Impact of Dividend Policy on Stock Prices in Quoted Industrial Goods Companies in Nigeria

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Abstract
Selecting a suitable dividend policy is major hiccup decision for the industrial goods companies because flexibility to expand a business or to invest in future projects depends on the amount of dividends they paid their shareholders. Against this background this study aimed at determining the effect of dividend policy on stock prices of quoted industrial goods companies in Nigeria. Secondary data was collected from the period of 2013 to 2017 and analyzed with the aid of SPSS Version 21. Descriptive study research design was used to determine frequency of occurrence or extent to which variables were related. Simple OLS regression results reveal that, dividend policy has significant effect on stock prices of Quoted Industrial Goods Companies in Nigeria and that announcement of dividend is important to the shareholders because of its tax effect and information content. It is therefore recommended that, the Industrial Goods firms in Nigeria should consider the interest of shareholders in choosing dividend policies that will maximize shareholders' value by management.

Keywords: Dividend Policy, Stock Dividend Per Share, Dividend Payout Ratio, Retention Ratio, Stock Market Prices.

Introduction

Managers make decisions to determine aggregate amount of money to be paid and withheld while shareholders plan their own asset collection inform of returns. Dividends are seen as a cause of income for investors and works as an indication of business performance. Through dividend policy managers make a choice about the utilization of profit between dividend and retained earnings. Selection of a suitable dividend policy for a company is extremely important decision for the management and owners of the company (Sharif, Ali & Farzand, 2015).

However, Stock prices may become more responsive to fluctuating predictions of degrees of profit in excess of remote time phases. Firms that have less payout and less dividend yield ratios are appreciated for future investment opportunities. That is why despite having lower payout and dividend yield ratios growing firms maintain stable stock prices. Besides other, reasons may include that these ratios serve as an indication of projected growth opportunities. Growing firms are those firms that have not yet attained the maturity level rather still have opportunities for growth. On the other hand, assets in place are the firms which are at their maturity level having no or less development prospects. If projections of revenues from growing chances become less consistent than estimates of incomes on assets in place corporations with little payout and dividend ratios may possibly have more price elasticity. As per duration and arbitrage effects payout ratio is not an appropriate gauge rather the dividend yield is. Rate of return outcome shows both dividends yield and payout ratios are important (Gorden, 1963).

Dividend Policy gives an idea for growth and investment opportunities. And it is an important decision for the company because flexibility to invest in future projects depends on the amount of dividends that they pay to their shareholders. As such, certain important factors like managerial and behavioural environment, firms' profitability ratios, and the willingness of the company e.t.c. are considered by companies in designing their dividend policies (Khan, 2012).

A large number of research studies have been carried out in different developed and developing countries', but the mystery between dividend policy and stock price remains debatable and unresolved (Shah & Noreen, 2016). Dividend decision being one of the important financial decisions of a corporate firm has been still a most debated issue across the world (Hasan, Asaduzzaman & Karim, 2013).

Selecting a suitable dividend policy is major hiccup decision for the industrial goods companies because flexibility to expand the business or to invest in future projects depends on the amount of dividends that they pay to their shareholders (Michael & Benson, 2014). If company pay more dividends then less funds available for investment in future projects (Masum, 2014). Debt holders are also interested in the amount of dividend that a company declares, huge dividend payout means fewer amounts would be available to the company to pay-off their obligation (Masum, 2014). The dividend decision of a company suggests a change in dividend payout ratio and retention ratio and this decision has implications for the shareholder's earnings and growth of a firm (Adelegan, 2009).

In view of the flawed decisions made by management regarding dividend policies, this study attempts to unravel the mirage surroundings the dividend policy of industrial goods firms in Nigeria and to assess the effect of dividend policy on stock prices of Industrial goods firms. Therefore this study is aimed at examining the effect of dividend policy on stock prices of Industrial Goods Companies in Nigeria.

Concept of Dividend Policy

The concept of dividend has been defined by many authors and researchers. Bierman (2001) and Baker, Powell and Veit (2002) have described it as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital. According to Olimalade, Ojo and Adewumi (1987), it is seen as cash flows that accrue to equity investors. That is a form of return to shareholders on their investment, and the aim is to increase their confidence in the future of the company in which they have invested.

The dividend policy decisions of firms are the primary element of corporate finance policy (Uwuigbe, Olowe & Godswill, 2012). Nissim and Ziv (2001) define dividend policy as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders. The major concern of the dividend policy is, of course, the trade-off between dividend payout and retained earnings. It involves an analysis of dividend payout and retention, and the relevant factors that influence the proportion of dividend to earning per share (EPS) and retained earnings to EPS (Ali & Recep, 2012). The dividend decision of a company suggests a change in dividend payout ratio and retention ratio.

