Research Article

Moderating Effect of Inflation Rate on the Relationship Between Earnings Retention Ratio and Share Price of Banks

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Abstract.
This paper investigates the influence of the inflation rate (IFR) on the association between the earnings retention ratio (ERR) and share price (SP) of Deposit Money Banks (DMBs) in Nigeria from 2012 to 2021. IFR, ERR, and firm size (FSZ) are the explanatory variables and the dependent variable is SP. Data were obtained from the financial reports of the sampled banks. The census sampling was used, where the entire 14 listed DMBs were used as the population and the sample size at the same time. The results from the analysis showed a positive and substantial relationship between SP and ERR. The findings further revealed a positive but insignificant connection between SP and IFR. Moreover, the results established a negative and immaterial relationship between SP and moderated ERR with IFR and FSZ as a control variable. Therefore, it is assumed and recommended that DMBs can improve the value of SP through financial engineering on their dividend policies.

Keywords: earnings retention ratio, firm size, inflation, share price

1. Introduction

Over the years, and even today, researchers, policymakers, and stockholders have been debating about the issue of ERR in the dividend policy (DP) and SP within the global research environment. At most time, financial managers’ major decision is the determination of dividend to be distributed to equity shareholders. Jakata and Nyamugure [1] assert that dividend payment is a top financial policy from the perspective of both the companies and other stakeholders such as employees, customers, shareholders, and government. Also, dividend is seen as the allocation of previous or current real asset earnings among different equity holders base on their holding structure [2]. Likewise, Simajuntak and Sutandijo [3] describes a DP as a decision made by company’s management regarding the amount of profit a company will distribute to its shareholders.
Priya and Mohanasundari [4] asserted that if dividend policies are the primary predictors of SPs and they prices are the primary predictors of firm value, then it is indispensable to adopt DP that will drive up SPs in order to maximize shareholders’ wealth. As a result, a shareholder’s investment is often seen as being the whole value of the ordinary shares. So also, there are several macroeconomic variables that could have an impact on the entire economy. The primary focus here is on inflation because it has an impact on businesses functioning in a given environment, as well as the general economy. Simajuntak and Sutandijo [3] define inflation as an economy’s general prices continuing to rise over time. Similarly, Inflation rate is a measure of the value of money in an economy at a given moment [5].

Over the previous ten years (2012-2021), the All-Share Index (ASI) in Nigeria has continuously declined, reaching as low as 20,669.38 index points in April 2020. Similarly, the ASI index that ended in 2019 shows 14.6% as a year-to-date loss. This turns out to be a straight of loss in the second year after 2018 with a painful loss of 17.81%. Similarly, ASI has been recording negative returns throughout 2019 except for February that has favorable record of +0.92%. As a result, since 2016, this was the worst year. In addition there was a record of double-digit losses on daily basis for consecutive six months (July to December, 2019) [6]. Likewise, the Nigerian Exchange (NXG) Banking Index was obstructed by losses documented in medium and large capitalized stocks, amongst which are FBN Holdings and Fidelity Bank [7]. The NXG Banking Index was also down by -0.89% on SP depreciation in Access Bank (-3.43%), and Fidelity Bank (-0.79). Moreover, the volatility of SPs in Nigeria was reported to be 20.76 in 2016, 17.26 in 2017, 15.91 in 2018, 14.45 in 2019, 15.12 in 2020, and 15.66 in 2021 [8]. The current study will serve as a starting point for further investigations which confined to ten-year period (2012-2021) which is not enough to get sufficient evidence for generalization as situations do change overtime. Other researchers should extend the scope beyond this period to overcome lapses of global economic inherent.

