

SPEAKING THEORISTS AND SEARCHING FOR FACTS: DIVIDEND POLICY AND SHARE PRICE IN NIGERIA

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ABSTRACT

The underlying empirical significant role which real sector investment plays in stock market has drawn considerable attention of financial and economic analysts to issues relating to determinants of dividend policy world over commands universal supports. The main objective of this research is to analyse empirically the effect of dividend policy on share price indicators in Nigeria. Time series data on different types of dividend policy and share price from 1987-2017 were collected from the central bank of Nigeria, National Bureau of Statistics. The Pearson product Moment of Coefficient of Correlation, Multiple Linear regression analysis and partial correlation was used in analyzing the data with the aid of SPSS version 21. The empirical results indicate that total dividend policy has a significant effect on share price indicators; explaining about 82.1%, 55.2% and 67.7% of market price. The study therefore conclude that dividend policy ahs the potency to make significant effect on market price and recommends that management of companies should give it a priority in their financial management strategies in order to boost their value in the market. Again, management of the companies should regularize payment of annual dividends to the shareholders in Nigeria.

Keywords: Dividend Policy, Share price, Firm Size, Dividend Yield and Debt to Equity Ratio.

Introduction

Corporate finance managers are involved in a mixed bag of decisions all geared towards the profit maximization and shareholders' wealth. The functions of raising funds, investing them in assets and distributing returns earned from assets to shareholders are respectively known as financing decision, investment decision and dividend decision. Dividend decision is a major financial decision since it borders on determining the amount of profits to distribute to shareholders and the portion to retain in the firm for reinvestment. Dividend policy refers to a company's policy which determines the amount of dividend payments and the amounts of retained earnings for reinvesting in new projects. (Hashemijoo et al, 2012). This policy centers on how to appropriate a company's net earnings (profit after tax) between the owners of the company and new investment opportunities. Dividend policy connotes the payout policy which managers pursue in deciding the size and pattern of cash distribution to shareholders over time.

In reality, management of corporate organizations is consistently confronted with this hard decision of whether to distribute all earned profits to shareholders, or to retain them or distribute a portion and retain the balance. The proportion of profits distributed as dividends is called the **dividend payment ratio** while the retained portion of profits is known as **retention ratio**. The optimum dividend policy is one that maximizes the market value of the firm's shares (Pandey, 2010). Dividend policy is one of the very challenging issues in corporate finance but its impact on the market price of shares is increasingly assuming a controversial context in finance literature.

This controversy is evidenced by the numerous empirical studies using diverse models in different economies to explain the association between dividend policy and the movement in stock prices. (Kpoor, 2006; Nazir et al, 2011; Murekefu and Onu'ma, 2012). Prominent among these studies aimed at establishing the relationship between dividend policy and the volatility of share prices are the seminal works of Modigliani and Miller (1961); Myron Gordon (1962); James Walter (1963). The conflicting outcomes of these researches have triggered more studies in this area without any consensus amongst the scholars.

Previous researchers on the relationship between dividend policy and the value of the firm can be classified into two extreme views, which are the dividend irrelevancy and the dividend relevancy theories. Proponents of the dividend irrelevancy theory contend that in a perfect capital market with no taxes, no information asymmetry, no agency cost, the value of the firm or share prices is independent of the dividend decision. In other words, a company's share price is not affected by the dividend payout ratio (Modigliani and Miller, 1961; Miller & Scholes, 1978; Baskin, 1989).

The contention of these scholars is that the firm's value is enhanced by investing in productive assets and not by the way income is distributed to the different classes of shareholders. Contrary to the dividend irrelevancy views, the dividend relevancy theorist insists that in reality, capital markets are characterized by imperfections. They contend that

dividend policy materially affects the value of the firm and in turn the wealth of shareholders (Gordon, 1962; Walter, 1963, Solomon 1963; Fama and Babiak, 1968, Jensen and Meckling, 1976; Bhattacharya 1979; Jenson, 1986; Baker, et al 1985; Osaze and Anao 1999; Nishat and Irfan, 2001; Nazir et al, 2010).