Determinant of Dividend Policy

Dividend policy can be determine in majorly four different ways, either in cash, stock, fixed or regular. Companies mostly pay dividend in cash and hence companies should have enough cash in its bank account when cash dividend is declared (Pandey, 2010). The impact of cash dividend policy on the current prices of company shares is considered to be very important, not only for policy makers, but also for investors, portfolio managers, and economists interested in the performance of capital markets (Okpara, 2010). Stock Dividend Policy consists of dividends distribution to existing shareholders in the form of shares instead of cash (Ross, Westerfield, & Jaffe, 1999). A company usually resorts to this policy when it is in a rapid growth phase or restructure, so that these stages require a large capital expenditure hence motivating the company to maintain all possible liquidity to achieve this aim (Pike & Neale, 2009). However fixed rate dividend policy is determined by apportioning the dividends on profits earned. Since corporate annual profits are not fixed, adopting this policy will lead to a fluctuation in the amount of dividends because the stability of the dividends rate from non-fixed profit leads to a difference in the amount of the annual dividends. This is the main criticism of this policy since fluctuations in the level of dividends is one of the benchmarks that measure the risks of the company and because the non-fluctuation of profits is usually seen as something positive for current and future performance of the company. The prices of company shares that follow such a policy may be adversely affected by this policy (Alaa, 2010). Alaa (2010) asserts that according to regular dividend policy, the company pays a fixed rate of dividend each year which will be fixed over the following few years. This policy gives a positive indicator about the company because of the stability of the level of dividends, leading to reduced risks of uncertainty. Companies that follow such a policy tend to increase the dividends rate whenever they feel that the increase in profits is steady and continuing in the future.

Theoretical Framework

The underpinned theory for the purpose of this study is signaling theory which states that managers can use dividend announcement as signal to market about the firm’s brighter future and expected cash flows in near time.

Signaling Theory

The signaling theory of dividends has its origins in (Lintner, 1956) studies who revealed that the price of a company’s stocks usually changes when the dividend payments changes. Even though Modigliani & Miller (1961) argued in favour of the dividend irrelevance they also stated that in the real world disregarding the perfect capital markets, dividend provides an “information content” which may affect the market price of the stock. Many researchers have thereafter been developing the signaling theory and today it is seen as one of the most influential dividend theory. Bhattacharya (1979) presented one of the most acknowledged studies regarding signaling theories which states that dividends may function as a signal of expected future cash flows. An increase in the dividends indicates that the managers expect higher cash flows in the future. The research is based on the assumptions that outside investors have imperfect information regarding the company's future cash flows and capital gains

Empirical Review

Masum (2014) empirically estimates excess stock market returns for all the thirty banks listed in Dhaka Stock Exchange for the period of 2007 to 2011. The study examine the kind of relationship exists between dividend policy and stock market returns of private commercial banks in Bangladesh, and to what degree the returns on stocks can be explained by their respective dividend policy for the same period of time. Panel data approach is used to explain the relationship between dividends and stock prices after controlling the variables like Earnings per Share, Return on Equity, Retention Ratio have positive relation with Stock Prices and significantly explain the variations in the market prices of shares, while the Dividend Yield and Profit after Tax has negative, non significant relation with stock prices. Overall results of this study indicate that Dividend Policy has significant positive effect on Stock Prices.

Khan, Shah and Baber (2018) investigates the impact of dividend policy on shareholders' wealth using secondary data of 17 listed insurance companies in Pakistan employing non-probability convenience sampling for 2012-2015. Shareholders' wealth is used as dependent variable measured by earning per share whereas dividend policy as independent variable measured by three ratios namely dividend per share, Retention ratio and dividend payout ratio. Analysis techniques include descriptive statistics, regression analysis and correlation analysis. The results show that all the independent variables impact dependent variable positively with dividend per share and retention ratio significant at 5%. Moreover study reveals that the theory of dividend irrelevancy failed in the case of insurance industry of Pakistan.

Al-Hasan, Asaduzzaman and Karim (2013) evaluate the effect of dividend policy on market price of share in the context of Bangladesh. The study has covered secondary data and analyzed the data by employing descriptive statistics, correlation and multiple regression models. The study has found that the effect of dividend payout is more on market price than retention. This dependency is significant at 1%. Finally, the paper concludes that the findings over the effect of dividend policy on market price supports the relevant theory of dividend policy i.e. Walter's model and Gordon's model.

Ahmad, Alrjoub and Alrabba (2018) examine the effect of dividend policy on stock price volatility of firms listed in the Amman Stock Exchange. The data applied for the study consist of 228 firms listed on the Amman Stock Exchange from the period 2010 to 2016. Descriptive statistics, Pearson correlation and panel GMM estimation was applied to test the relationship. The findings show that both main variables of dividend policy-dividend yield and dividend payout have negative significant relationship with stock price volatility. This implies that the higher the dividend yield and dividend payout of the firms, the lower the stock price volatility which lead to more stability of the stock price.

