Influence of Dividend Pay Out Ratio on Share Prices of Selected Deposit Money Banks in The Nigerian Stock Market

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ABSTRACT

The study investigated dividend policy and its impact on selected deposit money banks share prices for the period 2012-2021. Panel data was sourced from the periodic annual financial publications of the 10 selected deposit money banks and the random effects regression technique was employed in testing the data. Finding shows that dividend per share affect the share price of the selected deposits money money banks. Also, return on equity was found to have negative effect on share price of listed deposits money banks, earnings per share have positive effect on share price of listed deposits money banks and dividend yield has a negative and significant effect on share price of listed deposits money banks in Nigeria. The study recommends that Firms should carefully evaluate and maintain attractive Dividend per Share (DPS) levels to enhance investor perception and potentially increase stock prices. Regularly monitor and optimize the Dividend Payout Ratio (DPR) to strike a balance between dividend distribution and retaining profits for growth opportunities.

Keywords: Dividend policy, dividend payout ratio, dividend yield, share price, dividend per share.

Jel code: G20, G21, G30, G32, G35

1.0 Introduction

The concept of dividend policy refers to a collection of principles and policies that dictate the magnitude and regularity of dividend disbursements to shareholders (Singh & Tandon, 2019). The dividend policy of Nigerian deposit money institutions has garnered attention from investors, regulators, and researchers alike. The importance of dividend policy in relation to investors is of great significance and should not be underestimated. Dividends serve as both a revenue stream and a means to evaluate a firm's investment viability. The primary objective of stock market investors is to optimize the anticipated return while minimizing risk, which can be achieved through dividends or capital appreciation (Araoye, et al., 2019).

Dividends serve as a dual function, providing investors with a stream of income while also serving as a critical metric for evaluating a company's financial well-being and potential for future

expansion. Investors aim to optimize their financial gains while mitigating potential risks, and the dividend policy significantly influences this objective. According to Almanaseer (2019), the dividend policy of a company holds significant importance within its comprehensive financial strategy and has the potential to impact its long-term profitability.

The decision to pay dividends and the subsequent decision to increase or maintain the dividend amount are complex and contentious aspects of corporate financial policy. Dividends are the compensation paid to shareholders for their investment in a company's stock, and as such, investors seek to maximize their returns and wealth through the selection of an appropriate dividend policy. This policy is critical for businesses as it determines the amount of dividends paid to shareholders, which, in turn, affects the firm's ability to invest in future initiatives (Ifeanyichukwu & Yusuf, 2021).

Furthermore, it is important to note that the dividend policy of a firm holds significance not only for the shareholders, but also for the management. In order to optimize shareholders' wealth and uphold the financial stability of the firm, managers are required to conduct a thorough assessment of the firm's financial performance and prospective investment prospects. This evaluation is crucial for determining an appropriate dividend policy (Emeka-Nwokeji et al., 2022). The significance of dividend policy in the deposit money banks of Nigeria holds substantial importance due to the pivotal role these banks assume in the nation's economic progress. Deposit money banks play a significant role in the Nigerian financial system, as highlighted by CBN (2022). These banks offer a range of services including deposit mobilization, credit allocation, and payment services. The optimal functioning of deposit money banks in Nigeria is crucial for the holistic advancement and progress of the economy (Edem, 2017).

In Nigeria, the market value of listed companies' equity shares has been impacted by various economic events, including the indigenization era and global crises (Usman et al., 2018). Despite these challenges, firms in Nigeria have continued to work towards survival and maximization of their share prices. The dividend policy is a significant component of corporate finance that exerts an impact on both shareholder wealth and the financial performance of a company. Dividend disbursements serve as an indicator of a company's fiscal well-being to shareholders, and the determination to distribute dividends or allocate earnings towards further investment can exert a significant influence on the valuation of shares. Consequently, it is imperative to conduct a comprehensive investigation into the influence of dividend policy on share price within the Nigerian

context, with the aim of comprehending the dynamics of the stock market and facilitating investors in formulating judicious investment choices.

The study is motivated due to the need to understand the factors that influence the share price of the selected deposit money banks. Dividend payments signals the financial health and performance of a business organization thus, the study is significant as it will indirectly bring to the fore the financial health and performance of the selected deposit money banks to enhance the decision of investors.

