Dividend Distribution and Stock Price of Nepalese Commercial Banks

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Abstract

This study investigates the impact of dividend payout ratio and dividend yield on the market price of shares (MPS) of Nepalese commercial banks. It aims to provide insights into how dividend practices and organizational scale influence market valuation in the Nepalese financial sector. A descriptive and explanatory research design was adopted under a quantitative approach with a positivist philosophy. The population comprised all 19 commercial banks listed on the Nepal Stock Exchange (NEPSE) over the ten years from 2015 to 2024. A census approach yielded 190 observations, of which 179 were retained after outlier diagnostics using standardized deleted residuals, Cook's distance, and leverage values. Secondary data were collected from commercial banks' annual reports and the NEPSE website. Data analysis was conducted using IBM SPSS Statistics, employing descriptive statistics, correlation, and multiple regression.

The results show that the dividend payout ratio has a positive and significant effect on share price, consistent with dividend relevance theory. Conversely, dividend yield has a negative and significant impact, indicating that higher yields may signal weaker growth prospects. Firm size, measured by total assets, also negatively influences share price, suggesting a valuation discount for larger banks. Collectively, the predictors explain 49.5% of the variance in share price. The findings guide investors in assessing dividend distributions and managers in balancing shareholder returns with retained earnings. Policymakers should enhance transparency and efficiency to address valuation disparities among larger banks.

This study contributes empirical evidence from Nepal, an emerging-market context, by combining dividend distribution and firm size to explain share price behavior.

Keywords: Dividend payout ratio; Dividend yield ratio; Firm size; Market price of a share

1. Introduction

Market price of a share (MPS) is used to show the value that investors place on a company's stock and is also an important indicator of financial results, investor perception, and their expectations about the company (Damodaran, 2012). Among the numerous variables affecting the share price, the dividend policy is an important determinant, as it reflects the firm's profitability, stability, and growth prospects (Bhattacharya, 1979; Gordon, 1959). Cash dividends paid to shareholders may improve investor confidence and, in turn, generate long-term investment, which can boost the market price of shares. The dividend payout ratio and the dividend yield are widely applied to measure the dividend policy. Empirical evidence indicates a positive and significant correlation between such ratios and share prices for commercial banks in Nepal across different business environments (Kandel & Timilsina, 2024; Joshi et al., 2024). Besides the dividend policy, the size of the firm, usually gauged by total assets or market capitalization, is also a key determinant of the share price. Compared with smaller ones, larger ones imply greater financial stability, reduced risk, and higher growth, which attract consumers (Ramadhani et al., 2024). The interaction between the effects of dividends and firm size on share prices is of extreme significance in Nepal, where commercial banks dominate the stock market and have a strong impact on the financial market. The study of such effects can provide useful insights for investors, managers, and policymakers on valuing shares, making investment decisions, and assessing market efficiency. To this end, this paper aims to address the following research question: How do dividends and firm size affect the market price of shares of the Nepalese commercial banks? The objectives are to study the correlation between the dividend payout ratio and share price, test the role of dividend yield on share price, study the impact of firm size on share price, and analyze the overall impact of dividend metrics and firm size on share price in Nepal's commercial banks.

2. Review of Literature

A firm’s market price of share (MPS) is theoretically anchored in discounted cash-flow logic, where dividends are a key cash return to equity holders; hence, a higher and more stable dividend payout ratio (DPR) can raise perceived cash-flow certainty and valuation under the Gordon framework and dividend-smoothing behavior (Gordon, 1959; Lintner, 1956). Beyond pure valuation mechanics, dividend policy may convey private information: managers use dividend changes as credible signals about sustainable earnings, so a higher DP Ratio can reduce information asymmetry and support higher prices when markets view the signal as costly to mimic (Bhattacharya, 1979). Still, classic irrelevance arguments remind us that in frictionless markets, the per-share payout should not affect the price, so any positive relation arises from taxes, clientele, signaling, or investor demand (Miller & Modigliani, 1961; Litzenberger & Ramaswamy, 1979; Baker & Wurgler, 2004). DY Ratio embeds the market’s required return—holding expected dividends constant; a lower required return raises the price and lowers the observed yield, while unusually high yields may reflect risk discounting (Gordon, 1959; Damodaran, 2012). Firm size (total assets) influences MPS via risk, liquidity, and information channels: larger firms tend to enjoy better disclosure, broader investor recognition, and lower trading frictions, which lower expected returns and support higher valuations for given cash flows (Merton, 1987; Amihud & Mendelson, 1986).

