Corporate Dividend Policy and Firm Value in Nigeria

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Abstract

Research purpose: The objective of this study was to examine the effect of corporate dividend policy on firm value of major cement manufacturing companies in Nigeria, from 2019-2022.

Methodology: The data was obtained from annual reports of the companies and were analyzed by the use of the Generalized Method of Moment Model (GMM). Market Price per Share was used to measure the firm value while corporate dividend policy was proxy by Dividend per Share.

Findings: The result of the analyses showed that corporate dividend policy are fundamental to the firm's value. The test further reveals that there is a significant relationship between effective corporate dividend policy and firm value.

Conclusion: The study concluded that corporate dividend policy affects firm value positively.

Recommendations: Finally, the study recommended that companies' top management need to design efficient corporate dividend policy by balancing the need and classes of individual shareholders so as to maximize firm value.

Keywords: *Dividend per Share, Market Price per Share.*

1.0 Introduction

Dividend can be defined as a form of shares or money paid regularly usually annually by a corporate entity to its shareholders out of the net profit or reserves of the firm. Shareholders are set of people that invested in the shares of the business for the purpose of getting earnings in form of dividend. The percentage of profit retained for the purpose of business usually affect the earnings to be shared by the shareholders. The dividend policy of the company depends on the capability or financial plan of the company and this invariably affect shareholders contentment. The decision to distribute dividends is one of the powers of the Board of Directors, which is affected by some factors. The most important factors for controlling distribution proportions include the corporation's financial ability, its aspirations for the future and the wishes of investors. Other factors includes legislation, availability of cash liquidity, growth and expansion projects.

Shareholders satisfaction depends on the age bracket of the investors. While the young shareholders prefer retention rate to be higher than the pay-out rate, the older will prefer the other way round.

When investing in corporate organizations, shareholders expect to maximize their returns, hence the reason for a long-term investment horizon. It is expected that as companies run their business activities, the end result of any investment decision taken by the business managers must be to increase shareholders' wealth (Agila & Jerinabi, 2018).

1.1 Objectives of the Study

The objective of this study is to examine the effect of corporate dividend policy on firm value of major cement manufacturing companies in Nigeria, from 2018-2022.

1.2 Research Hypothesis

The following research hypothesis will be tested in this study:

Ho: There exist no significant positive relationship between corporate dividend policy and firm value of cement manufacturing companies in Nigeria.

H1: There exist a significant positive relationship between corporate dividend policy and firm value of cement manufacturing companies in Nigeria.

2.0 Theoretical Framework

2.0.1 Dividend irrelevant theory

This theory was developed by Merton Miller and Franco Modigliani in 1961and was based on a model of certainty. It states that, holding firm's investment decision constant, dividend policy of a firm is not relevant to firm value, because when there is an increase in dividend, corporate managers can initiate more sales of shares to raise more money for any investment in the company.

The basic assumptions of the theory are as follows:

(i) There is access to information for all investments without any cost and furthermore instantaneous transactions can take place at no cost.

(ii) There are no taxes in existence.

(iii) Securities are infinitely divisible and no single investor is large enough to influence market price of the securities under perfect market conditions.

(iv)The existence of a perfect capital market in which all investors behave rationally.

(v) Companies would not vary their investment policy.

(vi)The investor is perfectly certain about future investment and profits.

According to theory, following the above assumptions means that shareholders will be indifferent to the receipt of dividend now and postponement of the dividend to the future. Thus, under perfect capital market conditions where investors can sell their shares at no cost, those who require current income can substitute capital gains for dividend whilst those who do not need current income can reinvest dividend received. This means that shareholders are indifferent between current dividends and capital gains. This is supported strongly by the assumption that there are no taxes in such a perfect market. With this theory, since there is no tax, shareholders overall returns or wealth will not be affected by dividend policy.

2.0.2 Theory of Dividend relevance

This theory was propounded by Gordon, John Lintner, James Walter and Richardson. It states that dividend policy affects shareholders wealth and is relevant if the assumption is relaxed and it affects firm value in the same manner as investment. The dimensions of the cash flow stream are conditioned by dividend payout policy. Consequently, it is insufficient to think of the effects of dividends under perfect competition or imperfect competitive market conditions in the real world. It is very useful to recognize that a greater number of companies are able to exert some pressure and control over their activities in real world situations. The assumption underlying the investor behaving rationally is undermined by the fact that there is the existence of investors who behave funnily in the market and their actions are at times without any economic rationality but exerts a lot of influence on stock behavior and this can affect shareholders wealth.

