

Examining the Impact of Dividends on Share Prices: *Evidence from Microfinance Companies in Nepal*

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ABSTRACT

The objective of this empirical study is to investigate how dividends affect stock prices. The antecedent variables are the price-to-earnings ratio, dividend payout ratio, dividend per share, and earnings per share. The consequent variable is the share price of microfinance companies. Profitability (return on equity) acts as a mediator between the antecedent and consequent variables. Microfinance was chosen on the basis of its performance on the Nepal stock exchange, and information was gathered from companies listed in the NEPSE between 2018 and 2022. Purposive or judgmental sampling was utilized to identify the ten microfinance companies that served as study samples. The research employs descriptive statistics, correlation, and regression path analysis models to investigate the mediating role. The findings revealed that the direct and total effects of the dividend payout ratio and earnings per share have insignificant impacts on the share price. Furthermore, the indirect effect of antecedent variables has an insignificant impact on share price through return on equity. Additionally, this study advises investors to use the information not only as a way to profit but also as a tool for assessing companies from an investment standpoint. Moreover, management must determine the dividend payout ratio to enhance shareholder wealth.

Keywords: Dividend, profitability, share price, shareholder wealth

1. Background of the problem

A dividend is the sum of money given to shareholders by a company from its profits.

A corporation may distribute a portion of its profit or excess to its shareholders in the form of dividends. According to Baral and Pradhan (2018), there are two

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ways to distribute dividends: cash or stock dividends capitalized on profits. The dividend policy establishes how earnings are allocated between paying shareholders and reinvesting shareholders in the company (Sharif, 2015). Because investors believe that the risk of dividends is not as severe as the risk of capital increases, a high dividend payout ratio will optimize the value of the company (Monoarfa, 2018). Future business decisions for the company may be impacted by the dividend because a higher dividend distribution increases the likelihood that the business will draw in investors and see a rise in share price.

A small percentage of businesses in Nepal pay dividends, while others do not. Some companies have never given their shareholders a dividend (Baral & Pradhan, 2018). An essential metric for assessing the success of microfinance firms and drawing in investors is dividends per share. Before making an investment in the stock market, investors review the commercial bank's dividend policy. However, because the commercial bank of Nepal's dividend policy fluctuates, investors are unable to predict the future cash flow from cash dividends (Bhandari & Pokhrel, 2012). The vitality of the stock market is paramount, and investors and fund managers have long struggled to forecast stock prices with enough accuracy to yield respectable profits.

The business is entitled to tax any dividends that are paid out as earnings to owners or shareholders. Nonetheless, dividend policy covers a wider range of topics in modern corporate finance, including how businesses might increase their market value and other things (Singh & Tandon, 2019). It could come in the shape of

dividend payments to shareholders in cash or capital gains. Signalling theory states that high-performing companies usually have high stock prices. The profitability level of a company might serve as an indicator of its performance. In the near future, dividend distributions could reduce agency costs and increase profitability. Avdalović (2017) found that stock prices are significantly impacted by profitability. Additionally, research by Rafindadi (2019) demonstrated that a company's stock price might be impacted by its profitability level. However, studies by Puspitaningtyas (2017) and Abdullah (2018) revealed no connection between profitability and stock prices. Profitability can act as a mediator between dividend policy and stock prices if it continues to grow profitably in the future, which will consequently increase the price of its shares (Putra & Rasyid, 2020). If there is a research gap that yields divergent findings, more studies on the impact of profitability on stock prices must be conducted.

The NRB (2022) reduced the limit on issuing dividends by microfinance companies. By issuing unified directives on Monday, November 22, 2022, the central bank has arranged for microfinance companies to issue dividends of up to 30% of the paid-up capital. If the microfinance companies are to distribute dividends of more than 20 percent, the NRB has instructed those companies to maintain at least 50 percent of the dividend amount in their reserve funds. The dividend could be both cash and bonus shares.

One of the most persistent problems in contemporary corporate finance is corporate dividend policy. One of the most contentious topics in finance is dividend

policy (Baker & Powell, 1999). Instead of the period's strictly ad hoc basis, a dividend distribution versus retention choice was made. Because shareholders always want larger dividends, the question of what and how much dividends are desirable is contentious. However, the company makes sure to set aside funds for the purpose of maximizing shareholder wealth (Dickens, Casey, & Newman, 2002). Dividend policy is one of the key factors influencing the price of shares. Researchers, including Pradhan (2003), Bhandari and Pokhrel (2012), Baral and Pradhan (2018), and Joshi (2019), have conducted a limited number of studies in Nepal. However, there is still a lack of information in the financial literature about how profitability, specifically in Nepal's banking and nonbanking sectors, mediates the relationship between dividends and stock prices. The following questions are investigated in this study:

- Do dividends have an impact on share prices?
- Is there a relationship between dividend factors and share prices?
- What is the impact of dividends on profitability?
- How does profitability play a mediating role between dividend factors and share price?

