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Effect of Dividend Policy on the Share Price of Selected Quoted Companies in Nigeria

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Abstract

Dividend policy of companies determines what proportion of earnings is distributed by way of dividend to shareholders and what proportion is ploughed back for reinvestment purposes. However, Companies today belongs to different people with individual views on how to divide the company's earnings between payouts and retention. This makes it difficult for corporate managers to make the most appropriate decision about the payout policy to be followed as it no doubts affects how each of the diverse investors place value on the company. Hence, this study investigated the effect of dividend policy on the share price of selected quoted companies in Nigeria. In addition, the study evaluated what influences share prices the most between dividends and earning and conducted an investigation into the sectoral effect of dividend policy on share price. Dividend signalling theory which is an extension of the dividend relevance theory was adopted for the study. The study adopted an analytical research design and 56 quoted companies were purposively sampled for the purpose of the study. Companies selected are companies with dividend record throughout the study period. Secondary data drawn majorly from the Fact book of the Nigerian Stock Exchange for the period covering 2006-2012 was used for the study. Two multiple regression models were statistically tested using panel least square method. The result of the empirical study carried out showed that dividend payout and dividend yield which are two important measures of dividend policy exerts a significant negative influence on the market price of shares of Nigerian quoted companies. This was significant at the 5% level. In addition, the study found that dividend paid to shareholders in Nigeria has a greater impact in the determination of the market price of shares than the earning streams of the companies and that the impact of dividend policy on share price differs from one sector to the other. The study therefore concluded that dividend policies matters in the shaping of the share prices of Nigerian quoted companies and recommended amongst other things that Managers of Nigerian companies should ensure their dividend payouts ratios are reduced in the face of profitable investment opportunities so as to increase the company's share price.

Keywords: Dividend policy, Share price, Earnings, Quoted Companies, Nigeria

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Introduction

The dividend policy of a company is a guideline that determines the proportion of earnings that is distributed to the shareholders by way of dividends, and the proportion that is ploughed back for reinvestment purposes. Dividend policy represents the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time (Davis, 2006). The determination of the amount of dividends payable by companies is an important decision area and it forms part of their financial management strategy. The main objective of financial management is to maximize the market value of equity shares, thus, one key area of study is the relationship between the dividend policy and market price of equity shares (Waithaka, Ngugi, Aiyabei, Itunga and Kirago, 2012). This objective translates into maximizing the value of the company as measured by the price of the company's common stock which can be achieved by giving the shareholders a "fair" payment on their investments.

However, the impact of firm's dividend policy on shareholders wealth is still unresolved (Kapoor, 2012). There is a school of thought that believes that higher dividend payout ratio makes shares more attractive to shareholders. This may not always be true as some investors view companies that retained higher proportions of their profits as companies with strategic investment opportunities (Abubakar, 2010). Along this line, another school of thought emanated suggesting that those companies who have viable investment opportunities should retain their profits and invest in such opportunities. The view of this school of thought is based on the premise that when companies declare dividends, it indicates the lack of profitable investment opportunities and could be considered negatively by investors thereby resulting in negative abnormal returns on their market share. Thus, it is imperative for corporate managers of Nigerian quoted companies to be able to formulate their dividend policies in the light of these two extreme views given that dividends are more than just a means of distributing net profit. This is because the dividend policy of a firm has implication for investors, managers, lenders and other stakeholders and variations in dividend payout ratio could affect share prices (Kapoor, 2012).

The goal of any business is to earn profit and the division of this profit, embedded in its dividend policy, is an element of the firm's financial strategy (Jakub, 2007). However, today companies belong normally to different people or groups of people with individual views on the business and how to divide the firm's profit between pay outs and retention. Generally, the basic objective of shareholders is to maximize their return and this return may be in the form of dividends or capital gain (Abubakar, 2010). Investors' decisions regarding the return on investment are affected

by the dividend policy of the company. Hence, the maximization of shareholders' wealth, in this case, depends on the dividend policy of the company. It, therefore, becomes a difficult task to make the most appropriate decision about the payout policy to be followed as it no doubt affects how each of the diverse investors place value on the firm. This puts managers in a dilemma as to whether to pay large or small percentage of their earnings as dividends or to retain the whole of its earnings for future investments. Managers also have to contend with the question of whether or not dividend paid is the major factor that shapes share prices. However, the kind of dividend policy they eventually adopt will have either positive or negative effect on the share prices of the company.

Although several literatures on dividend policy such as Khan (2012) and Murhadi (2010) have provided a large body of empirical research, most of the empirical works carried out were in stock markets in developed economies. However, the few studies in developing economies, especially Nigeria such as Adediran and Alade (2013), Uwuigbe, Jafaru and Ajayi (2012), Adeshola and Okwong (2009) and Adeyemi and Adewale (2004) were focused on the dividend practice of Nigerian companies as well as the relationship between dividend policy pursued by companies in Nigeria and their performance. It was discovered that there is dearth of empirical research in the area of the impact of dividend policy on share prices of companies in Nigeria. Thus, given the volatility of share prices in the stock market (Ilaboya and Aggreh, 2013), there is a need to extend the body of knowledge in this area. In the light of this, the study examined the effect that a firm's dividend policy has on its share price. Hence, the following research questions were raised: what level of influence does dividend payout have on market price of share? what level of influence does dividend yield have on market price of shares? what is the major factor that influences share price between dividend payout and earnings? does the dividend policy and its effect on share price differ between the different sectors?