Obviously most of the studies on the association between dividend policy and share prices have been conducted in the developed economies. The stock market, business environment and the behaviour of investors in the developed countries differ significantly from those of emerging economies like Nigeria. The above underscores the need for further empirical study on the critical issue of dividend policy in a developing nation like Nigeria. The data used in this study are recent data of quoted companies of the industries under study. This is so because dividend policy of firms is a cultural phenomenon that changes continuously according to environment and time; therefore, it is necessary to continuously modified dividend behavioural models to capture those factors that are peculiar to a particular period and environment (Frankfurter and Wood, 1997). The models and variables in this study have been carefully chosen based on the peculiarity of the Nigerian environment. The sample is drawn from the banking and the manufacturing sectors which represent a service and a non-service sector of the Nigerian economy. This approach makes the study different from the previous studies.

The rest of this empirical paper is organised as follows: Section two provides a review of the related literature, theoretical framework, concepts and hypotheses. Section three discusses the research methodology and model specification. Section four presents the empirical results and discussion. Section five ends up the paper with summary, conclusion and recommendations.

Review of related literature and Hypotheses

The arguments over dividend policy characteristics and share value of the firm have copiously documented in the accounting and finance literature. Some argue that “increasing dividend payments increases the firms value, others hold the contrary view that “dividend is irrelevant and all efforts spent on it are efforts in futility.” In practice, managers may not share complete information with shareholders. This gap between information available to managers and what is actually shared with shareholders is termed information asymmetry (Pandey, 2011). This leads to several agency problems in a bid to obtain full information

Information Content of Dividends and the Signaling Effect

It is contended that dividends are relevant because they have informational value. A company can make a statement about its expected earnings growth in order to create an impressively favourable impression on the minds of the shareholders. However, these statements would be paid better attention if it is followed with a dividend action. Some scholars argue that payment of dividends conveys to shareholders that the company is profitable and financially strong. When a company changes its dividend policy, investors assume that it is in response to an expected change in the company’s performance which will last long. An increase in

payout ratio signals to shareholders a permanent or long-term increase in the company's expected earnings. Accordingly, the prices of shares may be affected by changes in dividend policy (Pandey, 2011).

Solomon (1963) cited by Pandey (2012) contends that dividends offer tangible evidence of the firm's ability to generate cash, and as a result the dividend policy of the firm may affect the share price. He stated that: "in an uncertain world in which verbal statements can be ignored or misinterpreted, dividend action does provide a clear-cut means of 'making a statement' that speaks louder than a thousand words."

Another rationale for the inadequacy of the M&M's hypothesis on the financial market practice is the existence of asymmetric information between insiders (managers and directors) and outsiders (shareholders).

M&M assumed that managers and outside investors have free, equal and instantaneous access to the same information regarding a firm's prospects and performance. But managers who look after the firm usually possess information about its current and future prospects that is not available to outsiders.

This informational gap between insiders and outsiders may cause the true intrinsic value of the firm to be unavailable to the market. If so, share price may not always be an accurate measure of the firm's value. In an attempt to close this gap, managers may need to share their knowledge with outsiders so they can more accurately understand the real value of the firm, (Al-Malkawi, 2010).

Many academics and financial practitioners also suggest that dividends might have implicit information about a firm's prospects. Mokaya, et al (2013), argue that in this way dividends came to provide a useful tool for managers in which to convey their private information to the market because investors used visible (or actual) cash flows to equity as a way of valuing a firm. In this vein, it is argued that cash dividend announcement conveys valuable information which shareholders do not have about Management's assessment of a firm's future profitability thus reducing information asymmetry (Al-Kuwari, 2009). Pettit (1972) contends that announcement of dividend increase are followed by significant price increases and that announcement of dividend decreases are followed by significant price drops and the market reacts dramatically to such announcements. Even M&M (1961) suggest that when markets are imperfect share prices may respond to changes in dividends. In other words, dividend announcements may be seen to convey implicit information about the firm's future earnings potential. This proposition is known as the "information content of dividends" or signaling hypothesis. However, M&M dismissed the possibility that this occurred by suggesting that the empirical evidence does not support the notion that investors prefer dividends to retained earnings.

Another blunt generalization made about the information content of dividend was offered by Mokaya, et al. (2013). They assert that a drop in share prices occurs because dividends have a signaling effect. The signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors.

Information content of dividends (signaling) was first modeled in the late 1970s and early 1980s. The most cited dividend signaling models can be found in Bhattacharya (1979), John and Williams (1985), and Miller and Rock (1985). In general, these models were based on several assumptions:

There is asymmetric information between corporate insiders (managers) and outside investors (shareholders). Dividends contain information about the firm's current and future cash flows, and managers have incentives to convey their private information to the market through dividend payments in order to close the information gap. The announcement of a dividend increase will be taken as good news and the market will bid up share prices accordingly. Similarly, an announcement that a dividend will be cut suggests unfavourable prospects and will tend to see the firm's share price fall.

