

DIVIDEND POLICY AND ITS IMPACT ON MARKET VALUE OF DEPOSIT MONEY BANKS' IN NIGERIA

ANDABAI, PRIYE WERIGBELEGHA (PhD)

Department of Banking and Finance,

Niger Delta University,

Bayelsa State, Nigeria.

ABSTRACT

The study investigates dividend policy and its impact on market value of deposit money banks' in Nigeria; for the period 1996-2019. Secondary data are collected from the Central Bank of Nigeria Statistical Bulletin, 2019. The study uses equity/stock price of quoted deposit money banks' in Nigeria as proxy for market value of deposit money banks' in Nigeria and employs as the dependent variable; whereas, dividend payout ratios, retained earning ratios, dividend yields and earnings per shares are used as independent variables to measure dividend policy. Hypotheses are formulated and tested using time series econometric techniques. The study shows a positive significant impact of dividend payout ratio on the market value of deposit money banks' in Nigeria. Retained earning ratios have a positive significant impact on the market value of deposit money banks' in Nigeria. Dividend yields have a positive significant impact on the market value of deposit money banks' in Nigeria. There is a positive significant impact of earnings per shares on the market value of deposit money banks in Nigeria. The coefficient of determination indicates that about 62% of the variations in market value of deposit money banks' in Nigeria can be explained by changes in dividend policy variables (DPR, RER, DY, EPS) in Nigeria. The study concludes that dividend policy has a significant impact on the market value of deposit money banks' in Nigeria. The study recommends that regulatory authorities should step up regulatory oversight functions to ensure transparency, business ethics and good corporate governance in the banking sub sector. This will help reduce the fears of investors and the practice of declaration of huge paper profits, insider trading, manipulation of stock prices.

KEYWORDS: Dividend Policy, Market Value of Deposit money banks' Nigeria

INTRODUCTION

The work of Pauley (2018) describes dividend policy as a company's policy which determines the amount of dividend payments and the amount of retained earnings for reinvesting in new projects. Thus, the policy is related to dividing the firm's earnings between payments to shareholders and reinvestment in new opportunities. A study by Madene and Dufom (2018) posits that dividend policy involves the determination of the payout policy that management follows in determining the size and pattern of cash distributions to shareholders over time. However, in corporate finance, one of the most important decisions is concerned with the shareholders as dividend or it must be reinvested in new opportunities and if it must be distributed, what proportion of profit must be paid to shareholder and what proportion must be returned to the business.

A study carried out by Nnana and Chiwendu (2019) when responding to this question, managers must consider which dividend policy will lead to maximization of shareholder's wealth. Hence, they should not only concentrate on this question that how much of firm's income are required for investment. Instead, they also must consider the impact of their decision on stock's price. Dividend is also related to capital structure indirectly and different dividend policies may require policies which form the focus of this study, involve the determination of the payout policy that management follows in determining the size and pattern of cash distribution to shareholders over time. The work of Malu and Audu (2019) stated that the investment, financing and dividend decisions are interdependent and must be resolved simultaneously. A combination of these policy decisions should theoretically maximize shareholders' wealth.

Thus, in the valuation process, a study by Awudu. (2019) shows that the value of an asset, real or financial, is determined by the size, timing, and risk of expected future cash flows that accrue to the owner of the asset. Similarly, markets value share prices that are based on expected dividends and the risk attached to ownership of the share. The work of Peter and Iwua (2018) stated that for the shareholders this implies that the value of a share is the selling price of the share plus any dividends payable whilst owning the share. Share price is therefore a key determinant of the value of the firm. If dividends are the key indicators of share price and the share price the key indicator of firm value, it stands to reason that to maximize shareholders' wealth; shareholders should be afforded the highest combination of dividends and the increase in the share price.

Dividend policy remains one of the major financial decisions often faced by management of corporate organizations such as the banking industry. It is a finance management function that determines the proportion of the firm's profit that will be distributed to the shareholders and the proportion that will be retained for further investment. Hence, dividend policy remains one of the most controversial issues in corporate finance. The relationship between dividend policy and share price has remained very sharp point of departure among scholars in corporate finance (Baudere & Hassan 2019). The intensity of the debate has remained largely unresolved in both the global and local area. Dividend policy management has the potential to positively or negatively affect stock prices in the capital market. Which has a direct effect on the value of a firm? With the existence of different theories of dividend proposing different views, approaches and values for dividend payment had created a policy deviation for managers who chooses dividend policies of their choices leading to fluctuations on firm values, stock prices and corporate failures,

THEORETICAL FRAMEWORK

This study is predicated on semi-strong-form efficiency. However, in semi-strong-form efficiency, it is implied that share prices adjust to publicly available new information very rapidly and in an unbiased fashion, such that no excess returns can be earned by trading on that information. Hence, it also implies that neither fundamental analysis nor technical analysis techniques will be able to reliably produce excess returns. To test for semi-strong-form efficiency, the adjustments to previously unknown news must be of a reasonable size and must be instantaneous. To test for this, consistent upward or downward adjustments after the initial change must be looked for. If there are any such adjustment it would suggest

that investors had interpreted the information in a biased fashion and hence in an inefficient manner.