Empirical Review and Hypothesis Development

Market Price of a Share

Ramadhani et al. (2024) found that firm size and dividend yield significantly influence stock prices in Indonesia’s pharmaceutical sector. In Nepal, Kandel and Timilsina (2024) reported dividend per share (DPS) as the strongest predictor of share price, with earnings per share (EPS) also significant, while Joshi et al. (2024) confirmed positive effects of DPS, EPS, and P/E ratio. Conversely, Pandey et al. (2024) observed that EPS and P/E dominate, whereas DPS and book value have minimal impact, showing context-specific differences. Dahal et al. (2024) investigate even more general determinants of share prices in the Nepalese market, likely including size and dividend ratios. On the whole, there is evidence that dividends and firm size are important in most situations, whereas earnings and valuation ratios remain important as well. Although the payout policy

influences how investors view a company, the main underlying factors driving share prices across widely varying contexts are profitability and valuation measures. Payout policies can only have secondary effects.

Dividend Payout Ratio (DP Ratio)

The dividend payout ratio (DPR) is defined as DPS / EPS or total dividends / net income over a period of time. There is generally a positive relationship between DPR and the market price of a share (MPS), but this relationship varies by context. For instance, a study on Pakistan's stock market found that higher DPR significantly increases share prices, supporting dividend relevance theories (Munir et al., 2024). Similarly, South Asian evidence indicates that companies that pay higher dividends attract investors and exhibit better price performance, consistent with signaling and clientele effects (Arshad et al., 2021). Nonetheless, a study conducted by the Dar es Salaam Stock Exchange found that local tax systems, investor preferences, and growth opportunities may offset the effects on dividends (Msonde, 2021). Indian data on large-cap stock companies also partially support the notion that dividend policy variables, including DPR, have a significant effect on stock prices; however, this effect is sensitive to model specifications and control variables, including EPS and the retention ratio. The larger cross-market syntheses also suggest that, although DPR is generally positively related to share prices, the relationship is weaker when fundamentals such as profitability, leverage, and firm size are considered, indicating the problem of endogeneity and reverse causality (Pertiwi & Wiagustini, 2020). In general, there are indications that DPR may be a significant determinant of market prices by channeling signaling and investor preference information, but with a highly context-dependent effect and subject to methodological problems.

- **H_1:** Dividend payout ratio significantly impacts the market price of a share

Dividend Yield Ratio

The dividend yield ratio (DYR), which is the annual dividend per share divided by the current price per share, indicates the income investors will receive relative to the stock's price. There is mixed evidence in the literature of the influence of dividend yield on the market price of a share (MPS) through empirical studies. Ramadhani et al. (2024) studied Indonesian pharmaceutical firms and found a positive, significant correlation between dividend yield and share price, indicating that high dividend yields increase investor confidence and demand. Equally, Kandel and Timilsina (2024) have noted that dividend yield, in addition to dividend per share, is a powerful predictor of stock prices in Nepal's banking industry. This trend was validated by Joshi et al. (2024), who observed that dividend-related variables, such as yield, are important in valuing commercial bank shares. Nevertheless, the study by Pandey et al. (2024) indicates that, although EPS and P/E ratios prevail, dividend yield has a low or insignificant impact on price, suggesting that fundamental earnings can outweigh payout ratios in certain markets. Also, as noted in cross-market research, such as Arshad et al. (2021), the effect of dividend yield varies by context, being more pronounced in markets where investors value cash-flow consistency. Generally, there is evidence that dividend yield tends to have a positive correlation with stock price by the signaling hypothesis and the theory of income preference. However, its impact on stock price is not consistent across investor behavior, tax regimes, and firm profitability.