According to the signaling hypothesis, investors can infer information about a firm's future earnings through the signal coming from dividend announcements, both in terms of the stability of, and changes in, dividends. However, for this hypothesis to hold, managers should firstly possess private information about a firm's prospects, and have incentives to convey this information to the market. Secondly, a signal should be true; that is, a firm with poor future prospects should not be able to mimic and send false signals to the market by increasing dividend payments. Thus the market must be able to rely on the signal to differentiate among firms. If these conditions are fulfilled, the market should react favourably to the announcements of dividend increase and unfavourably otherwise.

Van Home (2002) posits that cash dividend may be viewed as a signal to investors. Seemingly, companies with good news about their future profitability will want to tell investors. Rather than make a simple announcement, dividends may be increased to add conviction to the statement. The signal to the investors is that management and the board of directors truly believes things are better than the share price reflect. In this vein, investors draw inferences about the firm's internal operating cash flows from the dividend announcement.

It was in this regard that Grustavo (2007) explained that changes in dividend policy convey news about future cash flows. Specifically, he asserts that dividend increase conveys good news and dividend decreases conveys bad news. The models also predict a positive relationship between dividend changes and price reactions to dividend changes. According to Kapoor (2009), share prices of a firm tend to be reduced whenever there is a reduction in dividend payments. An announcement of dividend increase generates abnormal positive security returns and an announcement of dividend decrease generates abnormal negative security returns.

It cannot be argued that managers are likely to have more information about the firm's future prospects than outside investors. They are therefore inclined to use changes in dividends as a vehicle to communicate information to the financial market about a firm's future earnings and growth. Probably, outside investors may perceive dividend announcements as a reflection of the managers' assessment of a firm's performance and prospects. An increase in dividend payout is expectedly to be interpreted as the firm having good future profitability (good news), and therefore its share price will react positively. Similarly, dividend cuts may be considered as a signal that the firm has poor future prospects (bad news), and the share price may then react unfavourably. Accordingly, it would not be surprising to find that managers are reluctant to announce a reduction in dividends. It was in this perspective that Lintner (1956) argued that firms tend to increase dividends when managers believe that earnings have permanently increased. This suggests that dividend increases imply long-run sustainable earnings. This prediction is also consistent with what is known as the "dividend-smoothing hypothesis". That is, managers will endeavour to smooth dividends over time and not make substantial increases in dividends unless they can maintain the increased dividends in the foreseeable future.

It is worth noting that dividend clientele hypothesis predictions, to some extent, may contradict other explanations of dividend policy such as the signaling and agency costs hypotheses, discussed shortly. For example, according to the signaling hypothesis, dividends convey information about a firm's future prospects, and in that sense investors with preferences for capital gains (for tax reasons) may still prefer firms with high-payout ratios, contradicting the prediction of the tax-induced clientele hypothesis. Also, based on agency theory, dividends may mitigate the free cash in hand of managers. 19 Several empirical studies analyse ex-dividend day behaviour of share prices for US firms. The arbitrage profit could be also inhibited by the risk or the uncertainty of ex-dividend price. Grammatikos (1989); Michaely and Vila (1996) documented that risk and transaction costs affect the abnormal trading volume non-positively and reduce the agency problems, and for these reasons investors may also prefer high-dividend stocks even though they are tax-disadvantaged.

Stability of Dividends

Stability of dividends is considered a desirable policy by the management of companies in practice. Many surveys have shown that shareholders also seem generally to favour this policy and value stable dividends higher than the Fluctuating ones. All other things being the same, the stable dividend policy may have a positive impact on the market price of the share. (Pandey, 2011:446).

According to Osaze and Anao (1999) cited by Amadasu, (2011), it is the objective of a firm to have a stable dividend policy whereby a stable amount of Naira is paid yearly as dividend irrespective of the firm's performance. The snag in this case is that shareholders lose value in real terms because of inflation and during business downturn it tends to have less retained earnings to capture investment opportunities that may come around. The second option is to

have a stable payout ratio whereby a fixed percentage of a firm's net profits (after tax profits) as dividend. This is however subject to fluctuations when profits are low and irritating making shareholders to have a low value or price for the firm. The third option is paying out as dividends all leftovers after a company's debt has been paid. That is, nothing is paid where there is no left over. The fourth is the option of extra dividend payment after paying the fixed payout ratio to recognize better profit performance. However, an indexed policy could be a better option whereby dividends are paid according to inflation level not to reduce the take home value in real terms. (Amadasu, 2011).

