



Short Communication

Shareholder's value and firm's dividend policy: Evidence from public companies in Nigeria

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Abstract

This research article examines how share value thus shareholders wealth is affected by dividend policies. This study covers 10 quoted companies in the Nigeria stock exchange. In so doing, the methodology adopted is the least square regression analysis. The co-efficient of determination is R^2 . This study shows the relevance of dividend and further proves that dividend policies of public limited companies influences the wealth of shareholders in Nigeria.

Keywords: Shareholders wealth, dividend policy, dividend per share, earnings per share, market price per share.

Introduction

Dividends can be defined as the distribution of earnings (past or present) in real assets among the shareholders of a firm in proportion to their ownership¹. Dividend can be managed or a passive residual. In a managed dividend policy, managers tend to smoothen dividend by fixing dividend payment at a certain level of earnings and investment while in the residual, dividend are paid only after possible investment portfolios are made. In this case, dividend will tend to be highly variable and often zero. Dividends are often unpredictable in the residual policy than in the managed policy where dividend grows in even increments in years to come. The effect of dividend policy on shareholders wealth is important to management, investors who plans their portfolios. Some scholars believe that dividend policies are irrelevant in determining the wealth of shareholders while others argue that dividend policies are relevant and greatly influence the wealth of shareholders .Miller and Modigliani², Litner and Gordon³, Arunprakash and Nandhini⁴. These two scholars have contributed greatly to the ongoing debate on dividend policy effect on shareholders wealth. Investors, academicians and even managers have questioned the value added to a carefully chosen dividend policy and if there is any policy that can be generally accepted to all (Lease *et al*, 2000)⁵. The general purpose of this study is to analyze through an empirical study firm's dividend policies and the effect, if any, they have on shareholder's value. The specific objectives are: i. To analyze the effect of firm's dividend policies on shareholders value of public companies in Nigeria. ii. To empirically examine the linkage of dividend payout with information asymmetry.

Hypotheses: H_0 there is no effect of firm's dividend policies on shareholders value of public companies in Nigeria. H_1 there is no effect of firm's dividend policies on shareholders value of public companies in Nigeria.

H_0 information content of dividend does not affect dividend payout by firms.

H_2 information content of dividend does not affect dividend payout by firms.

Literature review: Dividend policy chosen by a firm should maximize shareholders wealth. Payment of dividend most often are made from the current year's profit and sometimes from the general reserve⁶. Dividends can be in the form of cash, stock, stock split, stock repurchases, and regular dividend payment, e.t.c. Miller and Modigliani views dividend as irrelevant, under a perfect market situation for firms in the same risk class as firm dividend can only be influenced by earnings and the market price of a firm. Since the firm is faced with the decision of apportioning fund to retention for firm growth and paying out profit as dividend, it is the firm's earnings as opposed to dividend that determines the value of a firm.^{6,7} Shareholders subscribe to cash dividend but also subscribe to growth of earnings per share when profit are retained and ploughed back into positive investment programme⁸. They are also of the view that this has affected shareholders that they are indifferent about earnings or capital gains. Dividends are used by management to maintain a certain level of earnings in a firm and sustain the prices of shares in the stock exchange. Investors on the other hand, are indifferent as regards to dividend payout by firms as they prefer the current year's dividend payment to future earnings and capital gains. Investors use this dividend situation as information to assess the profitability and growth of a firm. Managers possess superior information as to company prospect of future growth and may choose to communicate these information to the market. As such, information asymmetry exist^{5,6}. These information provides signal to existing and prospective investors. It will offer tangible evidence as to a firm's ability to generate cash. An increase in share price may lead to an increase in shareholders wealth and vice versa. This has led some scholars to the belief that shareholders are risk

averse, they prefer cash dividend to future capital gains. Thus, a “bird in the hand is worth more than two in the bush”. Naveed *et al.*⁹.

Methodology

The structural framework of this study is based on survey design (Asika 1991)¹⁰. Secondary data was used gotten from published annual reports, CBN statistical bulletin and the closing price of shares for each year under study. 216 public limited companies in Nigeria quoted in the Nigerian stock exchange (NSE) with a selection of 10 companies using the quota random sampling technique was studied. These companies were studied over a 12 years period; 2000-2011. Factors used as explanatory variables for the dividend payout by firms and dividend yield are; dependent variable DPS, independent variables EPS and MPS. This study covers 10 quoted companies. Multiple regression analyses were used to carryout this research work. Its decision rule is +1 or -1.