In line with the research questions, the following hypotheses were formulated and tested:

- H₀₁: Dividend payout has no statistically significant effect on the market price of shares of quoted companies in Nigeria.
- H₀₂: Dividend yield has no statistically significant effect on the market price of shares of quoted companies in Nigeria.
- H₀₃: Dividend payout is not the major factor that influences the market price of shares of quoted companies in Nigeria when compared to their earnings.
- H₀₄: The dividend policy and its effect on share price do not differ between different sectors of the economy.

Literature Review

Conceptual Framework

Dividends are returns on investment to shareholders who have stake in the business of a firm (Kurfi, 2006). From the view point of these shareholders, dividends represent compensations for postponing consumption. According to Carlson (2001) dividends constitute the primary cash payment to stockholders. Olowe (2009) described dividend as distributions made out of a company's earnings after the obligations of all fixed income holders have been met. In his view, Pandey (2005) defined dividends as earnings distributed to shareholders, and which constitute the use of the firm's funds.

A dividend once declared by the board of directors becomes a current liability of the company. Therefore, every firm should decide whether to keep its profit as retained earnings or pay out as dividend. Dividends, of course, reduce the amount of earnings retained in a company and affect the total amount of internal financing (VanHorne, 2004).

Dividends can take several forms. However, the most common form of dividend payments is cash. Dividend payment can also take the form of scrip issues and scrip dividends (Olowe, 2009; Aminu, 2010). In addition to these, Kurfi (2006) went a step further by stating that dividends may also take the form of bond dividends and liquidating dividends.

Dividend policy represents agreed guidelines which regulate management decision in sharing profit to shareholders (Ashamu, Abiola and Badmus 2009). Kurfi (2006) described dividend policy as a standard policy with respect to the payment of cash dividends. Pandey (1999) sees dividend policy as a decision by the financial manager whether the firm should distribute all profit or retain them or to distribute a portion and retain the balance. Dividend policy is extremely important because of its effect on share values (Akinsulere, 2011). Therefore, the objective of a dividend policy should be to maximize the shareholders' return so that the value of their investment is maximized.

In his view of dividend policy, Chandra (2002) posited that the dividend policy of a firm determines what proportion of earnings is paid to shareholders by way of dividends and what proportion is ploughed back in the firm for re-investment purposes. Furthermore, the Institute of Chartered Accountants of Nigeria (ICAN) (2009) concluded that the pertinent questions to be answered in the formulation of any dividend policy should include; what will be the effect of either decision on value of the firm? If the company decides to pay dividends, how much should be paid and how much should be retained? If there are investment opportunities, should the firm use the monies available for dividend to

finance these investments or should it pay dividends and borrow later to finance these investments? In answering these questions, different types of dividend policies have been adopted by different companies.

Dividend policy, according to Akinsulere (2011); Aminu (2010); Chandra (2002), could either be passive or active. When a company follows a passive dividend policy, it means it is treating dividend payment as residual. This means that the determining factor as regards payment of dividend and how much to pay is the availability of profitable investment projects. These are projects with positive net present value (Aminu, 2010). The equity earnings of the firm are first applied to provide equity finance required for supporting investments. The surplus, if any, left after meeting the equity investment needs is distributed as dividends. Put differently, dividends are merely treated as a residual payment after equity investment needs are fulfilled (Chandra, 2002).

The active dividend policy, on the other hand, regards dividend payment as a critical factor in the determination of the value of the firm and hence, the wealth of its shareholders. Aminu (2010) is of the view that the active dividend policy treats dividend payment not just as a way of sharing profits; it also looks at retentions as residue. Therefore, under an active dividend policy, dividends are accorded priority before the company will commit itself to its capital needs (Akinsulere, 2011). This implies that it is after the payment of dividends that viable projects can be undertaken.

One of the most challenging issues in modern corporate finance is identifying the determinants of corporate dividend policy (Naser, Nuseibeh and Rashed, 2013). This reality has been expressed by Black (1976) who described the identification of factors that underline dividend policy as being a puzzle. These factors as identified by earlier studies such as Naser et al. (2013); Fazli, Ijaz and Attiya (2011); Al-Kuwari (2009); Malla (2009); Al-Malkawi (2007); and Fama and French (2000) include pattern of past dividends, stability of earnings, liquidity and cash flow position, legal requirements, industry type, ownership structure, firm size, growth opportunities, financial leverage, projections about the future state of the economy, stockholders' characteristics, concerns about stock price, the need of current stockholders and firm's internal policies that enshrines the need to repay debt through retained earnings.

Although the declaration and payment of dividend is an internal matter of the company and is governed by its Articles, the board of directors of Nigerian companies are governed and guided by the provisions of the sections 379 – 382 of the Companies and Allied Matters Act (CAMA) (2004). Specifically, section 379 (1) of the Act provides that a company may, if so

authorized by its articles, pay dividend on the paid up value of shares. This section of the Act further permits a company to declare dividend at its general meeting provided the amount declared does not exceed the amount recommended to it by the board of directors. When such dividend is declared, the Act provides that, it becomes a liability of the company to the shareholders from the date of its declaration although no interest can be claimed on it.