According to Pandey, (2011) stability of dividends also means regularity in paying some dividend annually, even though the amount of dividend may fluctuate over the years and may not be related with earnings. There are a number of companies which have records of paying dividends for a long, unbroken period. More precisely, stability of dividends refers to the amounts paid out regularly. Three forms of such stability as submitted by Pandey (2011: 446) may be distinguished:

Constant dividend per share or dividend rate

- > Constant payout
- > Constant dividend per share plus extra dividend

In explaining the concept of stability of dividends, Ashamu et al. (2010) assert that stability of dividends means maintaining dividends position in relation to trend line upward sloping. They argued that a policy of constant dividend per share or constant dividend per share plus extra dividend can be adopted by a company. They concluded that a policy of paying out a fixed percentage of earnings as dividend will result in fluctuating dividends being paid out to shareholders and added that earnings are cyclical; such policy will result in instability of dividend payment.

In a more recent study in this connection, Mokaya et. al. (2013) studied the effects of dividend policy on market value in the banking industry with a case of National Bank of Kenya and reported a positive correlation between regularity of dividend declaration and market share value of the firm. This empirical evidence further supports the positive effects of stability of dividends on the company's value'.

Empirical Evidence

The empirical studies that examined the clientele effect hypothesis have taken different Paths. A number of studies, discussed shortly, have studied investors' portfolios and their demographic attributes including taxes. Pettit (1 977) provided empirical evidence for the existence of a clientele effect by examining the portfolio positions of 914 individual investors. He found a significant positive relationship between investors' ages and their portfolios' dividend yield, and a negative relationship between investors' incomes and dividend yield. Pettit suggested that elderly low-income investors tend to rely more on their

portfolios to finance their current consumption, and avoid the transaction costs associated with selling stocks. Consequently, they have more of a tendency to invest in high-dividend stocks. Pettit also showed that investors whose portfolios have low systematic risk prefer high-payout stocks, and he found evidence for tax-induced clientele effect. However, using a sample constructed from the same database used in Pettit's (1977) study, Lewellen et al. (1978) found only very weak supportive evidence of the clientele effect hypothesis. In a later study, Scholz (1992) developed an empirical model to test the DCH directly by examining individual investor portfolio data. He found that differential tax treatment of dividends and capital gains influences investors' decisions in choosing between higher-or- lower-dividend yield portfolios, consistent with dividend-/tax--clientele hypothesis.

Another strand of empirical testing has examined the relationship between dividend changes and clientele changes. Richardson et. al. (1986) tested a sample of 192 US firms that initiated dividends for the first time during the period of 1969 through 1982. They attempted to investigate whether the observed (post-dividend-initiations) increase in firms' share trading volume is due to the signaling effect or were a product of investors in various tax clienteles adjusting their portfolios. They found that the increased trading volume associated with dividend policy changes was mainly related to the information contained in the dividend announcement, and only a small part was related to clientele adjustment. They concluded that "...the evidence supporting the existence of clientele trading is somewhat weak".

Correspondingly, Dhal Iwal et al (1999) examined institutional shareholding changes following dividend initiations. Based on the theory of tax induced clienteles, they expected an increase in institutional ownership subsequent to dividend initiations. Using a sample of 133 dividend initiators from the 1982 to 1995 period, the results obtained are consistent with their prediction. They reported that 80 percent of their sample firms experience an increase in institutional shareholders following dividend initiation. Dhaliwal et al (1999) found that this increase was statistically and economically significant. They concluded that the dividend/tax-clientele effect is "strong enough" to influence investors' decisions. Seida (2001) provided evidence consistent with Dhaliwal et. al. (1999) findings and the DCH and therefore provided empirical support for the existence of the dividend clientele hypothesis.