Empirical Review

Bauduru and Audu (2019) used a different method and examined the association between dividend policy and stock price volatility rather than returns. He added, some control variables for examining the association between share price volatility and dividend yield. These control variables are earning volatility, firm's size, debt and growth. These control variables do not only have clear effect on stock price volatility but they also affect dividend yield. For instance, the earning volatility has effect on share price volatility and it affects the optimal dividend policy for corporations. Moreover, with assumption that the operation risk is constant, the level of debt might have positive effect on dividend yield. Size of firm would be expected that affect share price volatility as well. That is, the share price of large firms is more stable than those of small firms as the large firm tend to be more diversified. Furthermore, small firms have limited public information and this issue can lead to irrational reaction of their investors.

Amollo (2016) evaluated the effect of dividend policy on firm value for commercial banks in Kenya, the study sought to elicit the unresolved issues of cooperate financial publications on dividend policies and market value of Commercial banks in Kenya, using quantitative method. The result found that there is a strong positive correlation between dividend payout and firm value among commercial banks in Kenya.

Taking a look at the Nigerian perspective, on dividend payout pattern, Maude, Jimoh and Okpanachi (2015) observed that there have been no agreed agreements as to the "rightest, middlest or leftest" road hypothesis on dividend payout. Their study found that inflation, share price, and earnings per share have significant impact on dividend payout.

Daudu and Abilikama (2018) used of ordinary least square (OLS) technique on the determinant of dividend policy of financial institutions in Nigeria for a period of 1999-2015, the study used cash dividend per share (DPS) as the explained variable while earning per share (EPS). Liquidity ratio (LP). Lending rate (LR), prevailing inflation rate as explanatory variables, the result revealed that current earnings lagged dividend and lending rate were major determinant of cash dividend payout while inflation rate and liquidity ratio failed to explain the variation in dividend payout

Lawrence, Robert and Monday (2015) investigated the impact of dividend policy on share prices in Nigerian Banks for a period five year (5) their study spanned from 2010 to 2015; the result found out that dividend policy has significant positive effect on share valuation of listed deposit money banks in Nigeria. Opeyemi, Olusegun, Olakayode and Olusola (2018) examined what determines the dividend policy among listed deposit money banks in Nigeria between 2006 to 2015 using panel data, their study found that, board size, leverage financial crises and political factor dummy variables had negative impact on dividend policy, while other variables like board independence, profitability has negative effect.

METHODOLOGY

The study adopted *ex-post-facto* research design to source requisite information. An *ex-post-Facto* research design is a systematic empirical inquiry that requires the use of variables which the researcher does not have the capacity to change its state or direction in

the course of the exercise (Kerlinger, 1973 & Onwumere, 2009). Data for this study was collected from the Central Bank of Nigeria Statistical Bulletin, 2019. Data collected and used for the variables form the basis of the study that covers 24-years (1996-2019). The study uses equity/stock price of quoted deposit money banks' as proxy for market value of deposit money banks' in Nigeria and employs as the dependent variable; whereas, dividend payout ratios, retained earning ratios, dividend yields and earnings per shares are use as independent variables to measure dividend policy.as indicated on appendix 1.

Model Specification

Multivariate linear regression models are used to test each of the null hypotheses proposed for this study. Based on the formulated hypotheses, a model is adapted from the work of Daudu&Abilikama(2018). The model is stated as: $EQP = f(DPR, RER, DY, EPS)$. Where: EQP =Equity/stock price of quoted deposit money banks' as proxy for market value of deposit money banks'. DPR = Dividend Payment Ratios, RER = Retained Earning Ratios, DY = Dividend Yield and EPS = Earnings Per Shares .The above model is modified in this study by introducing private sector growth and was employed as dependent variable. Hence, the modified model is stated as: $EQP = f(DPR, RER, DY, EPS)$.The econometric model can be written as: $LnEQP = a_0 + Ln a_1 DPR + Ln a_2 RER + Ln a_3 DY + Ln a_4 EPS + \mu$. a_0 = Constant parameter, a_1 – a_4 = Elasticity Co-efficient of each variable. μ = Stochastic error term, Ln = The natural log of the variables. Log transformation is necessary to reduce the problem of heteroskedasticity because it compresses the scale in which the variables are measured, thereby reducing a tenfold difference between two values to a twofold difference (Gujarati, 2004).