2. Literature survey

Multiple theories explain dividend investment and other variables that affect the share price. Two potential theories were investigated in the study: the bird-in-hand theory and the signalling theory. This theory was proposed by Ross and Ezra

(1977). This reasoning's intuition is founded on knowledge gaps between outside investors and company management, since dividend payments could be a signal of possibilities down the road, according to signalling theory. Since managers have access to confidential information about the company's wealth that is not available to outsiders, they are considered to have an incentive to share information with the market. A review of the business's profitability and dividend payment shows that it is operating profitably and that the share price will probably rise. Significant increases or decreases in share prices are linked to unexpected dividend increases or cuts (Baker & Gary, 2012). According to Khanqah and Ebrati (2011), there is a negative correlation between share price and dividend policy, with larger dividends translating into lower share prices.

Gordon and Lintner (1964) created the theory of bird-in-hand. The bird-in-the-hand theory states that dividend policy drives up stock prices. This suggests that when a corporation increases the dividend it pays out, the market price of its shares will also increase. This is because dividend payments have the potential to reduce investor apprehension more than expected financial gains from an increase in share price. Since the dividend yield will be lower than the anticipated income increase, the company should use its rising earnings to fund investments. This explains why companies offering large payouts to investors will benefit greatly from a dividend policy, which in turn will drive up stock prices. The theory of the bird in the hand, according to Sudana (2018), asserts that dividend policy positively affects stock market prices. According to Diamond's (1967) assessment, there

is insufficient evidence to suggest that investors value dividends over potential capital gains.

Prior research has employed control factors and concentrated on the direct effect of dividends on stock prices. Few studies have been conducted in the context of Nepal; they include Joshi (2019), Baral and Pradhan (2018), Bhandari and Pokharel (2012), Pradhan (2003), and others that focused on commercial or A-class banks as a sample. In contrast, this study used a sample of microfinance or D-class companies. The analysis concludes that the profitability disparity can be explained by the impact of dividends on stock prices. A number of research studies have been carried out to examine the effect of dividends on share prices; however, only one study, by Putra and Rasyid (2020), disregarded profitability's mediating role.

Using profitability as a mediating variable in Indonesia, Putra and Rasyid (2020) aimed to examine the impact of dividend policy on stock prices for manufacturing companies listed on the Indonesia Stock Exchange. The study's conclusions showed that share price was positively and significantly impacted by DPS and profitability. In contrast to the conclusions of Almanaseer (2019) and Nazir, Nawaz, Waseem, and Farhan (2010), the analysis shows that DPR has a negative and significant impact on share price. Profitability is seen to have a mediating effect on share prices and dividends. Furthermore, DPR and DPS shared the same outcome as Adimasu (2019) and Ajanthan (2013) in terms of favourable and significant impacts on profitability. Therefore, the research hypotheses are as follows:

The dividend has a significant indirect effect on the share price through profitability.

Dividend and profitability are significantly correlated.

The dividend has a significant direct impact on the return on equity.

Malhotra and Tandon (2013) examined the factors that influence stock prices in the context of India's National Stock Exchange (NSE). According to the study's findings, higher book value, DPS, EPS, and P/E ratios all favourably impacted share price. In the UK, a study on the impact of dividend announcements on share prices during bull and bear market phases was conducted by Faloye and Oluwole (2014). According to the study, announcements of increased dividends positively affect share price growth, but announcements of reduced dividends have the opposite effect. Masum (2014) investigated the impact of dividend policy on the stock price of the Dhaka Stock Exchange in Bangladesh. Higher earnings per share return on equity and retention ratios have been shown to draw in investors and raise stock prices.

Ali, Jan, and Sharif (2015) investigated the effect of dividend policy on stock prices in Pakistan. According to the study, stock prices were substantially higher for DPR, EPS, and ROE. Reducing the DPS, RR, and PAT, however, has no effect on the share price. Baral and Pradhan (2018) intended to investigate how dividend policies affected the stock prices of Nepali commercial banks. The study indicated that EPS, the P/E ratio, and DPR had positive and significant relationships with MPS. Monoarfa (2018) aimed to examine how the size and dividend policy of consumer goods compa-

nies listed on the Indonesia Stock Exchange (IDX) affect their profitability and market value. The results of the study show that dividend policies negatively affect profitability. The company's value was positively impacted by its size. Joshi (2019) studied the impact of dividends on stock prices in the context of Nepal. According to this study, lower P/E ratios and DPS values are positively significant and lower MPS. Retained earnings, however, have no effect on share price. Based on these discussions, the following hypotheses were proposed:

The dividend has a significant direct influence on the share price.

The dividend has a significant total effect on the share price.

The dividend and share price have a significant relationship.