Finally, another strand attempts to infer the tax characteristics of a firm's marginal investors by examining the movements of stock prices around the ex-dividend days, and therefore provides an indirect test of the DCH. The basic intuition of the relation between stock price and ex-dividend day is that, in a rational capital market, and in a world of certainty, share prices should drop by approximately the amount of dividend per share on the day the stock goes ex-dividend. When the stock goes ex (without)-dividend the investor has no claim to dividend payments, and thus will not pay the same amount as if the stock traded cum (with)-dividend. The stock price on the ex-dividend day should therefore be lower than in the cum-dividend period to reflect the lost dividend (Lease et al., 2000).

This notion, however, may not perfectly hold in some circumstances, because dividends are usually taxed more heavily than capital gains. Investors in high tax brackets will therefore be better-off receiving their income in the form of capital gains rather than dividends. The tax effect may mean that the drop in stock price may be less than the dividend because investors value dividends less than capital gains.

In a seminal paper, Elton and Gruber (1970) presented empirical evidence about the tax induced clientele hypothesis by observing the share price behavior around the ex-dividend days. Examining shares listed on the NYSE paying a dividend between April 1, 1966 and March 31, 1967, Elton and Gruber found that share prices fell by less than the amount of the dividend on ex-dividend days. They also found a positive relationship between the dividend yield of a stock and the proportionate size of its ex-dividend price drop. Elton and Gruber interpreted their results as evidence that differential taxes induced a preference for capital gains relative to cash dividends, therefore supporting the tax clientele hypothesis (that is, investors in high tax brackets invest in low-dividend yield stocks and vice versa). Elton and Gruber (1970, p.3) concluded, "... firms not only seem to attract a clientele but they attract a rational clientele — one which should prefer their dividend policy".

Kalay (1982) criticising Elton and Gruber argued that the marginal tax rates of the investors cannot be inferred from the ex-dividend day price-drop-to-dividend ratio (hereafter "price-drop ratio") and the observed positive relationship between price-drop ratio and dividend yield may not be due to tax induced clientele effects. He presented another explanation, known as the "short-term traders" hypothesis. He argued that, assuming certainty, if the ex-dividend price ratio drop is less than one (less than the amount of dividends), short-term traders who face the same tax rate on dividends and capital gains could make arbitrage profits. That is, investors can buy a stock before it goes ex-dividend and sell it soon after. However, this arbitrage process could be hampered by transaction costs. He concluded that transaction costs are insignificant for broker dealers who are the potential short-term traders.

Empirical Evidence

In the preceding section, the theory of dividend signaling was explained around the proposition that corporate insiders are more informed about the firm's current performance and future prospects than outsiders. This suggests that the market perceives dividends as signals of a management's view about the firm's fortunes, and therefore share prices react to that signal. The empirical work on dividend signaling has examined two main issues. Firstly, whether share prices move in the same direction with dividend change announcements. Secondly, whether dividend changes enable the market to predict future earnings.

Asquith and Mullins (1983) examined the market's reaction to dividend announcements for a sample of 168 firms that initiated dividends either for the first time in their corporate history or resumed paying dividends after at least a ten-year hiatus. They tested the average daily excess stock returns ten days before and ten days after the announcement of dividend initiation. For the two-day announcement period their result shows that there is an excess

return of about +3.7 percent. Moreover, using cross-sectional regression, Asquith and Mullins found a positive and significant relationship between the magnitude of initial dividends and the abnormal returns on the announcement day. This clearly indicates that the size of dividend changes also matter other than mere dividends.

In another study, Bali (2003) presented evidence consistent with the preceding results. He reported that an average of 1.17 percent abnormal return for dividend increases and -5.87 percent for decreases. In addition he examined the long run drifts of stock prices reaction to dividend increases and decreases and reinforced Michaely et al.'s (1995) findings in this connection.

From the empirical findings of these studies there seems to be general agreement that share prices follow the same direction as the dividend change announcements. However, there are empirical indications that Japanese firms are subject to less information asymmetry especially among Keiretsu (industrial groups) member firms. These differences in the findings are attributable to the differences in corporate governance structures between Japan and the US, and moreover to the nature of corporate ownership in Japan. Conroy et al. (2000) provided evidence consistent with the argument that Japanese firms are responsive to corporate governance structure rather than information asymmetry.