DATA PRESENTATION AND ANALYSIS

Data for this study consist of 24-year annual observation period of (1996-2019). The study uses equity/stock price of quoted deposit money banks' as proxy for market value of deposit money banks' in Nigeria and employs as the dependent variable; whereas, dividend payout ratios, retained earning ratios, dividend yields and earnings per shares are use as independent variables to measure dividend policy as indicated on appendix 1. The descriptive statistics is used to describe the basic characteristics of the data series used in the analyses. The summary results of the descriptive statistics are presented on table 1.

Table 1: Summary Descriptive Statistics

EQP	DPR	RER	DY
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Mean	356416.3	45.33231	34.25925	47.23546
Median	34253.20	26.35230	44.83420	32.13243
Maximum	254751.6	42.43712	35.46332	26.81353
Minimum	124.5912	12.74653	17.14253	54.63526
Std. Dev.	43657.23	45.362.10	32.53687	66.24357
Skewness	1.214451	3.872635	3.463790	1.763786
Kurtosis	3.208986	15.33546	14.42995	5.234352
Jarque-Bera	9.562850	323.1238	240.6823	27.21454
Probability	0.058384	0.073840	0.254638	0.059471
Sum	677689.8	745377.6	58365.87	25375.02
Sum Sq. Dev.	3.254650	3.197911	4.378808	4.014252
Observations	24	24	24	24

Source: Author's E-Views computation, 9.1

The total number of observations is 24 for all the variables. This is indicative that all the series have no missing value in the considered time period. The average growth rates (or mean values) for the variables are: equity/stock price of quoted deposit money banks (356416.3), dividend payout ratios (45%), retained earningratios (34%), dividend yields(47%) and earnings per shares (38%). The Jarque-Bera statistics specifies that none of the variables departed from normality, thus, the variables are considered to have a normal distribution. All the variables are positively skewed.

Unit Root Test

The Augmented Dickey-Fuller (ADF) unit root test statistics was used to test for stationarity; and to establish the order of integration of each. The null hypotheses of non-stationarity of oil and gas sector, construction sector and service sectors are tested against the alternative hypotheses. The results were presented on table 2.

Table 2: Unit Root Test Statistics

Variables	Level	1 st Differ.	Decision	Remarks
EQP	-4.645387*	2.727353	1(1)	Stationary
DPR	-1.25366	-3.225362*	1(1)	Stationary
RER	-3.625372	3.85769**	1(1)	Stationary
DY	-2.467593	-4.136576*	1(1)	Stationary
EPS	2.645353	-3.624362	1(1)	Stationary

Source: E-views Econometrics 9.1, * (**) indicate statistical significance at the 1 percent and 5 percent level, respectively. The critical values at the 1 percent and 5 percent significance levels and the critical values of ADF are from Mackinnon.

Test for Co-integration

The results of the test are presented on table 3 and the null hypotheses of no co-integration among the variables (that is, $r=0$) is tested against the alternative hypotheses of co-integration among the variables (that is $r=1$). The null hypotheses of no co-integration is

rejected at the 5 percent significance level. However, the null hypothesis that $rd'' = 1$ could not be rejected against the alternative $r=2, r=3$ and $r=4$, suggesting the presence of a unique co-integrating relationship among variables. Thus, a long-run relationship exists among the variables as indicated by the likelihood ratio as indicated on table 3.

Table 3: Multivariate Johansen's Co-Integration Test Result. Lags interval: 1 to 2

Null hypotheses.	Alternative hypotheses	Eigen value	Likelihood ratio	Critical values	5% Critical	Hypothesized No.
$r=0$	$r=1$	0.8255	68.5463	56.64	62.21	None **
$rd \leq 1$	$r=2$	0.6212	54.1464	46.84	53.02	At most 1
$rd \leq 2$	$r=3$	0.4142	46.7564	32.04	44.84	At most 2
$rd \leq 3$	$r=4$	0.2450	36.2416	23.74	42.04	At most 3
$rd \leq 3$	$r=4$	0.3543	24.2325	22.53	38.92	At most 4

Source: E-views Econometrics 9.1

Note: * (**) denotes rejection of hypothesis at 5% (1%) significance level.