Singh and Tandon (2019) conducted a study on the impact of dividend policy on the market value of the shares of 50 National Stock Exchange (NSE)-listed firms between 2008 and 2017 in India. This study revealed favourable correlations between MPS and EPS, DPS, RR, ROE, and RR. However, there is an inverse relationship between DY and PAT and MPS, indicating that lower DY and PAT correspond to higher MPS. Usman, Lestari, and Sofyan (2020) investigated the effect of dividend policy on share price manufacturing companies in Indonesia. According to the study, the EPS has a positive impact on the share price, whereas the DPS has

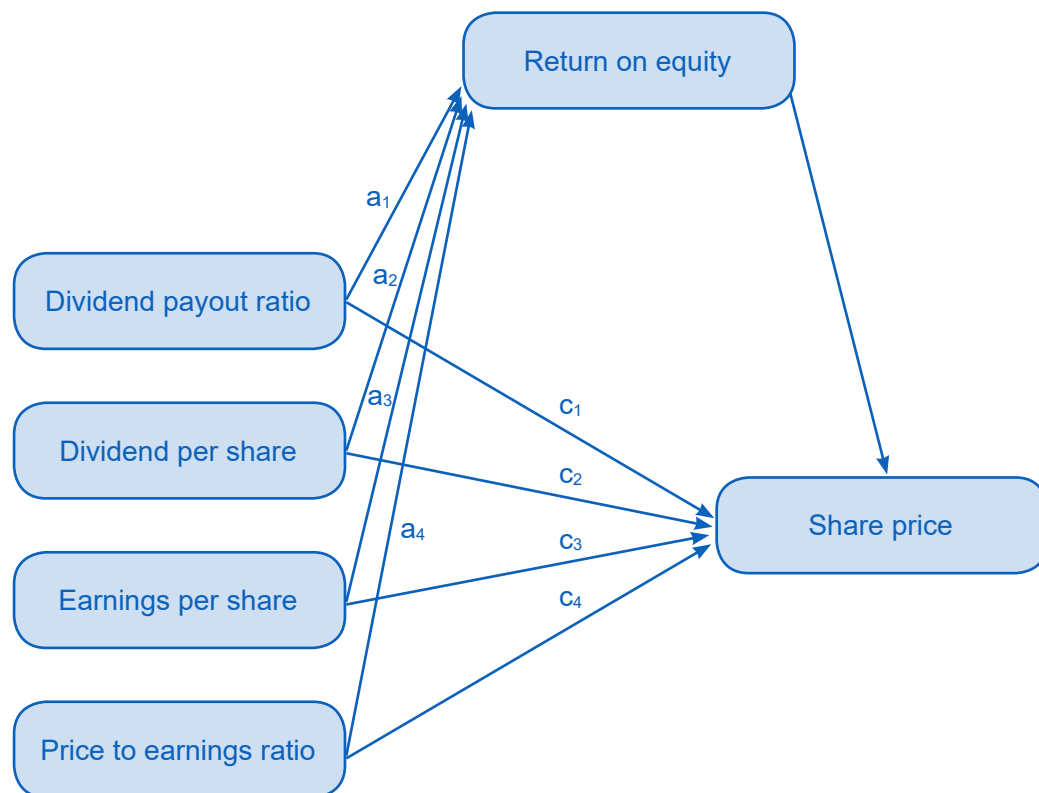


Figure 1. Research framework of the study

a negative impact. Kayode, Gbenga, and Ayobami (2022) analysed the link between share price changes and dividend policies, supported by data from companies registered on the Nigerian Stock Exchange in Nigeria. According to this study, a higher DPS negatively increases the share price. Similarly to Hussainey, Mgbame, and Chijoke-Mgbame (2011), Ajanthan (2013), Malhotra and Tandon (2013), and Abrar-ul-haq, Akram, and Ullah (2015), DRP has a positive effect on share price.

Figure 1 displays the study's research framework. The antecedent variables are the dividend payout ratio (DPR), dividend per share (DPS), earning per share (EPS), and price-to-earnings ratio (P/E). The consequent variable is the share price (SP). The mediating variable, profitability, is measured by return on equity (ROE), which shows the mediating effect between the antecedent and consequent variables.