To buttress the arguments of previous researchers on the subject matter of information content of dividends, Amihud and Murgia (1997) conducted a study using a sample of 200 German firms listed on Frankfurt Stock Exchange. He found support for the notion that dividend changes convey information about firms' values. They examined the stock price reaction to dividend announcements using 255 events of dividend increase and 51 events of dividend decrease for the period of 1988 to 1992, and compared the results with findings of studies based on US data. Amihud and Murgia reported that the average excess return (AER) of stock prices is + 0.965 percent for dividend increase and - 1.73 percent for dividend decrease. In addition, Amihud and Murgia have observed that though the earnings news preceded dividend change announcements; dividends still have significant information. However, the findings of this study are inconsistent with tax-based signaling models because dividends in Germany are not tax-disadvantaged. Recall that the tax-based signaling models propose that higher taxation on dividends makes them informative about a firm's value. Thus, according to these models, if dividends do not suffer from a tax penalty (as in the case Germany) share prices should not react to dividend changes.

Travlos et al (2001) provided evidence from an emerging market in favour of the dividend signaling hypothesis. They used a sample of 41 announcements of cash dividend increase and 39 announcements of stock dividends for firms listed on the Cyprus Stock Exchange for the period of 1985 to 1995, and examined market reaction to the announcement of cash dividend increases and stock dividends. Travlos et al. found positive and significant abnormal returns for both cash dividend increases and stock dividend announcements and interpreted their results as consistent with the signaling hypothesis.

In the domestic stock market, Osuala (2006) studied information content of dividend policy changes in an emerging stock market in Nigeria. He reported a significant relationship between dividend change announcement and stock price movements. His findings supported the information content of dividend change hypothesis as well as the cash flow signaling hypothesis.

In Nigeria, further empirical studies of recent vintage have also been conducted on the information content of dividends. For instance, Adelegan, (2009) studied reactions of the Nigerian Stock Market to the announcements of Dividends and reported a significantly positive reaction to dividend announcements. Similarly, Chinwe (2011) conducted a study with a sample of 60 quoted companies in Nigeria. His report further provided empirical evidences that the hypothesis of the signaling theory performs remarkably well in Nigeria. He concluded that “.... The Management of corporate Nigeria believes that dividend decisions are important as they provide a signal mechanism For the future prospects of the firm and thus affect its market value”.

In a more recent study, Adaramola, (2012) investigated the information content of dividend hypothesis in Nigeria applying the generalised Least Square (GLS) regression. He reported that although there is no sufficient evidence to suggest that stock price changes are caused by dividend payments, however, his findings support the dividend signaling theory or the information content of dividend hypothesis. He concluded that his findings suggest that dividends have significant information content about stock prices in Nigeria.

Methodological framework

This section specified the entire methodological framework adopted in the study to investigate the effect and relationship between dividend policy characteristics and share price of quoted manufacturing companies in Nigeria. The research design adopted is causal-comparative design which attempts to identify the cause-effect relationship between two or more variables. The analysis is to evaluate the effect of overall dividend policy characteristics and to determine the causal relationship between the variables (Amidu, 2007; Adelegun, 2009; Abubakar, 2010; Nwaiwu, 2015).

In obtaining our panel data we employ multi-stage sampling technique. First, we purposively selected the quoted manufacturing companies in Nigeria as our sampling population. We recognized that the listed manufacturing companies spread across the major sectors of Nigeria economy making our choice well representative for our target population, the Nigeria manufacturing industry.

Second, to ensure that our study covers the various sectors within our sampling frame, we employed stratified sampling technique as our sampling scheme in selecting the sampling units. Selecting the companies using this method, we sampled companies from all the sectors within this industry.

Third, we employed convenience – sampling techniques in selecting the sampling elements from our sampling units. This became necessary as our investigations revealed that several of our sampling objects do not have copies of annual reports over the years which we investigated, while several others did not file their annual reports in the returns which they submitted to the corporate affairs commission. In addition, we discovered that the annual reports filed with the Nigerian Stock Exchange were no longer available as NSE had **discarded** these reports.

The study made use of corporate balance sheet and accounts data of quoted manufacturing companies extracted from annual published accounts of the organizations. These reports were obtained from various sources including: Nigerian Stock Exchange, Securities and Exchange Commission (SEC). Data on tax policies were obtained from Federal Inland Revenue Service, Institute of Chartered of Nigeria. Other explanatory variables were obtained from CBN, Nigeria Investment promotion commission reports, Nigeria Customs services, Manufacturing Association of Nigeria (MAN). Federal Bureau of statistics, other sources include reports of World Bank, International Monetary Fund and United Nations on Nigeria over the period of twenty six years ranging from 1990-2015.

