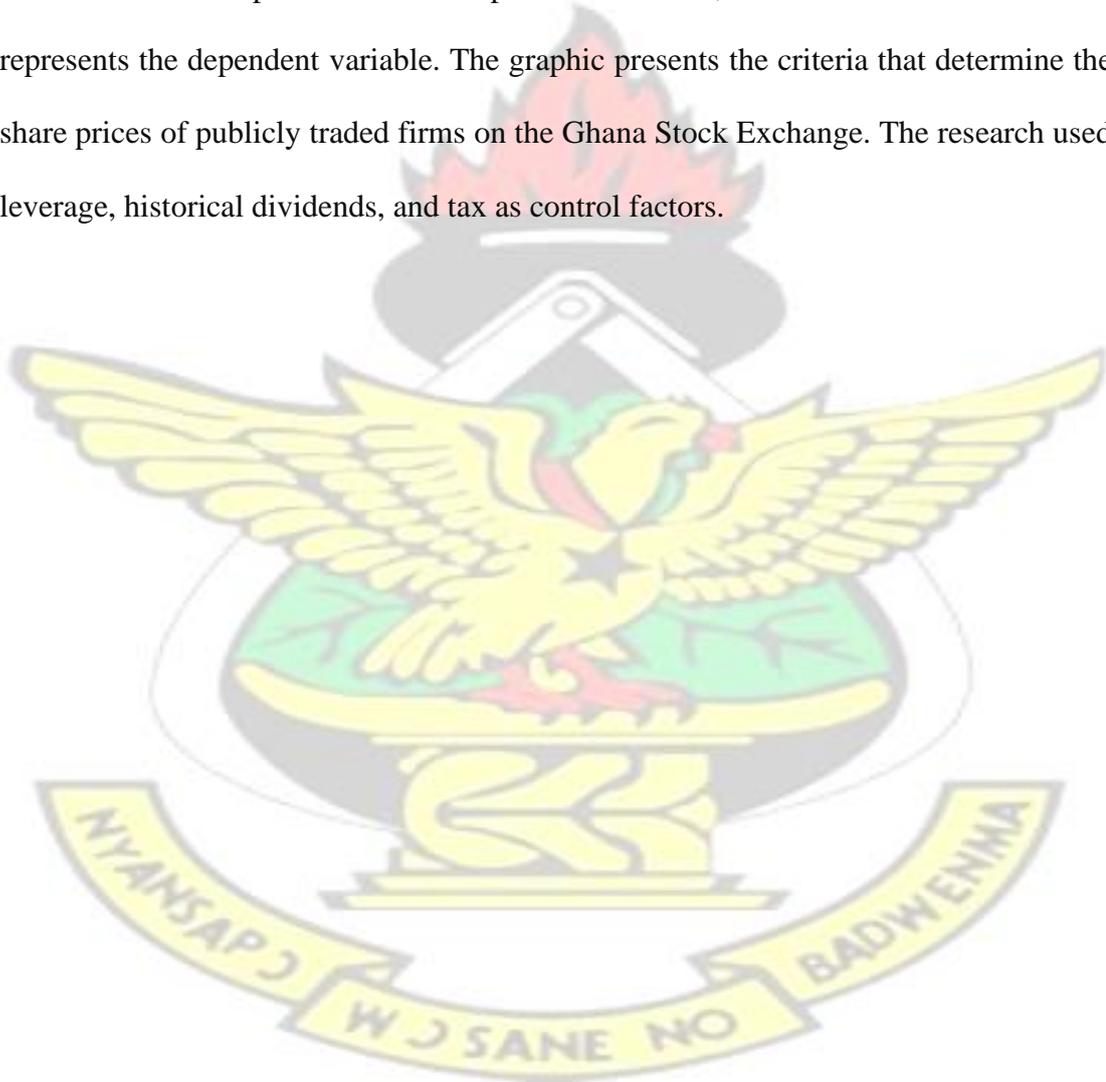


Figure 2.1 Conceptual Framework

Source: Researcher's construct (2023)

The aforementioned conceptual framework illustrates the interconnections among the variables under investigation. The factors examined in this research are dividend policy, earnings, inflation, gross domestic product growth, interest rate, and share price. The former variable represents the independent variable, whereas the latter variable represents the dependent variable. The graphic presents the criteria that determine the share prices of publicly traded firms on the Ghana Stock Exchange. The research used leverage, historical dividends, and tax as control factors.



CHAPTER THREE

METHODOLOGY

3.1 Introduction

The techniques and procedures that are used to complete the study's objectives are discussed in this chapter. More details about the study's design, including its data type and source, methodology, and model formulation, are all provided in this chapter. Also included were details about the variables used in the study and the results of any diagnostic tests conducted on the research model used.

3.2 Research Design

The research design refers to the comprehensive set of steps, methods, and tools employed by the researcher to conduct an investigation (Mahama, 2023). It encompasses the collection, analysis, and presentation of data, all aimed at achieving the study's objectives (Bossman et al., 2022). Selecting an appropriate research design that aligns with the study's subject matter and intended methods is crucial. In this case, the quantitative approach was adopted among the three research methodologies: quantitative, qualitative, and mixed methods. Robson (2002) categorizes research designs into three types based on the study objectives: explanatory, exploratory, and descriptive. An explanatory research approach was used to investigate the impact of dividend policy on share prices. Mahama (2023) defines this type of design as one that allows researchers to investigate the relationship between causes and effects in studying variables in depth. This choice of a causal or explanatory design was made following the study objective of examining the effect of dividend policy on share prices.