The dividend payout ratio is the proportion of dividends that a company pays to investors based on its reported net income (Bloomenthal, 2022). It is an accounting measure that represents the managers' viewpoint, which is directly influenced by managerial decisions and is vulnerable to manipulation by management. Based on the journal published by Putra and Rasyid (2020), the formula used to measure DPR is as follows:

$$\text{Dividend payout ratio} = \frac{\text{Total dividend}}{\text{Net income}} \times 100\%$$

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. Companies will declare their plans to

pay dividends to current shareholders on a certain date, along with the expected dividend payment. It is anticipated that each individual unit of shares owned will receive a unit or rate of dividend in Naira (Nwaiwu & Ali, 2018). The dividend per share will remain unchanged from the time of the announcement to the subsequent payout period. Rather than being paid for a portion of the period under consideration, dividends are paid per period (Alajekwu & Ezeabasili, 2020). The formula used is:

$$\text{Dividend per share} = \frac{\text{Dividend amount paid}}{\text{Number of share outstanding}}$$

Earnings per share are profit per unit of common stock. Common shares outstanding are the quantity of common shares that investors have purchased (Jain & Bajaj, 2017). The potential for more profit sharing as a payout to investors and retained earnings to strengthen the firm grows with increasing earnings per share. An increase in EPS is a reflection of a bank's improving performance and greater standing in the stock market (Bhandari & Pokharel, 2012). The formula that is employed is as follows:

$$\text{Earnings per share} = \frac{\text{Net profit after tax}}{\text{Total number of shares outstanding}}$$

An investor may accurately determine how long it will take to recoup his investment in a company's shares by using the price-to-earnings ratio (Malhotra & Tandon, 2013). The P/E ratio expresses the relationship between a company's market price and profits per share. It displays the degree to which each share's price covers its earnings. When the EPS concentration increases in

tandem with the MPS or when the EPS concentration falls short of the MPS, this ratio increases (Bhandari & Pokharel, 2012). It is calculated as:

$$\text{P/E ratio} = \frac{\text{Share price}}{\text{Earning per share}}$$

The return on equity indicates how well a business manages the capital that investors have put in (Hunjra et al., 2014). Returned equity information is required to entice investors to put money into the business. Investors primarily aim to enhance their wealth through share returns (Al-Masum, 2014). The ROE is calculated as:

$$\text{Return on equity (ROE)} = \frac{\text{Net income}}{\text{Shareholder's equity}}$$

The term stock price refers to the current price that a share of stock is trading for on the market (Fahmi, 2023). A stock's price

indicates its current value to buyers and sellers (Pinsent, Silberstein, & Kvilhaug, 2021). The greatest price someone is willing to pay, or the lowest price at which it may be purchased, is the stock price. A stock's price will fluctuate in response to various circumstances, such as shifts in the overall economy, shifts in specific industries, conflict, political developments, and changes in the environment.

The study examined a number of journal publications from different scholars that offer researchers insights. The six variables and the sources from which they were derived are shown in *Table 1*. Antecedent variables, such as DPR, were selected from five publications; similarly, DPS and EPS were selected from four scholarly articles, but the P/E ratio was obtained from three articles. Profitability (ROE), the mediating variable, was extracted from an article by four researchers. Finally, the consequent variable share price is derived from the research of six experts. The variable sourced

Table 1
Sources of variables

Variables	Sources
Dividend payout ratio	Nazir , Nawaz, Waseem and Farhan (2010), Bhandari and Pokharel (2012), Ali, Jan and Sharif (2015), Baral and Bhandari (2018), and Putra and Rasyid (2020)
Dividend per share	Malhotra and Tandon (2013), Ali, Jan and Sharif (2015), Singh and Tandon (2019), and Putra and Rasyid (2020)
Earnings per share	Malhotra and Tandon (2013), Baral and Pradhan (2018), Singh and Tandon (2019), and Usman, Lestari and Sofyan (2020)
Price to earnings ratio	Bhandari and Pokharel (2012), Malhotra and Tandon (2013), and Baral and Pradhan (2018)
Profitability	Masum (2014), Ali, Jan, and Sharif (2015), Singh and Tandon (2019), and Putra and Rasyid (2020)
Share price	Pradhan (2003), Nazir, Nawaz, Waseem and Farhan (2010), Hussainey, Mgbame, and Chijoke-Mgbame (2011), Faloye and Oluwole (2014), Almanaseer (2019), and Kayode, Gbenga and Ayobami (2022)

is presented in *Table 1* based on the journals published by various researchers.

3. Research methodology

This study employs a quantitative research design. The main objective of this research study is to determine the effects of dividends on stock prices through a mediating variable, which is the return on equity of microfinance companies in Nepal. Signalling theory and bird-in-hand theories were employed in the study's deductive reasoning approach.

In addition, the study applied a descriptive research design. Descriptive research is developed with the aim of describing, explaining, and validating different findings. Similarly, the study employed a relational research design to examine the relationship between the antecedent and consequent variables. The purpose of this research is to determine the type and extent of the cause-and-effect relationships that exist between variables. Finally, the study used a casual research design. Casual studies focus on the analysis of a situation to explain the pattern of relationships between variables.

The study's foundation is the analysis of secondary data. The 61 microfinance companies listed in the NEPSE are regarded as the study population to accomplish the study's goal (NEPSE, 2023). Ten microfinance companies were selected as a sample for the study and are presented in Annex 1. Judgemental or purposive sampling techniques were used when five years of data were available from selected microfinance institutions, which have been providing continuous dividends for the last 5 years. Microfinance was chosen based on their share price, that is, high and low prices

on the Nepalese stock market. The study employed panel data that were gathered from the fiscal years of 2018 to 2022.