There has been a vast array of literature and studies conducted regarding DP, inflation rate, and SPs in the banking sector and non-banking industry in Nigeria and abroad [9-21]. The outcomes of these studies had varying findings, which revealed weak DP, negative association with SP [11-13], While some studies indicated no significant association amongst DP and SP [19, 21], others found a strong connection between DP and SPs [15-17, 20]. The primary drawback of the earlier researches on the association between DP and SP of Nigerian banks is that it predominantly employed the ERR as proxy for DP [11, 12, 22-24]. In this study, IFR was introduced as the moderating variable as none of the previous studies used it as moderator. Theoretically, New Keynesian
Q (NKQ) theory was also introduced by this study as a result of the introduction of IFR as a moderator. Based on the foregoing arguments on the connection between SP movement and DP, this study we set to observe how IFR could moderate the relationship between ERR and SP of listed DMBs in Nigeria.

The current study also has the potentials to extend the frontiers of knowledge, as well as providing remedy to lower SP in Nigeria which are expected to be of significance in taking a holistic approach at previewing the moderating influence of IFR toward impact of DP as denoted by ERR on SP. In addition, it will address the problems of inconsistencies in the application of yardstick to determine the impact of DP on SP. Finally, the management of listed DMBs in Nigeria will also benefit from the findings of this study by understanding when and how to use dividend policies with respect to previous or current real asset earnings amongst different equity holders based on their holding structure.

2. Literature Review

2.1. Share price

The concept of SP was first invented in Amsterdam where the company of the Dutch East India formally developed the world’s number one publicly traded company when it releases shares of the company on the Amsterdam Stock Exchange [25]. Collins [26] defined price as the property of having material worth often expressed as the amount of money something would bring if sold. Similarly, Hornby [27] defined a price as a term relative to particular situation depending on how it is perceived. It is usually depicted to represent quality or worth of an item of good or transaction as the case may be. Equity shares values daily listed on the NGX is known as market price per share. Therefore, the SP in this study is operationalize as the economic value per share of an entity for which it is offered in the stock exchange market at the conclusion of each trading day.

2.2. Earnings retention ratio

The concept of ERR is a financial concept that quantifies how much revenue or profit is added to retained earnings at the year’s conclusion. The percentage of profits withheld by the business and not paid out as dividends at year end is known as the retention ratio [28]. Therefore, in this study, the proportion of net income that a company retains on hand rather than payment as dividends to stockholders is known as the ERR. This is
because, the significance of the retention ratio stems from the fact that businesses that reinvest their net income back into their operations are likely to have growth prospects in their present pipelines.

2.3. Inflation rate

According to Gautam and Bista [29], inflation refers to a persistent rise in the general level of prices within a given geographical market. The rate of inflation is the rate at which prices rise over time and decrease the purchasing power of money. The overall cost of living is affected by the loss of purchasing power, which decelerates economic growth especially in the long run. Most economists regarded continuous inflation happens when a state’s money supply increases quicker than its economy. Similarly, IFR represents the purchasing power of money at a particular point in time in an economy [5]. In the same vein, inflation can be defined as the persistent rise in general prices in an economy [3]. In this present study, inflation is defined as a monetary phenomenon due to the depreciation of a commodity’s monetary unit of measure.

2.4. Theoretical framework

Theories have been grounded in finance with a view to explaining the connection between inflation and stock prices as well as a firm’s DP and common shares. These include: - Dividend Relevance Hypothesis, Dividend Irrelevance Theory and The New Keynesian Q (NKQ) theory.

2.4.1. Dividend relevance theory

This theory propounded by several scholars, including Lintner [30], Gordon [31], and Walter [32]. The theory suggests that shareholders are mostly risk averse. Therefore, they prefer to collect dividends in present time not minding if the share could appreciation later. This is a typical description of bird-in-the hand theory. It suggests that changes in the firm’s DP could results to an influence on its SPs. Therefore, shareholders prefer dividend payment to capital gains because. In other words, a dividend paid today is preferable to a capital gain that may or may not be realized in the future [31].
2.4.2. Dividend irrelevance theory