2.0.3 The bird-in-hand theory

This theory was propounded by Myron Gordon and John Lintner in 1956 and explain how information asymmetry and uncertainty in the world compel dividend policy to relate differently from retained earnings. The uncertainty of future cash flow will influence investors and shareholders to accept dividends as against retained earnings. This will make increase in payout ratio lead to reduction in required rate of return otherwise known as cost of capital hence the value of the business or shareholders wealth. This argument has been widely criticized and has not received strong empirical support (Joseph and Kingsford 2019).

2.0.4 Signaling effects theory

This theory was propounded by Spence in 1973. It is the situation where the company uses its dividend policy to provide information to shareholders and investors in the stock market. This is because management has the necessary information about the financial position and strategy of the firm and can be used to make forecasts about future incomes and earnings of the company. The investors and shareholders may decide to make a choice about a particular stock of a company because of that company's dividend policy and some may not choose that stock. As a result of this, the pattern and the size of the dividend of a company may seem to be more relevant to many investors and shareholders. However, signaling dividends has been considered to have information content. It is worthy to note that this information content dividend is trivial because most of the time, the gain of possessing this information content is smaller than, transaction cost of it. Onyeogo (2019) indicated that, even where there is favorable dividend decision, it does not always indicate reliable signals of superior future earnings performance.

2.1 Literature Review

Joseph and Kingsford (2019) examined the effect of dividend policy on shareholders wealth in the UK retail industry. With this, 25 firms from the retail industry in the UK were selected. The variables adopted in the study are earnings, profitability, share price, firm size, leverage and investment. The results indicate that firm size, current dividend payout and current investment do not have much significant effect on shareholders wealth. However, variables such as earnings, profitability, share price, leverage, investment and dividend payout lagged one year have a significant effect on shareholders wealth. In all, the result indicates that dividend policy has a positive effect on shareholders wealth and the study is concluded by indicating some recommendations and areas of future research.

Adam (2018) examined Dividend policy and its impact on the firm's valuation. The study investigated how the relationship between firm performance and stock price is affected by the level of dividends a firm pays. To explore this relationship, the authors will conduct a correlation and regression analysis that is performed on data collected on middle and large capitalization firms listed on the Stockholm stock exchange. The chosen time frame for this study is 2007- 2017. Several variables are included in the regression model in order to explore a potential relationship. The findings of this study indicate that the stock price of high dividend yield firms are more dependent on financial performance compared to low dividend yield firms. However, an overall positive correlation is found between financial performance and stock price for both samples.

Okeke, Veronica, Chinelo and Onuora (2021) examined Dividend policy and shareholders wealth in Nigeria. Secondary data were generated from Nigeria stock exchange (NSE) Fact book and daily official list. The variables of dividend per share, earnings per Share and net asset per share were regressed on market price per share. We used the Ordinary Least Square Regressions (OLS), to determine the effect of independent variables on the dependent variable. The result of the Ordinary Least

Square indicates that dividend per share and earnings per share had a positive and significant effect on market price per share. Again, the result indicates that net per share has a negative and insignificant effect on market price per share. The Adjusted R-squared is 0.722253 which means that 72% of total variation in market price per share (MPS) can be explained by the variables, namely DPS, EPS and NAPS while the remaining 28% is due to other stochastic variables. The Durbin-Watson statistics at (2.173199) indicate that the model is free from autocorrelation. The F-statistic is 0.000340 which means that all the explanatory variables in the study have significant effect on market price per share within the period under study. We therefore, conclude that dividend policy has a positive effect on shareholders" wealth in Nigeria within the period under review. Following the findings, we recommend that quoted companies in the Nigeria stock exchange should improve in the distribution of dividend and earning. The board of directors should review the dividend policy of the companies operating under this environment to ensure maximum operation and ensure that they comply with relevant and required dividend policy. The accounting professional bodies should enforce standards on dividend policies of firms and ensure that it should be adhered to given the fact that directors of companies are responsible for making dividend decisions.

Raed (2020) examined the Dividend Policy and companies' financial performance. The study included 92 industrial and service sector companies listed on the Amman Stock Exchange (ASE) during the period from 2015 to 2019. The study used Panel Data Analysis and cross-sectional time-series data and simple and multiple linear regression models. A multiple regression model was also developed in order to test whether guess factors may have a possible impact on financial performance (such as Dividend Yield, Dividend Pay-out Ratio, Firm Size, Leverage Ratio, and Current Ratio). The data was collected from the annual reports and information that was available on the ASE website covering the period from 2015 to 2019. The results detect a strong relation between DY, DPR, and FSIZE variables that explain firm performance. Also leverage ratio is negatively and significantly associated with ROA and AOE. Moreover, no relations were detected between current ratio and financial performance. The study's conclusion is that dividend policy explains a lot of a company's financial performance, meaning that the dividend policy has a statistically significant impact on company financial performance