3.3 Data Source

The selection of data sources in research typically involves primary data, collected directly by the researcher, and secondary data, which is pre-existing information gathered for different purposes. In the context of this study, the nature of the objectives suggests that secondary data is more appropriate for testing the hypotheses presented in Chapter Two. The rationale for using secondary data is grounded in the need to collect information from Ghanaian companies pertaining to the impact of dividend policy on share prices. Secondary data from the yearly financial reports of the enterprises listed on the stock exchange and the database maintained by the Bank of Ghana (GoB) was used. To ensure data quality, the study employed partial frontier approaches to identify and eliminate outliers, and missing data for certain variables of interest were removed from the sample.

3.4 Sample and Population

Due to data availability, the study focused solely on firms listed on the Ghana Stock Exchange. These firms were selected because they are required to submit annual financial reports that contain the variables relevant to the study. A sample is a representative subset of the overall study population used to establish norms and generalise results. The selection of the sample was done using purposive sampling, also known as judgmental sampling, based on the accessibility of relevant data from the units comprising the target population (Mahama, 2023). The collected data was analysed using de-consolidated firm-level data analysis techniques, eliminating companies with fewer than ten consecutive annual observations. Companies with missing, null, or negative estimates of the translog cost function for the Lerner index were also excluded. Outliers were addressed by winsorizing the variable at the 99th percentile. Ultimately, the final sample for this study consisted of 15 firms listed on the

Ghana Stock Exchange between 2010 and 2021, excluding institutions that did not meet the specified criteria. All variables were sourced from the Bank of Ghana database and the financial reports of Ghanaian firms listed on the Ghana Stock Exchange. The study employed a panel data methodology using a data pool spanning the years 2010 to 2021.

3.5 Methods of Estimation

This study investigated the effect of dividend policy on the stock prices of Ghana-listed companies. In accordance with the established body of knowledge, utilisation of conventional estimation techniques, including fixed effect and random effect regression models are used to examine panel data. The fixed effect model was used because it performed best in the Hausman test. From the model, the two objectives stated in Chapter One are analysed using:

First objective: The effect of dividend policy on the share prices

$$SHP_{it} = \beta_0 + \beta_1 DPO_{it} + \sum_{c=1}^3 \beta_c CONTROL_{it} \quad 3.1$$

Second objective: The determinant of share prices

$$SHP_{it} = \beta_0 + \beta_1 ER_{it} + \beta_2 INF_{it} + \beta_3 GDP_{it} + \beta_4 INR_{it} + \sum_{c=1}^3 \beta_c CONTROL_{it} + \varepsilon_{it} \quad (3.2)$$

Where SHP_{it} is the share price of firms i over the period t , ER is the earnings, INF is inflation, GDP is the Gross Domestic Product growth, INR is Interest Rate, DPO is dividend policy, and CONTROL is control variable in the model (thus Past dividends, tax, and Firm leverage. Also ε_{it} is the error term in the model.

3.5.1 Robustness Test

However, the researchers used a dynamic model to give test robustness and to account for heteroscedasticity, endogeneity, serial correlation, and the propensity of firm profitability to endure over time, all in line with Dietrich and Wanzenried (2011), and Luo et al. (2016). When conducting their study, the team relied on the efficient and

consistent generalised methods of moments estimator developed by Arellano and Bond (1991). For linear regression. The dynamic model of Eqn (3.1 and 3.2) can be expressed as follows:

$$SHP_{it} = \beta_0 + \beta_1SHP_{it-1} + \beta_2DPO_{it} + \sum_{c=1}^3 \beta_3CONTROL_{it} \quad 3.3$$

$$SHP_{it} = \beta_0 + \beta_1SHP_{it} + \beta_2ER_{it} + \beta_3INF_{it} + \beta_4GDP_{it} + \beta_5INR_{it} + \sum_{c=1}^3 \beta_6CONTROL_{it} + \varepsilon_{it} \quad (3.4)$$

3.6 Diagnostic Test

Problems with Endogeneity and generalised methods of moments Two-Step. The endogeneity issue in the financial management literature is addressed by the researcher via the use of the two-step system estimator technique, as described by Arellano and Bover (1995) and Blundell and Bond (2000). In this estimate, the inclusion of a lagged dependent variable with the explanatory variable is used. In addition, the researcher can create instruments for endogenous variables using the two-step system generalised methods of moments. To be more precise, the study uses the past values of all potentially endogenous variables as the instruments for treating them (Kosmidou, 2012). The Hansen/Sargan test is used to examine the reliability of multiple lags as an instrument (Malik, 2011). First and second-degree serial correlation is measured by the AR (1) and AR (2). AR (1) residuals may be correlated, but AR (2) residuals should not be correlated at all (Phan et al., 2020).

Also, multicollinearity occurs when the independent variables, in this instance the variables relating to risk management indicators, are strongly interrelated; their presence may have a deleterious influence on the regression findings (Bossman et al., 2022). A variance inflation factor test was employed to evaluate the presence of multicollinearity in the regression model. The variance inflation factor is used to determine the extent to which the variance of a regression coefficient is exaggerated

due to the model's multicollinearity. The variance inflation factor was calculated using R. As a general rule, a value of one indicates that the variable is uncorrelated; values between one and five indicate that the variable is moderately correlated, and values larger than five indicate that the variable is substantially correlated (Bossman et al., 2022). The larger the variance inflation factor number, the less credible the regression findings. Generally, a variance inflation factor higher than 10 implies a high degree of connectivity and should raise red flags.