A theory propounded by Miller and Modigliani [33] which upholds that payment of dividend does not have an impact on stock's cost of capital or SP. The irrelevance hypothesis proposes that dividend payment does not increase the profitability or SP of the company. Alajekwu and Ezeabasili [34] asserted that the dividend irrelevance theory is the dominant one, because, whether or not dividends are paid has no bearing on the firm's value. The following suppositions serve as the foundation for the irrelevance of DP. The prevailing market values represent a perfect capital market with absolute confidence and balanced investors [35]. They further propound that, in a perfect marketplace, neither a buyer nor a seller would have any significant transactions that would affect the price that would prevail. As a result, market is free for equal access to information (for buyers and sellers) on the variables that influence the share’s current price and other related details. In addition, investors do not incur brokerage fees and other transaction costs at the time of purchasing and selling of securities on; therefore, they have no bearing on the SP. Moreover, tax differences between dividends and capital gains as well as between dispersed and undistributed income are not applicable [23]. This presumption suggests that dividends and capital gains are taxed at the same rate [36].

2.4.3. New keynesian Q (NKQ) theory

The New Keynesian Economics is the modern macroeconomics school of thought that grew from the prominence classical Keynesian economics. The former differs from the later especially in terms of the fast changes in prices and wages. The New Keynesian Q (NKQ) theory establishes a reasonable justification for the correlation between predicted inflation and stock prices by tying investments, stock prices, and inflation together.

The studies described above encompass the fundamental concepts used in the research of DP, IFR, and SP. Therefore, based on the shortcomings of the mentioned theories, the study is firmly rooted in the dividend irrelevance theory as it is viewed as the leading one because, whether or not dividends are paid has no bearing on the firm's value [34]. This theory positions that payment of dividend does not have an impact on stock’s cost of capital or SP.
2.5. Empirical review

The following studies were carried out some of which relate to the non-banking sector, and a variety of findings were documented, analyzed, and synthesized.

2.5.1. Earnings retention ratio and share price

Khan et al. [37] examined the effect of DP on SPs in Malaysia. Panel data of 55 KSE-100 Index listed companies between 2001 and 2010 were and found a negative relationship between ERR and SPs, which considerably explains price fluctuations on the stock market.

Similarly, Zia and Kochan [10] investigated the influence of DP on US banks stock prices. The data were divided in three time periods. DP was hypothesized as the amount of dividend reductions made by banks across the three periods, and share value was arrived through looking at the values of these institutions' shares over the relevant years. At the end, ERR had a considerable negative impact on SPs in the years following the financial crisis, according to regression models.

A similar study was undertaken by Iftikhar et al. [38]. The outcomes of the study displayed strong adverse association between retention ratio and stock market prices. In contrast, Oloruntoba and Kunle [12] carried out research in Nigeria on the connection between DP and SP and looked at the impact of Zenith Bank Plc's DP as a focal point of the study during a ten-year period. The results indicated that across the study period, the ERR had no discernible influence on the SP of Zenith Bank. In addition, Sharif et al. [39] did a study that looked at the correlation between 45 non-financial businesses' stock prices and dividend policies during the twelve-year period between 2001 and 2012. The outcome of the regression showed that ERR has an insignificant association with SP.

Islam [40] also viewed at the effects of DPs on the SPs of chemical and pharmaceutical businesses listed on Dhaka Stock Exchange period from 2009 to 2018. The outcomes of the analysis showed that Bangladeshi chemical and pharmaceutical businesses' SPs are not significantly impacted by the dividend retention ratio. In a similar study in Ghana that was carried out by Adam et al. [41], they used 14 publicly traded companies that had paid at least one dividend in the previous five years, and the data was purposefully picked from 2009 to 2018. The result show that the market price per unit share was negatively insignificantly affected by the retention ratio, according to the empirical finding from the fixed effect regression.
Usman et al. [28] used the purposive sampling technique to empirically assess how DP could affect SP in manufacturing businesses in Indonesian between the years 2014–2018. It reveals that while return on equity, retention ratio, and earnings per share has negligible effects on SPs, dividend yield ratio has a negative effect.

2.5.2. Dividend policy, inflation and share price

Chelimo and Kiprop [42] carried out a study with data of six insurance companies in Kenya for the period between 2006 and 2015 and found that earnings per share, dividend yield ratio, and inflation had significant and positive impacts on the SP value. Additionally, Gautam and Bista [29] investigated the elements influencing the SP of Nepalese non-life insurance firms. The observations from non-life insurance firms and found that the market price of a share is adversely correlated with both dividend and inflation.

