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Effect of Dividend Policies on Firm Value: Evidence from quoted firms in Nigeria

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Abstract- *This study examines the possible effects of dividend policy on firm value. The study covers 10 quoted companies studied for the period of 1995-2015. In so doing, the methodology adopted is the ordinary least square regression analysis for primary data analyses and multiple regression analysis for the secondary data analyses with models MPS (Market Price Per Share) as dependent variable, EPS (Earnings Per Share) and DPS (Dividend Per Share) as independent variables. The co-efficient of determination is R^2 to evaluate the data collected from the ten studied companies and the Nigerian stock exchange. The study shows the relevance of dividend, dividend as a signaling model and proves that firm value is greatly influenced by dividend policy as far as public limited companies are concerned.*

Key words- *dividend per share; earnings per share; value of the firm*

1. INTRODUCTION

Dividend policy has been an issue of interest in financial literature since joint stock companies came into existence. According to John and Williams (2000)[13], "dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders overtime". Management's primary goal is shareholder's wealth maximization, which translates into maximization of the value of the company as measured by price of the company's common stock. The area of corporate dividend policy has attracted attention of management scholars and economists culminating into theoretical modeling and empirical examination. Thus, dividend policy is one of the most complex aspects in finance (kapoor 2009)[14]. The optimal dividend policy is the one that maximizes the company stock price that leads to the maximization of firm value.

Dividend are sticky because firms are typically reluctant to change dividend, in particular, firms avoid cutting dividends even when earnings drop. Dividend decisions are recognized as centrally important because of increasingly significant role of the finances in the firm's overall growth strategy. The objective of the finance manager should be to find out the optimal dividend policy that will enhance value of the firm (Gordon 2003). Nippel (2008), argues that the share prices of a firm tend to be reduced whenever there is a reduction in the dividend payments. Announcement of dividend increases generate abnormal negative security returns. A drop in share prices occurs because dividends have a signaling effect. According to the signaling effect, managers have private and superior information about future prospects and choose a dividend level to signal that private information. This may lead to a stable dividend payout ratio.

Since Modigliani and miller initiated modern corporate finance theory Modigliani and Miller (1958)[16] and Miller and Modigliani (1961)[18], a lot of researches have been made to explain market responses to dividend announcement by the firms.

According to Miller and Modigliani (1961)[18], the effect of a firm's dividend Policy on the value of the firm is a matter of considerable importance, not only to management who must set the policy, but also to investors planning portfolios. This poses the question, to what extent, if any, does dividend policy impact on firm's value. Lease et al (2000) posits that there are two distinct and opposing theories on dividend policy and its effect on firm value, namely, the irrelevant dividend theory and the relevant dividend theory. The dividend policy controversy as sparked by these two opposing dividend theories has contributed hugely to the ongoing dividend debate as to whether dividend policy affects share price and firm value. According to Lease et al (2000) there are managers and even a higher percentage of academics that question the value added of a carefully chosen dividend policy. Some go as far as to suggest that dividend policy is irrelevant; that one policy is as good as any other and that dividend payments should only be made on a residual basis. Others hold the view that a managed dividend policy can positively influence firm value. This poses the question, to what extent, if any, does dividend policy impact on firm value This study will analyse how dividend policies affect firm value, particularly in public companies in Nigeria.

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The general purpose of this study is to examine and analyse, through an empirical study dividend policy and the effect, if any, they have on the value of the firm. The specific objective of this study will be;

1. To empirically examine the determinants of dividend payout by firms and find out its linkage with information content of dividends.
2. To analyse the influence of agency cost and on dividend payment pattern.
3. To analyse the effect of dividend policies on firm value of public companies in Nigeria.

The following hypothesis will be tested: H_1: information content of dividends determines dividend payout by firms.H_2: agency cost between shareholders and management affects the dividend payment pattern of firms.

H_3: there is an effect of various dividend policies on shareholders wealth.

This study will focus on the effect of dividend policy on firm value. Public companies in Nigeria will be studied in the course of this work. This study will cover;

1. First bank Nigeria plc for the period of 1995-2015
2. Nigerian Breweries plc for the period of 1995-2015
3. presco plc for the period of 1995-2015
4. Julius Berger plc for the period of 1995-20015
5. Cadbury Nigeria plc for the period of 1995-2015
6. Oando plc for the period of 1995-2015
7. Guiness Nigeria plc for the period of 1995-2015
8. Dangote Cement Nigeria plc for the period of 1995-2015
9. May and Baker Nigeria Plc for the period of 1995-2015
10. Royal exchange Assurance Nigeria plc for the period of 1995-2015. This is to ensure that all sector of Nigerian economy is represented.

2. DIVIDEND POLICY

Pandy (2005) defines dividend as that portion of a company's net earnings which the directors recommend to be distributed to the shareholders in proportion to their shareholdings in the company. It is usually as a percentage of nominal value of the company's ordinary share capital at a fixed amount per share.

Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid out in cash, and this form of dividend payment is known as cash dividend. Another option available to a company for the distribution of earnings is by stock dividend (bonus issue) which is supplementary to cash dividend when cash is paid to the shareholders, it has an adverse effect on the liquidity position and the reserves of the firm as it tends to reduce both of the (cash and reserves). Unlike cash dividend, stock dividend does not affect the total net worth of the firm, as it is a capitalization of owner's equity portion.

2.1 Types of dividend policy

Dividend distributions to stakeholders may be in the form of:

2.1.1 *Cash dividends*

These are the most common and usually paid quarterly or biannually.

2.1.2 *Stock dividends*

These are payments to existing shareholders in the form of stock as a replacement for or a supplement to cash dividends. This method reduces the value per share even though the company's assets, profits and total value are unaffected.

2.1.3 Stock splits

Similar to a stock dividend and is commonly used to lower the market price of a firm's stock by increasing the number of shares belonging to each shareholder. This is also known as the dividend valuation model.

2.1.4 *Share repurchases*

Company repurchases from its shareholders outstanding shares in the marketplace. The desired effects are to enhance shareholder value and discourage hostile takeovers.

2.1.5 Constant-payout –ratio

Based on the payment of a certain percentage of earnings to owners every dividend period.

2.1.6 Regular dividend policy

Payment of a fixed amount of dividend in each period

2.1.7 Low-regular-and-extra dividend policy

payment of a low regular dividend supplemented by further dividends when earnings are sufficient.

2.1.8 Low Regular and Extra Policy

This is similar to the nominal payment in that a set amount is paid every dividend period. But extra cash can be paid out at irregular times of the year if more money was earned than usual. The extra payment is called an extra dividend because it is unexpected.

2.2 Dividend policy models with information asymmetries

Management, because of the position they hold in the organization, usually possess confidential information about the organisation whether current knowledge or future prospects. Because of this superior knowledge in relation to other stakeholders, information asymmetry exists. According to Lease (2000), dividend policy is used by managers to communicate their superior information to the market. Management therefore uses dividend policy as a communication mechanism. M and M (1961)[18] asserts that under perfect capital markets, information is costless and that all individuals are symmetrically informed and therefore, the firm's dividend policy conveys no new information which is already known to the markets. This is in line with M and M's irrelevant dividend theory that states that the value of the firm is independent of its dividend policy. In the real world, however, where market imperfections exist, the irrelevance of dividend policy to a firm's value seems to be inconsistent with the empirical evidence of dividends,

according to Lease et al (2000) and Baker et al (2002)[4]. Lease et al (2000) continues by stating that a multitude of empirical research have documented the significant impact that dividend announcements have on shareholders wealth. The research shows that dividend increases are greeted with share price increases and the opposite is true with dividend decreases. Empirical research, according to Lease et al (2000) has provided formal arguments, in the form of dividend signaling models, analyzing whether dividends payments are a credible medium for providing information to the markets.

2.3 Dividend policy and agency problem

In modern corporations, agency problems arise from the conflicts between corporate insiders and corporate outsiders. In widely held firms, characterized by a highly dispersed ownership structure, the firms' managers are the only corporate insiders, and the firms' shareholders can be defined as the corporate outsiders. In controlled firms, i.e. firms that are not widely held, the controlling shareholders are
the firms' corporate insiders together with the managers under their control. In contrast, the firms' minority shareholders can be defined as the corporate outsiders.

Agency problem underpins the relationship between the principal and the agent. Within the context of the firm, agency theory is primarily concerned with owner-manager relationship and with need for shareholders to monitor management behavior. This need arises due to the separation of ownership and control and the associated conflicts of interests that arise between shareholders (principal) and managers (agents). (Manos, 2001).it is based on this idea that monitoring of the firm and its management is helpful in reducing agency conflicts and in convincing the market that the manager are not in a position to abuse their position. Some shareholders may be monitoring managers, but the problem of collective action results in too little monitoring taking place. Thus Easterbrook (2000) suggests that one way of solving this problem is by increasing the payout ratio. When the firm increases its dividend payment, assuming it wishes to proceed with planned investment, it is forced to go to the capital market to raise additional finance. This induces monitoring by potential investment of the firm and its management, thus, reducing agency problem.

Van Horne et al (2001) develop a model that underpins this theory, called the cost minimization model. This model combines the transaction costs that may be controlled by limiting the payout, with the agency costs that may be controlled by limiting the payout, with the agency cost that may be controlled by raising the payment ratio. The central idea on which the model rests is that the optimal payment ratio is at the level where the sum of these two types of costs is minimized.

The agency approach moves away from the assumptions of the Modigliani and Miller's theory by recognizing two points. First, the investment policy of the firm cannot be taken as independent of its dividend policy and in particular, paying out dividends may reduce the efficiency of marginal investments. Second, and more subtly, the allocation of all the profits of the firm to shareholders on a pro-rata-basis cannot be taken for granted, and in particular the insider may get preferential treatment through assets diversion, transfer prices and theft, even holding the investment policy constant. In so far as dividend is paid on a pro-rata-basis, they benefit outside shareholders relative to alternative of expropriable retained earnings.(Kapoor, 2009)[14]Lease et al (2000) states that other stakeholders do not hold significant influence in the firm and because of this disparity in influence, an agency relationship exists. Baker et al (2002) states that, in their attempt to answer the dividend puzzle, firms pay dividends because they wish to reduce the agency cost among various stakeholders, especially the agency costs between shareholders and management. The two most important agency relationships that exist with regard to the payment of dividends are the agency relationships between:

- shareholders and debenture holders, and
- shareholders and management.