Furthermore, Section 380 the Act provides that companies can only pay dividends out of the current profits of the company and/or its past accumulated profits and/or profits realised on the disposal of fixed assets. However, Section 381 of the Act forbids dividends being declared or paid if there are reasonable grounds for believing that the company would be, after the payment, unable to pay its liabilities as they become due.

The Act stipulates that dividend shall be paid only to those whose names appear on the register of members on the date of declaration of dividend or to the holders of dividend warrant, if issued by the company. Section 382 however, provides that where dividends are returned to the company unclaimed, the company shall send a list of the persons entitled with the notice of the next annual general meeting of the members and after the expiration of 3 months of this notice, the company may invest the unclaimed dividend for its own benefit in an investment outside the company.

Theoretical Framework

The dividend signalling theory was adopted for this study. It is based on the fact that corporate management may use dividends payout to signal information to the markets to value their companies (Naser et al., 2013). This is as a result of the asymmetry of information between insiders (Managers and Directors) and outsiders (Shareholders). This creates an informational gap and this gap may cause the true intrinsic value of the firm to be unavailable to the market (Al-Malkawi, et al., 2010). In an attempt to close this gap, managers may need to share their knowledge with outsiders so they can more accurately understand the real value of the firm. In this way, dividends came to provide a useful tool for managers in which to convey their private information to the market (Baskin and Miranti, 1997; Aminu, 2010). Put differently, Lintner (1956) indicated that dividends provide a signalling device and the market uses dividend announcements to value firm's share. Investors consider changes in dividends payout as signals of company's prospects. Thus, the dividend signalling hypothesis maintains that corporate decisions on dividend policy may signal inside information regarding expected future cash flow because of information asymmetry between a company's management and outside investors (Miller and Rock 1985; Olatundun 2009).

Empirical Studies on Dividend Policy

The literature on dividend policy has produced a large body of theoretical and empirical research, especially following the publication of the dividend irrelevance hypothesis of Miller and Modigliani (1961). However, general consensus is yet to emerge after several decades of investigation; and scholars often disagree even about the same empirical evidence (Al-Malkawi, et al., 2010).

Abdullah (2014) empirically estimated excess stock market returns for all the thirty banks listed on Dhaka Stock Exchange for the period of 2007 to 2011 in an attempt to investigate dividend policy and its impact on stock price. Attempts were made to examine the kind of relationship that exists between dividend policy and stock market returns of private commercial banks in Bangladesh, and to what degree the returns on stocks can be explained by their respective dividend policy for the same period of time. Panel data approach was used to explain the relationship between dividends and stock prices after controlling the variables like earnings per share, return on equity. Retention ratio was found to have significant positive relationship with stock prices and explained the variations in the market prices of shares, while dividend yield and profit after tax had negative, insignificant relationship with stock prices. The study concluded that dividend policy has significant positive effect on stock prices.

Asadi (2013) examined the relationship between the dividend policy and stock prices in Iran during the years 2007 to 2011. The regression equation was determined based on the results obtained and according to the type of relationship among the variables used for the study. The study showed that there is a direct significant relationship between the variables of earnings per share and cash dividend. The study further revealed that, ranking the variables also indicated the preference of earnings per share to the cash dividends.

Zakaria, Muhammed and Zulkifli (2012) investigated the impact of dividend policy on the share price volatility of the Malaysian listed construction and material companies using the least square regression method after controlling for debt, firm size, investment growth and earnings' volatility. The study found only 43.43 percent of the changes in the share prices are explained by dividend yield, dividend payout ratio, and investment growth, size of the firm, leverage and earnings volatility. The study revealed that dividend payout ratio significantly influences the changes in share price. The study further revealed that the greater the size of the company, the more the volatility of share price would be and that dividend yield, investment growth and earnings volatility insignificantly influence the changes in the company's share price. Finally, the study

revealed that leverage negatively influences the movement of the share price.

Joshi (2011) investigated the impact of dividend on stock prices in Nepal. Secondary data was utilized for the study and the least square regression model was adopted for data analysis. The result showed that the impact of dividends is more pronounced than that of retained earnings in the context of Nepal. Thus, the study concluded that dividend has a significant effect on market stock price in both banking and non-banking sector.

In Nigeria, studies have been conducted in the area of dividend policy and its relationship with liquidity, earnings and stock market returns. Ilaboye and Aggreh (2013) examined the relationship between dividend policy and share price volatility across companies listed in the Nigerian Stock Exchange Market. The study made use of a sample of 26 companies that cuts across a number of sectors using simple random sampling technique over a period (2004 – 2011). For robustness purpose, the regression analysis was conducted using the pooled OLS and Panel EGLS. The findings of the study indicated that dividend yield exerts a positive and significant influence on share price volatility of companies while dividend payout exerts a negative and insignificant influence on share price volatility. The study recommended that companies should be consciously meticulous in their thoughts on efficient approach to maximizing the wealth of shareholders and simultaneously meeting the company's needs to finance its investments.