- **H_2:** The dividend yield ratio significantly impacts the market price of a share

Firm size

The size of the firm, as frequently measured by total assets or market capitalization, is often thought to be a principal determinant of the market price of a share (MPS), since larger firms tend to indicate greater stability and reduced investment risk. Ramadhani et al. (2024) observed that firm size has a positive and significant impact on stock prices among drug firms in Indonesia, suggesting that investors associate size with growth prospects and financial capability. Similarly, Kandel and Timilsina (2024) reported that in Nepal's banking sector, larger firms tend to command higher share prices, supporting the argument that size enhances investor confidence. In contrast, the team of Pandey et al. (2024) noted that firm size did not significantly add to the

explanatory power of earnings and valuation ratios and was therefore of limited usefulness in predicting these factors in specific circumstances. In their findings, Joshi et al. (2024) reported a mild relationship between stock prices and size, suggesting that the effect of profits may supersede structural signals such as size on market prices. Moreover, the results of Dahal et al. (2024) indicated that although firm size can be considered a determinant of stock price, it is usually surrogated by other factors, such as leverage and dividend policy. On the whole, although most evidence suggests a positive relationship between firm size and share price, the extent of this influence varies across markets and industries.

- **H_3: Firm size significantly impacts the market price of a share**

3. Research Methodology

This paper used a descriptive and explanatory research design to address the research objectives. A descriptive design was used to summarize and present the data. In contrast, the experimental design, an experiment on the ot, her hand, tested the cause-and-effect relationships between dividend policy, firm size, and market price per share (MPS). A quantitative research method was chosen because the study relied on quantitative data and statistical evaluation to test the hypotheses, and the positivist philosophy was used, as it presupposes that reality is observable and measurable (Creswell & Creswell, 2018; Saunders et al., 2019). The study population comprised all 19 commercial banks listed on the Nepal Stock Exchange (NEPSE). Since the population was manageable in size, a census approach was used, covering 10 fiscal years from 2015 to 2024, yielding 190 bank-year observations. However, after applying regression diagnostics to identify outliers and influential cases, 11 observations were excluded, leaving 179 valid cases for analysis.

The study relied exclusively on secondary data collected from the official websites of commercial banks (annual reports and dividend disclosures) and the NEPSE website (historical share prices and corporate action records). The dependent variable was the market price per share (MPS), which was converted to the natural logarithm (lnMPS) to address skewness. The independent variables denoting dividend policy were the dividend payout ratio (DP ratio), defined as cash dividends per share divided by earnings per share, and the dividend yield (DY ratio), defined as cash dividends per share divided by the market price per share. Firm size, used as a control variable, was measured as the natural logarithm of total assets (lnTA).

The analysis was done using IBM SPSS Statistics. This began with descriptive statistics, including the mean, minimum, maximum, and standard deviation, and then correlations were computed to assess the magnitude and direction of associations among the variables. A multiple regression was then used to test the concentrated effects of dividend policy and firm size on share price, with the model's topology evaluated using R, R2, adjusted R2, and ANOVA. Regression assumptions were carefully examined to verify the soundness of the results. Tests of normality of residuals were conducted using histograms and parallel lines in normal probability plots, and scatterplots were used to test linearity and homoscedasticity. The impact of multicollinearity was assessed using the Variance Inflation Factor (VIF), which was below 10 in all cases, indicating no danger of multicollinearity (Hair et al., 2019). Standardized deleted residuals threshold value = +/-(3), Cook's distance cut-off value = 1.0, and centered leverage values benchmark = 2(k+1)/n were used to diagnose outliers and influential observations. Those that exceeded these limits were removed, leaving only 179 cases in the final analysis (Field, 2018; Hair et al., 2019).

4. Results

Statistical techniques for descriptive analysis involve summarizing raw statistics and organizing concepts into meaningful patterns using measures such as the mean, median, standard deviation, frequency, and percentage (Gravetter & Wallnau, 2017). It can help researchers get a picture of the overall trends, distributions, and variability of the data without drawing inferences or making forecasts (Saunders, Lewis, & Thornhill, 2019).