2.4 Theoritical framework

Among numerous conjectural and empirical studies regarding impact of dividend over firm value the pioneering work by Modigliani and Miller (1958)[16] and Miller and Modigliani (1961)[18] where the authors proved persuasively the irrelevance of dividend policy to firm value within a perfect capital market without the presence of tax. Even as they established the theoretical foundations for dividend irrelevance, Miller and Modigliani (1966)[17] realized that dividends and dividend changes indirectly convey a considerable amount of information at least about management's expectations of long-run future profits. This earnings information itself is an integral part to the firm's underlying operations and hence would affect firm value.

2.5 Residual theory of dividend policy

The essence of the residual theory of dividend policy is that the firm will only pay dividends from residual earnings, that is, from earnings left over after all suitable (positive NPV) investment opportunities have been financed. Retained earnings are the most important source for financing for most companies (Baker et al 2002)[4]. A residual approach to the dividend policy, as the first claim on retained earnings will be the financing of the investment projects. With the residual dividend policy, the primary focus of the firm's management is indeed on investment, not dividends. Dividend policy becomes irrelevant, it is treated as a passive rather than an active, decision variables. According to Baker et al (2002)[4], the view of management in this case is that the value of firm and the wealth of its shareholders will be maximized by investing the earnings in the appropriate investment projects, rather than paying them out as dividends to shareholders. Thus managers will actively seek out, and invest the firm's earnings in, all acceptable (in terms of

risk and return) investment projects, which are expected to increase the value of the firm. Dividends will only be paid when retained earnings exceed the funds required to finance the suitable investment projects. Conversely when the total investment funds required exceed retained earnings, no dividend will be paid.

2.6 Motive for a residual policy

The motives for a residual policy, or high retentions, dividend policy commonly include:

1. A high retention policy reduces the need to raise fresh capital, (debt or equity), thus saving on associated issues and floatation costs.
2. A fresh equity issue may dilute existing ownership control. This may be avoided, if retentions are consistently high.
3. A high retention policy may enable a company to finance a more rapid and higher rate of growth.

When the effective rate of tax on dividend income is higher than the tax on capital gains, some shareholders, because of their personal tax positions, may prefer a high retention/low payout policy. (Baker et al 2002)[4]

2.7 Dividend irrelevance theory

The dividend irrelevance theory by Miller and Modigliani (1961)[18] is based on the premise that a firms dividend policy is independent of the value of the share price and that the dividend decision is a passive residual. They are of the view that the value of the firm is determined by its investment and financing decision within an optimal capital structure, and not by its dividend decision. A common dividend policy should be able to serve all firms because the dividend policy is irrelevant in determining firm value.

The residual concept of dividends is based on the decision of dividing surplus earnings between future investments and the payment of dividends. Thus, a firm can either retain all of its surplus earnings for investment in future positive NPV projects or distribute dividends from the residue of the surplus earnings after providing for positive NPV investments, the firm is not obliged to pay dividends. In this manner, dividends are seen as a passive residual and are irrelevant in affecting firm's value. Alternatively, shareholders are indifferent as to whether they receive the expected return on their investment in the form of dividends or in the form of an appreciation of share value.

The basic premise of their argument is that firm value is determined by choosing optimal investments. The net payout is the difference between earnings and investments, and simply a residual. Because the net payout comprises dividends and share repurchases, a firm can adjust its dividends to any level with an offsetting change in share outstanding. From the perspective of investors, dividend policy is irrelevant, because any desired stream of payments can be replicated by appropriate purchases and sales of equity. Thus, investors will not pay a premium for any particular dividend policy.

Miller and Modigliani (1961) [18]concluded that given firms optimal investment policy, the firm's choice of dividend policy has no impact on shareholders wealth. In other words, all dividend policies are equivalent. The most important insight of miller and Modigliani's analysis is that it identifies the situation in which dividend policy can affect the firm value. It could matter not because dividends are "safer" than capital gains, as was traditionally argued, but because one of the assumptions underlying the result is violated. The propositions rest on the following four assumptions;

1. Information is costless and available to everyone equally.
2. No distorting taxes exist
3. Flotation and transportation costs are non existent
4. None contracting or agency cost exists.