Okafor, Mgbame and Chijoke-Mgbame, (2011) examined the relationship between dividend policy and share price changes in the Nigerian stock market. A multiple regression analysis was used to explore the association between share price changes and both dividend yield and dividend payout ratio. Dividend yield showed a general negative impact on share price risk while dividend payout ratio showed negative influences in some years and positive influences on others though all were at lower significant levels. The study supported the fact that dividend policy is relevant in determining share price changes for a sample of companies listed in the Nigerian Stock Exchange. The study concluded that the challenge for managers and accountants is to generally improve the quality of the financial statements to avoid producing wrong information which could lead to wrong decisions by investors.

Adeyemi and Adewale (2004) evaluated the dividend practices among selected Nigerian quoted companies. Survey method was adopted in the study and structured questionnaires were employed. The result of the survey carried out showed that Nigerian investors' attitudes are consistent with those of the bird-in-the-hand theorists and that Nigerian managers

belief that dividend payout have significant signalling effect both on share price and future prospects of a firm

Although several literatures on dividend policy have produced a large body of empirical research, it was discovered that most of the empirical works were conducted in developed economies. However, the few empirical papers in developing economies, especially Nigeria, were focused on the dividend practice of Nigerian companies as well as the relationship between dividend policy pursued by companies in Nigeria and their performance. The present study found out that there is dearth of empirical research in the area of the effect of dividend policy on share prices of companies in Nigeria. Thus, there is need to extend the knowledge in this area given the volatility of share prices in the stock market. In addition, there is a need to utilize more recent data for more realistic results. The study also found that there is dearth of empirical studies on the sectoral analysis of the effect of dividend policy on share price in Nigeria. Therefore, this study intends to fill these gaps by empirically investigating the effect of dividend policy on share prices of companies listed on the Nigerians stock exchange. In addition, the study will carry out a sectoral analysis of the impact of dividend policy on share prices.

Methodology

This study empirically investigated the impact of dividend policy on share prices of selected Nigerian quoted companies. An analytical research design method was adopted by this study. This design is consistent with the study of Joshi (2011). Secondary data was utilized for the purpose of the study. This is because the estimation of the model in the study requires the use of pooled cross-section and time series data in the form of financial and market information. The sources of data for the study are therefore the Nigerian Stock Exchange (NSE) fact books for 2006 to 2012, daily official lists of the NSE for the study period, and the annual reports and accounts of the companies.

The target population for this study was the 187 public companies quoted on Nigeria Stock Exchange (NSE). However, the study purposively drew data upon a sample of 56 companies listed on the NSE for a seven year period (2006 to 2012). The 56 companies selected are the companies that satisfied a number of criteria, which are stated here under, used by previous studies on dividend policy such as Casey and Dickens (2000); Adelegan (2003); and Musa (2009). The choice of 2006 was due to the non availability of all necessary data prior to 2006 and the restriction to 2012 was because all of the companies sampled for the study except for few multinationals had not filed their annual report for 2013 financial year as at the time of carrying out the study. The sampled companies spread

across ten (10) sectors among the thirteen (13) sectors as classified by the NSE. Ten sectors were used because it was only in these sectors that companies that satisfy the sampling selection criteria were found. These are agriculture, conglomerates, construction, consumer goods, financial services, health care, industrial goods, information and communications technology, memorandum quotations, natural resources, oil and gas, services and alternative securities market. The other three (3) sectors which are information and communication technology, memorandum quotations and alternative securities market sectors were excluded because no company under these sectors meets the criteria used for the sample selection. These criteria have also been employed by previous studies on dividend policy such as Casey and Dickens (2000); Adelegan (2003) and Musa (2009). They are as follows: companies with the financial and market information available in the summarized annual reports contained in the Nigerian Stock Exchange fact books, annual report of companies and daily lists of the NSE for the study period necessary to estimate the various pooled panel data models; companies with positive earnings throughout the period of study; companies with record of dividend payment during the period of the study; companies with record of current assets and current liabilities during the period of the study.

In addition to these criteria, the four sectors selected and the six companies sampled in each of these sectors for purpose of the sectoral analysis were selected based on size of their total market capitalisation and average total assets for the study period respectively. The additional criteria were employed to ensure that equal numbers of companies are contained in each of the sectors used for the sectoral analysis.

For the purpose of this study, two econometric models was specified and estimated. The first model was used to investigate the effect of dividend policies (dividend yield and dividend payout ratio) on share price with two control variables (firm size and asset growth rate). It was also used to ascertain whether such effect of dividend policy on share price is sector specific. The control variables were added because by using only dividend payout ratio and dividend yield as a measure of dividend policy, multicollinearity problem is likely to arise since both variables are closely related to each other. However, the choice of firm size and asset growth as control variables was because the size of the firm may affect the dividend policy, as Baskin, (1989) and Ramadan (2013), submitted that companies that do not have ownership concentration use dividend as a signalling tool. Furthermore, this is because dividend policy may be affected by the growth of the firm, as companies in the growth phase retain their profit for expansion and do not distribute it. This model was adopted from the studies of Ramadan (2013) and it is as follows:

$$SP = \alpha + \beta_1 Dpor + \beta_2 Dyld + \beta_3 Size + \beta_4 AsGrt + \mu \quad (1)$$