The study used secondary data from sample firms' published annual reports. According to the Security Exchange Act and security regulations in Nepal, all listed businesses must file their annual reports, which include audited financial statements such as income statements, balance sheets, and cash flows, within a certain amount of time. The necessary information was gathered from NEPSE statistics, Sharesansar, the official websites of the relevant microfinances, and yearly reports.

The data were initially entered into Microsoft Excel and then evaluated using several statistical techniques. SPSS software was used for coding, recording, and data processing. The SPSS software trial version 27 has been linked to Process Micro.org (Process v4.3 for SPSS), which observed variable OLS and the logistic regression path analysis modelling tool that was developed by Hayes (2022).

This study evaluated three multiple regression models to investigate the cause-and-effect relationships between the antecedent, mediating, and consequent variables.

$$\text{Model 1: ROE (M)} = i_M + a_1X_1 + a_2X_2 + a_3X_3 + a_4X_4 + e_M$$

$$\text{Model 2: Share price (Y)} = i_Y + c'_1X_1 + c'_2X_2 + c'_3X_3 + c'_4X_4 + b_1M + e_Y$$

$$\text{Model 3: Share price (Y)} = i_Y + (c'_1X_1 + a_1b_1) + (c'_2X_2 + a_2b_1) + (c'_3X_3 + a_3b_1) + (c'_4X_4 + a_4b_1) + e_Y$$

(where ROE = return on equity, X_1 = dividend payout ratio, X_2 = dividend per share, X_3 = earnings per share, X_4 = price-to-earnings ratio, e = error term)

This study quantified the direct, indirect, and overall impacts of antecedent variables on the consequent variable through the mediating variable. As stated by Hayes (2018) and Budhathoki and Rai (2020), the regression coefficients a_j represent the products of a_1b_1 , a_2b_1 , a_3b_1 , and a_4b_1 , which measure the indirect influence of antecedent factors on the consequent variable (i.e., $X \rightarrow M \rightarrow Y$). Similarly, the direct effects of antecedent variables on the consequent variable were measured by the regression coefficients of $c'1$, $c'2$, $c'3$ and $c'4$ (i.e., $X \rightarrow Y$). The total effect was quantified as the aggregate of ajb_1 and $c'j$ (i.e., total effect = $(ajb_1 + c'j)$).

4. Presentation and analysis of the data

Table 2 provides a summary of the findings from the descriptive statistics for the variables being studied. The variables under analysis, along with their descriptive statistics (minimum, maximum, mean, median, standard deviation, and variance), are displayed in the table for 10 microfinance organizations with 5 years of data and 50

observations. According to the descriptive data, the range of the mean dividend per share is 9.57 to 44.34, and it has a standard deviation of 8.68, a variance of 75.41, and a mean of 20.85. This suggests that there may be an 8.68 percent difference in the dividend value per share on either side. The dividend payout ratio has a mean of 72.94, a standard deviation of 36.45, a variance of 1328.70, and a range of 29.09 to 259.97. This indicates a 36.45 deviation of the dividend payout ratio's value from both sides. Similarly, the range of earnings per share is 6.02 to 71.90, with a mean value of 34.43. Similarly, the price-to-earnings ratio might vary by 27.56, with a mean of 45.78, a standard deviation of 27.56, and a range of 13.23 to 138.75. Moreover, the return on equity has a variation of 51.33, a range of 4.47 to 35.11, a standard deviation of 7.16, a mean value of 18.26, and a variance of 51.33, suggesting that the value can vary by 51.33. Finally, the share price mean, standard deviation variance, and minimum and maximum ranges of 1218.24, 652.03, 425138.26, 325.17, and 3247.17, respectively, demonstrate the possibility of a 652.03 divergence between the lowest and largest values.

Table 3 illustrates the correlation coefficients for the mediating, consequent, and antecedent variables.

Table 2
Descriptive statistics

Variables/Statistics	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Dividend payout ratio	50	29.09	259.97	72.94	36.45	1328.70
Dividend per share	50	9.57	44.34	20.85	8.68	75.41
Earnings per share	50	6.02	71.90	34.34	19.55	382.15
Price to earnings ratio	50	13.23	138.75	45.78	27.56	759.58
Return on equity	50	4.47	35.11	18.26	7.16	51.33
Share price	50	325.17	3247.17	1218.25	652.03	425138.26