According to cima (2002), Miller and Modigliani developed their theory in a perfect capital market setting. The basic assumptions underlying this theory are;

1. In a perfect capital market, no buyer, seller or issuer of securities is large enough for their transactions to significantly affect the current ruling price.
2. That information regarding the ruling price is available to all without cost, and no brokerage fees, transfer taxes or other transaction costs are incurred in the trading of securities.
3. That no tax differentials exist between dividends and capital gains.
4. That all investors will behave rationally in that they will prefer more wealth to less, and they are indifferent as to whether any given increment of their wealth is in the form of cash payments or an increase in the market value of their holdings.
5. That perfect certainty carries the implication of complete assurance on the part of every investor as to the future investment programme and future profits of every company.

M & M argue that the sum of the present value per share after the payment of dividends equal the current value per share before the dividend payments. Stated differently, the prevailing market price of the share at the beginning of a period can be defined as the present value of the dividend which is paid during the period, plus the present value of the market price of the share at the end of the period, (Baker et al 2007).Investors are therefore indifferent towards retained earnings and the payment of dividends (with concurrent new issue financing) in all future periods. Thus, shareholders' wealth is not influenced by current and future dividend decisions, but depends entirely on the earning power of the firms assets (Uddin and Chowdhury, 2005).

According to Lease et al (2000) intuitively, the dividends irrelevance policy can be explained as follows; if an investor desires to receive from a firm cashflows that exceed the dividend payment chosen by the firm's management, the investor can create homemade dividends by selling shares to achieve the desired cashflow level. This reduction in the shareholders ownership stake in the

firm from the sale of shares exactly matches the decline in share value the investor would experience if the firm paid the desired dividend or the investor would create a homemade dividend via selling shares, the investor is equally satisfied and the investors remaining shares have the same value.

Lease et al (2004) posits that if the investor receives dividend cashflow that exceed his or her consumption needs, then investor can still neutralize the firm's dividend decision by reversing the flow of unwanted shares. With this transaction, the value of the shareholders interest remains unchanged although the shareholder had forgone a dividend payment from the firms' standpoint, if the dividend payment under the desired dividend policy exceeds the operating cashflows less positive NPV investment expenditures, the firm makes up the financing shortfall by selling new shares in the market place. Under perfect capital market selling shares is costless, so whether the firm finances new investments from internally or externally generated funds, is immaterial. Hence, from both the investor's and the firm's perspectives, a managed dividend policy is no different from a residual policy.

According to Uddin and Chowdhury (2005), M & M abandon the assumption of complete certainty in regard to future profits and investments, and consider the case of uncertainty. They admit that dividends and share price are subject to uncertainty, but maintain that dividend policy still continues to be irrelevant, and base their conclusion upon the arbitrage argument. The operation of arbitraging is taking advantage of market aberrations which present opportunity for profitable two- way simultaneous transactions in equivalents, that is, operations in which one share is bought and its equivalent sold at about the same time. This market inbalances in the short term, gives rise to opportunities for profit taking until an equilibrium point is reached. The assumption is that every investor behaves rationally in preferring more wealth to less. In these circumstances, differences in current and future dividend policies will not affect the market price of the two firms- the reason being that the present value of the future dividends, plus the market prices of the share at the end of the period is the same. In these circumstances, Miller and Modigliani (1961) maintain that, even under uncertainty, dividend policy is irrelevant and does not affect the share price of the firm given the investment policy of the firm. And as such does not affect shareholders wealth.

In summary, the dividend irrelevance theory according to Uddin and Chowdury (2005) states that the logic of the irrelevance theory is not disputed given the assumptions underlying the model. However, it is now generally accepted that the value of a model lies in the predictive or explanatory power and that the model cannot be judged by reference to the realism of its underlying assumptions.

2.8 Relevance of dividend

On the evolution of dividend distributions, DeAngelo and DeAngelo(2006) [7]observed that dividend payment patterns of firms are a cultural phenomenon, influence by custom, beliefs, regulations, public opinion, perceptions and hysteria, general economic conditions and several other factors, all in perpetual change,

impacting different firms differently. They posits that if dividends are irrelevant as proposed by M & M, then the dividend enigma deepens as companies could have retained earnings, the cheapest form of financing, to invest in profitable future NPV investments.

Lease et al (2000) opines that the dividend relevance theory relaxes the assumption of perfect capital markets and rational investors. It analyses, empirically the behavior patterns of dividend distributions and their effects on the value of the firm. In the real world, market frictions are not costless and at most, investors do not always act rationally.

Baker et al (2002) defines dividend policy under the relevance theory as follows; the dividend policy is a practical approach which treats dividends as an active decision variable and retained earnings as the residual dividends are more than just a means of distributing net profit, and that any variation in dividend payout ratio could affect shareholders wealth, a firm should therefore, endeavour to establish an optimal policy that will maximize shareholders wealth.

Litner and Gordon (in Gitman 2003), pioneers of dividend relevance theory argues that shareholders prefer dividends to capital gains. Gitman continues, fundamental to this proposition is their bird-in-hand argument, which suggest that investors are generally risk averse and attach less risk to current as opposed to future dividends or capital gains, current dividend payments are therefore, believed to reduce investors uncertainty, causing investors to discount the firms earnings at a lower rate, thereby, all things being equal, placing a higher value on the firm.