Moreover, Simajuntak and Sutandijo [3] examined the effect of macroeconomics and DP on SPs. Macroeconomics was proxied by exchange rates, inflation, and interest rates, while the stock price was determined by the closing price. Also, DP is derived using the dividend payout ratio (DPR). The study used all the listed basic and chemical manufacturing firms on the ISE between 2016 and 2020 and findings demonstrate that the stock price is significantly influenced by the exchange rate variable while being unaffected by the DPR variable, inflation, or interest rate.

Also, Kristanti and Wardani [43] tries to ascertain the impact of profitability, leverage, board size, institutional ownership, inflation and firm growth on DP from 2017–2020 financial years. The findings indicated that the DP is not significantly impacted by inflation. Similarly, Dasman and Gunawan [44] found that firm size, leverage, and dividend payment ratio have little bearing on SP volatility between 2016-2020. IFR and economic growth have a negative effect with regards to the volatility of SP. However, the results revealed a positive influence of trading volume on SP.

Christine et al. [45] explore the influence of inflation on stock price from 2019 to 2021 periods. The findings showed that inflation had a favourable effect on SPs. In a similar work, Astuti and Yusuf [20] found that stock prices are significantly impacted by inflation between 2017-2021 in Indonesia.

It is clear from the aforementioned studies that while both DP and IFR were used as independent variables in each study, IFR was not used as a moderating variable between DP and SP. As a result, the current study finds it important to investigate the
moderating effect of IFR on the association between ERR and SP of listed DMBs in Nigeria.

2.6. Development of research hypotheses

Based on the above empirical studies reviewed, three research hypotheses were developed.

2.6.1. Impact of earnings retention ratio on share price

The ERR is one of the proxies of DP. Studies on the relationship between ERR and SP produced mixed results. Some of the studies produced negative relationship between ERR and SP [46-48]. While, other studies presented no relationship between retention ratio and SP [12, 28, 39, 40]. In view of the above, the first hypothesis is postulated as follow:

\( H_0^1: \) Earnings retention ratio has no significant effect on SP of listed DMBs in Nigeria.

2.6.2. Moderating effect of inflation rate on dividend policy and share price

The moderating factor is the IFR. Although there have been studies on the moderating role of IFR, the results of these studies on the effect of both DP and IFR on SP have been inconsistent. For instance, Chelimo and Kiprop [42] shown that inflation and DP both positively affect SPs, while Gautam and Bista [29]; Dasman and Gunawan [44] demonstrated the opposite. In addition, neither the DP nor inflation had any impact on the SP, according to Simajuntak and Sutandijo [3], Kristanti and Wardani [43]. Following the aforementioned reasoning, the following second and the third hypotheses were also proposed:

\( H_0^2: \) Inflation rate has no significant impact on share price of listed DMBs in Nigeria.

\( H_0^3: \) Inflation rate has no significant moderating impact on the relationship between ERR and SP of listed DMBs in Nigeria.
2.7. Conceptual model

The present model modifies Baskin [49]'s (Figure ??) with the inclusion of IFR as independent and a moderator variable in the study. ERR is also considered as the independent variable of the study. Similarly, firm size was also added as control variable in the model.

Figure ??: Conceptual model. Source: Modified from Baskin [49]'s.

3. Methodology

The current study used a design of ex-post facto in conducting the study. This is due to the fact that it is an investigation that begins after the event has already occurred without the researcher’s involvement. This research design is in line with this study, because, the data for both dividend policies and SPs already exist in annual reports of companies. Census sampling technique was used and annual reports of the sampled banks were used for the period 2012-2021. Therefore, the data obtained from this source was in respect of both dependent variable (SP) and independent variable (ERR). However, the moderating variable (IFR) was obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin.

Data analysis was conducted to describe, correlate, and regress the study variables (Table 1). The choice of the multiple regression technique was influenced by its applicability in earlier studies of a similar nature, including those by Aribaba et al. [50], Dang et al. [51], and Simajuntak and Sutandijo [3].