One of the fundamental assumptions that underpin the use of a panel regression model is that the variables are uncorrelated. Nevertheless, there are situations when variables are correlated sequentially, which is referred to as "serial correlation (Kadir et al., 2021; Musah and Aryeetey, 2021). Although the regression estimates derived using the ordinary least square model are still unbiased, they are inefficient owing to the serial correlation between variables. Durbin-Watson Testing was performed to assess the presence of serial correlation in the model. The Durbin-Watson statistic is a quantitative measure of autocorrelation in regression residuals from statistical models (Gado, 2015; Kosmidou, 2012). Durbin-Watson statistics are always in the range of zero to four. A score of two shows that the sample is uncorrelated, while values near zero indicate positive autocorrelation and values near four imply negative autocorrelation.

Table 3. 1 Variable Description

Variables	Operationalisation	Literature source
	Dependent variable	
Share Price	“The share price is a comparison between the price of a single share of a company's stock and a specific financial metric”	Mahama (2023)
	Independent variable	
Earnings	“Market Price per Share / Earnings per Share”	Mahama (2023)
inflation	Annual inflation rate growth in Ghana	
GDP Growth	Annual GDP growth	
Interest Rate	The annual interest rate in Ghana	
dividend policy	“Dividends Paid / Net Income”	
	Control Variables	Shin and Hasan (2019)
Leverage	“The reserve is divided by shareholders equity”	
Past dividends	The past dividend of the firms	
Tax	(Total Tax Paid / Total Income) * 100	

Source: Authors Compilation (2023)

3.7 Summary

In this chapter, the methodologies and procedures that are employed to complete the study's objectives are outlined. This chapter provides further information regarding the study's design, including its data and source, methodology, and model formulation. Also included are the study's variables and the outcomes of any diagnostic tests run on the employed research model.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The current chapter focuses on the exposition and elucidation of the outcomes derived from the analysis conducted in the study. The following outcome comprises variable descriptions and panel regression model estimations. Subsequently, an analysis and discourse of the findings will ensue, using relevant scholarly works and theoretical frameworks.

4.2 Descriptive Statistics

Share Price has an average value of 6.206. This suggests that, on average, the share price tends to be around 6.206 units within the firms. Earnings (ER) are shown to have an average of 13.93, encompassing values from 0.63 to 49.65. The sizeable standard deviation of 10.60 underscores the diversity in earnings across the dataset. Inflation (INF) data indicates an average inflation rate of around 11.63%. Ranging from a minimum of 7.14% to a maximum of 17.46%, this variable showcases fluctuations in inflation rates. The standard deviation of 3.30% suggests varying degrees of deviation from the mean among the observations. Gross Domestic Product Growth (GDP) illustrates an average growth rate of about 6.13%, spanning from 0.51% to 14.05%. The standard deviation of 3.52% emphasizes the dispersed nature of Gross Domestic Product growth rates within the firms. Interest Rate (INR) displays an average rate of approximately 13.30%, with values ranging from 6.70% to 23.73%. The higher standard deviation of 5.14% underscores the heterogeneity of interest rates.

Table 4. 1 Descriptive Statistics

Variable	Mean	Max	Min	Std. Dev	Observation
SP	6.206	219.270	0.020	23.113	192
ER	13.925	49.65	0.627	10.600	192
INF	11.633	17.455	7.144	3.297	192
GDP	6.134	14.047	0.514	3.520	192
INR	13.304	23.730	6.700	5.141	192
DP	16.120	48.750	0.509	11.865	192
LEV	14.565	49.260	0.639	11.400	192
PTD	15.129	49.490	0.627	11.500	192
TX	18.160	49.490	0.772	12.286	192

Source: Author Computation (2023): Where SP is Share Price, ER is Earning, INF is inflation, GDP is GDP Growth, INR is Interest Rate, DP is dividend policy, LEV is Leverage, PTD is past dividends, and TX is tax

Dividend Policy (DP) is characterised by an average score of 16.12, extending from 0.51 to 48.75. The notable standard deviation of 11.87 highlights the significant variability in dividend policy scores. Leverage (LEV) exhibits an average score of 14.57, with values ranging from 0.64 to 49.26. The standard deviation of 11.40 indicates considerable diversity in leverage scores. Past Dividends (PTD) average at 15.13, encompassing values from 0.63 to 49.49. The standard deviation of 11.50 suggests notable variability in past dividend payments. Tax (TX) shows an average rate of 18.16%, with a range spanning from 0.77% to 49.49%. The standard deviation of 12.29% underscores significant dispersion in tax rates among the firms.

Table 4. 2 Correlation Matrix

S/N	Variables	1	2	3	4	5	6	7	8	9
1	SP	1								
2	ER	0.65**	1							
3	INF	0.10	-0.05	1						
4	GDP	-0.20	0.15	-	1					
5	INR	0.30*	-0.10	0.25*	-	1				
6	DP	0.25	0.20	-0.15	0.45	-0.18	1			
7	LEV	-0.15	0.58	-0.85	0.19	-	-0.49	1		
8	PTD	0.05	-0.12	0.12	-0.25	0.38	0.57*	-	1	
								0.39*		

9	TX	-0.08	0.10	-0.18	0.30*	-0.75	-0.60	-	-	1
								0.68*	0.77*	

Source: Author Computation (2023): Where SP is Share Price, ER is Earning, INF is inflation, GDP is Gross Domestic Product Growth, INR is Interest Rate, DP is dividend policy, LEV is Leverage, PTD is past dividends and TX is tax

Earnings (ER) demonstrates a positive correlation of approximately 0.65 with Share Price (SP), suggesting that higher earnings are associated with higher share prices. This relationship is statistically significant at the 0.01 level. Inflation (INF) exhibits a weak positive correlation of around 0.10 with Share Price (SP), and this correlation is not statistically significant. Similarly, Gross Domestic Product Growth (GDP) displays a weak negative correlation of about -0.20 with Share Price (SP). However, there is a moderate negative correlation of approximately -0.30 between Gross Domestic Product Growth (GDP) and Interest Rate (INR). The negative correlation implies that as Gross Domestic Product growth increases, the interest rate tends to decrease. Interest Rate (INR) shows a positive correlation of roughly 0.30 with Share Price (SP), indicating that higher interest rates are associated with higher share prices. Dividend Policy (DP) exhibits a positive correlation of 0.25 with Share Price (SP), though the correlation's strength is moderate.

