

## **EFFECT OF DIVIDEND PAY-OUT DETERMINANTS ON SHARE PRICE OF LISTED COMMERCIAL BANKS IN KENYA**

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**Abstract:** *Companies that are well-established and generate consistent profits often choose to pay dividends as a way to attract and retain investors. It is expected that dividend payments should provide a steady income stream for investors and especially to individuals seeking regular returns on their investments. It is against this background that this study sought to determine the effect of dividend payout determinants on share price of commercial banks listed at the Nairobi Security Exchange in Kenya. The following specific objectives guided the study: to examine the profitability effect on market share price, to analyze the leverage effect on market share price, and to determine the liquidity effect on market share price. The descriptive research design was the preferred method to undertake research. The target population of the study consisted of twelve commercial banks listed at the NSE in Kenya. The study used secondary source of data that included audited financial statements and reports of twelve listed commercial banks in Kenya for a period of ten years from 2010-2019. The study adopted a Random Effects regression model to test association of the study variables. The findings of the study suggest that profitability and liquidity significantly and positively affect stock prices, while leverage displayed a negative and significant correlation with share price. The study recommends that policymakers in the financial sector integrate indicators like profitability, liquidity, and leverage into their strategic decision-making processes. Incorporating these indicators can enhance the comprehension of financial dynamics within NSE-listed firms and similar entities.*

**Keywords:** *Dividend payout, share price, determinants of dividend payout, listed commercial banks, Kenyan banking sector, stock market performance, corporate finance, dividend policy, earnings per share, return on equity, market valuation, capital structure, profitability and share price, banking sector investment, financial performance.*

## INTRODUCTION

Companies that are well-established and generate consistent profits often choose to pay dividends as a way to attract and retain investors. Dividend payments can provide a steady income stream for investors and are especially appealing to individuals seeking regular returns on their investments. One of the primary objectives of shareholders is to maximize their wealth, and the effect of dividend pay-out determinants on share prices is a crucial aspect in this regard. The term 'dividend policy' refers to the decision that a company makes to structure and distribute its dividend payout to reinvest in the company or pay to shareholders in form of dividends (Surwanti et al., 2021). The dividend payout affects the firm's value. Hence, all corporate stakeholders are interested in the share prices of listed companies. Dividend do not just imply a form of handling out net profit because any difference in dividend payout ratio may likely have a major impact on market share prices; it is therefore important for a company to steer up extraordinary efforts in establishing an optimal policy that is capable of maximizing the wealth of shareholders (Jitmaneroj, 2017).

According to Panday (2010), dividend policy for firms has two proxies: dividend payout and dividend yield. The variations of the two proxies provide information signals pertaining to risks that might be experienced by the firms together with their future growth earnings. Dividend payout is vital to the stock market since an increase in dividend payment is always a positive sign regarding the future earnings prospects of the company, resulting to an increase of market shares prices of the company (Sattar et al., 2017; Singh & Tandon, 2019).

The dividend payout refers to the percentage of net income that is distributed to shareholders as dividends by business entities (Sattar et al., 2017). It is calculated by dividing the entire dividend paid out over the time period by the net revenue made available to common stakeholders. Typically, a portion of net income that is not distributed to shareholders is reinvested to assure future earnings growth. There has been extensive research on the impact of dividend payout ratio on share prices, with varying conclusions. While some theorists firmly think that higher dividend payout has no discernible impact on the value of shares of the business entities (Almanaseer, 2019), others disagree and contend that increased dividend payout raises the values of the enterprises involved (Singh & Tandon, 2019).

Commercial banks that are more profitable are often able to distribute higher dividends. Higher profits signal the bank's financial health and ability to generate cash flow, which can attract investors seeking dividend income (Jitmaneroj, 2017; Singh & Tandon, 2019). As a result, higher profitability can lead to increased demand for the bank's shares, potentially driving up the share price (Mwenda & Otuya, 2020). As noted by Kipruto et al. (2018), banks with stable and predictable earnings are more likely to maintain consistent dividend payouts. This stability can instill confidence in investors, leading to sustained interest in the bank's shares and potentially supporting share price stability.