Table 1: *Descriptive Statistics*

Variables		Minimum	Maximum	Mean	Std. Deviation
MPS	Rs	153.70	3600.00	529.24	488.18
DP Ratio	%	0.00	296.59	64.45	40.91
DY Ratio	%	0.00	9.16	3.35	2.02
TA	Rs	37374510826.00	557019891105.00	167585441056.01	98499380835.16
Valid N 179					

Table 1 presents the descriptive statistics for the study variables, including the minimum, maximum, mean, and standard deviation. There was significant variance in the market price per share (MPS), ranging from Rs 153.70 to Rs 3,600.00 (M = 529.24, SD = 488.18). Dividend payout (DP) ratio was ranging between 0.00% and 296.59% (M = 64.45, SD = 40.91), and dividend yield (DY) was between 0.00% and 9.16% (M = 3.35, SD = 2.02). There were significant differences in firm size, with total assets (TA) ranging from 37,374,510,826.00 to 557,019,891,105.00 (M = 167,585,441,056.01, SD = 98499,380,835.16). The standard deviations of MPS, DP ratio, and TA are high, indicating wide variation in these variables and implying large differences in market valuation, dividend policies, and asset bases among the firms. This kind of variation can affect the regression results, and they need to be interpreted more clearly. Data transformation or other robust statistical methods could be used to reduce the effect of extreme numbers. On 179 valid observations, all the variables were grounded.

Correlation Analysis

Table 2: ***Correlations***

	lnMPS	DPRatio	DYRatio	lnTA
lnMPS	1			
DPRatio	.472**	1		
DYRatio	-0.018	.693**	1	
lnTA	-.371**	-.305**	-.165*	1
** p<.01				
* p<.05				

The correlation analysis showed that ln MPS had a positive and significant relationship with the DP ratio (r = .47, p < .01), indicating that companies with a high dividend payout are likely to have a high market price per share. On the other hand, the relationship between lnMPS and lnTA was negative and significant (r = -.37, p = .01), indicating that larger firms, in terms of total assets, are associated with a decline in market price per share. The correlation between lnMPS and the dividend yield proportion was not significant, and the value was negative (r = -.). 02, p > .05, meaning that dividend yield value does not seem to be a significant factor of share price in this sample. The fact that diligent dividend behavior is positively correlated with share prices also suggests that dividend policies may shape investors' perceptions of firm value, in line with dividend relevance theory. The negative correlation between firm size (lnTA) and share price could, however, be due, yet again, to market underpricing of larger firms or to variations in capital structure strategies between larger and smaller firms. The lack of a meaningful relationship between dividend yield and share price indicates that yield itself might not be the key factor influencing investors' decisions, and thus the payout level; instead, the percentage of yield becomes crucial in determining price action in the market.

Regression Analysis

Table 3: ***Model Summary***

R	R Square	Adjusted R Square	Std. Error of the Estimate
.703	0.495	0.486	0.39685
a Predictors: (Constant), lnTA, DYRatio,DPRatio			
b Dependent Variable: lnMPS			

According to the model summary, the predictors rs, DP ratio, DY ratio, and lnTA accounted for a significant percentage of the variance in lnMPS. The findings revealed an R value of 0.70, indicating a strong positive relationship between the predictor set and the dependent variable. The value of R 2 was 0.50, indicating that about 49.5 percent of the variance in lnMPS was accounted for by the predictors, with an adjusted R 2 of 0.49, indicating the number of predictors in the model. The standard error of the estimate was 0.40, indicating the average distance between the observed and predicted lnMPS values. The relatively high R-squared indicates that dividend policy variables (DP ratio, DY ratio) and firm size (lnTA) explain almost half of the variability in share prices. Nevertheless, the remaining half of the variance is unexplained, and one might suggest that other financial, market, or behavioral characteristics may also affect lnMPS and warrant consideration in future studies.