### Table 1: Variables definition.

<table>
<thead>
<tr>
<th>Variables (DV)</th>
<th>Proxies</th>
<th>Operationalization</th>
<th>Acronym</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variables (DV) Share Price</td>
<td>Share Price</td>
<td>closing share price as at 31st December for the year under study</td>
<td>ShP</td>
<td>Usman et al. [28]; Simajuntak and Sutandijo [3]</td>
</tr>
<tr>
<td>Independent Variables (IVs) Dividend Policy</td>
<td>Earnings Retention Ratio</td>
<td>1 – dividend payout ratio</td>
<td>ERR</td>
<td>Islam [40]; Usman et al. [28].</td>
</tr>
<tr>
<td>Moderating Variable (MV) Inflation Rate</td>
<td>Inflation Rate</td>
<td>The percentage (%) of inflation as at 31st December for the year under study</td>
<td>InfR</td>
<td>Chelimo and Krop [42]; Simajuntak and Sutandijo [3]</td>
</tr>
<tr>
<td>Control Variables (CV) Firm Size</td>
<td>Natural Logarithm of total assets</td>
<td>FIRMSZE</td>
<td>Tijjani [52]; Bhatt and Jain [17]</td>
<td></td>
</tr>
</tbody>
</table>

Source: Literature Review (2022)
3.1. Model specification

\[ \text{ShP}_{it} = \alpha_0 + \alpha_1 \text{ERR}_{it} + \alpha_2 \text{FIRMSZE}_{it} \] (i)

\[ \text{ShP}_{it} = \alpha_0 + \alpha_1 \text{ERR}_{it} + \alpha_3 \text{INFRTN}_{it} + \alpha_4 \text{FIRMSZE}_{it} \] (ii)

\[ \text{ShP}_{it} = \alpha_0 + \alpha_1 \text{ERR}_{it} + \alpha_2 \text{INFRTN}_{it} + \alpha_3 \text{ERR} \times \text{INFRTN}_{it} + \alpha_4 \text{FIRMSZE}_{it} \] (iii)

Where for each firm (i) and each year (t):

\( \alpha_0 \) : Coefficient of the constant
\( \alpha_1 \) - \( \alpha_4 \): Estimated Parameters (average unit increase of the dependent variable as a result of a unit increase of independent variable)

\( \text{ShP} \) : Share Price
\( \text{ERR} \) : Earnings Retention Ratio
\( \text{FIRMSZE} \) : Firm Size
\( \text{INFRTN} \) : Inflation Rate
\( E \) : Error Term

4. Results and Discussion

4.1. Introduction

The data are synthesized, presented and analyzed in this section. First diagnostics and post estimation tests were conducted to ensure the normality of the data and free from outliers. Pooled regression and fixed effect regression were used to confirm the stated assumptions. Lastly, the result of the study was also discussed.

Descriptive statistics

Table 2 presents the descriptive statistics.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP</td>
<td>140</td>
<td>9.348429</td>
<td>10.84729</td>
<td>0.5</td>
<td>53.25</td>
</tr>
<tr>
<td>ERR</td>
<td>140</td>
<td>0.7721155</td>
<td>0.3820589</td>
<td>-2.34883</td>
<td>2.81212</td>
</tr>
<tr>
<td>INFRTN</td>
<td>140</td>
<td>12.366</td>
<td>3.109007</td>
<td>8.06</td>
<td>16.95</td>
</tr>
<tr>
<td>FIRMSZE</td>
<td>140</td>
<td>23.56238</td>
<td>3.061974</td>
<td>16.46274</td>
<td>28.5849</td>
</tr>
</tbody>
</table>

Note: SP = Share Price; ERR = Earnings Retention Ratio, INFRTN = Inflation, and FIRMSZE = Firm Size.