Onyeogo (2019) examined the Impact of Dividend Policy on Corporate Performance in Nigeria. Dividend policy of a firm and how it affects their performance is one of the hottest and debated issues that receive attention of researchers till date. In spite of the growing literature and empirical findings, there has not been any general conclusion on the extent dividend policy may have influenced corporate performance thus, this study was carried out to examine the impact of dividend policy on corporate performance in Nigeria. The data for study were collected from the firm annual report/account of the firms. Ex-post facto research design and time series data were adopted, E-view software version 7.0 were adopted for the analysis and the study covers both banking sector (Zenith, First and UBA Plc.) and petroleum sector (Oando Plc, Japaul Oil and Maritime Services and Forte Oil Nig. Plc). The ordinary least squares (OLS) regression model was used to estimate the relationship between the dependent variable–return on equity(ROE) and the independent variables which are earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR) and firm size (FS). The result of the study showed that dividend per share, dividend payout ratio and firm size have significant impact on the performance of the banking sector in Nigeria while only earnings per share does not have significant impact on the performance of Nigeria banking sector, but holistically dividend policy have significant impact on the performance of banking sector in Nigeria.

Dividend per share and firm size have a significant impact on the performance of the petroleum sector in Nigeria while earnings per share and dividend payout ratio does not have a significant impact on the performance of the petroleum sector in Nigeria, but from a general perspective dividend policy has a significant impact on the performance of petroleum sector in Nigeria. From the findings, the study concludes that dividend policy has a significant impact on the banking sector and petroleum sector in Nigeria. The study therefore recommends that managers should act in the best interest of investors to reduce agency problems, and complete information about the dividend policy of the firms should be provided. The study has contributed to knowledge by investigating how dividend policy affects the performance of firms in Nigeria using time series data approach with E-view software version 7.0. The study suggests that further research on this topic should use multiple regression models and include new variables. The sample should focus on other sectors and firms.

Ayesha, Muhammad and Nida (2022) examined the Impact of Dividend Policy on Shareholders wealth. This is a quantitative research conducted to find the Shareholder value maximization. What are the factors that contribute to increasing the shareholder wealth, their satisfaction and intentions to invest in a particular share? To study this further we analyzed the impact of dividend policy on shareholder wealth, considering the dividend policy as the most important factor in increasing shareholder wealth. To study this relationship the top performing companies of Pakistan Stock Exchange were chosen in our sample that PSX announces every year. The independent variables were Dividend per share, Retained earnings per share, Return on equity and Lagged market price per share. Whereas the dependent variable, to measure the shareholder wealth is Market price per share. To analyze the relationship, the correlation and regression analysis were applied on E-views. After the analysis, a positive relation is found between the independent and dependent variables and the overall variables with the model are found to be statistically significant.

Adekunle, Ishola and Ayodeji (2022) examined the effect of dividend policy on share price volatility of selected companies on the Nigerian Stock Exchange. Share price volatility has exhibited different patterns in different global exchange markets, including the Nigerian Exchange (NGX). Various attempts have been made to determine the possible causes of this volatility and how they can be mitigated, but there have been fewer studies in this regard, especially in developing economies such as Nigeria. Hence, this study examines the effect of dividend policy on share price volatility of selected companies listed on the NGX. The study adopted an ex-post facto research design and used the EGARCH to measure volatility. A sample of 49 of 162 companies listed on the Nigerian Exchange during the study was randomly selected for the panel data. The study found that the dividend policy has a significant relationship with share price volatility (SPV), with an adjusted R2 value of 0.116, a Wald (3, 2156) value of 32.89, and a p-value of 0.000. The dividend payout ratio (DPR) has a significant effect on SPV (DPR = 0.0036, $t(2156) = 4.7237$, $p < 0.05$); dividend yield (DY), dividend per share (DPS) and financial leverage (LEV) have a negative insignificant effect on SPV (DY = -0.0003, $t(2156) = -2.713$, $p > 0.05$; DPS = -0.0508, t-test = -1.8952, $p > 0.05$; and LEV = -0.2066, t-test = -1.4742, $p > 0.05$, respectively). The study concludes that dividend policy has a significant effect on share price volatility. Based on the results, it is recommended that companies should focus more on payouts, while investors should opt for corporate entities with a constant payout ratio.

Nugi, Deden and Sela (2021) examined the effect of funding, investment and dividend policies on a firm's value in the manufacturing industry sector. The research used a quantitative descriptive method with a total sample of 15 companies in the manufacturing sector listed on the Indonesia Stock Exchange. The data processing used the program Eviews-10. The results showed that the reduction in policy with a tcount of 1,180 was smaller than 1,993 (1,180 ≤ 1,993), indicating that there was no significant effect on firm value, investment decisions with a tcount of -0.071 were greater than -1.993 (-0.071 ≥ -1.993, shows a significant effect on firm value, while dividend policy with a tcount of 3,343 is greater than 1,993 (3,343 ≥ 1,993), indicating a significant effect on firm value. Policy, investment decision, and dividend policy simultaneously with Fcount 833.189 is greater than 3.13 (Ftable) (33.189 > 3.13), indicating a significant effect on firm value.