2.9 Dividend signaling theory

In practice, change in a firm's dividend policy can be observed to have an effect on its share price – an increase in dividend producing an increasing in share price and then shareholders wealth and a reduction in dividends producing a decrease in share price and then shareholders wealth. This pattern led many observers to conclude, contrary to M&M's model, that shareholders do indeed prefer dividends to future capital gains. Needless to say M&M disagreed. (Asan, 2009)

The change in dividend payment is to be interpreted as a signal to shareholders and investors about the future earnings prospects of the firm. Generally a rise in dividend payment is viewed as a positive signal, conveying positive information about a firm's future earning prospects resulting in an increase in share price. Conversely a reduction in dividend payment is viewed as negative signal about future earnings prospects, resulting

in a decrease in share price and wealth of investors. (Asan, 2009).

Baker et al (2002) states that the signaling models for paying dividends, developed by Bhattacharya , John and Williams (2000)[13], and Miller and Rock (1985) suggest that managers as insiders choose dividend payment levels and increases, to signal private information to investors. According to them, managers have an incentive to signal this private information to the investment public when they believe that the current market value of their firm's shares is below its intrinsic level. The increased dividend payment serves as a credible signal when other firms that do not have favorable inside information cannot copy the dividend increase without unduly increasing the chance of later incurring a drop in dividends. The theorists therefore conclude that the dividend signaling hypothesis confirms that increased (decreased) cash dividends should experience positive (negative) price reactions. Dividend announcements signaling future profitability have also been established through empirical research conducted by Aharony and Dotan (1994), Bernheim and Wantz (1995), Brooks, Charlton and Hendershott (1998) and others, as noted in Baker, et al (2002). Most share price changes took place immediately following the announcement of a dividend, especially positive or negative dividend changes, through findings of empirical studies conducted by Aharony and Swary (1990), Asquith and Mullins (1983), and Kalay and Lowenstein (1996) as noted in Baker et al (2002). However, consistency in findings in respect of dividend signaling models, have not been achieved over the years. Studies conducted by De Angelo, De Angelo and Skinner (2004) did not support the hypothesized relation between dividend policies and future earnings. According to Frankfurter et al (2002), advocates of the signaling theories believe that corporate dividend policy is a cheaper medium of conveying private information to the markets than any other media forms. Frankfurter et al (2002)[8] states that the use of dividends as signals imply that alternative methods of signalling are not perfect substitutes.

2.10 Bird-in-the-hand theory

According to Kapoor (2009)[14], the essence of the bird-in-the-hand theory of dividend policy (advanced by John Litner in 1962 and Myron Gordon in 1963) is that shareholders are risk-averse and prefer to receive dividend payments rather than future capital gains. Shareholders consider dividend payments to be more certain than future capital gains – thus a "bird in the hand is worth more than two in the bush".

Gordon 2003 contended that the payment of current dividends "resolves investor uncertainty". Investors have a preference for a certain level of income now rather than the prospect of a higher, but less certain, income at some time in the future.

The key implication, as argued by Litner and Gordon, is that because of the less risky nature dividends, shareholders and investors will discount the firm's dividend stream at a lower rate of return, "r", thus increasing the value of the firm's shares.

According to the constant growth dividend valuation (or Gordon's growth) model, the value of an ordinary share, SV0 is given by:

$SV0 = D1/(r-g)$

Where the constant dividend growth rate is denoted by g, r is the investor's required rate of return, and D1, represents the next dividend payments. Thus the lower r is in relation to the value of the dividend payment D1, the greater the share's value. In the investor's view, according to Linter and Gordon, r, the return from the dividend, is less risky than the future growth rate g.

M&M argued against this and referred to it as the bird-in-the-hand fallacy. In their irrelevancy model, M&M assume that the required rate of return or cost or capital, r, is independent of dividend policy. They maintain that a firm's risk (which influences the investor's required rate of return, r) is a function of its investment and financing decisions, not its dividend policy.

M&M contend that investors are indifferent between dividends and capital gains – that is, they are indifferent between r and g is the dividend valuation model. The reason for this indifference, according to M&M, is that shareholders simply reinvest their dividends in share of the same or similar risk companies.

2.11 Empirical study of dividend in Nigeria

The earliest major attempt to explain dividend behavior of companies has been credited to Lintner (1956)[15] who conducted this study on American company in 1950s. Since then there has been an on going debate on dividend policy in the developed market resulting in mixed, controversial and inclusive results.

This issue did not receive any serious attention among academic scholars in Nigeria until 1974. Uzoaga and Alozieuwa (1974) (in Adelegan 2003) attempted to highlight the pattern of dividend policy pursued by Nigerian firms, particularly during the period of indigenization and participation programme defined in the first indiginazation Decree of 1973 their study covered 52 company- years of dividend action (13 companies for four years). They reported that they found very minimum evidences to support the classical influences that determine dividend policies in Nigeria during this period. They concluded that fear and resentment seem to have taken over from the classical forces.