Table 3
Correlation analysis

Variables		DPR	DPS	EPS	P/E ratio	ROE	SP
DPR	Pearson	1					
	Correlation Sig. (2-tailed)						
DPS	Pearson	-0.136	1				
	Correlation Sig. (2-tailed)	(0.347)					
EPS	Pearson	-.601**	.721**	1			
	Correlation Sig. (2-tailed)	(<.001)	(<.001)				
P/E ratio	Pearson	.349*	-.478**	-.439**	1		
	Correlation Sig. (2-tailed)	(0.013)	(<.001)	(0.001)			
ROE	Pearson	-.594**	.645**	.831**	-.467**	1	
	Correlation Sig. (2-tailed)	(<.001)	(<.001)	(<.001)	(<.001)		
SP	Pearson	-.290*	.392**	.488**	0.118	.373**	1
	Correlation Sig. (2-tailed)	(0.041)	(0.005)	(<.001)	(0.413)	(0.008)	

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

* Correlation is significant at the 0.05 level (2-tailed).

A Spearman correlation analysis of the variables was performed on the whole sample shown in *Table 3*. With correlation values of 0.645 and 0.831, respectively, at the 99 percent confidence level, there is a positive and significant association between dividends per share, earnings per share, and return on equity. Similarly, a p value of 0.001 is less than 0.01 with a 99 percent confidence interval, and the correlation coefficients between the dividend payout ratio, price-to-earnings ratio, and return on equity are found to be negative and significant at -0.594 and -0.467, respectively. As a result, the study agrees with the alternative hypothesis (H2).

Similarly, given that the p value is less than 0.01 at the 99 percent confidence level, there is a positive and significant correlation between dividends per share, earnings per share, return on equity, and share price. Additionally, with a correlation coefficient of -0.290, the dividend payout ratio and share price are negative and significant at the 95% confidence level. Consequently, the alternative hypothesis (H6) is accepted by the study. However, the alternative hypothesis is disproved because there is a positive and insignificant association between the price-to-earnings ratio and the share price. As a result, the share price is significantly impacted by DPR, DPS, EPS, and ROE but not significantly by the P/E

Table 4
Direct effect of the antecedent variables on ROE

Variables	Coefficient	Se	t	P	LLCI	ULCI
Constant	12.322	2.722	4.526	0.000	6.839	17.804
DPR	-0.048	0.023	-2.047	0.046	-0.096	-0.000
DPS	0.190	0.118	1.606	0.115	-0.048	0.429
EPS	0.179	0.060	2.956	0.004	0.057	0.302
P/E ratio	-0.014	0.024	-0.579	0.564	-0.063	0.031
F-statistics	30.339	R = .854	R ² = .729	df ₁ = 4	df ₂ = 45	
P value	0.000	MSE = 15.1199				

Table 5
Direct effect of the antecedent and mediating variables on the share price

Variables	Coefficient	Se	t	P	LLCI	ULCI
Constant	129.717	438.659	0.295	0.768	-754.351	1013.786
DPR	-5.020	3.330	-1.507	0.138	-11.731	1.691
DPS	33.015	16.301	2.025	0.048	0.162	65.868
EPS	9.972	8.879	1.123	0.267	-7.924	27.869
P/E ratio	12.270	3.282	3.737	0.000	5.654	18.886
ROE	-7.553	19.913	-0.379	0.706	-47.686	32.578
		R = .655				
F-statistics	6.6426	R ² = .430		df ₁ = 5	df ₂ = 44	
P value	0.0001	MSE = 269796.319				

ratio. At the 99 percent confidence interval, there is a significant association between all antecedent variables and profitability. Thus, there is a significant correlation between dividends and share prices.

Regression Model 1 adopts the direct influence of antecedent variables on mediating variables, as shown in *Table 4*. The four antecedent variables account for 72.95% of the variation in the mediating variable return on equity among the ten microfinance enterprises, as indicated by the adjusted R² value of 0.7295. The study's model appears to be fit because the model summary shows a p value of less than

0.01. The return on equity is negatively and significantly impacted by the DPR ($a_1 = -0.0488$, $p < 0.05$). However, EPS had a positive and significant effect on ROE ($a_3 = 0.1798$, $p < 0.01$). Consequently, ROE is significantly impacted by DPR and EPS. Similarly, the ROE is not significantly impacted by the DPS or P/E ratio ($a_2 = 0.1906$, $a_4 = -0.0142$, and $p > 0.01$). Therefore, there is an insignificant relationship between the P/E ratio, DPS, and ROE.

Regression Model 2 illustrates the direct effects of mediating and antecedent variables on subsequent variables, as

indicated in *Table 5*. Four antecedent variables explain 43.01% of the variation in the consequent variable share price among the ten microfinance enterprises, as indicated by the R² value of 0.4301. The share price is barely impacted by the DPR, EPS, or ROE (c'1 = -5.0202, c'3 = 9.9724, b1 = -7.5537, p > 0.01). It concludes that there is an insignificant relationship between DPR, EPS, ROE, and share price. Additionally, the P/E ratio (c'4 = 12.2703) and DPS (c'2 = 33.0154) have favourable and considerable impacts on the share price. Therefore, the DPS and P/E ratios have a positive impact on the share price.