Panel data collected from various sources was analyzed, using Pearson product moment of coefficient of correlation, multiple linear regression and partial correlation with the aid of SPSS version 21.0

Model Specification

The model specification is based on the theory that dividend policy characteristics contribute to market share price ratio of Nigeria.

Specifically, the model from related empirical evidence was adopted but we made modifications. We generated three models to achieve the first three objectives and answer the corresponding research hypotheses. Consequently, the model specification was formulated in following functional forms:

$$MSPR_{\pi} = f(DPS_{\pi}, DY_{\pi}, DER_{\pi}, DPR_{\pi}, RR_{\pi}) \quad (i)$$

Where the operational definitions are:

- MSPR π = Market share per ratio for the period π
- DPS π = dividend per share for the period π
- DER π** = **Debt to Equity Ratio for the period π**
- DER π = Dividend payout ratio for the period π

We maximize the functional form into mathematical forms as thus:

$$MSPR = \beta_0 + \beta_1 DPS_{\pi} + \beta_2 DY_{\pi} + \beta_3 DER_{\pi} + \beta_4 DPR_{\pi} + \beta_5 RR_{\pi} \quad (ii)$$

These mathematical forms and functional forms do not have a random variable and since in statistical relationship we deal with random variables, the above functional equations are stated in equations that describes how the dependent variables are related to all the independent variables and on stochastic error term or stochastic disturbance term, stated as an econometric model as follows:

$$MSPR = \beta_0 + \beta_1 DPS_{\pi} + \beta_2 DY_{\pi} + \beta_3 DER_{\pi} + \beta_4 DPR_{\pi} + \beta_5 RR_{\pi} + \mu_{\pi} \quad - \quad - \quad (iii)$$

Where β_0 = “Intercept term”, β_1 - β_5 are parameters known as partial regression coefficients or partial slope coefficients. π for the period. μ_{π} = represents the random or stochastic disturbance term or error term or unexplained variables.

Empirical Results and Discussion

This section presents empirical results of this analysis based on the formulated hypotheses presented under the end of the review of related literature and it sought to establish the effect and relationship between dividend policy and share price of quoted manufacturing companies in Nigeria.

H₀₁: There is no significant relationship between Dividend Policy and Share price of quoted manufacturing companies in Nigeria.

		Dividend Policy	share price
Dividend Policy	Pearson Correlation	1.000	.821
	Sig (2-tailed)		.000
	N	30	30
Share Price	Pearson Correlation	.821	1.000
	Sig (2-tailed)	.000	
	N	30	30

Table 1 presents the correlation test results on the relationship between Dividend Policy and Share Price of quoted manufacturing companies in Nigeria. With an r value of 0.821 significance at 1% probability level. The result indicated the existence of significant positive relationship between Dividend Policy and Share Price of quoted manufacturing companies in Nigeria. We therefore reject the null hypothesis and conclude that there is a positive significant relationship between company’s dividend policy and share price of quoted manufacturing companies in Nigeria.

This empirical research finding is consistent with prior studies Allen; Anthonio & Ivo (2000), Adelegun (2003), Adesola & Okwong (2009) Abubakar (2010) Adaramola (2012) Nwaiwu (2015) who in their studies stated a positive relationship between dividend policy and share price and laso in line with Ball (2003), Dasilas (2009), Hussainey; Mgbame & Chijoke – Mgbane (2012); Mokagu; Nyangara & James (2013) in their studies. But contrary to the result of Okafor; Mgbane & Chijoke – Mgbane (2011), Utama (2012), Nwaiwu (2015) who found that the share price of a company is determined by their dividend policy of quoted companies in Nigeria.

Table 2: Effect of Dividend Policy on Market Share of quoted companies in Nigeria