Khan, Aamir, Qayyum, Nasir, and Khan (2011) posits that dividend yield, profit after tax, earnings per shares and return on equity have direct association with stock prices. Khan et al (2011) stated that dividend yield, profit after tax, earnings per shares and return on equity have direct while retention ratio has negative associations with stock prices. If stockholders think that companies have attractive investment chances inside then retention ratio will be directly related to stock prices. On the other hand, if financier save better and money making investment prospects external to the respective company then retention ratio will be indirectly linked to stock prices (Sharif, Ali & Farzand, 2015). So in this study it is predictable that the earnings per shares and return on equity will have significant association with stock prices.

Michael and Benson (2014) carried out a research topic the impact of dividend policy on stock prices of quoted firms in Nigeria. The objective of the study was to examine the impact of dividend policy on the stock prices of quoted firms in Nigeria. The research was conducted on 22 companies listed on Nigerian Stock Exchange (NSE) using secondary data on their firms' fundamentals as available on their respective annual reports from 2009 to 2013. Regression analysis, Correlation analysis and Granger Causality Test were used to test research hypothesis on 110 observations and the findings reveal that both dividend payout and retained earnings are significantly relevant in the market price per share of the companies

Adefila, Oladapo and Adeoti (2013), in their own study, found no correlation between dividend payment and share prices of Nigerian firms as share price fixing, according to them is regulated by the Security and Exchange Commission (S.E.C) in respect of the quoted companies. But then, their findings show that Nigerian firms do have a dividend policy that is dependent on earnings though the trend is not very consistent and proportionate.

Empirical findings by Uwuigbe, Olowe and Godswill (2012), using regression analysis to assess the determinants of share price in Nigeria on 30 firms listed in the Nigerian Stock Exchange, shows that there is a significant positive relationship between firms‟ dividend payout and the market value of share prices. This is validating the finding of Adelegan (2009).

The research conducted by Adaramola (2012) on top three (3) firms listed on the Nigerian Stock Exchange (NSE) from 1977 to 2009 reveals contradictory results. With a panel model allowing the influence of cross sectional weights, his findings show that dividend payment is insignificant. In another instance, his findings suggest that dividends have significant information content about stock prices in Nigeria.

Shah and Noreen (2016) conducted a research topic Stock price volatility and role of dividend policy in Pakistan. This research endeavors to figure out the relationship between stock price volatility and dividend policy of listed companies in Pakistan. A sample of 50 firms, based upon consistent dividend paying behavior, listed on Karachi Stock Exchange (KSE) was selected from non-financial sectors, for the period of 2005-2012. Multiple regressions analyses have been carried on by applying random effect model on panel data. The findings shows that there is significant positive relationship between control variables (Asset Growth, Earning Volatility and Earning per Share) and Stock price volatility in Karachi Stock Exchange.

Research Methodology

Descriptive research design is adopted, it was deemed appropriate for this study since the research intended to investigate in depth information on the relationship between dividend policy variables and the stock market prices of Industrial goods firm listed at NSE for the period between 2013 and 2017. The population for this study consisted of 14 quoted Industrial goods Companies listed on the floor of the Nigerian Stock Exchange.

Dividend policy is measured by stock dividend per share (DPS), dividend payout ratio (DPR) and retention ratio (RR) while stock price is proxy by volume weighted average price. Stock market prices can be calculated through the process of considering closing market prices of shares.

Purposive sampling was the most appropriate sampling technique for this study because the eligibility criterion based on the quoted Industrial Goods Companies on the Nigeria Stock of Exchange between 2013 and 2017 and have sufficient data needed for the analysis were used. The reason for the inclusion/exclusion criteria was to ensure that adequate data was collected and subsequently analyzed. Therefore, a sample of four (4) Industrial goods (Cutix plc, Cap Plc, Meyer plc and Dangote Cement Plc) companies were selected from the total population of 14 which met the eligibility criteria. This sampling procedure would earn more credence to the findings of the study (Kothari, 2004). Data was collected on each of the above stated variables from Annual Financial Statement of the sampled companies from Nigeria Stock of Exchange fact book, covering the period of 2013 to 2017. The study make used of multiple regressions to analyze and test the Panel data with the aid of SPSS 21.