If $x = x - \bar{x}$: $y = y - \bar{y}$

$$\hat{b}_1 = \frac{(\sum x_1 y)(\sum x_2)^2 - (\sum x_2 y)(\sum x_1 x_2)}{(\sum x_1)^2 (\sum x_2)^2 - (\sum x_1 x_2)^2}$$

$$\hat{b}_2 = \frac{\sum x_2 y (\sum x_1)^2 - (\sum x_1 y)(\sum x_1 x_2)}{(\sum x_1)^2 (\sum x_2)^2 - (\sum x_1 x_2)^2}$$

$$\hat{b}_0 = \bar{y} - \hat{b}_1 x_1 - \hat{b}_2 x_2$$

$$Y = b_0 + b_1 X_1 + b_2 X_2$$

$\hat{b}_0, \hat{b}_1, \hat{b}_2$ = regression parameters or coefficient

x_1 = independent variable

x_2 = independent variable

y = dependent variable

formula for the coefficient of determination is

$$R^2 = \frac{\hat{b}_1 \sum x_1 y + \hat{b}_2 \sum x_2 y}{\sum y^2}$$

Results and Discussion

In the table above 8 firms out of 10 shows that there is a significant effect of dividend policies on shareholders wealth, while the other two shows an insignificant effect. There is an almost perfect relationship at 10% degree of freedom, this shows that any change in any of the variable y-DPS, X1- EPS or X2- MPS will affect the other.

Conclusion

The findings of this paper shows that earnings per share and market price per share (dividend policies) has an effect on dividend per share (shareholders wealth) given the very high correlation result of 0.9 gotten from the stock market report analyses. Using a sample of 10 quoted firms in the period 2000 to 20011; the study shows that earnings per share, market price per share both have significant positive impact on the shareholders’ wealth of the quoted firms. These findings shows the importance of the two variables in explaining and predicting dividend per share, thereby providing signal to prospective investors and shows the importance of maintaining a dividend policy overtime.

The result of this work provides a pointer to the two most important variables of predicting dividend policies of firms - earnings per share and market price per share. These as well as on the short run and can be manipulated by the management and board of directors to suit the interest of various stakeholders in the firm.

Table-1
Summary of regression of dividend policies on shareholders wealth

S/N	FIRM	REGRESSION ANALYSIS	REMARK
1	ZENITH BANK OF NIGERIA PLC	0.9858	SIGNIFICANT
2	FIRST BANK OF NIGERIA PLC	0.9996	SIGNIFICANT
3	NIGERIA BREWIES PLC	0.03	INSIGNIFICANT
4	PRESCO PLC	0.9984	SIGNIFICANT
5	JULIUS BERGER NIGERIA PLC	0.9927	SIGNIFICANT
6	CADBURY NIGERIA PLC	0.9998	SIGNIFICANT
7	OANDO OIL PLC	0.9946	SIGNIFICANT
8	GUINNESS NIGERIA PLC	0.9976	SIGNIFICANT
9	DANGOTE CEMENT PLC	0	INSIGNIFICANT
10	ROYAL EXCHANGE ASSURANCE PLC	0.9908	SIGNIFICANT

The results further suggest that investors prefer the bird-in – hand form of dividend payment against the retention approach by management as well as a steady dividend payment. The accounting professional bodies should enforce standards on dividend policies of firm and ensure that it should be adhered to given the fact that directors of companies are responsible for making dividend decision.

A high dividend increases the market value of shares thus, shareholders value and vice versa. Shareholders prefer current dividends to future capital gains. As such, dividend is an important factor which determines the shareholder's wealth. Information asymmetry exists and the payment of dividend indicates that the company has a good earnings capacity. Management should maintain a steady increase in earnings, cash flow and dividend payment and establish a dividend policy that can be acceptable to the various stakeholders in the firms Anvarkhatibi *et al*¹¹. Dividend payout ratio is a passive residual. This shows that Nigerian firms apportion more earnings to retention for the ploughing back in the firm and growth. The implication of this finding is that the level of a firm growth should be considered in firm's dividend decisions.

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