The second model stated below was used in providing answers to the second research question involving the ascertainment of what influences the share price of quoted companies the most between dividend and earnings. According to Chandra (2002), advocates of the traditional position cite the results of a cross - section regression analysis like the following:

$$SHARE PRICE = \alpha + \beta DIVIDEND + \beta RETANED EARNINGS \quad (2)$$

Chandra stated that the traditionalist believe their model is vindicated because in any such regression analysis, the dividend coefficient will be much higher than the retained earnings coefficient. However, the study adapts the model above into a simple linear relationship as follows;

$$SP = \alpha + \beta_1 DPS + \beta_2 EPS + \mu \quad (3)$$

Where

α	=	Intercept	β	=	Parameter estimate
(coefficient)					
SP	=	Share price	Dpor	=	Dividend payout ratio
Dyld	=	Dividend yield	Size	=	Firm size
AsGrt	=	Asset growth	DPS	=	Dividend per share
EPS	=	Earnings per share	μ	=	Error term

Data Presentation and Analysis of Results

Test of Data

The result of the stationarity test with non-intercept term is presented in Table 1. The results showed clearly that four variables (SP, CITA, DPS and EPS) are stationary at level. However, the other three variables (DPOR, DYLD and TA) are non-stationary at level. This suggests the need to difference these variables to obtain stationarity. Thus, at first difference some of the variables are stationary at level while some others are integrated to the order of 1.

Table 1: Results of Stationarity (Individual Augmented Dickey-Fuller Unit Root) Test

VARIABLES	ADF Fisher-Chi Square Test STATISTICS		ADF Fisher-Chi Square Test STATISTICS		ORDER OF INTEGRATION
	Level	Prob value	1st Difference	Prob value	
SP	382.192	0.0000	-----	-----	1(0)
DYLD	108.614	0.5729	384.967	0.0000	1(1)
DPOR	115.272	6.3971	357.293	0.0000	1(1)
TA	17.8361	1.0000	185.880	0.0000	1(1)
CITA	217.716	0.0000	-----	-----	I(0)
EPS	149.553	0.0103	-----	-----	I(0)
DPS	158.354	0.0021	-----	-----	I(0)

Source: Author's Computation, 2014.

Panel Normality Test

The following are the results of the normality test carried out on the variables for the models.

Table 2: Result of Panel Normality Test

Variable	SP	DPOR	DYLD	TA	CITA	DPS	EPS
Jarque-Bera	17138.4 4	121317. 5	403652. 4	4726.36	295242. 7	2254.02	52858.0 4
P-Value	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000	0.00000

Source: Author's computation, 2014.

Table 2 presents the result of the normality test conducted. The result indicates that the p-value of the Jarque-Bera statistics for all the variables is 0.00000 which is less than 0.05. This shows that the variables are not normally distributed. Thus, the hypothesis that the variables are not normally distributed is accepted. Therefore, the variables are transformed into their logarithm form. Hence for Models 1 and 2, the variables used for the analysis was:

- LNSP = Logged value of Share Price (For Models 1 and 2)
- LNDDPOR = Logged value of Dividend Payout Ratio
- LNDDYLD = Logged value of Dividend Yield
- LNDTA = Logged value of Total Asset (Size)
- LNCITA = Logged value of Asset Growth

LNDPS = Logged value of Dividend Per Share
 LNEPS = Logged value of Earnings Per Share

Hausman Specification Test

The results of Hausman test conducted for Models 1 and 2 are presented Table 3 and Table 4:

Table 3: Hausman Test Result for Model 1

Correlated Random Effects Test cross-section random effects		
Test Summary	Chi-Sq. Stat	P-Value
Cross-section random	31.254508	0.0000

Source: Author's computation, 2014.

The null hypothesis for the Hausman test is that fixed effect model (FEM) and random effect model (REM) estimators do not differ substantially. The p-value of the test for model 1 which is 0.0000 is statistically significant, therefore the hypothesis is rejected. Therefore, for the purpose of model 1, the REM is not appropriate and FEM is preferred.

Table 4: Hausman Test Result for Model 2

Correlated Random Effects Test cross-section random effects		
Test Summary	Chi-Sq. Stat	P-Value
Cross-section random	50.389657	0.0000

Source: Author's computation, 2014

The null hypothesis for the Hausman test is that FEM and REM estimators do not differ substantially. Similarly, the p-value of the test for model 2 which is 0.0000 is statistically significant, therefore the hypothesis is rejected. Hence, for the purpose of model 2, the REM is not appropriate and FEM is preferred.

Test for Multicollinearity

The result for the spearman rank correlation carried out for both models 1 and 2 are presented in Table 5 and Table 6 respectively

Table 5 Spearman Rank Correlation Result for Model 1

	LNDDPOR	LNDDYLD	LNDTA	LNCITA
LNDDPOR	1			
LNDDYLD	0.1884	1		
LNDTA	0.0748	0.1333	1	
LNCITA	-0.0626	0.0327	0.4838	1

Source: Author's computation, 2014

Table 5 shows the result of correlation amongst the independent variables for Model 1. The result revealed that the correlation between dividend payout and dividend yield is positive (0.1884). Furthermore, the correlation between dividend payout and size is positive (0.0748) while the correlation between dividend payout and asset growth is negative (-0.0626). The correlation between dividend yield and size is positive (0.1333). Similarly, there is a positive correlation between dividend yield and asset growth (0.0327). In the same vein, there is a positive correlation between size and asset growth (0.4838). This shows that the problem of multicollinearity does not exist in model 1 because the correlations between the independent variables were all less than 70% going by the criteria set by Drury (2008).