However, Inang (1978) and Soyode (1975) [25]commented on the work of Uzoaga and Alozieuwa. Inang (1998) concluded that the problem arising from dividend policy can be attributed to the share pricing policy of the capital issue commission (CIC), which seem to have ignored the classical factors that should have govern the pricing of equity share issues. This in turn made companies to abandon all the classical determinants of dividend policy. Soyede criticized Uzoaga and Alozieuwa's work on the ground that it glossed over some important determinants of optimal dividend policy; he

also questioned certain conclusions made in the study because they were inadequate or a mistaken evaluation.

Furthermore, Oyejide (1976) empirically tested for company dividend policy in Nigeria using Lintner's model as modified by Brittian (1964), He disagreed with previous studies and reported that the variable evidence strongly support the fact that conventional devices explain the dividend policy of Nigerian public companies. Odife (1977) criticized the Oyejide study for failing to adjust to stock dividends and seem to agree with Uzoaga and Alozieuwa's conclusion. However, Izedonmi and Eriki (1996) using data from 1984-1989 found supporting evidence in Nigeria for Lintner's model.

Adelegun (2003) evaluated the asymmetric information of dividend, given earnings by shareholders in Nigeria. She carried out a study on 882 firms by analyzing the dividend policy and its effect on wealth maximization on a sample of 62 quoted firms in Nigeria over a wider testing period of 1887-2000. She found a

significant result and concluded that dividend policy does affect wealth maximization.

With the exeption of Izedonmi and Eriki (1996)[12] and Adelegun (2003)[1], the inconclusive controversy seems to have come to a temporary halt in the late 1990s. The attention of academic scholars became diverted in the early 1990s to the study of the weak- form efficient market hypothesis (EMH) on the Nigerian stock market. Few other scholars have tried to continue the research on dividend policy but without a new finding like Emenuga (2004), Olowe (1998)[23] and Oludoye (1999).

3. RESEARCH METHODOLOGY

The structural framework of this study is based on Survey design and ex-post facto research design.Questionnaires were administered to the respondents from First bank Nigeria plc, Nigerian Breweries plc, Presco plc, Julius Berger plc, Cadbury Nigeria plc, Oando plc, Guiness Nigeria plc, Dangote Cement Nigeria plc, May & Baker Nigeria Plc, Royal exchange Assurance. To ensure that all industries quoted in the Nigerian stock exchange are covered, these companies were selected.

The ex-post factor design type will also be used in this research work to analyse secondary data because there is no experiment involved, but rather is designed to test an event that has already taken place. Therefore, it deals with historical facts about dividend policy and its effect on firm value.

Primary and Secondary data will be used in this work. The research instrument used to obtain primary data is the structured questionnaire. The data machinery adopted for secondary data will be the published annual reports of selected firms for the relevant years sampled for analysis .The Central Bank of Nigeria (CBN) bulletin and the closing price of share for each company, for the relevant years sampled for analysis.

The population of this research will be the 180 public limited companies in Nigeria as at September 2015, with a selection of 10 companies using the Quota random sampling technique. This is applied where the population is made up of some natural grouping or parts. Each natural grouping is given a fair representation in the sample (Asika 2006). The basis is to ensure that all industries are covered. . The respondents of these firms are their finance managers, chief accountants, chartered accountants who act as agents, stock brokers, directors and shareholders. A total number of 120 questionnaires was distributed and the researcher was unable to distribute 20 copies. The research instrument contains 13 questions on dividend policies against which the respondents were asked to indicate their level of agreement upon a five point Likert scale (where 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1 = strongly disagree). Each question number is subsequently referred to as S1-S13. The sample size is denoted by (n) and is derived using the Yaro Yamen's formular

$$n = \frac{N}{1+N(e)^2}$$

Where n = sample size
N= Population
e =margin for error terms (5%)

$$n = \frac{216}{1+(216)(0.05)^2}$$

$$n = \frac{216}{1+(216)(0.0025)}$$

$$n = \frac{216}{1+0.54}$$

$$n = \frac{216}{1.54}$$

n =140

Factors used as explanatory variables for the determination of dividend payout ratio and firm value are outlined and explained as follows.

Dependent variable;

1. Dividend per share (DPS) is given by dividends divided by the total earnings. It is the percentage of earnings that the firm pays out as cash dividend.

Independent variables;

1. Earnings per share (EPS) Is the value of earning divided by total number of shares. It is based on profit after taxation and the number of issued and fully paid ordinary shares as at the end of each financial year.
2. Market price per share (MPS) is simply the closing price of any given stock as reported by the exchange

3.1 Decision rule

For analyzing primary data, a choice of 5% level of significant and 95% level of confidence will be made. For analyzing secondary data, it is interpreted as the proportion of the variance in the dependent variable that is predictable from the independent variable. Its decision rule is +1 or -1.