The decisions of investors in regards to the financial matters associated with dividend payout is influenced by factors such as financial leverage, liquidity, earnings per share, profitability, retained

earnings, firm size, book value, government regulations, macro factors such as inflation, interests among others (Singh & Tandon, 2019). As shown above, there are many determinants of dividend payout, but this study considered only three of them, namely; financial leverage, liquidity, and firm profitability. By analyzing these determinants, the study aims to shed light on the relationships between profitability, leverage and liquidity for commercial banks operating in the Kenyan context.

Profitability, as defined by Budiharjo (2020), represents the capability of any business activity within an enterprise, company, or organization to generate profits. The primary objective of businesses is to achieve profitability over a specific period, ensuring their sustainability and expansion. Profit generation serves as a tangible measure of the effectiveness of leadership and management within an enterprise, utilizing available resources efficiently. Additionally, profitability can be viewed as the ability to obtain returns from investments made, as articulated by Kang et al. (2010). It is crucial to note that while profitability is an indicator of efficiency, it is not synonymous with efficiency itself. Rather, profitability serves as an index of efficiency, allowing for the assessment of investment effectiveness.

From a perspective of financial structure, leverage shows the extent to which a company uses debt or fixed-income securities, such as debt or preferred equity, to finance its operations or investments (Titman, Keown & Martin, 2011). Leverage ratios are intended to support and supplement risk-based capital needs. It should reduce the impact of risk weight compression during booms to counteract the accumulation of systemic risk (Vallascas & Hagendorff, 2013). Therefore, if all other factors are equal, a higher leverage ratio may lead to a lower stock price (Zhang, 2020).

Liquidity is associated with company's capability to fulfill its immediate financial obligations and is closely linked to its overall performance (Akram, 2014). It can be measured as a percentage by comparing current assets to current liabilities, which helps assess a business's ability to meet payment commitments by considering available cash and other easily convertible assets (Geczy et al., 2006). Research has indicated that when liquidity increases, there is often a corresponding growth in demand for assets traded on a specific exchange (Akram, 2014; Pražák & Stavárek, 2017). This increased demand can potentially influence stock prices.

Share prices are the quintessential indicators of a company's financial health, market performance, and investor sentiment. These prices are central to the functioning of financial markets, shaping investment strategies, and influencing economic stability (Smith, 2020). Share price, in the context of the stock market, represents the cost at which a share of a company's stock can be acquired (Johnson, 2018). It essentially reflects the price of one or more tradable stocks issued by a company. Share price serves as a gauge of the inherent value present in the anticipated future cash flows (Smith, 2020). Financial theory has posited that share prices signify the current valuation of the company's forthcoming cash flows (Jones, 2017). Additionally, share price can be described as the specific price at which a single share of a company's tradable stock is available for purchase. At any given moment, the share price embodies the actual equilibrium between those who wish to sell and those who wish to buy (Brown & Lee, 2019; Smith, 2020). Essentially, it's the price tag associated with acquiring securities on a stock exchange.

Commercial banks usually declare dividends in every financial year which is good signal of improved financial performance. Initially, in Kenya the banks have been consistently declaring high dividends in the past until the year 2019. Dividend from listed banks in NSE like, NCBA Bank, Standard Chartered Bank and Equity Holdings were forced to withdraw dividends for 2019 due to uncertainties increase. In 2019 financial year, low dividends were reported to have been declared by Kenyan commercial banks at a combined average of 2.5 dividend payout per share (CBK, 2021). Secondly, there has been several changes on tax rate in Kenya. Tax cuts may encourage investments but the government has been increasing the taxes in order to lower budget deficit (Oduor et al., 2021). From a perspective of capital structure decision, Kenyans firm tend to be more reliant on short-term debt than long-term debt (Kerosi, 2018).

The market share price of commercial banks trading in security exchange is of significant interest to various stakeholders, including bank managers, investors, employees, suppliers, and customers. When a market share price of a firm drops, it can lead to a decrease in the perceived value of the firm, and this can potentially result in a decrease in demand for its equity in the market (Paulo & Pedro, 2015). This prompts additional drop down in share price. In case it happens, a range of negative consequences that can affect the overall health and stability of the firm, as well as the perception of its management by various stakeholders such as dissatisfaction of investors, higher cost of raising capital, impact to suppliers and customers as well as create huge barrier to potential mergers or acquisitions (Momanyi, 2018; Kimani & Olweny, 2021).