Table 4 Vector Error Correction Model

Dependent Variable: D(EQP)

Method: Least Squares

Date: 07/02/2020 Time: 04:55

Sample (adjusted): 1996 2019

Included observations: 24 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	43.45301	0.625432	1.243571	0.0125
D(DY)	217.6559	0.073624	2.058259	0.0021
D(EPS)	1489.577	0.523425	2.946748	0.0246
D(DPR)	23.45441	0.378373	1.026358	0.0244
D(RER)	37.53641	1.036472	1.203647	0.0110
ECM(-1)	-0.671163	0.124252	1.351792	0.0251
R-squared	0.621641	Mean dependent var		1131.400
Adjusted R-squared	0.591505	S.D. dependent var		1385.207
S.E. of regression	1342.239	Akaike info criterion		20.99736
Sum squared resid	1.696009	Schwarz criterion		21.27219
Log likelihood	-329.9578	Hannan-Quinn criter.		21.08846
F-statistic	6.435256	Durbin-Watson stat		1.974626
Prob(F-statistic)	0.000000			

Source: Author's Computation using E-views 9

From Table 4, the least square outputs will be used to test the four hypotheses outlined in the study. The error correction term will tell us the speed with which our model returns to equilibrium following short run fluctuations not captured in the Johansen test. The ECM

coefficient of -0.671163 indicates that ECM(-1) is well specified and the diagnostic statistics are good. The negative sign shows the short run adjustment of the independent variables to the dependent variable. The ECM term also shows a 67% speed of adjustment towards equilibrium. This implies that 67% of disequilibrium caused by exogenous shocks or short run fluctuations in the previous period is corrected in the current year. The results also show that DY is positive and statistically significant to EQP both in the short and in the long run. Hence, EPS is also positive and statistically significant to EQP both in the short and in the long run. Furthermore, the results of the overall significance of the model using F-statistics indicates that the entire model is statistically significant.

CONCLUSION AND RECOMMENDATIONS

The study concludes that dividend policy has a significant impact on the market value of deposit money banks' in Nigeria. Banks should be careful and sensitive in the management of dividend policy as this directly impacts on their equity values. A purposeful and careful juggling of the components of dividend policy is absolutely necessary to produce the required effect on equity price of their banks. A well thought through mix of cash dividend, script issue/bonus, and a good combination of what to pay out and what to retain to plough back for growth and expansion must be ensured at all time. A carefree management of dividend policy as result of lack of transparency and manipulation of accounts will ultimately result to loss of confidence in the bank and inevitably induce mass offloading of shares by shareholders with the consequent depreciation in value when supply of such shares overwhelm demand. Capital structure of banks should be properly managed by leveraging from the dividend policy management of each bank. Through understanding of the relationship between the two very demanding strategic management functions will enhance profitability consistent performance and appreciable growth and expanding of quoted commercial banks in Nigeria.

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APPENDIX 1:

YEARS	EQP	DY	EPS	DPR	RR
1996	6992.1	0.3056	0.7824	0.239	0.761
1997	6440.5	0.4174	1.8177	0.2229	0.7771
1998	5672.7	0.3439	1.3739	0.2375	0.7625
1999	5266.4	0.2373	1.2576	0.1397	0.8603
2000	8111	0.2257	0.7999	0.2326	0.7674

2001	10963.1	0.2442	0.8055	0.2075	0.79225
2002	12137.7	0.1968	1.1884	0.2044	0.7956
2003	20128.9	0.316	0.7274	0.2149	0.7851
2004	23844.5	0.3254	0.9212	0.2248	0.7752
2005	24085.8	0.3972	0.8964	0.2554	0.7446
2006	33189.3	0.3426	1.1884	0.2093	0.7907
2007	57990.2	0.2562	1.0284	0.2258	0.7742
2008	31450.8	0.8013	1.1014	0.1878	0.8122
2009	20827.2	0.5754	2.7545	0.1014	0.8986
2010	24770.5	0.4124	2.7276	0.0898	0.9102
2011	20730.6	0.5304	2.2846	0.0957	0.9043
2012	28078.8	0.4633	1.0479	0.1661	0.8339
2013	41329.2	0.4422	0.7757	0.1773	0.8227
2014	39229.3	0.4683	0.8452	0.172	0.828
2015	29322.1	0.5925	0.9563	0.1616	0.8384
2016	36331.8	0.5059	1.149	0.176	0.824
2017	39427.2	0.5238	1.635	0.836	0.725
2918	36029.3	0.5735	1.529	0.783	0.735
2019	38293.2	0.5823	1.538	0.836	0.727

Source: CBN Statistical bulletin 2019