2. Literature Review

2.1 Conceptual and Theoretical Review

Fama (1965) introduced the Efficient Market Hypothesis, positing that the valuation of a company's shares should incorporate all pertinent information that is currently accessible. The efficient market hypothesis posits the existence of three distinct forms of market efficiency, namely weak market efficiency, semi-strong market efficiency, and strong market efficiency. The theoretical framework possesses the advantageous characteristic of being applicable to the domain of research concerning share price and dividend policy analysis. The efficient market theory posits that prevailing share prices accurately reflect the totality of available information. Nevertheless, the dissemination of information can manifest in the form of dividend policy or the ramifications of macroeconomic and microeconomic (internal) economic factors. According to Collins (1957), the study conducted on the determinants of share price revealed that dividend, operational earnings, net profit, and book value are significant factors that exert an influence on share prices.

Baskin's (1989) study examining investor preferences and dividend policy aligns with the findings of Graham and Dodd (1934), revealing a negative correlation between stock prices and dividend policy. The inverse relationship between dividend payment and price fluctuations is observed, whereby a decline in price is associated with dividend payment, while a gain in price is associated with the absence of dividend payment.

Miller and Modigliani's seminal 1961 work is essential to any discussion or mention of dividend irrelevance theory. Under simplified assumptions, they proved the value of a company is not influenced by its dividend policy. The thesis rests mostly on the idea that a company's worth is a function of the investment decisions it makes. Simply subtracting earnings from investment returns yields the net payout. By changing the number of shares outstanding, a firm can change its dividends to any amount because the net payout comprises dividends and share repurchases. Since any planned

stream of payments may be repeated through proper acquisitions and sales of equity, dividend policy is worthless to investors. According to the authors, shareholders don't care about dividend policy because it has no effect on their wealth, hence investors won't pay more for any particular dividend policy.

There are a lot of presumptions embedded in this statement. Some of the assumptions have been called "unrealistic" by those who disagree with the dividend irrelevant theory. The theory of dividend irrelevance relies on five key presumptions. To begin with, it suggests that all people have equal access to information. The second benefit is that there are no unfair taxes. Third, there are zero shipping and flotation costs. The absence of agency cost is also an assumption of the theory. Last but not least, the purchasing power of consumers and businesses is insufficient to significantly move the price of an item. There is debate over the usefulness of several of these presumptions. For instance, the idea that managers are always acting in the best interests of their shareholders has been contested by a number of academics. Some people think that owners and managers of a company are two different entities, hence they argue against this idea.

Agency cost theory (Ross et al., 2008) explains the potential for management to act against the interests of shareholders. This problem occurs when management makes decisions that benefit them personally rather than the shareholders who actually own the company. It could be a straight or roundabout cause. This idea runs counter to the beliefs of Miller and Modigliani (1961), who held that managers had no conflicts of interest and act as perfect agents for shareholders. Given that the company's owners are distinct from its management, this seems dubious. Unprofitable investments that would generate excessive returns to managers and excessive management compensation are two examples of manager actions that could be harmful to shareholders (Al-Malkawi, 2007). The stockholders will have to pay for these expenses. The agency cost and free cash flow hypothesis proposes that enterprises having surplus free cash flow should instead pay substantial dividends to their shareholders. Shareholders may incur an agency cost if they want higher dividends from the company than bondholders, who may demand lower payouts if a debt covenant is in place to guarantee that they will have enough cash on hand to service their debt. Both the cost of monitoring managers and the cost of managers' risk aversion were found to be agency costs by Easterbrook (1984). When a company has to go out and raise money to cover a larger dividend, it faces greater scrutiny from the capital market for new funds and is less likely to make investments that don't maximize returns. So, the agency theory predicts a savings in monitoring expenses for the business.

In a nutshell, high dividend payouts are justified if the expense to the company is less than the value obtained from the increased scrutiny. When the percentage of equity held by insiders is low and/or there are many stockholders, Rozeff (1982) hypothesizes that dividends will be higher. Rozeff (1982) identified three overarching tendencies in the dividend policies of corporations. To begin, fast-growing companies tend to have lower dividend payout ratios. Dividends must be paid out of a smaller pool of money due to investment needs. Finally, organizations with low insider ownership and a big number of outside shareholders tend to have greater dividend distributions. Firm specific risks and leverage ratios are also factors in dividend payouts.

These findings suggest that dividend policy reduces agency expenses because it provides some form of monitoring activity. This data lends credence to the argument that a company's dividend payments are an effective means of lowering agency expenses as part of an optimal monitoring and bonding package.