Table 4: *ANOVA*

	Sum of Squares	df	Mean Square	F	Sig.
Regression	26.977	3	8.992	57.098	.000
Residual	27.56	175	0.157		
Total	54.537	178			
a Dependent Variable: lnMPS					
b Predictors: (Constant), lnTA, DY Ratio, DP Ratio					

The results of the ANOVA showed that the regression model was statistically significant, $F(3, 175) = 57.10$, $p < .001$. This shows that the three pr, which included the DP ratio, DY ratio, and lnTA, collectively accounted for a considerable amount of variance in lnMPS. The fact that the regression sum of squares (26.98) is slightly smaller than the residual sum of squares (27.56) is another indication that the model explains almost half of the change in the dependent variable. The very large F-statistic indicates that the model provides an effective general fit to the data, supporting the inclusion of measures of dividend policy and firm size as significant predictors of market price per share. Although this model is important, the unexplained variance (27.56) suggests that other financial, market, or behavioral factors not incorporated into it could also be very important in determining share price performance.

Table 5 : Coefficients

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	Hypotheses
	B	Std. Error	Beta	t	Sig.	VIF	
(Constant)	11.116	1.384		8.035	.000		
DP Ratio	0.012	0.001	0.853	11.015	.000	2.075	H_1: Supported
DY Ratio	-0.178	0.021	-0.645	-8.635	.000	1.934	H_2: Supported
lnTA	-0.205	0.053	-0.217	-3.844	.000	1.108	H_3: Supported

Table 5 indicates that the regression coefficients were all statistically significant, indicating that the three predictors, DP ratio, DY ratio, and ln TA, had significant effects on ln MPS. The positive and significant impact

of the DP ratio was B = 0.012, t(175) = 11.02, p = .001, indicating that ln MPS improved by 0.012 units with the other variables held constant. This means that companies with higher dividend payouts are associated with higher per-share market prices, thereby validating H1. The effect of DY ratio was not only negative but also significant, B = -0.178, t(175) = -8.64, p = .001, so an increase in dividend yield by 1 unit will cause a negative change in lnMPS of -0.178. It implies that although the yield percentage is high, firms are likely to have low share prices, thereby validating H2. The size of firms (lnTA) was also significantly negative, B = -0.205, t(175) = -3.84, p = .001, indicating that a 1-unit increase in firm size (lnTA) reduced lnMPS by 0.205 units. This implies that large companies will have lower per-share valuations than smaller companies, thereby substantiating H3. All predictors had a Variance Inflation Factor (VIF) between 1.108 and 2.075, which is well below 10, indicating no multicollinearity. The positive impact of the DP ratio reveals the significance of dividend payout policies in amplifying investor confidence and share price growth, a finding supported by dividend relevance theory. Conversely, the negative impact of the DY ratio suggests that higher yields may signal weaker growth prospects or lower retained earnings, leading to reduced share prices. Similarly, the inverse correlation between firm size and share price suggests that larger firms are at risk of valuation discounts due to lower growth prospects or market inefficiency. Taken together, these results indicate that dividend policies and firm size are significant determinants of market-based valuation, albeit on opposite scales.