$SP_{it} = \beta_1 SD_{it} + \beta_2 RR_{it} + \beta_3 DPR_{it} + \beta_4 EPS_{it} + \alpha_i + \mu_{it}$

Where;

α_i,(i=1…n) shows the unknown intercept for every entity (n entity - specific intercepts)

SMP_{it} = Stock Market Price

$\beta_1 SD_{it}$= Coefficient of Stock dividend per share,

$\beta_2 RR_{it}$= Retention ratio,

$\beta_3 DPR_{it}$ = Dividend payout ratio,

$\beta_4 EPS_{it}$= Earnings per share,

μ_{it}= Error term in the equation,

i = ith company

t = time period

Operational Definition

	Definitions	Measurement	Source
Dependent Variables:			
SMP	Stock market prices can be calculated through the process of considering closing and opening market prices of Shares	weighted average price	Ebrahim & Amir (2009)
Independent Variables:			
SD	Stock Dividend means the issue of bonus shares to the existing shareholders.	Dividends/Number of Outs shares	Sharif, Adnan & Farzand (2015)
DPO	Dividend payout ratio is the relative amount of profit distributed by any firm in the form of dividends to the total amount of net income.	Dividends/Net Profit After Tax	Sharif, Adnan & Farzand (2015)
RR	Retention ratio is termed as the percentage of a firm's incomes that is not distributed out in the form of dividends rather credited to retained earnings. Also called plough back ratio	(PAT -Div)/Net Income	Sharif, Adnan & Farzand (2015)

Source: Author's Compilation (2018)

Results and Discussion

3.6.1 Diagnostic Tests

There are three critical assumptions for regression models: multicollinearity, normality and homoscedasticity (Gujarati, 2004, Berenson, Levine & Krehbiel, 2009). Collinearity test for predictor variables such as stock dividend per share (DS), Retention ratio (RR) and Payout ratio (PR) was conducted. VIF values were less than 5 which is an indication that there was no evidence multicollinearity between explanatory variables.

Table 1 Ordinary Least Square-Regression Model

Dependent Variable: Stock Price

Variable	Coefficient	Std. Error	t-Statistic	Prob.
RR	0.004	0.000	8.944	0.041
SD	-0.014	0.004	-3.658	0.170
PR	0.001	0.005	0.179	0.887
C (SP)	0.129	0.019	6.723	0.094
R-Square	0.993	Std. Error of the Estimate		0.00293
Adjusted R-Square	0.971	Durbin-Watson stat		2.822
F-statistic	46.408			
Prob. (F-statistic)	0.107			

Source: Author's computation

As revealed from the table above retention ratio significantly affects Stock Prices of Industrial Goods in Nigeria positively (coefficient of RR = 0.004; p-value = 0.041). This positive relationship of retention ratio variables with SP are our prior expectations and in accordance to previous studies such as Baskin (1989), Hussainey et al. (2011), and Hashemijoo et al. (2012). However stock dividend per share had negative and significant impact on Industrial Goods in Nigeria stock prices. (Coefficient of SD = -0.014; p-value = 0.170). This is in line with the works of DeAngelo, et al (2003) and Ahmad, Alrjoub and Alrabba (2018). Dividend payout ratio has negative significant relation to stock prices. A 1 % change in the value of dividend payout ratio it causes a change of 99.3% in the value of the stock price. Here the relationship is negative, meaning that an increase in the value of dividend payout ratio will cause an increase in the value of the stock prices and vice versa. P-value (0.887) shows the level of insignificance. It is evident from the results that level of insignificant is at 5% level. This is in line with the works of Khan, Shah and Baber (2018) and Masum (2014).

F-Value of the regression table signifies whether overall model is statistically significant or not. If F-value is greater than 4 then it shows that overall model is statistically significant. Here F-value is equal to 46.08. R^2 0.993 shows that almost 99.3% change in dependent variable is because of change in independent variables. Based on the result of the hypothesis tested, the null hypothesis is rejected while the alternate hypothesis accepted. Thus, Dividend policy has significant impact on Stock Prices of Industrial Goods in Nigeria.

Conclusion

The study is conducted to know the impact of dividend policy on stock prices. Results of the Regression analysis shows that retention ratio significantly affects Stock Prices of Industrial Goods firms in Nigeria and Dividend payout ratio had negative significant impact on stock prices of Nigerian Industrial Goods firms while stock dividend per share of industrial goods firms had negative significant impact on stock prices of Nigerian banks. However, theoretically, cash dividend from earnings means giving reward to the shareholders, that is, something they already own in the company; but this will be offset by the decline in stock value. In an ideal world therefore dividend payments would have no impact on the shareholders' value. In the real world, however a change in the dividend policy is often followed by a change in the market value of stocks. The economic argument for investor's preference for dividend income was offered by Graham, Dodd and Cotle (1962); Walter (1963) and Gordon (1962).

Base on the major findings of this study, the researchers therefore recommends that Nigerian firms especially Industrial Goods firms should follow a dividend payout policy that will constantly involve paying dividends annually. According to the classical school of thought who believes that dividends are paid to influence their share prices and that market price of equity is a representation of the present value of estimated cash dividends that can be generated by the equity.

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