2.2 Empirical Review

Odum et al., (2019) examined how dividend payout ratio affects business value. The study also examined Nigerian stock exchange-listed companies' valuation characteristics. This study explored many firm-value-determining elements. Profitability, leverage, dividend, cash, and business size were these considerations. Data was analyzed using Panel Ordinary Least Square Regression. The sample includes Nigerian stock exchange-listed breweries and beverage companies from 2007 to 2016. The study found that profitability ratio, leverage ratio, and company value are positively and statistically significant. This implies that only Firm Leverage and Profit after Tax affect firm value in listed Nigerian breweries and beverage industries.

Udoka et al., (2022) looked into dividend policy and made suggestions for how Nigerian businesses could benefit from it. Both monetary and performance metrics were analyzed for their impact on the end result. Descriptive statistics and panel data analysis were used to assess the information gathered for the ex-post facto study. Without the moderating variable, the corporate governance index, the dividend payout ratio lacks short- and long-term statistical significance. Without the moderating factor, the relationship between dividend payout ratio and company success is haphazard at best. The dividend payout ratio has both short- and long-term statistical significance due to the moderating impact. It demonstrates the connection between dividends and financial success for businesses.

Alajekwu and Ezeabasili (2020) conducted a study to investigate the relationship between dividend policy and stock price volatility in companies listed on the Nigerien Stock Exchange. Between the years 2006 and 2016, a group of scholars conducted a comprehensive study. The study employed panel data regression analysis to assess a sample of 60 enterprises, consisting of 19 financial firms and 41 non-financial firms. This study quantified volatility by calculating the standard deviation of stock market prices. The evaluation of dividend policy encompasses the analysis of dividend payment and yield. This study investigated the impact of firm size, growth, leverage, earnings volatility, and financial crises. Statistically, the dividend payout ratio has been observed to decrease the level of non-financial firm stock market volatility. The dividend payment ratio has a positive effect on the volatility of financial business stock market prices, although this relationship is not statistically significant. There is no statistically significant impact of dividend yield on stock market volatility for both financial and non-financial services firms.

Ojogbo et al., (2022) examined how the dividend pay-out ratio affected NSE share prices from 2014 to 2020. 15 firms were studied. Hausman's test was included in panel least square estimate. This study implies that corporations should acknowledge that dividend distributions may not affect market share values.

Ezu, Ezeaku, and Racheal (2020) examine how dividend policy affects a group of Nigerian publicly traded companies. Directors and financial management must balance investors' views on current cash dividends and future capital gains when creating a dividend policy. Another issue is how much dividends affect share prices. Firms believe late dividend payments hurt share prices. This study examines the relationship between dividend policy and ROA. Secondary data were used. E-View tested data. Estimation used ordinary least squares. Dividend policy and return on assets are not statistically correlated.

3.0 Methodology

The study employed the ex post facto (after the fact) research design using correlations to suggest causality. Secondary data on Share price which represents the dependent variable and Dividend per share, Return on Equity, Earnings per share and Dividend yield which respectively represents the independent variables were sources from the annual reports and accounts of 10 selected sample banks quoted in the Nigerian stock market (NSE) for the period 2012 to 2021 using judgmental random

sampling. Cross-section (10 banks) and time series (2012-2021) data was processed into panel data resulting to 100 observations.

Gbenga and Ayobami (2022) model is the main model for the research and it is presented thus:

$$SP = f(DPS, EPS, DY) \quad \text{..... (1)}$$

Model Specification

However, model (1) was modified to include return on equity (ROE) following the studies of Ojogbo et al., (2022) and Emeka-Nwokeji et al., (2020). The modified model for the study is specified below:

Rewriting the Model in Linear form:

$$SPit = \beta 0 + \beta 1 DPSit + \beta 2 ROEit + \beta 3 EPSit + \beta 4 DYit + \mu \quad \text{..... (2)}$$

Where:

SP = Share Price

DPS = Dividend Per Share

ROE = Return on Equity

EPS = Earnings Per Share

DY = Dividend Yield

$\beta_1 - \beta_6$ = Coefficient of the variables

μ = Error term

Apriori expectation: it is expected that $\beta 1, \beta 2, \beta 3, \beta 4 > 0$

Pre-test such as descriptive statistics, correlation matrix and Panel data least square regression technique was employed to analyze the data.

4.1 Results and Discussion

The individual characteristics of the dependent and independent variables were analyzed using descriptive statistics from the results in table 4.1. The correlation estimation in table 4.2 was employed to check for multi-collinearity. Fixed effects (FE) and Random effects (RE) which represents static panel estimators were employed to examine the influence of dividend payout ratio on share prices of selected deposit money banks in the Nigerian stock market with the aid of the Hausman test on the most suitable estimator to employ. The static panel estimator was employed

because this type of research involves pooling cross-sections and time series firm data (panel data analysis).