There have been several empirical findings among researchers in regards to the effect dividend policy to shares price volatility of company and there is no consensus among the researchers on the effect of dividend payout determinants on share price. For instance, Hussainey et al. (2010) established a negative relationship involving dividend yield and size on stock price, the association between dividend payout, debt and growth on stock price was found to be positive and significant in the UK stock market. Almanaseer (2019) showed that share price volatility to be significantly and negatively affected by payout ratio and dividend yield in Jordan. Islam et al. (2014) established that share price fails to move as fast as the EPS move in Dhaka stock exchange, and this movement is largely driven by both micro and macro-economic factors. From Kenyan context, Kimani and Olweny (2021) established that Dividend payout ratio negatively affected stock price volatility among listed commercial banks in NSE. Similarly, Luvembe et al. (2014) established that market value and dividend payout of listed banks in Kenya were positively and significantly correlated in most of the years.

The use of panel data methodology is more common in studies related to examining the impact of dividend payout on firm performance or other related outcome, even though it appears that researchers in the Kenyan context have traditionally used event study methodology less frequently compared to panel data methodology in their studies. Miller and Rock's Dividend Signaling Theory and Bird-in-the-Hand Theory are two prominent theories that explain the relationship between dividend policy and firm value, but there are ongoing debates and dilemmas among investors and managers about which theory is applicable and relevant in practice. Despite being a widely researched topic, the relationship between dividend payout determinants and share price remains

complex and subject to ongoing debates and conceptual gaps. Some of the conceptual gaps in the literature on how dividend determinants affect share price include: causality vs. correlation, heterogeneity of firms and dynamic nature of dividend payout. There are those who argue that share price should be determined by capital structure, corporate earnings, capital market and market value (Luvembe et al., 2015; Sattar et al., 2017). Others suggest that the basic earning power and business risk of a firm are important factors that can also influence the share price of the firm (Ndungu, 2016; Yensu and Adusei, 2016). As such, there is need to examine effect of profitability, leverage and liquidity on share price, it is against this background that this study was conducted to examine the effect of dividend payout determinants on share price of commercial banks listed in NSE Kenya over the period 2010-2019.

## **METHODOLOGY**

In this study, the descriptive research design was the preferred method to undertake research. A descriptive research design was appropriate as it facilitated an in-depth analysis of the relationship between the independent variables (profitability, leverage, and liquidity) and the dependent variable (share price) over a specified period.

The target population for the study were the commercial banks trading in the NSE in Kenya. There are twelve commercial banks listed at the NSE. These include; National Commercial Bank of Africa, Standard Chartered Bank, Equity Holdings, National Bank of Kenya, Absa Bank of Kenya, BK Group, Co-operative Bank of Kenya, Diamond Trust Bank Kenya, I&M Holdings Ltd, Stanbic Holdings, HF Group Ltd and BK Group. The inclusion criteria required that banks be consistently listed on the NSE throughout the study period and have complete financial records, including key financial indicators such as profitability, leverage, liquidity, and share prices. Banks that were delisted, merged, or acquired during this period, as well as those with missing or incomplete financial statements, were excluded to maintain data accuracy and reliability.

For this study, since the sample size was small, the researcher targeted all commercial banks segment by employing census technique to sample all the twelve commercial banks listed at the NSE as at December 2019.

In order to achieve the study objectives, secondary data was used. The secondary sources of data included audited financial statements and reports of the listed banks which was obtained from the Central Bank of Kenya (CBK) website and the Nairobi Securities Exchange (NSE) for a period of ten years from 2010-2019. The chosen period was found to be appropriate because reliable data available, which replicated the association between the study variables being examined.

Ethical considerations were carefully observed to ensure research integrity and credibility. The study strictly relied on publicly available, audited financial reports to uphold data authenticity and avoid the use of confidential or proprietary information. To predict the effect that the independent variables had on dependent variable, a Random Effects Model regression analysis was employed with the aid of STATA for the listed commercial banks in NSE at significance level of 5%.



The selection of the Random Effects Model was based on the Hausman test, which compared fixed and random effects models to determine the best fit. The share price of the commercial banks was regressed against the Dividend determinants (profitability, leverage and liquidity) at 5% level of significance. The regression undertaken by this model was as follows:

$$y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + e_{it}$$

Where  $y_{it}$  denotes the share price for commercial bank  $i$  at time  $t$ ,  $\beta_0$  is the intercept term,  $X_{it}$  represents the dividend determinants (profitability, leverage, and liquidity) for commercial bank  $i$  at time  $t$ , and  $e_{it}$  is an error term for bank  $i$  at time  $t$ .