Source: Author's own work, STATA output 14.0 based on data collected (2012-2021)

It is evidenced from the Table 2 that on the average, SP is 9.35, which indicated that the average SP of the companies is N9.35k with a minimum of 5k and a maximum...
of N53.25k. This reveals a significant variation in SP among the companies by looking at value of the standard deviation (10.85) which outweigh the mean. It also indicates a mean of 0.7721155 of the ERR which means that on the average, companies’ ERR is 77%. It also has minimum and maximum values of -235% and 281% respectively. A standard deviation of 38% means that there is low variation in ERR among the companies since it is lower than the mean value. For the moderator variable (IFR) it recorded an average of 12.366, which implies that, the average IFR for the period of the study is 12%. The minimum value of 8% and maximum value 17% were also ascertained. This clearly shows a low variation in the rate of inflation during the period of the study with a standard deviation of (3%).

For the control variable, the mean of firm size is 23.56238 while the minimum and maximum values are 16.46274 and 28.5849 respectively. The standard deviation of 3.061974 showcases low level of dispersion in firm size of the industry due to its smallness as compared with the mean value.

4.2. Correlation result

The correlation analysis is presented in Table 3. For the purpose of this study, the relationships between all the independent variables themselves are displayed to see the level of their relationship in the model. As shown on Table 3, there is positive connection among the variables with absence of high correlation. This is because, none of the relationship up to 0.8. Thus, multicollinearity does not exist.

Table 3: Correlation analysis.

<table>
<thead>
<tr>
<th>Variables</th>
<th>SP</th>
<th>ERR</th>
<th>INFLN</th>
<th>FIRMSZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>SP</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERR</td>
<td>-0.1508*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFLN</td>
<td>0.0358</td>
<td>0.0077</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>FIRMSZE</td>
<td>-0.3315***</td>
<td>0.1314</td>
<td>0.0762</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Note: SP = Share Price; ERR = Earnings Retention Ratio, INFLN = Inflation and FIRMSZE = Firm Size. Therefore, ***, ** and * indicate 1%, 5% and 10% significant levels respectively.

Source: Author’s own work, STATA output 14.0 based on data collected (2012-2021)

4.3. Regression analysis

This part dwelled on regression results conducted on all models with a view to testing the formulated hypotheses. However, all the diagnostic test (normality test of residuals,
multicollinearity test, heteroscedasticity test, Hausman specification test, Breusch and Pagan Lagrangian multiplier test (LM) and F-test) were carried in the first place before the regressions.

4.4. Regression results

In this section, regression results are presented on Table 4. Statistics such as $R^2$, F-statistics, coefficient values, t-statistics values and the probability values were used to demonstrate the direction and the strength of relationship as well as the cumulative effect of both independent and moderating variables on the dependent variable, as well as, ascertaining the fitness and the predictability of the study models. Thus, the discussion of the results were based on fixed effect regression for all the models as suggested by Hausman Test and F-Test.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model I</th>
<th>Model II</th>
<th>Model III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.26 (0.23)</td>
<td>3.30 (0.23)</td>
<td>2.89 (0.20)</td>
</tr>
<tr>
<td>ERR</td>
<td>2.61 (2.19)**</td>
<td>2.62 (2.19)**</td>
<td>5.00 (2.20)**</td>
</tr>
<tr>
<td>INFLTN</td>
<td></td>
<td>0.01 (0.08)</td>
<td>0.24 (0.76)</td>
</tr>
<tr>
<td>ERR*INFLTN</td>
<td></td>
<td>-0.30 (-1.29)</td>
<td></td>
</tr>
<tr>
<td>FSIZE</td>
<td>-0.07 (-0.10)</td>
<td>-0.07 (-0.10)</td>
<td>-0.10 (-0.16)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.0805</td>
<td>0.0806</td>
<td>0.0987</td>
</tr>
<tr>
<td>F-statistics</td>
<td>1.75</td>
<td>1.49</td>
<td>1.27</td>
</tr>
<tr>
<td>P-Value</td>
<td>0.1148</td>
<td>0.1771</td>
<td>0.2553</td>
</tr>
</tbody>
</table>

Note: *** = 1%, ** = 5%, * = 10% significant levels; the z-value is in parenthesis and other figures are the coefficients.