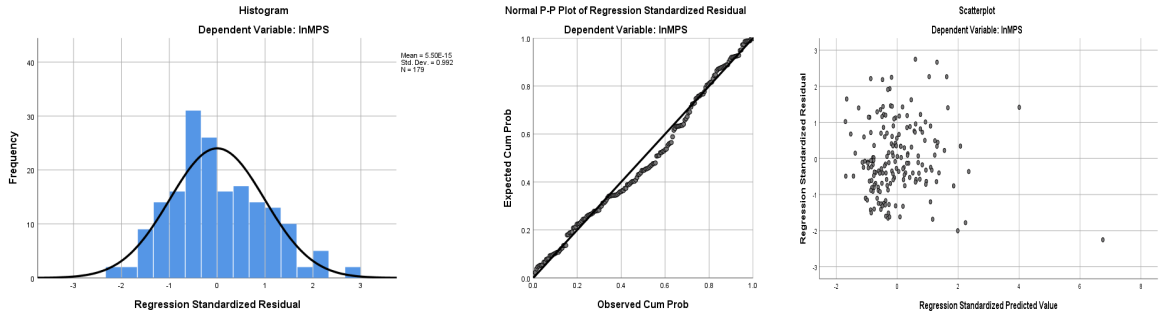
Table 6: *Residuals Statistics*

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	5.3434	8.6326	6.005	0.3893	179
Std. Predicted Value	-1.699	6.75	0	1	179
Standard Error of Predicted Value	0.03	0.226	0.056	0.021	179
Adjusted Predicted Value	5.3266	9.0593	6.0075	0.40525	179
Residual	-0.8941	1.09104	0	0.39349	179
Std. Residual	-2.253	2.749	0	0.992	179
Stud. Residual	-2.738	2.761	-0.003	1.009	179
Deleted Residual	-1.3208	1.10012	-0.00252	0.40837	179
Stud. Deleted Residual	-2.791	2.815	-0.002	1.015	179
Mahal. Distance	0.05	56.511	2.983	4.69	179
Cook's Distance	0	0.895	0.01	0.067	179
Centered Leverage Value	0	0.317	0.017	0.026	179
a Dependent Variable: lnMPS					

Table 6 presents the still residuals, which are indicative of outliers, influential cases, and a possible breach of regression assumptions. The studentized deleted residuals range from -2.791 to 2.815, which falls within the acceptable limits of -3.0 to +3.0 (Field, 2018), indicating no extreme outliers in the dataset. A value greater than 3 or less than -3 would normally indicate cases with unusually large residuals that over-influence the model. Cook's distance values range from 0 to 0.895, well below the common cut-off value of 1.0 suggested by Hair et al. (2019) and Field (2018). Cook's distance measures the influence of each observation on the regression coefficients; values greater than 1 may indicate that an observation has a disproportionate influence on the model fit. The absence of such cases here suggests that no single observation is unduly affecting the regression results. The centered leverage values range from 0.000 to 0.317, remaining below the recommended threshold of [numerator , 2 open paren cap K plus 1 close paren end numerator , over n or, as a simpler rule of thumb, below 0.5 (Hair et al., 2019). Leverage measures how far an observation's predictor values are from the mean predictor values; higher leverage values indicate potential influence on the regression line. In this case,

leverage values remain within acceptable limits, suggesting that predictor combinations for individual cases do not exert excessive influence. Taken together, the diagnostics from studentized deleted residuals, Cook's distance, and leverage values indicate that the regression model does not suffer from problematic outliers or influential cases, and the normality assumption for residuals is not violated to a degree that would threaten the validity of the model.

Normality Distribution



Normality in regression analysis assumes that the residuals of the regression in the study are normally distributed, since this underpins hypothesis testing of regression coefficients and the validity of standard errors, confidence intervals, and p-values (Field, 2018; Hair et al., 2019). Analysis of the regression diagnostics shows that this assumption was not grossly violated. The standardized residuals histogram shows a roughly bell-shaped, symmetric distribution with a mean of zero, indicating that the data are not highly non-normal. Normal P-P also supports this, as most points closely match the straight line representing the cumulative probability of the normal distribution. There is also no significant deviation of the standardized residuals from the predicted values in the scatterplot, indicating that the data approached normality. Taken together, the findings indicate that the data obtained are sufficient to validate the normality assumption for the regression residuals; hence, inferences can be based on this assumption.