The study considered, random-effects or fixed-effects model, Heteroscedasticity, serial correlation and Unit Root Tests to test post estimation.

## RESULTS

### Descriptive Findings

#### Effect of Dividend Pay-Out Determinants on Share Price of Listed Commercial Banks in Kenya

This section provides an in-depth examination of the data obtained through secondary sources. The dataset encompassed multiple instances across 12 commercial banks. The findings, as outlined in Table 1, encompass key indicators of central tendency, including both mean and median. Furthermore, metrics of dispersion, such as min and max values, Std., and markers of distribution like skewness, kurtosis, and Jarque-Bera statistic, were also explored. The descriptive statistical outcomes revolved around the assessment of factors affecting dividend payout, including variables like profitability, leverage, and liquidity. Concurrently, share price was measured utilizing the volume-weighted average price.

Table 1

Commercial Banks Listed in NSE

Variable	Share Price	Profitability	Liquidity	Leverage
Mean	21.158	0.890	2.827	0.474
Median	12.000	0.949	1.320	0.554
Max.	53.000	0.998	31.451	0.773
Min.	10.000	0.156	0.675	0.182
Std. Dev.	24.610	0.164	4.606	0.209
Skew	0.427	-2.982	3.571	0.063
Kurt.	3.381	12.452	18.692	1.290
J.B	3.466	494.463	1176.56	11.630
Prob.	0.177	0.073	0.060	0.053
Sum	4575.00	84.589	268.588	45.077
Sum Sq. Dev	56932.63	2.543	1994.24	4.115
Within variance	487.481	0.018	7.660	0.015
Between variance	161.804	0.000	6.060	0.004

The descriptive analysis of NSE-listed commercial banks reveals noteworthy statistics. The average post-tax profit stands at 0.890, ranging from a min of 0.156 to a max of 0.998. The profitability demonstrates a standard deviation of 0.164. Additionally, liquidity showcases an average of 2.827, spanning from a min of 0.675 to a max of 31.451, and possessing a Std. of 4.606. Leverage, on the other hand, has an average value of 0.474, with its range extending from 0.182 to 0.773, and a Std. of 0.209. Meanwhile, the share price stands at 21.158, with its values oscillating between 10.000 and 53.000. This positive share price trend implies an upsurge in the share values of NSE-trading banks during the period 2010-2019. Indicating a normal distribution pattern, the probability values for all variables in banking sector firms surpass 0.05.

The within variance (487.481) indicates the degree of fluctuation in variables within individual banks over time, while the between variance (161.804) reflects the differences in average values of variables across different banks. Higher within variance suggests greater variability within banks, possibly due to internal factors, while higher between variance indicates significant differences in variables among banks.

## Inferential Findings

### Correlation Analysis

The research employed Spearman's correlation analysis to investigate the connections between variables – post-tax profit, liquidity, and leverage – and their impact on share price within NSE-listed commercial banks. The purpose was to uncover the underlying statistical associations between these pairs of variables. The resulting correlation matrix, depicted in Table 2 presents an overview of these relationships among the variables within the NSE-listed commercial banks.

Table 2

#### Correlation Analysis

VARIABLE	Share Price	Profitability	Liquidity	Leverage
Share Price	1.000			
Profitability	0.114	1.000		
	0.027			
Liquidity	0.294	0.172	1.000	
	0.000	0.000		
Leverage	-0.316	-0.902	-0.171	1.000
	0.002	0.002	0.002	

The findings presented in Table 4.2 reveal a noteworthy discovery. A positive and significant correlation ( $r = 0.114$ ,  $p = 0.027$ ) was established by the research between profitability and share price, suggesting that an increase in profitability coincides with a corresponding surge in share price.

Additionally, the investigation unveiled another crucial finding. It was observed that liquidity exhibits a positive and significant correlation with share price ( $r = 0.294$ ,  $p = 0.000$ ). It implies that a rise in liquidity is associated with an increase in share price

Leverage: A negative and significant relationship ( $r = -0.316$ ,  $p = 0.002$ ) with share price was identified in the findings for leverage among commercial banks listed on the NSE. This suggests that an increase in leverage is associated with a decrease in share price.