Dividend policy is concerned with the allocation of earnings between dividend and retained earnings. Dividend policy has implication on the market value of the firm's equity. Both existing and prospective stock holders consider this policy (dividend policy) very critically before they invest in the shares of a company. Earnings capacity of firms is also a determining factor to sustain an investor's confidence on firms. I.e. a stock dividend is an opportunity claimed or given by a firm to recapitalize and this does not affect the proportionate ownership of the shareholders because there are more shares out-standing, it reduces earnings per share and market price per share (Egungwu, 2003). Dividend per share will be used as a proxy for measuring shareholders wealth and serves as the dependent variable for this work, while earnings per share and market price per share will be used as a proxy for measuring dividend policy and serves as the independent variables. Multiple regressions is therefore, adequate for this research work.

3.2 Validity and reliability of data instrument

The Cronbach's alpha was used to test the reliability of questionnaire and it gave a value of 0.839. this suggests that the item have relatively high internal consistency.

3.3 Case processing summary

Table 1

		N	%
Case	Valid	171	100
	Excluded	0	.0
	Total	171	100

Source: (author's computation)

3.4 Reliability Statistics

Table 2

Cronbach's alpha	No of items
.839	12

Source: (author's computation)

3.5 Modelspecification

MPS = (EPS, DPS) ---------- 1

$MPS_{!t} = ao_{!t} + b_1 + EPS_{!t}, b_2 + DPS_{!t,} + \varepsilon r_{!t}$ --------- 2

$MPS!t = ao_{!t} + b_1 EPS_{!t} * DPS_{!t} + \varepsilon r_{!t}$ ----------3

MPS = (EPS, DPS) ---------- 1

$MPS_{!t} = ao_{!t} + b_1 + EPS_{!t}, b_2 + DPS_{!t,} + \varepsilon r_{!t}$ ----------2

$MPS!t = ao_{!t} + b_1 EPS_{!t} * DPS_{!t} + \varepsilon r_{!t}$ ----------3

Where;

$MPS_{!t}$: Market price per share **ί** in year **t**.

$EPS_{!t}$: Earnings per share **ί** in year **t**:

$DPS_{!t}$: Dividend per share **ί** in year **t**.

β0, β1, β2, = coefficients

εi = error terms.

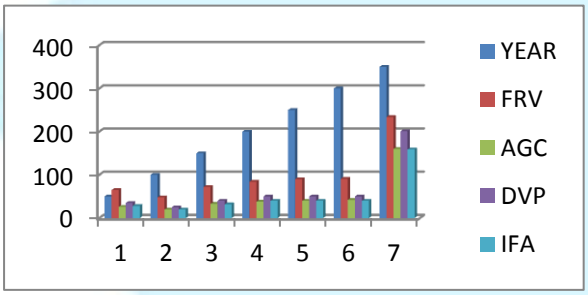
The model is expected to be β0 > 0; β1 >0, β2> 0. Simple regression technique, ordinary least square (OLS) was used for data estimation and analysis. In the course of analysis, correlation coefficient analysis, pooled regression analysis and other diagnostic test were conducted. These were done with the aid of E-View 7 software.

3.6 Test of Primary Data

Table 3

YEAR	FRV	AGC	DVP	IFA
50	65	26	35	28
100	48	20	25	20
150	72	33	40	32
200	84	38	50	40
250	90	40	50	40
300	91	42	50	40
350	234	160	201	159

Figure 1



Dependent Variable: FRV
Method: Least Squares
Date: 11/04/16 Time: 18:26
Sample: 2000 2006

Table 4

Included observations: 7				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGC	0.977640	0.677224	1.443599	0.2446
DVP	32.61981	7.383513	4.417925	0.0215
IFA	-39.77522	9.446195	-4.210714	0.0245
C	9.257143	4.502554	2.055976	0.1320

R-squared	0.999809	Mean dependent var	121.1429
Adjusted R-squared	0.999619	S.D. dependent var	123.0345
S.E. of regression	2.401820	Akaike info criterion	4.885890
Sum squared resid	17.30621	Schwarz criterion	4.854981
Log likelihood	-13.10061	Hannan-Quinn criter.	4.503866
F-statistic	5247.108	Durbin-Watson stat	1.669173
Prob(F-statistic)	0.000004		

R^2= 0.999809. This shows that 99% of the total variations in FRV is explained by the independent variables AGC, DVP and IFA. The Durbin Watson is high almost at 2 and shows a perfect correlation and a positive effect of information content of dividend and firm value, agency cost and firm value, dividend policies and firm value. We accept H_1, H_2, &H_3 which states that there is information content of dividends determines dividend payout by firms, agency cost between shareholders and management affects the dividend payment pattern of firms and there is an effect of various dividend policies on shareholders wealth

3.7 Test of Secondary data

YEAR	MPS	DPS	EPS
1995	72.0032	4.9843	29.0344
1996	73.3422	5.3297	43.211
1997	89.2018	6.7456	123.221
1998	95.9873	7.3201	23.674
1999	95.4321	7.1002	45218
2000	97.0011	7.5783	156002
2001	98.7321	7.8235	13.8344
2002	9867321	78456	78.364
2003	100.2011	8.2118	46.732
2004	98.2036	8.0021	3745110
2005	110.041	8.3901	1249.4
2006	123.674	9.2364	104.456
2007	125.5054	9.9018	113.8202
2008	13.27525	3.671203	9.598825
2009	20577412	2952466	23464697
2010	73.56	78.74548	-5.29797
2011	117.3005	-77.7132	194.1557
2012	21344198	21087125	254716
2013	72.57277	15.3941	56.7845
2014	214.2989	73.99791	139.7844
2015	28.0125	19.9034	7.8508