5. Discussion

The results indicate that the dividend payout ratio has a positive and significant effect on the market price of shares (B = 0.012, p < .001), supporting the hypothesis that higher dividend payouts are associated with higher share prices. This observation is consistent with the dividend relevance theory (Gordon, 1959; Lintner, 1956), which posits that dividends are positive signals of a firm's profitability and prospects, thereby enhancing investor confidence. This outcome is supported by empirical evidence: Kandel and Timilsina (2024) found that Nepalese commercial banks with higher dividend payouts had higher stock prices, and Joshi et al. (2024) reported a similar positive association in the Nepalese banking sector. Another study by Ramadhani et al. (2024) indicated that dividend payouts also had a positive impact on the share prices of Indonesian companies. Importantly, although higher dividend payouts will increase investment, this effect may be offset by firm earnings, expansion potential, and market liquidity, implying that the impact may not be observed across the sample of firms (Bhattacharya, 1979). The dividend yield ratio hurt the share price (B = 0.178, p = .001). This implies that the high dividend yield, even though it signals cash returns, will be low due to low retained earnings and limited growth opportunities, thereby decreasing the market price per share. This is in line with signaling theory, in which abnormally high yields may indicate the firm's distress rather than its strength (Bhattacharya, 1979). The same outcome is reported in empirical research: Pandey et al. (2024) found high dividend yields associated with low share prices in certain Nepalese banks, whereas Arshad et al. (2021) found that high yields were sometimes indicative of low growth potential. Josh et al. (2024) found that dividends are generally appreciated, but the yield component may negatively affect the price when shareholders expect earnings to decline. The crucial point to note is that this adverse impact demonstrates the necessity of considering dividend yield in context; a high yield does not always prove positive, particularly in markets where investors are more interested in long-term growth than in short-term earnings. The research established that firm size had a negative and significant impact on the share price (B = -0.205, p = 0.001), indicating that large firms, measured

by total assets, may face a valuation discount reflected in the share price. This contrasts with the traditional view that larger firms are safer and more highly priced (Ramadhani et al., 2024) but aligns with the pecking order theory and agency views, which suggest that larger firms may be less growth-oriented or have higher agency costs, thereby lowering per-share prices. This subtle finding is corroborated by empirical data: both Pandey et al. (2024) and Joshi et al. (2024) found that there was a negative or non-significant correlation between firm size and share price in Nepalese banks, and Dahal et al. (2024) also emphasized negative valuation discounts of large firms because of market inefficiencies. Most importantly, a negative value of firm size indicates that scale may take a back seat to growth and profitability for the investor. Therefore, it does not necessarily imply that the larger the firm, the higher the share price. All these results highlight the multifaceted roles of dividend policy and firm size in determining market valuation. Although an increase in dividend payout has a positive impact on share value, an increase in the dividend yield and firm size might lead to a negative impact; thus, the importance of both dividend payout policy and future growth level when assessing equity value. The findings support the importance of the dividend signaling theory, agency theory, and market perception in the emarketsg market like Nepal.

6. Conclusion

This analysis shows that dividend payout has a positive influence on the market price of shares (MPS) because dividend relevance theory indicates that dividend payments provide information about external sources of profit and enhance investor confidence. Dividend yield, conversely, negatively affects MPS per signaling theory: the higher the yields, the lower the retained earnings or the attractiveness of growth, thus eroding share values. Further, all firm sizes showed a negative correlation with share price, implying that large banks might experience valuation discounts due to lower expansion opportunities or anticipated inefficiencies, consistent with agency and pecking-order considerations. In sum, it was found that dividend policy and firm size are major factors in shaping share price in Nepalese commercial banks, but with different directions.

Limitations and Directions for the Study

The results are useful to investors, bank managers, and policymakers. It is best to view a consistent and reasonable dividend payout as a potentially valuable investment, and a large dividend yield as possibly an indication of financial stagnation. Bank managers should be advised to use dividend policies that not only reward shareholders but also retain earnings to grow, thereby elevating their market valuation. Regulators and policymakers can look to increase transparency, governance, and operational efficiency in larger banks to reduce potential sources of valuation discounts and create a fair market price. These insights will aid well-informed investment, corporate orientation, and policy formulation in Nepal's banking sector. Future studies based on the present one can take into account other aspects that may influence the market price of shares in Nepalese commercial banks, including per-share price, leverage, liquidity, corporate governance, and macroeconomic features. Comparative analysis of various methods, sectors, or markets, such as emerging and developed markets, will provide more insight into whether the observed relationship between dividend policy, firm size, and share price is the same across them. A longitudinal study observing the evolution of investor behavior, regulatory systems, and the economic environment would also contribute to understanding the dynamics of dividend policy returns and firm-specific attributes. Moreover, qualitative studies of investor perceptions and decision rules can be used in post to quantitative evidence to provide a more comprehensive picture of market valuation methods and to identify possible moderator or moderating variables that may contribute to share price formation.

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Conflict of Interest

The author declares no conflict of interest while preparing this article.

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