Table 6 Spearman Rank Correlation Result for Model 2

	LNDPS	LNEPS
LNDPS	1	
LNEPS	0.6120	1

Source: Author's computation, 2014

The result of the correlation amongst the independent variables for Model 2 is shown on Table 6. The result shows the correlation between the independent variables, dividend per share and earnings per share, is positive (0.6120). This is less than the 70% threshold and it implies that there is no problem of multicollinearity.

Presentation of Inferential Statistics Results

Model 1

Table 7 shows that the result for the panel regression for model 1 has an R^2 value of 0.95 which suggest a 95% explanatory ability of the independent variables (LNDDPOR, LNDDYLD, LNDTA and LNCITA) of the model for the systematic variations in the dependent variable (LNSP) with an adjusted value of 0.90. The p-value of the F-stat (0.00) indicates that the hypothesis of a significant linear relationship between the dependent and independent variables could not be rejected at 5% level. As observed, dividend payout (LNDDPOR) had a negative coefficient of (-0.1245) and significant at 5%. This suggests that increase in dividend payout ratios would signal decrease in market price of shares. This is consistent with the

findings of Ilaboye et al., (2013) that dividend payout exerts a negative influence on share price risk. Similarly, dividend yield (LNDDYLD) had a negative coefficient of (-0.2308) and significant at 1%. This also implied that an increase in dividend yield would signal a drop in market price of shares. This is in line with the findings of Abdullah (2014) who also found a negative relationship between dividend yield and stock price. This result points to the fact that dividend policy matters in the shaping of share prices in Nigeria and that share prices actually do react to changes in dividend policy. Thus, this suggests that the signalling theory is relevant in determining value of shares of Nigerian companies.

Furthermore, firm size (LNDTA), which was added as a control variable, is observed to have a negative coefficient of (-0.6130) and implied that increase in firm size will result into decrease in the market price of shares. This is significant at 1% level and consistent with the findings of Ilaboye et al., (2013) that firm size exerts a significant negative effect on share price risk. Finally, the second control variable, Asset growth (LNCITA) was observed to have a positive significant coefficient (0.5676). This implied that as growth in asset increases, the market price of shares will also increase. Similarly, this is consistent with the findings of Ilaboye et al., (2013). Therefore, However, given that the p-value of dividend payout variable is 0.0404 which is less than the 0.05 level of significance, the null hypotheses one and two are hereby failed to be accepted.

Table 7 Regression Result for Model 1

Variables	Coefficient	t-statistics	P- Value
C	11.3328	3.7936	0.0004
LNDDPOR	-0.1245	-2.1087	0.0404 **
LNDDYLD	-0.2308	-3.9229	0.0003 *
LNDTA	-0.6130	-3.4138	0.0013 *
LNCITA	0.5676	3.5270	0.0010 *
R-Squared	0.9551		
Adj. R-Squared	0.9004		
F-Statistics (Prob)	0.0000		
Durbin-Watson Stats	1.7486		

Source: Author's Computation, 2014

* Significant at 1% level ** Significant at 5% level

Model 2

The result of the panel regression for model 2 is presented in Table 8 The observed R² value of the model is 0.53 which suggests a 53% explanatory

ability of the independent variables (LNDSP and LNEPS) of the model for the systematic variations in the dependent variable (LNSP) with an adjusted value of 0.52. The p-value of the F-statistics (0.0000) indicated that the hypothesis of a significant linear relationship between the dependent and independent variables could not be rejected at 5% level. Therefore, the model is good to fit. The Table revealed that dividend per share (LNDPS) had a significant positive relationship with market price per share (0.5893). This implied that ₦1 increase in dividend paid will lead to 58% increase in market price per share. This result is in line with expectation of the model and it is consistent with the findings of Joshi (2011) who also found a significant positive effect on stock price of both the banking and non banking sector of Nepal. Similarly, as further observed, earnings per share (LNEPS) had a significant positive relationship with market price (0.2015). This implied that ₦1 increase in earnings will lead to 20% increase in share price. This is consistent with the findings of Khan (2012) who also found a significant positive relationship between earnings per share and stock prices. However, as observed, the coefficient of dividend per share was higher than that of earnings per share which implied that in Nigeria, the dividend paid to shareholders has a greater impact in determining market price of shares than the earning stream of the companies. This is in conformity with the dividend signalling hypothesis and reiterates the fact that the dividend signalling theory is very relevant in determining the share price of quoted companies in Nigeria. Similarly, it is in conformity with the bird in hand theory that is based on the fact that investors have a preference for current dividend and thereby attach less risk to it as opposed to future capital gains. The inference drawn from this result is also at par with the conclusion drawn by Joshi (2011) that the impact of dividend paid is more pronounced than that of earnings in the context of Nepal. However, it is contrary to the findings of Asadi (2013) which indicated the preference of earnings per share to cash dividends in Iran.