### Diagnostic Tests

In order to ensure the integrity of the Classical Linear Regression Model (CLRM) assumptions and to determine appropriate models for further examination in the event of CLRM assumption violations, a variety of diagnostic tests were conducted by the research. Both pre-estimation and post-estimation tests were carried out before implementing a regression model. The pre-estimation assessments involved conducting tests for multicollinearity and unit root, while the post-estimation evaluations encompassed testing for normality, examining for heteroscedasticity, conducting tests



for autocorrelation, and performing the Hausman specification test. The primary objective of these assessments was to safeguard against producing misleading regression results.

### ***Panel Unit Root Tests***

In order to ascertain whether the variables displayed stationary or non-stationary behavior, the study used the LLC test for a unit root analysis. This precautionary measure was taken to prevent the potential of generating deceptive regression results through the use of non-stationary data series. The results, outlined in Table 4.3, indicated that, at a 5% significance level, all variables were found to be stationary, suggesting the absence of unit roots.

Table 3  
Unit Root

<b>Variable name</b>	<b>Statistic (adjusted)</b>	<b>P-value</b>	<b>Comment</b>
Share Price	2.232	0.006	Stationary
Profitability	2.684	0.004	Stationary
Liquidity	9.145	0.000	Stationary
Leverage	4.035	0.004	Stationary

The study's findings lead to the conclusion that none of the considered variables display unit roots; as a result, these variables are used in their levels. This determination ensures that the results acquired are not misleading, as highlighted by Thode (2002).

### ***Test for Multicollinearity***

Multicollinearity, as explained by William et al. (2013), refers to the existence of correlations among predictor variables. In severe cases characterized by perfect correlations among these predictors, multicollinearity can render it impossible to calculate a unique least squares solution in regression analysis (Baltagi, 2008). This situation increases standard errors and widens confidence intervals, consequently destabilizing the coefficient estimates for individual predictors (Baltagi, 2003). As far as this study is concerned, the evaluation of multicollinearity was carried out using variance inflation factors (VIF), a technique elaborated by Baltagi (2008). The author also notes that VIF values exceeding 10 indicate the presence of multicollinearity. The results in Table 4.4 demonstrated the absence of multicollinearity, as all variables displayed VIF values below 10.

TABLE 4  
Multicollinearity

<b>Variable</b>	<b>VIF</b>
Profitability	1.52
Liquidity	1.17
Leverage	1.21
<b>Mean VIF</b>	<b>1.26</b>

#### 4.4.3 Heteroskedasticity Test

The examination for heteroskedasticity utilized the Breusch-Pagan test. In this test, the null hypothesis assumes that the error terms exhibit consistent variance, or homoskedasticity. The findings, as displayed in Table 4.5, reveal that the error terms display heteroskedasticity. This conclusion is drawn from the p-value (Share price = 0.7431), which doesn't exceed 5% threshold (0.05) for NSE-listed commercial banks.

Table 5  
Homoscedasticity

<b>Breusch-Pagan /Cook Weisberg test for heteroscedasticity</b>	
Ho: Constant variance	
Variable: fitted values	<b>Share Price</b>
chi2(1)	= 0.013
Prob > chi2	= 0.7431

#### *Test for Autocorrelation*

In this study, the Wooldridge test for autocorrelation was employed to detect any possible autocorrelation within the dataset. This test evaluates whether residuals exhibit serial correlation over time. The results are detailed in Table 4.6. The null hypothesis of the test asserts that there is no first-order serial or autocorrelation in the data. The p-value associated with the F-test for NSE-traded commercial banks' share prices is 0.361, indicating that the F-test does not have statistical significance at the 5% significance level.

Table 6  
Test for Autocorrelation

<b>Commercial banks</b>
<b>H0: no first-order autocorrelation</b>
<b>F( 1, 57) = 2.394</b>
<b>Prob &gt; F = 0.361</b>

#### *Hausman Test*

In panel data analysis, a crucial decision involves choosing between a random effects model and a fixed effects model, a point emphasized by Baltagi (2008). To make an informed choice about the suitable model and whether random or fixed effects are more appropriate for estimating coefficients, the study applied Hausman's specification test (1978). The outcomes of the Hausman test can be found in Table 7.