variables/Test statistics	Linear function	Semi-log function	Double-log function	Experiential function
constant	-61.791*** (-0.103)	1066.215*** (7.182)	1.252*** (0.564)	0.168*** (0.135)
X ₁ : Dividend Payout Ratio	-62.947* (-1.049)	-518.739* (-1.330)	-0.463*** (-0.572)	-0.042* (-0.338)
X ₂ : Dividend Yield	927.462*** (1.668)	281.975*** (1.595)	0.283*** (0.774)	0.671** (0.544)
X ₃ : Debt to Equity Ratio	- 206.386*** (-2.767)	-826.877** (-2.538)	-1.576** (-2.239)	-0.363** (-2.338)
X ₄ : Retention Ratio	23.025*** (1.205)	377.086*** (1.109)	0.691*** (0.901)	0.39* (0.969)
X ₅ : Dividend Per Share	561.395** (1.174)	192.845*** (0.954)	0.309*** (0.738)	0.873** (0.853)
R	0.781	0.772	0.938	0.229
R ²	0.610	0.596	0.880	0.52
Adj R ²	0.606	0.592	0.879	0.014
Std error of the estimate	0.91111	0.9259	2.8625	1.25361
R-ratio	118.844***	111.213***	552.477***	1.360***
Durbin-watson	2.358	2.185	2.466	2.265

NB: ***, **, and * = significant at 1%, 5% and 10% respectively 't'-values are shown in parenthesis.

Table two above shows the regression results of the effects of dividend policy on market price per share fitted in four functional forms. Based on the statistical significance of variables and the f-ratio as well as the value of the coefficient of determination (R²), the double-log function yielded the best fit and is accordingly used in our discussion. The econometric value of the f-ratio of 552.477 is significant at 1% level of significant indicating the appropriateness of the model specification. However, all the components of Dividend Policy characteristics were all significant which includes Dividend Per Share, Dividend Yield, Debt to Equity Ratio, Dividend Payout Ratio and Retention Ratio.

The function produced on R² of 0.879 indicating 88% of the variations in market share price of the companies are due to factor outside the predictor variables. Since the dimensions of dividend policy characteristics are unable to explain 12% of the changes in market price per share, and since all the four variables are significant, we reject the null hypothesis and

conclude that company's dividend policy characteristics have a significant influence on its market price per share.

Further, the results in the table shows that dividend payout ratio and retention ratio is significant but has a negative influence on market price per share ($\beta_1 = 0.463 < 0.05$) and ($\beta_3 = 1.576 < 0.05$) respectively. This result conforms to the priori criteria in that a negative relationship is expected between dividend yield, retention ratio and dividend per share on market price per share. And this also agrees to the result of other researchers like Adesola & Okwong (2009), Adyesi & Marfo – Tiadom (2011), Alzomoia & Al-Khadhiri (2013), Nazir; Ahdullah & Nwaaz, (2011), Ojo (2013) who also in their study stated that dividend policy characteristics has no positive effect on market share price ratios and this is also in line with Morgan (1982), Miller & Scholes (1982), Miller (1986) in their studies.

H₀₃: Firm size does not significantly mediate the relationship between dividend policy characteristics and market price per share of quoted manufacturing companies in Nigeria.

		Dividend Policy Characteristics	Market Price Per Share
Firm Size	Dividend Policy Characteristics	Pearson Correlation	1.000 -.677
		Sig (2-tailed)	30 30
		Df	
	Market Price Per Share	Pearson Correlation	-.677 1.000
		Sig (2-tailed)	30 30
		Df	

Table 3 is the partial correlation empirical results of the moderating influence of firm size on the relationship between dividend policy characteristics and market price per share of quoted manufacturing companies in Nigeria. A partial correlation coefficient of -.677 is shown to be significant at 1% probability level but negatively correlated. Hence we reject the null hypothesis and conclude that firm size (Total Assets value) significantly mediate the relationship between Dividend Policy characteristics and market price per share of quoted company's in Nigeria.

The empirical econometric results are however parallel to the conclusion of Asquitt & Mullins (1983), Baker; Forrelly & Edelman (1985), Barker; Veit & Powell (2001), Ball (2003), Dasilas (2009) that firm size cannot provide a satisfactory explanation for the market price per share of firms in developed countries.

Conclusion and Recommendations

The study is to analyze the contribution of dividend policy characteristics and share price of quoted manufacturing companies in Nigeria. Various dynamic statistical techniques were

deployed starting from correlation, partial and linearizing the variables to bring them to the same magnitude.

The findings were that dividend policy characteristics collectively have statistically significant effect on market share price ratio. We therefore concluded that dividend policy characteristics significantly influence market share price ratio of manufacturing companies in Nigeria.

From the foregoing, we accordingly make the following recommendations that:

- (i) Management of companies should give it a priority in their financial management strategy in order to boost their value in the market.
- (ii) Management of the companies in the industries should regularize payment of annual dividends to the shareholders since it is evident that investors are becoming increasing conscious and responsive to payment of dividend.

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