Therefore, hypothesis which states that dividend payout is not the major factor that influences the market price of shares of quoted companies in Nigeria when compared to their earnings is not accepted. In essence, given the result of the regression presented in Table 8, the magnitude of the coefficient of dividend per share is greater than that of earnings per share, implying that dividend per share influences market price per share more than earnings per share.

Table 8: Regression Result for Model 2

Variable	Coefficient	t-statistics	P-Value
C	2.8610	42.8934	0.0000
LNDPS	0.5893	13.0447	0.0000 *
LNEPS	0.2015	4.4809	0.0000 *
R-Squared	0.5308		
Adj. R-Squared	0.5282		
F-Statistics (Prob)	0.0000		
Durbin-Watson Stats	0.4918		

Source: Author's Computation, 2014

* Significant at 1% level ** Significant at 5% level

Sectoral Analysis

Table 9 shows the regression result for the sectoral analysis carried out to determine if the effect of dividend policy on share price is sector specific. Four sectors selected out of the initial ten sectors based on size of their total market capitalisation have been used for this purpose. The initial ten sectors were collapsed into four sectors to allow for equal number of companies to be used for each sector used for the sectoral analysis. The p-value of the F-stat for the regression for the four sectors are 0.0000, 0.0000, 0.0000 and 0.0000 for consumer goods, financial services, industrial goods and oil and gas sectors respectively. This implies that the model used for each of the sectors is good to fit. The durbin-watson statistics for the regression for the four sectors are 1.81, 2.03, 1.86 and 1.86 respectively. They are all close to 2 which implied that the model used for the four sectors is devoid of autocorrelation. The R^2 value of the model used for the consumer goods sector was 0.95 which implied a 95% explanatory ability of the independent variables (LNDPDR, LNDYLD, LNTA, and LNCITA) of the model for the systematic variations in the dependent variable (LNSP) with an adjusted value of 0.93. Similarly, for the financial services sector, the R^2 value is 0.71 which suggested a 71% explanatory ability of the independent variables (LNDPDR, LNDYLD, LNTA, and LNCITA) of the model for the systematic variations in the market price of shares which is the dependent variable. It has an adjusted value of 0.93. Furthermore, the model used for the industrial goods sector has an R^2 value of 0.92 which suggested a 92% explanatory ability of the independent variables (LNDPDR, LNDYLD, LNTA, and LNCITA) of the model for the systematic variations in the dependent variable (SP) with an adjusted value of 0.88. Finally, the R^2 value of the model used for the oil and gas sector was 0.78 which implied a 78% explanatory ability of the independent variables (LNDPDR, LNDYLD, LNTA, and LNCITA) of the model for the

systematic variations in the dependent variable (SP) with an adjusted value of 0.69.

The result for the consumer goods sector showed that the coefficient of dividend payout is positive (0.3546) as expected and significant at 5% level. This suggested that an increase in dividend payout in the consumer goods sector will result into 35% increase in share price. Dividend yield had a negative coefficient of (-0.6195) and implied that an increase in dividend yield in this sector will result into 61% decrease in share price. Dividend is significant at 1% level. Total asset is positive (0.6504) as expected and significant at 1% level. This implied that an increase in firm size of companies in the consumer goods sector will result into 65% increase in market price of shares. Finally, the coefficient of asset growth is negative (-0.0588) as expected although it is not significant at any of the conventional levels. This implied that a growth in asset of companies in this sector will result into a 5% decrease in share price.

The result of the regression carried out for the financial services sector revealed that the coefficient of dividend payout is negative (-0.1353). This suggested that an increase in dividend payout by organisations in the financial services sector will result into 14% decrease of market price of shares of such organisation. However, this result is not significant at any of the conventional levels. The coefficient of dividend yield was negative (-0.1290) which implied that an increase in dividend yield will result into 13% decrease in share price of companies in this sector. However, this result is not significant at any of the conventional levels. For firm size, the coefficient is negative (-0.4465) and it is significant at 5% level. This suggested that an increase in the size of companies in the financial services sector will result into 44% decrease in the share price. Lastly, the coefficient of asset growth was positive (0.0892). This implied that a growth in asset of companies in this sector will result into 8% increase in share price. However, this result is not significant at any of the conventional levels.

The result for the industrial goods sector indicated that the coefficient of dividend payout is positive (0.0515) as expected. This implied that an increase in dividend payout will result in 5% increase of share price of companies in the industrial goods sector. However, this variable is not significant at any of the conventional levels. The coefficient of dividend yield is negative (-0.2533) and significant at 5% level. This suggested that an increase in dividend yield will result into 25% decrease in share price. The coefficient of firm size is negative (-0.4621) and implied that an increase in the size of companies in the industrial goods sector will result into 46% decrease in share price of such companies. However, this result is not significant at any of the conventional levels. Finally, the coefficient of

asset growth is negative (-0.0894) as expected and suggested that an increase in the growth of asset of companies in this sector will result in 8% decrease in the market price of such companies. This variable is significant at the 10% level.