Table 4.1: Descriptive Statistics

	SP	DPS	ROE	EPS	DY
Mean	11.295	0.997	3.184	3.179	3.080
Max	63.400	13.970	24.560	10.470	10.430
Min	0.000	0.000	0.010	0.000	0.000
Std. Dev.	14.402	1.412	4.124	3.134	3.284
Prob	0.000	0.000	0.000	0.00	0.000

Source: Researcher's Computation 2024

Table 4.1 presents the variables employed in the research. The average share price of the listed firms is 11.295 percent, which means that the average share price of the listed banks is 11.295 percent for the period. The maximum share price during the sampled period is 63.4 percent, while the minimum price of shares for the sampled banks is zero based on the sample statistics. The share price volatility indicated by the standard deviation for the sampled banks is 14.402 percent. The average dividend payout share of the listed firms is 0.997 percent, which means that these banks on average distribute 0.997 percent of their earnings to investors as dividend for the period. The maximum dividend distributed during the sampled period is 13.970 percent, while investors could receive minimum of nothing of dividend payments.

The average return on earnings is 3.182 which suggests that on average the sampled firms in Nigeria earned 3.182 percent on returns each year for the period, while the lowest return on earnings amounted to about 0.010 for the sampled banks. The maximum (highest) return earned peaked at 24.560 percent for the period.

Table 4.2: Correlation Estimation

	SP	DPS	ROE	EPS	DY
SP	1.000				
DPS	0.302	1.000			
ROE	-0.235	-0.178	1.000		

EPS	0.398	0.472	-0.289	1.000	
DY	-0.428	-0.324	0.157	-0.571	1.000

Source: Researcher's Computation 2024

The correlation estimation results in Table 4. 2 shows that the correlation between variables is not high and this suggests the absence of significant multicollinearity (presenting the same information) problem at 5% significant level.

The share price is positively related to the independent variables' dividend per share and earnings per share at 0.302 and 0.398 respectively but negatively related to return on equity and dividend yield at -0.235 and -0.428 respectively. This result suggests that an increase in share price will result to a rise in dividend per share and earnings per share. While same rise in share price will lead to a reduction in return on equity and dividend yield, vice versa.

Table 4.3: Correlated Random Effects - Hausman Test

Correlated Random Effects - Hausman Test				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		0.000	7	1.000
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.
DPS	-0.108	0.086	0.005	0.006
ROE	-0.144	-0.208	0.003	0.288
EPS	0.23	0.292	0.004	0.336
DY	-0.937	-1.050	0.006	0.170

Source: Researcher's Computation 2024

Table 4.3 presents the outcome of the Hausman test, employed to make a decision regarding the choice between random effects (RE) and fixed effects (FE) estimation results. Hausman test hypothesis for fixed and random effects states that if p-value < 5%, then use FE, if p-value > 5% then use RE. The p-value of 1.000 from the table exceeds the predetermined level of significance of 0.05. Therefore, the null hypothesis (H_0) that the random effect is appropriate for this model is accepted.

The estimation of the model was conducted using a random effects approach, as indicated. Consequently, the random effects method was employed, and the outcome of the regression estimation is presented in Table 4.4.

Table 4.4: Random effect regression model

Cross-section random effects test equation:				
Dependent Variable: SP				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.728	17.759	0.941	0.348
DPS	0.895	0.411	2.177	0.039
ROE	-0.144	0.230	-0.627	0.531
EPS	0.231	0.349	0.662	0.508
DY	-0.937	0.323	-2.902	0.004
	Effects Specification			
R-squared	0.689	Mean dependent var		11.295
Adjusted R-squared	0.636	S.D. dependent var		14.402
F-statistic	13.089	Durbin-Watson stat		1.931
Prob(F-statistic)	0.000			

Source: Researcher's Computation 2024

Interpretation and discussion of result

The constant term (C) in the regression equation denotes the intercept, which signifies the value of the dependent variable when all other independent variables are set to zero. In the present scenario, the constant value is determined to be 16.728. Nevertheless, the t-statistic value of 0.941 fails to reach statistical significance ($p > 0.05$), indicating that the constant term could not possess substantial predictive power in relation to share price. The coefficient associated with Dividend Per Share (DPS) is 0.895, suggesting that an increase in DPS is anticipated to result in a corresponding increase of 0.895 percent in the share price. The t-statistic value of 2.177 demonstrates statistical significance at the 0.05 level of significance ($p < 0.05$), indicating a substantial positive relationship between DPS and share price.