The regression analysis model 3's total effect model summary is shown in *Table 6*. Four antecedent factors account for 42.83% of the variability in share price, as indicated by the adjusted R² value of 0.4283. The share price is insignificantly impacted

by the DPR and EPS. As a result, the relationship between dividends (DPR and EPS) and share price is non significantly mediated. At the 95% confidence interval, the DPS has a significant and positive effect on the share price, with a p value less than 0.05. Furthermore, at the 99 percent confidence level, the P/E ratio significantly and favourably affects the share price when the p value is less than 0.01. Thus, profitability plays a significant role in the relationships among DPS, the P/E ratio, and the share price.

Table 7 assesses the indirect effect of antecedent variables on consequent variables through mediating variables. When the t-statistic is greater than 1.96, the indirect effect is significant, whereas when the t-statistic is less than 1.96, the indirect effect is not significant. Therefore, four antecedent variables have nonsignificant

Table 6
Total effect model

Variables	Coefficient	Se	t	P	LLCI	ULCI
Constant	36.639	360.138	0.101	0.919	-688.724	762.002
DPR	-4.651	3.154	-1.474	0.147	-11.005	1.702
DPS	31.575	15.701	2.011	0.050	-0.049	63.200
EPS	8.614	8.048	1.070	0.290	-7.596	24.823
P/E ratio	12.377	3.239	3.821	0.000	5.853	18.901
F-statistics	8.427	R = .654	R ² = .428	df ₁ = 4	df ₂ = 45	
P value	0.000	MSE = 264663.571				

Table 7
Indirect effect model

Antecedent variables	Profitability	Effect	BootSE	BootLLCI	BootULCI	t-statistics
DPR	ROE	0.368	2.122	-2.952	5.835	0.173
DPS	ROE	-1.440	7.720	-23.414	8.574	-0.186
EPS	ROE	-1.358	4.502	-11.161	8.333	-0.301
P/E ratio	ROE	0.107	0.729	-1.083	1.949	0.147

Table 8
Mediation analysis summary

Variables effect	Direct effect	Total effect	Indirect effect	Relationship	Confidence interval		t-statistics	Conclusion
					Lower bound	Upper Bound		
DPR→ SP	-5.020 (0.138)	-4.651 (0.147)	0.368	DPR→ROE→SP	-2.952	5.835	0.173	Full mediation
DPS→ SP	33.015 (0.048)	31.575 (0.050)	-1.440	DPS→ROE→SP	-23.414	8.574	-0.186	Full mediation
EPS→ SP	9.9724 (0.267)	8.614 (0.290)	-1.358	EPS→ROE→SP	-11.161	8.333	0.301	Full mediation
P/E→ SP	12.270 (0.000)	12.377 (0.000)	0.107	P/E→ROE→SP	-1.0835	1.949	0.147	Full mediation

effects on share price through return on equity. This means that there is an insignificant mediating role between dividends and share prices.

Table 8 summarizes the results of the mediation analysis. The direct effect and total effect of DPR on SP were found to be negative and insignificant, but the indirect effect of DPR on SP was found to be positive and insignificant through ROE. The model fully mediated the relationship between DPR and SP. The model rejects alternative hypotheses H3, H5, and H1. Similarly, the direct and total effect models of DPS on SP show a positive and significant effect that supports H3 and H5. However, the indirect model revealed a negative and insignificant impact of DPS on SP through ROE; the model fully mediated the relationship between DPS and SP. Likewise, the direct and total effects of EPS on the SP model were positive and insignificant, rejecting hypotheses H3 and H5. Additionally, the direct and total effects of the P/E ratio on SP revealed positive and significant results

that supported H3 and H5. However, the indirect model shows a positive and significant influence of the P/E ratio on SP through ROE, which rejects H1. The model fully mediated the relationship between the P/E ratio and the SP.

5. Findings and discussion

This study determined how dividends affect the stock prices of Nepalese microfinance companies. Return on equity and share price have a negative and significant association, according to the dividend payout ratio data study results. This outcome supported the notion that DPR and share price have a negative correlation, a claim made by Nazir, Nawaz, Waseem, and Farhan (2010), Hussainey, Mgbame, and Chijoke-Mgbame (2011), and Allen and Rachim (2014). The results run counter to Putra and Rasyid's (2020) conclusion that there is a positive correlation between share price and DPR. Similarly, there is a positive and significant correlation between share price and profitability and between

earnings per share and dividends per share. This study supported the findings of several earlier studies by Baral and Pradhan (2018) and Malhotra and Tandon (2013), who asserted that there is a positive association between profitability, EPS, DPS, and share price. This result contradicts the conclusions of other studies suggesting that DPSs and EPSs have a negative impact on share price and profitability. These studies included Usman, Lestari, and Sofyan (2020) and Kayode, Gbenga, and Ayobami (2022). Similarly, there is a positive but insignificant correlation between the price-to-earnings ratio and the share price. These results differ from those of earlier studies by Baral and Pradhan (2018) and Malhotra and Tandon (2013), who found a positive correlation between the P/E ratio and share price.