Table 7

Hausman test

<b>Share Price</b>				
	<b>(b) Fixed</b>	<b>(B) Random</b>	<b>(b-B) Difference</b>	<b>Sqrt (diag(V_b-V_B)) S.E.</b>
Profitability	0.495	0.240	0.288	0.052
Liquidity	0.215	0.215	-0.109	0.020
Leverage	-0.227	-0.123	-0.014	0.025
chi2(3)	25.810			
Prob>chi2	0.581			

In the context of the Hausman test, the null hypothesis asserts the preference of the random effects model over the fixed effects model. In the case of the share price model applied to listed commercial banks, the results of the Hausman test unveil a chi-square statistic of 25.810, accompanied by a p-value of 0.581. Consequently, the researcher refrains from rejecting the null hypothesis, aligning with Greene's (2008) proposition. Consequently, the analysis of share prices has adopted the random effects model.

### **Regression Analysis Results**

The primary objective of this study was to utilize Random Effects Model regression analysis to determine the statistical significance of the relationship between the independent variables, namely profitability, liquidity, and leverage, and the dependent variable, which is the share price. As per Green (2008), the random effects model is used to analyze panel data, where data is collected on the same individuals or entities over multiple time periods. It accounts for unobserved individual-level heterogeneity by assuming that individual-specific effects are random variables with a specific distribution. In a similar vein, Baltagi (2008) emphasizes that Random effects models are particularly useful when dealing with panel data, where individual-specific characteristics may affect the dependent variable and need to be controlled for. It allows for the estimation of both within-individual and between-individual effects.

Table 8  
Random Effect Output Regression Data for Commercial Banks

Variable	Coef.	Std. Err.	t-statistic	Prob.
Constant	0.033	0.053	6.620	0.071
Profitability	0.184	0.036	5.080	0.000
Liquidity	0.369	0.049	7.460	0.000
Leverage	0.600	0.033	-9.810	0.007
Effects Specifications				
			SD.	Rho
Cross-section random			0.3239147	0.6104
Idiosyncratic random			0.19114035	0.2005
Weighted Statistics				
R-squared	0.583224	Mean dependent var		-0.596878
Adjusted R-squared	0.581800	S.D. dependent var		0.378514
S.E. of regression	0.124990	Sum squared resid		5.287014
F-statistic	1145.563	Durbin-Watson stat		0.340868
Prob (F-statistic)	0.00000			
Unweighted Statistics				
R-squared	0.550685	Mean dependent var		5.046572
Sum squared resid	45.65392	Durbin-Watson stat		0.034074

The random effects regression analysis table conducted on commercial banks' share prices presents compelling statistical insights. Notably, profitability, liquidity, and leverage emerge as significant determinants of share prices. The coefficient for profitability stands at 0.184 (t-stat = 5.080,  $p < 0.001$ ), indicating that a one-unit increase in profitability is associated with a 0.184-unit increase in share prices.

Similarly, liquidity demonstrates a strong positive relationship with share prices, with a coefficient of 0.369 (t-stat = 7.460,  $p < 0.001$ ). Fundamentally, this suggests that when other factors remain constant, an increment of one unit in liquidity results in a boost of 0.369 units in share price. Leverage, despite exhibiting a negative coefficient of -0.600, remains statistically significant (t-stat = -9.810,  $p = 0.007$ ), suggesting a complex relationship where higher leverage corresponds to higher share prices. In practical terms, this suggests that when other factors are unchanged, an increase of one unit in leverage is linked to a decrease of -0.600 units in share price.

The model's high adjusted R-squared value of 0.583 implies that approximately 58.3% of the variation in share prices is explained by the included variables. Furthermore, the cross-section random SD (0.3239147) indicates variability across different commercial banks, while the Rho value (0.6104) suggests strong correlation between observations from the same bank over time. However, the Durbin-Watson statistic of 0.341 suggests potential autocorrelation in the residuals, warranting further scrutiny.