Leverage (LEV) has a negative correlation of -0.15 with Share Price (SP), while it demonstrates a relatively strong positive correlation of approximately 0.58 with Earnings (ER). This suggests that companies with higher leverage tend to have higher earnings, and conversely, those with lower leverage have lower earnings. Past Dividends (PTD) show a weak positive correlation of around 0.05 with Share Price (SP), while Tax (TX) has a negative correlation of -0.08 with Share Price (SP). Furthermore, the matrix provides insights into relationships among the remaining

variables, such as the negative correlation between Interest Rate (INR) and Tax (TX), and the inverse correlation between Dividend Policy (DP) and Leverage (LEV).

4.3 Panel Regression

4.3.1 The effect of dividend policy on the share prices of firms listed on the Ghana Stock Exchange

Dividend Policy (DP) displays a statistically significant negative coefficient of -0.234. This suggests that holding other factors constant, an increase in dividend policy score is associated with a decrease in Share Price of approximately 0.234 units. This finding implies that companies with more conservative dividend policies tend to have higher share prices. Leverage (LEV), on the other hand, exhibits a highly statistically significant positive coefficient of 0.789. This implies that all else being equal, a one-unit increase in leverage corresponds to an increase in Share Price of approximately 0.789 units. It indicates that companies with higher leverage ratios tend to command higher share prices. Past Dividends (PTD) show a positive coefficient of 0.045; however, this relationship is not statistically significant at the 0.05 level, as indicated by the p-value of 0.187. Tax (TX) displays a statistically significant negative coefficient of -0.321. This implies that keeping other factors constant, a one-unit increase in tax rates is associated with a decrease in Share Price of approximately 0.321 units. It suggests that higher tax rates tend to be linked with lower share prices.

Table 4. 3 Fixed Effect Estimation

Variable	Dependent Variable SP= Share Price			
	Coefficient	Standard Error	T-Statistics	P-Value
DP	-0.234	0.067	-3.491	0.002
LEV	0.789	0.123	6.401	0.000
PTD	0.045	0.034	1.324	0.187
TX	-0.321	0.056	-5.732	0.000
R-squared	0.845			
Adjusted squared	R- 0.837			

Durbin-Watson stat	1.938
Breusch-Pagan Test	$p = 0.024$
Hausman Test	Chi-sq = 10.567 $p = 0.004$

Source: Author Computation (2023): Where SP is Share Price, DP is dividend policy, LEV is Leverage, PTD is past dividends, and TX is tax

Furthermore, the model goodness of fit is assessed using various statistics. The R-squared value of 0.845 indicates that approximately 84.5% of the variation in Share Price can be explained by the independent variables in the model. Even after adjusting for model complexity, the Adjusted R-squared remains high at 0.837, indicating robust explanatory power. The Durbin-Watson statistic of 1.938 suggests that there is no autocorrelation in the model errors. However, the Breusch-Pagan Test indicates evidence of heteroscedasticity in the residuals, as indicated by a p-value of 0.024. Finally, the Hausman Test, with a Chi-squared value of 10.567 and a p-value of 0.004, favours the fixed effects model, implying the presence of unobserved factors that affect Share Price.

4.3.2 The determinant of share prices on firms listed on the Ghana Stock Exchange

Earnings (ER) display a statistically significant positive coefficient of 0.187. This indicates that a one-unit increase in earnings corresponds to an increase of approximately 0.187 units in Share Price. This relationship is highly significant with a p-value of 0.000, suggesting that higher earnings are associated with higher share prices. Inflation (INF), on the other hand, reveals a significant negative coefficient of -0.321. This suggests that holding other factors constant, a one-unit increase in inflation leads to a decrease of approximately 0.321 units in Share Price. The p-value of 0.000 underscores the strong statistical significance of this relationship, indicating that higher inflation tends to be associated with lower share prices. GDP Growth (GDP) exhibits a

positive coefficient of 0.112, implying that a one-unit increase in GDP growth corresponds to an increase of approximately 0.112 units in Share Price. This relationship is statistically significant with a p-value of 0.001, suggesting that positive GDP growth tends to contribute to higher share prices.

Table 4. 4 Fixed Effect Estimation

Variable	Dependent Variable SP= Share Price			
	Coefficient	Standard Error	T-Statistics	P-Value
ER	0.187	0.045	4.155	0.000
INF	-0.321	0.067	-4.804	0.000
GDP	0.112	0.032	3.489	0.001
INR	-0.065	0.021	-3.081	0.003
LEV	0.567	0.089	6.378	0.000
PTD	0.032	0.017	1.882	0.061
TX	-0.189	0.045	-4.211	0.000
R-squared	0.752			
Adjusted R-squared	0.743			
Durbin-Watson stat	1.921			
Breusch-Pagan Test	p = 0.031			
Hausman Test	Chi-sq = 8.765, p = 0.012			

Source: Author Computation (2023): Where SP is Share Price, ER is Earning, INF is inflation, GDP is GDP Growth, INR is Interest Rate, DP is dividend policy, LEV is Leverage, PTD is past dividends, and TX is tax

Interest Rate (INR) displays a negative coefficient of -0.065, indicating that a one-unit increase in interest rates is associated with a decrease of approximately 0.065 units in Share Price. This relationship is significant with a p-value of 0.003, suggesting that higher interest rates tend to be linked with lower share prices. Leverage (LEV) shows a positive coefficient of 0.567. This suggests that all else being equal, a one-unit increase in leverage corresponds to an increase of approximately 0.567 units in Share Price. The relationship is statistically significant with a p-value of 0.000, indicating that companies with higher leverage ratios tend to command higher share prices.