Source: Author’s own work, STATA 14.0

4.5. Hypotheses testing

Three research hypotheses were developed in section two of this study to be tested with the result of the empirical investigation on how the rate of inflation affects the connection between ERR and SP of listed DMBs in Nigeria.

Hypothesis 1

$H_0$: Earnings retention ratio has no significant impact on share price of listed DMBs in Nigeria.
The outcome of the analysis from Table 4 under model I shows that ERR has positive and significant impact on SP (coef=2.61, t=-2.19). Hence, for the impact of ERR on SP, we reject the null hypothesis 1 which positions that ERR has insignificant impact on SP of listed DMBs in Nigeria. This means that ERR is among the determinants of SP of listed DMBs in Nigeria. This finding is inconsistent with the findings of Oloruntoba and Kunle [12]; Sharif et al. [39]; Islam [40] and Usman et al. [28] who found that there is no significant relationship between ERR and SP.

4.5.1. Hypothesis 2

Ho$_2$: Inflation rate has no significant impact on share price of listed DMBs in Nigeria.

Secondly, under model II on Table 4, the result shows that IFR has positive and insignificant impact on SP (coef=0.01, t=-0.08). Hence, the study fails to reject the null hypothesis 2 of the study which upholds that IFR has no significant impact on SP of listed DMBs in Nigeria.

4.5.2. Hypothesis 3

Ho$_3$: Inflation rate has no significant moderating effect on the relationship between ERR and SP of listed DMBs in Nigeria.

Thirdly, under model III on Table 4, it shows a negative and insignificant impact of moderated ERR with inflation on SP (coef=-0.30, t=-1.29). Hence, for the moderating effect test, the study fails to reject the null hypothesis 3 which states that inflation has no significant moderating effect on the relationship between ERR and SP of listed DMBs in Nigeria.

Finally, the result clearly revealed that inflation does not moderate the relationship between ERR and SP of listed DMBs in Nigeria. This means that, inflation is not a good moderator to influence the relationship. This finding is in line with that of Simajuntak and Sutandijo [3] who presented no effect of both DP and inflation on SP.

5. Conclusion and Recommendations

This paper examines the moderating role of IFR on the connection between ERR and SP of listed DMBs in Nigeria. The ERR, IFR and firm size constitute the explanatory variables of the study with the closing SP representing the SP which stands as endogenous variable of the study. The result of the hypotheses testing indicated that
ERR is positively related with SP of listed DMBs in Nigeria. The results show that the relationship is significant in the quantitative model of listed DMBs in Nigeria. This means that, the ERR as reported, despite the period of the study falls within the global economic crises, still has significant impact on DMBs market SPs. In contrast, from the analyses of the result, the study found that IFR has no significant effect on SP of listed DMBs in Nigeria. This shows that the relationship between inflation and SP is positive but insignificant. Likewise, the paper also revealed that IFR has insignificant moderation on the relationship between ERR and SP of listed DMBs in Nigeria. The study covers ERR which is viewed as an independent variable of the study. The study also covered firm size as control variable of the study. The SP was considered as the dependent variable, while IFR was also used as the moderating variable. The study was restricted to consider only one sector of the Nigerian exchange classification. The findings of this study will not be generalized to all companies listed on the Nigerian exchange due to the inability of the researcher to consider other sectors of the economy. As this study is not exhausted, other researchers should go beyond the scope of this study so as to harmonize findings. First and foremost, the study suggested that researchers should study other macroeconomic indicators such as exchange rate, interest rate etcetera as moderator variables which are not covered by this study. Secondly, this study covers only banking sector which is just one out of many. It is suggested that researchers should study either the same variables or others in other sectors of the economy. Thirdly, this study confined to ten-year period (2012-2021) which is not enough to get sufficient evidence for generalization as situations do change overtime. Other researchers should extend the scope beyond this period to overcome lapses of global economic inherent. Finally, the study suggested that future researchers should study the variations of non-banking organizations to serve as a basis for comparison between banking industry and non-banking industries. Thus, banks that are instituted to improve the value of SP can be enhanced through earnings management in its DP.

References


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