The calculated coefficient for Return on Equity (ROE) is -0.144. Nevertheless, the obtained t-statistic of -0.627 fails to reach statistical significance at the conventional threshold of $p > 0.05$. This suggests that the observed relationship between return on equity (ROE) and share price may not possess a substantial impact within the context of this particular investigation.

The coefficient associated with Earnings Per Share (EPS) is 0.231. The t-statistic of 0.662 does not exhibit statistical significance ($p > 0.05$), indicating that there may not be a significant relationship between EPS and share price. The coefficient associated with the Dividend Yield (DY) variable is -0.937. The obtained t-statistic of -2.902 demonstrates statistical significance at the 0.01 level ($p < 0.01$), suggesting that the variable DY exerts a substantial and negative influence on the price of shares. According to the findings, there is an anticipated decline of 0.937 units in the share price for each one-unit increase in DY.

The R-squared value of 0.689 represents the goodness-of-fit of the whole model, suggesting that around 68.9% of the variability in share price can be accounted for by the independent variables. The obtained F-statistic of 13.089, along by a probability value of 0.000, indicates that the model exhibits statistical significance as a whole.

The Durbin-Watson statistic, with a value of 1.931, suggests the existence of positive autocorrelation inside the model. This finding should be taken into account when evaluating the outcomes. In summary, the findings of this analysis indicate that dividend per share (DPS) and dividend yield (DY), exhibit statistically significant associations with share price (SP). Conversely, return on equity (ROE), earnings per share (EPS), do not demonstrate significant impacts on share price. The research findings are consistent with the previous investigations undertaken by Hussainey et al. (2011), Uddin and Chowdhury (2005) Nazir et al. (2010).

4.2 Discussion of Findings

The findings derived from the regression analysis reveal a statistically significant and positive correlation between the dividend per share and the share price of listed deposits money banks in Nigeria. The empirical evidence presented in this study demonstrates a statistically significant positive correlation between the market value of banks' equities and the distributions of dividends to their shareholders. This statement aligns with the perspective of the Bird-in-hand school, which posits

that a considerable number of investors demonstrate risk aversion and possess a preference for promptly receiving cash in the form of dividends.

Likewise, the historical distribution of dividends has a positive impact on the stock prices of publicly traded banking corporations. The aforementioned conclusion aligns with the theory of dividend signalling, which posits that an increase in historical dividend payments conveys a positive message to the market, resulting in an upward trend in the stock's value. Furthermore, this particular instance functions as an illustration of the conceptual framework recognized as dividend information content. Based on the provided structure, dividend payments serve as a means by which knowledgeable management communicates information to shareholders with less knowledge regarding the future profitability of the organization.

The analysis of the result also suggests a negative relationship between Return on Equity and the stock price of the 10 selected deposit money. However, the lack of statistical significance in the outcome renders it meaningless. The results further suggest a statistically significant positive relationship between Earnings per Share (EPS) and share price. Nevertheless, the absence of statistical significance in the results renders them meaningless. Lastly, the findings also indicate a statistically significant and negative influence of the dividend yield on the stock price of the selected deposit money banks listed in Nigeria. The findings indicate a potential association between dividend yield and share price, wherein higher dividend yields seem to be linked to lower share prices. This observation possesses the capacity to yield inconsistent results.

5.1 Conclusion

The study investigated dividend policy and its impact on selected deposit money banks share prices, for the period 2012-2021. Data was sourced from the periodic annual publications of the selected deposit money banks and panel regression analysis techniques was employed in analyzing the data. Results indicated a statistically significant and positive relationship between dividend per share and share price. This suggests that there is a probable correlation between an upward adjustment in dividend per share and a favorable effect on the share price of publicly traded banks in Nigeria. The aforementioned discovery indicates that dividends have the ability to significantly impact investors' perception and valuation of bank stocks, potentially serving as a catalyst for drawing investors and subsequently increasing share prices.

Based on the findings of the study, the following recommendations are suggested. An attractive dividend policy should be adopted to woo investors and increase the market value of the selected banks since there exist a positive link between dividend per share and share price. The return on equity of the selected banks can be improved through effective financial management, operational efficiency, and strategic decision-making. This action can lead to an increase in its share price.

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