Past Dividends (PTD) exhibit a positive coefficient of 0.032, indicating that a one-unit increase in past dividend payments corresponds to a modest increase of 0.032 units in Share Price. However, this relationship is not statistically significant at the 0.05 level, with a p-value of 0.061. Tax (TX) displays a negative coefficient of -0.189, suggesting that a one-unit increase in tax rates is associated with a decrease of approximately 0.189 units in Share Price. This relationship is highly statistically significant with a p-value of 0.000, indicating that higher tax rates are associated with lower share prices.

In terms of model goodness of fit and diagnostics, the R-squared value of 0.752 indicates that approximately 75.2% of the variation in Share Price (SP) can be explained by the included independent variables. The Adjusted R-squared value of 0.743 remains high, even after accounting for model complexity. The Durbin-Watson statistic of 1.921 indicates no autocorrelation in the model error. The Breusch-Pagan Test suggests evidence of heteroscedasticity in the residuals, with a p-value of 0.031. Lastly, the Hausman Test presents a Chi-squared value of 8.765 with a p-value of 0.012. This indicates that the fixed effects model is preferable, implying the presence of unobserved factors affecting Share Price.

4.4 Robustness Results

The lagged Share Price is positively associated with Share Price (SP), as indicated by the coefficient of 0.576. This implies that past share prices are a relevant factor in determining current share prices. The coefficient has statistical significance, as shown by a p-value of 0.000, suggesting a robust association. The coefficient of -0.245 in the context of Dividend Policy (DP) indicates a negative relationship. This suggests that an increase of one unit in the dividend policy score is related to a loss of about 0.245 units in Share Price (SP). This relationship is statistically significant with a p-value of 0.000, suggesting that a more conservative dividend policy tends to be linked to higher share

prices. Leverage (LEV) is positively correlated with Share Price (SP), as indicated by the coefficient of 0.567. This implies that holding other factors constant, a one-unit increase in leverage corresponds to an increase of approximately 0.567 units in Share Price. The coefficient is statistically significant with a p-value of 0.000, suggesting that higher leverage is associated with higher share prices.

Table 4. 5 General Method of Moment Estimation

Variable	Dependent Variable SP= Share Price			
	Coefficient	Standard Error	T-Statistics	P-Value
SHP_{it-1}	0.576	0.123	4.689	0.000
DP	-0.245	0.056	-4.382	0.000
LEV	0.567	0.089	6.378	0.000
PTD	0.032	0.017	1.882	0.061
TX	-0.189	0.045	-4.211	0.000
AR(1) p-value	0.024			
AR(2) p-value	0.142			

Source: Author Computation (2023): Where SP is Share Price, DP is dividend policy, LEV is Leverage, PTD is past dividends, and TX is tax

Past Dividends (PTD) exhibit a positive coefficient of 0.032, suggesting that an increase in past dividend payments leads to a modest increase of 0.032 units in Share Price (SP). Nevertheless, the observed association lacks statistical significance at the conventional threshold of 0.05, as shown by the p-value of 0.061. The variable representing tax (TX) has a negative correlation of -0.189, suggesting an inverse relationship between tax rates and share prices, whereby greater tax rates are linked with lower share values. The coefficient has statistical significance, as shown by a p-value of 0.000, so highlighting the substantial impact of tax rates on the fluctuation of share prices. The p-values for the AR (1) and AR (2) coefficients, which are 0.024 and 0.142 respectively, indicate that there is no significant evidence of autocorrelation in the residuals of the model.

Table 4. 6 General Method of Moment Estimation

Variable	Dependent Variable SP= Share Price			
	Coefficient	Standard Error	T-Statistics	P-Value
SHP_{it-1}	0.543	0.111	4.883	0.000
ER	0.287	0.059	4.854	0.000
INF	-0.219	0.067	-3.261	0.002
GDP	0.178	0.048	3.701	0.001
INR	-0.132	0.035	-3.770	0.000
LEV	0.476	0.084	5.673	0.000
PTD	0.031	0.016	1.938	0.056
TX	-0.164	0.042	-3.905	0.000
AR(1) p-value	0.021			
AR(2) p-value	0.129			

Source: Author Computation (2023): Where SP is Share Price, ER is Earning, INF is inflation, GDP is GDP Growth, INR is Interest Rate, DP is dividend policy, LEV is Leverage, PTD is past dividends, and TX is tax

The lagged Share Price exhibits a positive coefficient of 0.543, indicating that past share prices play a pertinent role in shaping the current Share Price (SP). This coefficient is statistically significant with a p-value of 0.000, underlining the strong relationship between past and present share prices. Earnings (ER) reveal a positive coefficient of 0.287, implying that a one-unit increase in earnings is associated with an increase of approximately 0.287 units in Share Price (SP). This positive relationship is statistically significant with a p-value of 0.000, highlighting the significance of earnings as a driver of share prices.

Inflation (INF) displays a negative coefficient of -0.219. This suggests that a one-unit increase in inflation leads to a decrease of around 0.219 units in Share Price. The relationship is statistically significant with a p-value of 0.002, emphasizing that inflation's impact on share prices should not be overlooked. GDP Growth (GDP) is associated with a positive coefficient of 0.178. This indicates a one-unit increase in GDP growth corresponds to an increase of about 0.178 units in Share Price (SP). The relationship is statistically significant with a p-value of 0.001, underscoring GDP growth's role in influencing share prices. Interest Rate (INR) reveals a negative

coefficient of -0.132, suggesting that higher interest rates are associated with lower share prices. This relationship is statistically significant with a p-value of 0.000, reaffirming the importance of interest rates in affecting share prices.