The share price is negatively and insignificantly impacted by the dividend payout ratio. This conclusion conflicts with the findings of studies by Ajanthan (2013), Allen and Tandon (2013), and Abrar-ul-haq, Akram, and Ullah (2015), who demonstrated the significance of DPRs in influencing share prices. However, the price-to-earnings ratio and dividends per share have a positive and significant impact on the share price. These results confirm what Malhotra and Tandon (2013) and Monoarfa (2018) showed, which is that the P/E ratio and DPS have a positive impact on the share price. These results contrast with those of Ali, Jan, and Sharif (2015), who concluded that the P/E ratio and DPS had nonsignificant effects on the share price. Similarly, the share price is positively and significantly impacted by earnings per share. Research by Bhandari and Pokharel (2012), Masum (2014), Singh and Tandon (2019), and others has shown that EPS have a positive impact on share price.

6. Conclusion

In this study, the relationship between the antecedent variables (dividend payout ratio, dividend per share, earnings per share, and price-to-earnings ratio) and the consequent variable (share price) is mediated by profitability. By utilizing profitability as a mediating factor, the primary goal of this study is to ascertain how the antecedent elements that were previously discussed affect the consequent variable. This study used path analysis to determine the total, direct, and indirect causal relationships between the antecedent and consequent variables using four ordinary least squares regression models. The findings of the regression and correlation analyses lend credence to the signalling and birds-in-hand theories. In the first regression equation model, ROE is a statistically significant mediating variable. This suggests that the regression model best fits the data. This regression model shows that microfinance institutions' ROE is negatively impacted by a higher dividend payout ratio; the relationship is statistically significant. However, higher ROE is positively and considerably impacted by higher earnings per share (EPS); hence, higher EPS leads to greater ROE. Nevertheless, for the dividend per share and price-to-earnings ratio, a higher or lower amount does not affect the profitability of microfinance institutions.

The second equation best fit the data, as shown by its statistical significance. This regression equation indicates that the coefficients and the direct effects of the antecedent variables, dividend payout ratio, earnings per share, and return on equity, are statistically insignificant. This suggests that DPR, EPS, and ROE, regardless of their

level, have no effect on SP. On the other hand, the price-to-earnings ratio and dividend per share are statistically significant antecedent variables that positively affect the share price of the business. Higher DPS and P/E ratios produce favourable outcomes that increase the SP. The total effect is shown in the third equation model. The outcome demonstrates that while earnings per share and the dividend payout ratio have a statistically insignificant effect on share price, a greater or lower DPR and DPS have no effect on SP. Higher price-to-earnings ratios and dividends per share are advantageous to Nepalese microfinance and have a beneficial impact on share prices.

7. Implications of the study

The findings of the study are important and beneficial to investors, managers, lenders, and other stakeholders. It matters to investors because they perceive dividends as more than just a source of income; they

are a tool for evaluating companies from an investing perspective. To optimize shareholder value, management must incorporate the findings into the design of the dividend policy. Subsequent studies could focus on a wider variety of businesses or be industry specific. A company should focus on both share price and dividend policy since they have a large impact on stock price fluctuations. Since paying dividends correctly will affect changes in stock prices and profitability, the company should do so regularly. Since dividend policies can impact company prices, investors should carefully review each one. Variations in stock price will have a greater effect if changes in profitability are taken into account. This research provides deeper insights to be used in future studies and to include more components that make the research more interesting. The framework for further dividend policy research encompassing additional areas is provided by this work.

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Appendices

Appendix 1

Study sample

S.N.	Symbol	High price share	Symbol	Low price share
1	FOWAD	Forward microfinance Laghubitta Bittiya Sastha Ltd.	MERO	Mero Microfinance Laghubitta Bittiya Sastha Ltd.
2	CBBL	Chhimek Laghubitta Bittiya Sastha Ltd	SMATA	Samata Gharelu Laghubitta Bittiya Sastha Ltd
3	MLBBL	Mithila Laghubitta Bittiya Sanstha Limited	FMDBL	First Microfinance Laghubitta Bittiya Sanstha Limited
4	GILB	Global IME Laghubitta Bittiya Sanstha Limited	RSDC	RSDC Laghubitta Bittiya Sanstha Limited
5	JSLBB	Janautthan Samudayic Laghubitta Bittiya Sanstha Limited	NUBL	Nirdhan Utthan Laghubitta Bittiya Sanstha Limited