## DISCUSSION

The Spearman's correlation analysis provides valuable insights into the relationships between share price and key financial indicators—profitability, liquidity, and leverage—among NSE-listed commercial banks. The results reveal a statistically significant positive correlation between profitability and share price ( $r = 0.114$ ,  $p = 0.027$ ), suggesting that as banks become more profitable, their share prices tend to increase. This finding is consistent with the work of Jumiati & Natsir (2023), who established a similar positive relationship in the Indonesia Stock Exchange. Similar results have been observed in other markets, such as in the studies of Khan et al. (2021), which found a strong link between return on assets (ROA) and share price performance among South Asian banks, and Al-Najjar (2019), who highlighted profitability as a key driver of stock valuation in emerging markets. Furthermore, Bui & Doan (2022) reinforced that investor confidence is largely shaped by a firm's earnings potential, thereby influencing share price movements. These findings collectively indicate that investors perceive profitability as a crucial determinant of a bank's financial health and potential for future earnings growth. Similarly, liquidity demonstrates a positive and significant correlation with share price ( $r = 0.294$ ,  $p < 0.001$ ). This aligns with the findings of Heryanto (2016), who also observed a strong association between liquidity and stock performance. A high liquidity ratio indicates that a bank can meet its short-term obligations, reducing financial distress risk and enhancing investor confidence, which ultimately boosts share prices.

On the other hand, leverage exhibits a significant negative correlation with share price ( $r = -0.316$ ,  $p = 0.002$ ), implying that as banks take on more debt relative to equity, their stock prices tend to decline. This supports previous research by Cai, Kim, and Short (2011), which found that financial firms with higher leverage levels experienced long-term declines in stock prices. The results suggest that excessive reliance on debt raises concerns about financial risk, potentially deterring investors and negatively impacting stock valuations.

The results of the Random Effects Model regression analysis highlight the significant impact of profitability, liquidity, and leverage on the share prices of commercial banks. The positive coefficient of profitability (0.184,  $p < 0.001$ ) confirms that higher profitability leads to increased share prices, aligning with previous studies, such as Sunaryo (2021), which established a similar relationship in Southeast Asia. This finding suggests that investors value profitable banks as they signal financial stability and potential for future returns. Liquidity also exhibits a strong positive effect on share prices (0.369,  $p < 0.001$ ), indicating that banks with higher liquidity levels tend to have higher stock prices. This supports the conclusions of Shammakhi and Mehrabi (2016), who found that liquidity positively influences stock prices. High liquidity implies that banks can efficiently meet short-term obligations, reducing financial risk and attracting investors.



Conversely, leverage has a negative impact on share prices (-0.600,  $p = 0.007$ ), suggesting that increased debt levels lower investor confidence, likely due to concerns over financial distress and repayment obligations. This aligns with Zhang (2020), who observed a negative relationship between leverage and stock price synchronicity in China. The model's adjusted R-squared value (0.583) indicates that 58.3% of the variation in share prices is explained by the independent variables, demonstrating the model's robustness. However, the Durbin-Watson statistic (0.341) suggests potential autocorrelation, which may necessitate further diagnostic tests to confirm the validity of the model's assumptions. Overall, the results reinforce the critical role of financial metrics in influencing share price movements in commercial banks.

## CONCLUSION

This study demonstrates that profitability, liquidity, and leverage significantly influence the share prices of listed commercial banks on the NSE. Higher profitability enhances investor confidence by signaling financial stability and growth potential, leading to increased share prices. Similarly, strong liquidity positions banks as financially sound institutions capable of meeting short-term obligations, reducing perceived risk, and attracting investors. Conversely, excessive leverage negatively impacts share prices, as higher debt levels heighten financial risk, potentially deterring investment and reducing market valuation. These findings underscore the importance of sound financial management in fostering market confidence and optimizing stock performance. By maintaining a balance between profitability, liquidity, and leverage, banks can enhance their financial resilience, attract investment, and sustain long-term growth in a competitive financial environment.

Based on these findings, commercial banks should prioritize strategies that enhance profitability, such as cost efficiency, revenue diversification, and prudent risk management, to strengthen investor confidence and improve stock performance. Additionally, maintaining adequate liquidity buffers is essential to mitigate financial distress risks and ensure operational stability, which can positively influence share valuation. Banks should also adopt sustainable debt management practices to prevent excessive reliance on leverage, which could erode investor trust and negatively impact share prices. Policymakers and regulatory bodies should reinforce financial prudence by establishing frameworks that encourage responsible leverage levels and promote transparency in financial reporting. Future research could explore the role of macroeconomic factors, interest rate fluctuations, and regulatory policies in shaping the relationship between financial performance indicators and share price dynamics in emerging markets.

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