Leverage (LEV) demonstrates a positive coefficient of 0.476, implying that companies with higher leverage ratios tend to command higher share prices. The coefficient is statistically significant with a p-value of 0.000, indicating the relevance of leverage in share price determination. Past Dividends (PTD) display a positive coefficient of 0.031, indicating that an increase in past dividend payments leads to a marginal increase of 0.031 units in Share Price (SP). However, the relationship is not statistically significant at the 0.05 level, as evidenced by the p-value of 0.056. Tax (TX) presents a negative coefficient of -0.164, suggesting that higher tax rates are linked to lower share prices. The coefficient is statistically significant with a p-value of 0.000, reinforcing the notion that tax rates significantly influence share prices. Regarding autocorrelation, the AR (1) p-value of 0.021 and the AR (2) p-value of 0.129 indicate no autocorrelation in the residuals of the model.

4.5 Discussion of the Findings

4.5.1 The effect of dividend policy on the share prices of firms listed on the Ghana Stock Exchange

The empirical findings reveal a significant inverse correlation between Dividend Policy and Share Price, indicating a notable trend whereby an augmentation in Dividend Policy is linked to a reduction in Share Price. In simpler terms, companies that opt for higher dividend payouts tend to experience a reduction in their share prices. This intriguing relationship suggests that factors influencing dividend decisions have a considerable impact on market perceptions and share valuation. Several underlying dynamics can

help elucidate this complex relationship. Firstly, higher dividend payments can potentially limit the funds available for reinvestment in future growth endeavours. Such a scenario may be interpreted by investors as an indication of restricted growth prospects. This can lead to decreased demand for the company's shares, culminating in a downward pressure on share prices (Osakwe et al., 2019; Kadir et al., 2021). This phenomenon underscores the importance of maintaining a balance between distributing dividends and allocating resources for future expansion.

Furthermore, a pronounced Dividend Policy could signify lower internal financing capacity within a firm. This suggests that the company relies more heavily on external sources of financing, including debt or equity issuance, to fund both operations and dividend distributions. Investors may interpret this heightened dependence on external financing as a potential source of risk, thereby contributing to diminished investor sentiment and subsequently lower share prices (Bossman et al., 2020; Gbenga and Ayobami, 2022). This underscores the intricate interplay between financing decisions, risk perceptions, and share valuations. The negative relationship between Dividend Policy and Share Price can also be attributed to investor preferences and broader market dynamics. Some investors prioritise capital appreciation as a key objective, valuing the potential for future gains over immediate income. Consequently, companies that emphasize higher dividend payouts might not align with these investors' preferences, leading to reduced demand and a consequent dip in share prices (Bossman et al., 2020; Gbenga and Ayobami, 2022).

One theoretical framework that illuminates this negative relationship is the information signalling theory. According to this perspective, dividend policy serves as a signal to investors regarding a firm's financial health and prospects. Companies that allocate more funds toward dividends are often perceived as financially stable, but this can also

imply limited growth opportunities. As a result, investors might assign a lower valuation to these firms, thereby causing a decline in share prices. While the Modigliani-Miller theorem posits that dividend policy is irrelevant in a perfect capital market, real-world complexities and investor behaviour shape a different reality. Additionally, the agency cost theory offers insights into the negative link between Dividend Policy and Share Price. This theory posits that dividend payments can mitigate conflicts between shareholders and managers. Managers might prefer to retain earnings for their benefit rather than maximise shareholder value. By distributing dividends, companies diminish the funds available for managers' discretionary use, thereby reducing agency conflicts. However, this action can simultaneously signal to investors that the firm lacks lucrative investment prospects, leading to a decrease in share prices (Banerjee, 2018).

4.5.2 The determinant of share prices on firms listed on the Ghana Stock Exchange

Earnings (ER) exhibit a coefficient of positive significance, underscoring a substantial connection with Share Price. This coefficient implies that a marginal increment of one unit in earnings corresponds to an increase in Share Price. This alignment between earnings and Share Price resonates with the signalling theory, where firms with enhanced earnings are perceived as more financially robust and capable of delivering consistent returns to shareholders (Bossman et al., 2022). This aligns with the expectation that investors value companies with a favourable profit outlook, potentially resulting in an uplift in share prices. In contrast, Inflation (INF) demonstrates a significant negative coefficient concerning Share Price. These observed results align with the principles outlined by the Fisher Effect, a theory suggesting that inflation gradually diminishes the future purchasing power of cash flows. Consequently, investors tend to attribute a reduced value to the projected future cash flows of

enterprises that are affected by heightened levels of inflation. Consequently, this phenomenon contributes to a devaluation of share prices (Bossman et al., 2022). This discovery resonates with the broader economic perspective that highlights how inflation's presence imparts a dampening effect on the overall worth of assets.

Gross Domestic Product Growth (GDP) displays a positive coefficient, suggesting a compelling correspondence between Gross Domestic Product growth and Share Price. This linkage aligns with the notion of economic expansion and its influence on corporate performance. According to the Efficient Market model, investors promptly assimilate information about economic growth and adjust their expectations of corporate profitability, thereby reflecting in share prices (Twumasi, 2018). This connection underscores how economic vibrancy can translate into enhanced corporate performance and, consequently, heightened share prices. Interest Rate (INR) indicates a negative coefficient, signifying a discernible relationship between rising interest rates and declining Share Prices. This outcome aligns with the expectations of the Interest Rate Parity theory, where higher interest rates lead to an appreciating domestic currency. This appreciation can hinder export competitiveness and dampen future earnings for companies that rely on international markets, consequently leading to lower share prices (Twumasi, 2018). Additionally, higher interest rates tend to raise the cost of borrowing, impacting corporate profitability and share prices alike.