Table 5

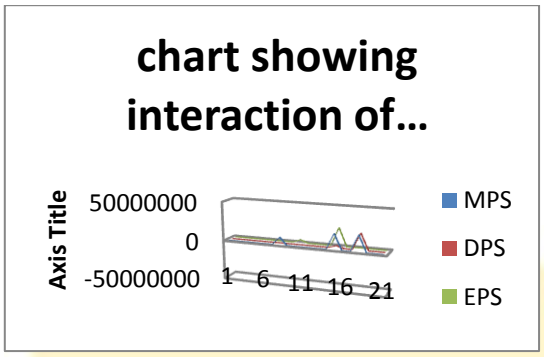


Figure 2
Dependent Variable: MPS
Method: Least Squares
Date: 12/15/16 Time: 17:07
Sample: 1995 2015
Included observations: 21

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPS	-2.03E-07	6.37E-07	-0.318284	0.7541
EPS	5.60E-07	7.04E-07	0.796398	0.4368
SER01	2.88E-07	5.34E-07	0.538466	0.5972
C	2004.477	1.499712	1336.575	0.0000
R-squared	0.096565	Mean dependent var		2005.000
Adjusted R-squared	-0.062865	S.D. dependent var		6.204837
S.E. of regression	6.396898	Akaike info criterion		6.719147
Sum squared resid	695.6453	Schwarz criterion		6.918104
Log likelihood	-66.55104	Hannan-Quinn criter.		6.762326
F-statistic	0.605687	Durbin-Watson stat		0.259003
Prob(F-statistic)	0.620281			

Table 6

R^2= 0.096565. This shows that 100% of the total variations in MPS is explained by the independent variables DPS and EPS. The Durbin Watson is very high at 0.259 and shows a perfect correlation between MPS, DPS and EPS. We accept H_1, H_2, &H_3 which states that there is information content of dividends determines dividend payout by firms, agency cost between shareholders and management affects the dividend payment pattern of firms and there is an effect of various dividend policies on shareholders wealth

4. SUMMARY OF FINDINGS ,CONCLUSION AND RECOMMENDATION

This chapter dealt with analysing responses based on respondent's views on dividend payments and the effect on firm value. The majority of respondents agreed with the following dividend policy statements:

1. a dividend policy that maintains steady or modestly growing dividend payments
2. a dividend policy that adjusts dividend payments towards a target payout ratio
3. The above policy statements are a consequence of the majority of respondents agreeing to the following statements on dividend relevant theory:
4. importance of dividend policy on firm value
5. the bird-in-the-hand theory of dividend payments
6. dividend payments prevent surplus cash flows from being used in unprofitable investments
7. dividend payments are better signals of confidential information
8. a formal dividend policy gives the assurance of predictable dividend payments
9. a common policy can be used by all firms to determine firm value
10. shareholders are indifferent to receiving dividends as compared to share increase

There is a very high correlation between dividend policies and firm value at 0.99 which is an almost perfect correlation (close to 0.1). and 0.1 which shows a perfect correlation. This shows that dividend policies have an overwhelming significant effect on firm value of public

limited companies in Nigeria. The results further corroborate the works of Oyejide (1976), Izedonmi and Eriki (1996) and Adelegan (2003). This study adds to the body of literature on corporate dividend policy in Nigeria. The results of the study underscore the need for Board of Directors (BODs) to maintain a steady increase in earnings, cash flow and dividend payment.

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APPENDIX 1

Please tick ( ) the appropriate answer to each question or otherwise fill in the blank space where necessary.
5=Strongly Agree
4=Agree
3=Undecided
2=Disagree
1=Strongly Disagree

	SA	A	U	DA	SD
1. Do you think that a dividend policy is important because of the effect it has on the company's share price and firm value?					
2. Does your company pay dividend only when positive investments project have been financed?					
3. Do you think that shareholders prefer the bird-in-the-hand theory of dividend payouts, that is, receiving dividend payout now not bothering what future dividends will be?					
4. Do you think that dividend payout provide signals to prospective investors?					
5. An increase in a dividend payout is usually accompanied by an increase in the share price?					
6. A decrease or omission of a dividend payout is usually accompanied by a decrease in the share price?					
7. Do you think that a common dividend policy could be used by all companies					
8. Do you think that dividend payouts remove excess cash flow from being invested in negative investment projects that will only reduce firm value?					
9. Do you think that a firm should strive to maintain uninterrupted or a steady dividend payment?					
10. Do you think that dividend policies have no effect on firm value?					
11. Do you think that a firm should have a target payout ratio And always adjust its dividend payment towards the target?					
12. Do you think that the market uses dividend announcements as information for assessing firm values?					