The result of the regression result for the oil and gas sector revealed that the coefficient of dividend payout is positive (0.2617) as expected. This implied that an increase in dividend payout will result into 26% increase in market price of shares of companies in the oil and gas sector. However, the variable is not significant at any of the conventional levels. The coefficient of dividend yield is negative (-0.5245) and significant at the 1% level. This suggested that an increase in dividend yield of companies in the oil and gas sector will result to 52% decrease in the share price of such companies. For firm size, the coefficient is positive (0.0752) as expected and implied that an increase in the size of companies in this sector will result into 8% increase in share price. However, this variable is not significant at any of the conventional levels. The coefficient of asset growth is observed to be negative (-0.5588) as expected and significant at 5% level. This suggested that a growth in the asset of companies in this sector will result into 55% decrease in share price.

Conclusively, from the result of the regression presented in table 9 and the analysis carried out, it can be inferred that the effect of dividend policy on share price differs from sector to sector. This is because the result shows that it is only dividend yield that has the same effect (negative) though with different magnitude throughout the sectors used for the analysis. The coefficients of the other variables (DPOR, TA and CITA) are of different signs and magnitude for each of the sectors used for the sectoral analysis. This has led to the conclusion that the effect of dividend policy on share price is sector specific.

Hypothesis 4

H₀₄: The dividend policy and its effect on share price do not differ between different sectors of the economy.

The result of the panel regression on sectoral analysis presented in table 9 revealed that only dividend yield has the same effect (negative), though with different magnitude, throughout the sectors used for the analysis. The coefficients of the other variables (DPOR, TA and CITA) are of different size and magnitude for each of the sectors used for the sectoral analysis. This has led to the conclusion that the effect of dividend policy on share price is sector specific. Hence, this hypothesis is hereby rejected.

Selected

Table 9 Regression Result for the Sectoral Analysis

Sector	Consumer goods		Financial services		Industrial goods		Oil & Gas	
Variable	Coefficient	P-Value	Coefficient	P-Value	Coefficient	P-Value	Coefficient	P-Value
C	-9.3956	0.0005*	11.6624	0.0075*	9.1925	0.0917**	13.1329	0.0000*
LNDPDR	0.3459	0.0534**	-0.1353	0.3345	0.0515	0.4799	0.2617	0.1200
LNDYLD	-0.6195	0.0000*	-0.1290	0.3330	-0.2533	0.0448*	-0.5245	0.0000*
LNTA	0.6504	0.0000*	-0.4465	0.0215*	-0.4621	0.1409	0.0752	0.4400
LNCITA	-0.0588	0.1053	0.0892	0.2581	-0.0894	0.0917**	-0.5588	0.0000*
R-squared	0.9503		0.7193		0.9179		0.7837	
Adj R ²	0.9343		0.6182		0.8790		0.6909	
F-stat (Prob)	0.0000		0.0000		0.0000		0.0000	
D-W Stat	1.8115		2.0285		1.8614		1.8572	

Source: Author's Computation, 2014

*Significant at 1% level ** Significant at 5% level ***Significant at 10% level

Summary, Conclusion and Recommendations

The dividend policy of companies determines what proportion of their earnings is distributed to the shareholders by way of dividends, and what proportion is ploughed back for reinvestment purposes. It is an important decision area as it influences the value placed on companies by the market as measured by the share price of the company. This study therefore investigated the effect of dividend policy on the share price of selected listed companies in Nigeria and found out that there is a significant negative relationship between share price and the two measures of dividend policy; dividend payout (-0.1245) and dividend yield (-0.2308). This implies that upward review in dividend policies of companies in Nigeria negatively affect their share prices. This could be as a result of the fact that most investors in Nigeria prefer capital appreciation to payouts. In addition, asset size, which is one of the control variables, also showed a negative relationship (-0.6130) with share price. On the other hand, asset growth which is the second control variable showed a significant positive relationship (0.5676) with share price. The study further revealed that dividend per share (0.5893) and earnings per share (0.2015) have a significant positive relationship with the share price of companies in Nigeria. However, the magnitude of dividend per share was found to be higher than that of earnings per share. This implies that the dividend paid to shareholders in Nigeria have a greater effect in the determination of the

market price of shares than the earnings streams of the companies. The study also found out from the sectoral analysis carried out that the effect of dividend policy on share price differs from sector to sector. This implies that the dividend policy in each sector

The study therefore concluded that dividend payout and dividend yield which are two important measures of dividend policy exerts a significant negative influence on the market price of shares of Nigerian quoted companies. This point to the fact that dividend policy matters in the shaping of share prices in Nigeria. The study further concluded that dividend paid to shareholders in Nigeria has a greater effect in the determination of the market price of shares than the earnings streams of the companies. This reiterated the fact that the dividend signalling theory is very relevant in determining the share price of quoted companies in Nigeria. The study also concluded through its finding that the effect of dividend policy on share price differs from one sector to the other.

Therefore, based on the foregoing conclusions, the study made the following recommendations:

- i. Managers of Nigerian companies should ensure their dividend payouts ratios are reduced in the face of profitable investment opportunities so as to increase the company's share price.
- ii. Managers of Nigerian companies should adapt their dividend policy to suit their target investors so as to improve their firm's share price. Put differently, managers should consider the group preferences (clientele) of investors in their sector in particular and ensure that its dividend policy is geared towards their desire.

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