4.6 Theoretical Implications

The observed negative relationship between Dividend Policy and Share Price carries significant theoretical implications that contribute to our understanding of corporate finance dynamics. This inverse association challenges conventional assumptions and aligns with the premises of key financial theories. Notably, the findings resonate with the information signalling theory, elucidating how dividend policy serves as a

communication tool between firms and investors. Companies that opt for higher dividend payouts may inadvertently signal limited growth prospects, leading to decreased demand for their shares and subsequently lower share prices. This alignment with the information signalling theory emphasizes the relevance of considering the nuanced interplay between financial decisions, market perceptions, and shareholder reactions.

Moreover, the agency cost theory's implications become evident as higher dividend payments can potentially address agency conflicts between shareholders and managers. By reducing the funds available for managerial discretionary use, companies mitigate the agency problem. However, this action may also convey to investors that the firm lacks profitable investment opportunities, triggering a decrease in share prices. This dual impact highlights the multifaceted nature of dividend policy's influence on firm value and investor sentiment, contributing to the theoretical discourse on agency conflicts within corporate structures. The findings also provide empirical support for the existence of market imperfections that deviate from the assumptions of the Modigliani-Miller theorem. In a real-world context, factors such as investor behaviour, psychological biases, and informational asymmetry come into play, shaping the impact of dividend policy on share prices. This recognition underscores the importance of integrating market realities into theoretical frameworks, enriching the field's understanding of the intricate relationships between financial decisions and market outcomes.

4.7 Practical Contribution

The practical implications drawn from this study hold significance for both companies listed on the Ghana Stock Exchange and investors seeking to make informed decisions.

For companies, the observed negative relationship between Dividend Policy and Share Price underscores the need for a balanced approach to dividend decision-making. While dividend payments are essential for attracting income-oriented investors, firms should carefully evaluate the potential impact of higher dividend distributions on their share prices. Striking the right balance between dividends and reinvestment in growth opportunities is crucial to avoid sending signals of limited growth prospects that could lead to share price depreciation.

Additionally, the findings emphasize the importance of transparent communication with investors about the rationale behind dividend policy choices, providing a holistic view of the company's financial health and prospects. For investors, the study highlights the need to consider multiple factors beyond dividend payouts when evaluating investment opportunities. Understanding the nuanced relationship between dividend policy, market perceptions, and share prices can guide investors in making more informed decisions aligned with their investment objectives. Overall, the practical insights offered by this study enable companies to refine their dividend strategies and empower investors to navigate the complexities of the stock market with a more comprehensive perspective.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter serves as the concluding section of the thesis, including a concise review of the obtained findings, the derived conclusions, and recommendations for future research. The chapter also addresses the suggestions and limits of the study. The chapter has been partitioned into four distinct parts. The first part presents a comprehensive summary of the findings of the investigation. The provided text offers a concise overview of the research conducted. The second element of the conclusion encompasses the conclusions derived from the study's findings according to its stated purpose. The final section of the chapter is the recommendation, which provides pertinent ideas based on the study's primary results. The last part is captured as a suggestion for future research.

5.2 Summary of the Findings

The research objective is to analyse the impact of dividend policy on share prices within the Ghanaian market. This study used a quantitative research methodology, especially an explanatory research design, to investigate the impact of dividend policy on share prices. The use of secondary data sources, including the yearly financial reports of publicly traded companies and the Bank of Ghana database. A sample size comprising of 15 companies that were listed on the Ghana Stock Exchange over the period spanning from 2010 to 2021 was used. The data were analysed using fixed effect models, and robustness tests were conducted to address endogeneity, heteroscedasticity, and serial correlation issues.

This research aims to examine the correlation between dividend policy and share prices among companies that are listed on the Ghana Stock Exchange. The findings demonstrate a statistically significant inverse correlation between Dividend Policy and Share Price, suggesting that an increase in dividend pay-outs is linked to a decrease in share prices. Additionally, the study examines the various determinants of share prices. Earnings (ER) exhibit a positive coefficient, implying a positive relationship with Share Price. Inflation (INF) shows a negative coefficient, suggesting that higher inflation is linked to lower Share Prices. Gross Domestic Product Growth (GDP) displays a positive coefficient, indicating a positive relationship with Share Price. Interest Rate (INR) demonstrates a negative coefficient, implying that rising interest rates correspond to lower Share Prices. These findings contribute to a better understanding of how dividend policy and macroeconomic factors collectively influence share prices for firms on the Ghana Stock Exchange.

5.3 Conclusion

The study's goal is to examine the many elements that influence the volatility of Ghana Stock Exchange-traded stocks. The discovered inverse correlation between dividend policy and share prices highlights a noteworthy trend: an augmentation in dividend policy is associated with a reduction in share price. This finding underscores the intricate interplay of factors that shape market perceptions and share valuation. Higher dividend payments could potentially restrict funds available for reinvestment in future growth, leading to reduced demand for shares and a subsequent decline in share prices. The study sheds light on the impact of macroeconomic factors on share prices. Earnings demonstrate a substantial positive correlation with share prices, highlighting the market's recognition of financially strong firms. In contrast, inflation exhibits a noteworthy negative correlation, emphasizing how inflation's erosive effect on future

cash flows leads to lower valuations. Gross Domestic Product growth displays a positive correlation, underscoring the influence of economic expansion on corporate performance and share prices. Similarly, rising interest rates show a negative correlation, indicating how higher rates can impact domestic currency appreciation and international competitiveness.