3.0 Research Design

Ex-post facto research design was adopted for this study in order to establish a meaningful relationship between corporate dividend policy (measured by dividend per share) and firm value (proxy by market price per share).

3.1 Population and Sample frame of the study

The population of the study is the major cement manufacturing companies in Nigeria from 2018-2022. The data is restricted to 2022 due to the fact that the data for 2023 was not available as at the time of populating data for this research.

The dependent variable is the firm value. Firm value is proxy by market price per share which measures the value at which the shares of an organization is traded at the Nigerian Stock Exchange market while the independent variable is dividend per share which is the sum declared by a company for every ordinary share held by a shareholder.

3.2 Study Sample and Sampling Technique

Ex-post facto research design was adopted for this study in order to establish a meaningful relationship between corporate dividend policy (measured by dividend per share) and firm value (proxy by market price per share).

3.3 Source of Data

Data for this study is secondary data. Since the research work is mainly an ex post research design, the sources of data shall be from the records obtained from the annual report of the companies and Nigerian Stock Exchange data.

3.4 Reliability of Data

Data for this study will be from the records obtained from the annual report of the companies and Nigerian Stock Exchange data.

3.5 Validity of Data

This is an official document of the companies and Nigerian Stock Exchange information and data therein are reliable and valid.

3.6 Model Specification/Justification

The adopted equation is as stated below.

Where:

MPPS=Market Price per Share

DPS=Dividend per Share

β_I =These represent various coefficient determinant factors for each selected independent variable to be estimated.

ε =This represent the disturbance or error term of the estimate that captured all other factors not t

explained in the cause of model formulation or designing.

Decision Rule

Data will be tested at 5% level of significance: therefore, decision on the hypotheses will be based on the following criteria:
Reject Ho: If p-value < 0.05 level of significance.

The justification for this model is that it is more robust and performs better for small sample sizes of data which are suitable for this research.

3.7 Data Analysis Technique

Generalized Method of Moment Model shall be use alongside other diagnosis testing (stationary test, Co-integration test, and others) to validate the choice and best statistical model to adopt. 4.0 Data Presentation and Description

Secondary data on dividend per share and market price per share of major cement manufacturing companies in Nigeria for the period 2018-2022 are shown in table 4.1

Table 4.1: Dividend Per Share and Market Price Per Share of Larfarge Africa PLC, BUA Cement PLC and Dangote Cement PLC for the period of 2018-2022.

YEAR	LAFARGE AFRICA CEMENT PLC				DANGOTE CEMENT PLC	
	DPS	MPPS	DPS	MPPS	DPS	MPPS
	₦	₦	₦	₦	₦	₦
2022	2	24.83	2.8	69.24	20	262.57
2021	1.5	23.62	2.1	73.41	20	242.47
2020	1	14.56	1.75	42.96	16	158.76
2019	1.5	13.2	1.5	61.87	16	171.46
2018	1.5	17.12	0.95	59.41	16	190.9

Sources: Annual Report and Nigerian Stock Exchange Data 2018 2022.

4.1 Data Analysis

The data on Table 4.1 were analyzed. The Stationary test was done to determine which model will be suitable to analyze the data in Table 4.1. From the result, only market price per share was stationary at 1st difference while dividend per share was not stationary at 1st difference using Levin, Lin & Chu. This necessitated the use of the Generalized Method of Moment.

4.2 Discussion of Results and Policy Implications of Findings

From the analysis above using the Generalized Method of Moment (GMM), the result shows that Dividend per Share (DPS) has a positive and significant effect on Marker Price per Share (MPPS).

If there is 1% increase in Dividend per Share (DPS), Market Price per Share (MPPS) will increase by 13.64%. 85.85% of variation in Market Price per Share (MPPS) is explained by the Dividend per Share (DPS).

The policy implications of this is that there exists a significant positive relationship between corporate dividend policy and shareholders satisfaction in cement manufacturing companies in Nigeria.

5.0 Conclusion

From the study, we conclude that:

I. There is a significant relationship between corporate dividend policy and shareholders satisfaction.

ii. Dividend per Share positively affects Market price Per Share.

5.1 Recommendations

To improve the shareholders satisfaction in Nigeria from corporate shareholders policy, we recommend that cement manufacturing companies in Nigeria should increase the rate of dividend pay-out considerably because this has a positive effect on their shareholders satisfaction.

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