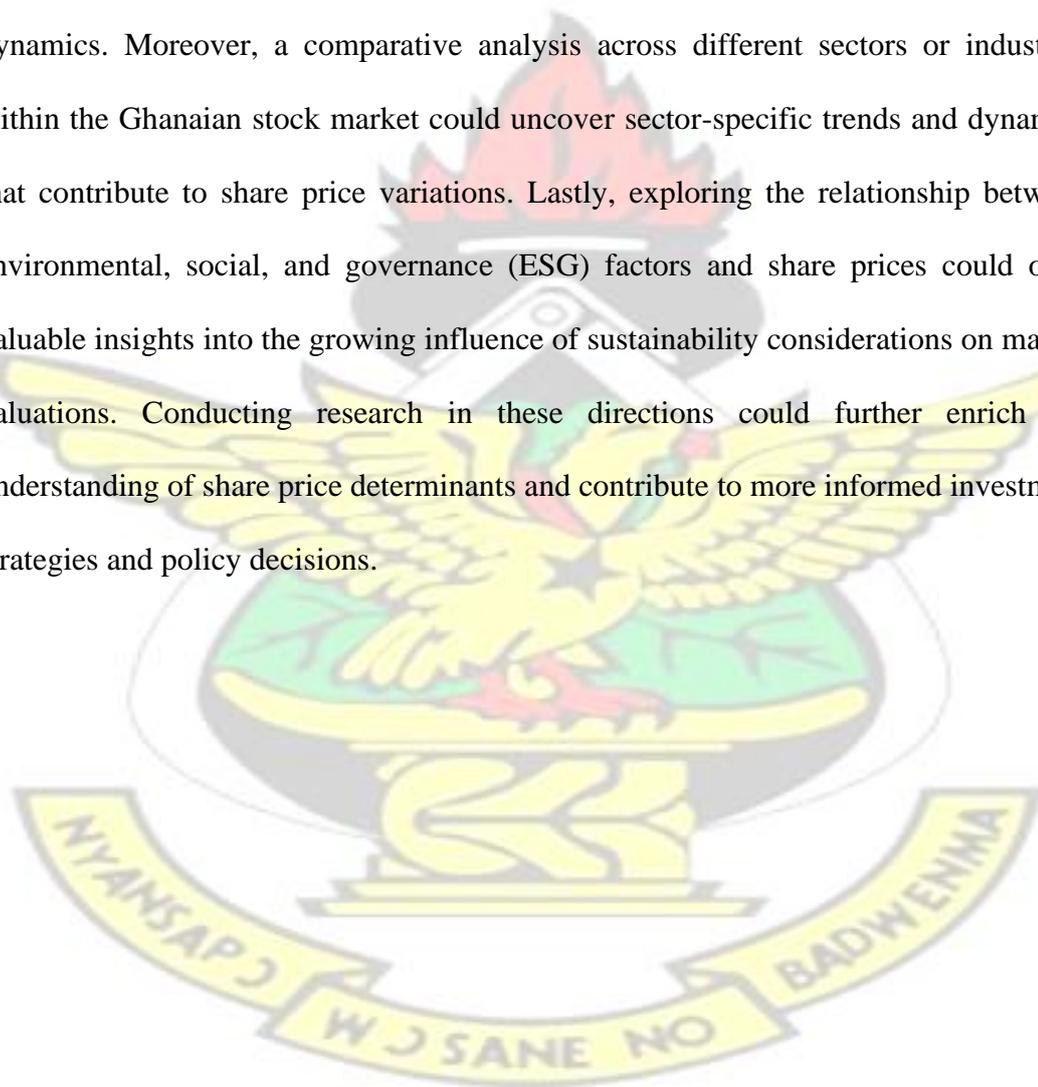
5.4 Recommendations

The study's results have led to the formulation of many suggestions that aim to provide guidance to stakeholders and market players in optimising their strategies and choices. Firstly, for firms listed on the Ghana Stock Exchange, it is advisable to carefully consider their dividend policy decisions. While dividends are important for attracting investors seeking consistent income, maintaining a balance between dividend payouts and retaining earnings for growth opportunities is crucial. Firms should assess their financial positions and growth prospects before committing to higher dividend payments, as these decisions can significantly impact market perceptions and share prices.

Secondly, investors and analysts should take into account the identified macroeconomic factors when evaluating and predicting share price movements. Understanding the positive correlation between earnings and share prices, the negative impact of inflation on valuations, and the influence of Gross Domestic Product growth and interest rates can enhance the accuracy of investment decisions. Furthermore, policymakers should recognise the interplay between macroeconomic variables and stock market dynamics. Efforts to manage inflation rates and interest rates can indirectly influence share prices. A stable and conducive macroeconomic environment can contribute to more predictable and favourable stock market conditions.

5.5 Suggestions for Future Research

Several avenues for future research could be pursued to expand the understanding of share price dynamics in the context of the Ghana Stock Exchange. Exploring the role of market sentiment and investor behaviour in shaping share prices could provide deeper insights into the psychological factors influencing stock market movements. Additionally, investigating the impact of regulatory changes and policy interventions on share prices could shed light on how external factors interact with internal company dynamics. Moreover, a comparative analysis across different sectors or industries within the Ghanaian stock market could uncover sector-specific trends and dynamics that contribute to share price variations. Lastly, exploring the relationship between environmental, social, and governance (ESG) factors and share prices could offer valuable insights into the growing influence of sustainability considerations on market valuations. Conducting research in these directions could further enrich the understanding of share price determinants and contribute to more informed investment strategies and policy decisions.



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