Dividend Policy and Share Price Reaction of Deposit Money Banks in Nigeria: A Post Global Financial Crises Review

Nurudeen Oyairekhua Aileobini[1], Bala Ado K/Mata[2], Ph.D, and Muhammad Yadudu[3], Ph.D.

Department of Business Administration and Entrepreneurship
Bayero University Kano, Nigeria
nuruaileobini@gmail.com; 2348039649290

ABSTRACT

This paper examined the effect of Dividend Policy on the Market Price of Shares of Deposit Money Banks in Nigeria. The sample consists of a balanced panel data of 13 Deposit Money Banks listed on the Nigerian Stock Exchange as at 2019. The study utilized Econometrics Regression model to test the effect of Dividend Policy on Market Price of Shares of Deposit Money Banks in Nigeria. The result shows that first proxy of Independent Variable (DY) has no significant effect on market price of shares of sampled banks. It also found out that DPR (another proxy of Independent Variable) has no significant effect on market price of shares. The result revealed that DC (the third proxy ofIndependent Variable) has no significanteffect on MPS. Therefore, the Managers ofDeposit Money Banks in Nigeria should focus on Dividend Policy of their banks, asinvestors can use the Dividend Yield as a direct signal toward the potential upside of the Share Price. Hence, they could buy Shares with a high Dividend Yield to gain more stock appreciation.

KEYWORDS*:* Dividend Yield, Dividend Payout, Dividend Cover, Share Price

1. Introduction

The market share price of listed corporate is a matter of concern not only to the management of the corporate but to other stakeholders such as employees, suppliers, investors, and customers. According to Akhmadi, Nurohman and Robiyanto, (2020) a fall in the share price of a corporate subsequently decreases its value and the demand for equity of the corporate in the market fall, this induces further fall in share price. When this happens, the life of the corporate is affected and its management may be threatened with adverse consequences such as the discontent of individual and corporate investors, undercut the confidence of employees, customers, rise in cost of raising new capital, suppliers and may handicap merger (Akhmadi, Nurohman & Robiyanto, 2020). The movements in the stock prices can occur due to many factors, which are commodity prices, world oil price fluctuation, precious metal prices (Putra & Robiyanto, 2019; Arfaoui & Ben-Rejeb, 2017; Robiyanto 2018). This could happen because these prices can affect the profitability level of the corporations as Muryanti and Subowo, (2017) found that the Firm's share price would increase along with the increase in the firm's profitability.

Despite dividend policy being one of the mostly researched topics in the field of finance (Njogo, Ogboi, Inim, &Seun, 2018). Persistent crash in the market price of shares has become a major concern to financial analysts and investors all over the nation and the world in general (Bibiana, Ogboi, Victor, & Ayanwale, 2018). Some financial analysts attribute the crash to the Firm's non- payment of dividends which made investors lost interest in trading on shares, they added that the objective of any corporate is the maximization of shareholders wealth and once investors could not get the value of their investment, they tend to divert their funds to other investment opportunities that could yield them immediate returns. Some financial analysts are of the opinion that payment of dividend has no significant influence in the determination of market prices of shares (Nurlita & Robiyanto 2018).

Meanwhile, dividend policy has been kept as the top ten puzzles in finance (Idewele & Murad, 2019). The most pertinent question to be answered here are; how much cash should corporations give back to their shareholders? Should firms pay their shareholders through repurchasing their shares or by dividends? Which is the least costly form of payout from tax perspective? Corporations must take these important decisions period after period, some must be repeated and some need to be revaluated each period on regular basis. Adefila, (2004) concluded that Nigerian firms wish to pay dividends without any breaks and that there is no association among Net Earnings, Dividend Payments and Share Prices. Nigerian Firms disburse dividends to owners of the Firms irrespective of the amount of incomes for the contentment of the owners.

In Nigeria, the new policy directive by the CBN on dividend payment is a proactive measure to protect and strengthen the industry in the economy, financial system and consumers, to ensure a more efficient economy, where any normative approach to dividend policy intended to be operative under real world conditions; should consider the corporate's investment opportunities and any preferences that investors have for dividends as opposed to capital gains and vice versa, and difference in "cost" between retained earnings and new equity issues should also be considered. Various firms adopt dividend policy depending on the firm's articles of association, memorandum of association (in some situation) and the prevailing economic situation. Some make high payout, while others make low payout and yet others pay share dividends (bonus issue) in lieu of or in addition to cash dividend while others pay cash only. All in a bid to maximize shareholders wealth which, in this case, is the market value of the firm's common stock (Adefila, 2010).

According to Idewele and Murad (2019) some banks listed in the Nigeria Stock Exchange have failed to meet the requirement of paying dividend on a yearly basis for a number of years, and also considering the Matters Act (CAMA, 1990) as amended, payment of dividend should be on the basis of net profit for the period. The questions are; is there any relationship existing between the profitability and the dividend policies made by banks in Nigeria? Is it that the financial status of these firms did not favour the payment of dividend during these periods? The return of banking stock is very low when compared to other sectors like food and beverages that recorded an average return of 1,126 points and 1,106 points in 2015 and 2016 respectively (Akhmadi, Nurohman & Robiyanto, 2020). Popoola (2019) reported that in August 2019 banking index, Dragged by losses in Unity Bank Plc, FBN Holdings Plc and Zenith Bank Plc, declined by 6.05 percent.

However, the interactions among powerful states during the time of the global financial crisis, from August 2007 to March 2009, and the continuing aftermath, were a time of great drama (Purdum, 2009). The collapsing values of equities, real estate, and currencies combined with the potential for bankruptcy of the financial and credit systems of many nations to create considerable fear and anxiety (Roxburgh, et al., 2009). Fears were raised about a possible repeat of the depression of the 1930s and about the viability of capitalism itself (Valencia, 2010). The chance of a global economic system spiraling out of control was not small, and ministerial and political leaders made decisions in an atmosphere of genuine crisis. Missteps could have catastrophic consequences (Roxburgh, et al., 2009). In the end, there was much reason for worry. The cost of the crisis in various forms of governmental support was $15 trillion, equal to nearly one-quarter of the global gross domestic product (GDP) (Valencia, 2010). In addition, the losses in home equity and in investments (potentially recoverable) were as much as $28 trillion. Financial institutions sustained several trillion dollars in losses, as would many firms operating in other areas of the economy (Valencia, 2010). Unemploy ment rates around the world rose substantially, driven up by the severe economic downturn that followed, with significant negative effects of the crisis linger (Roxburgh, et al., 2009). To this end the contribution of this study is, although researches on the relationship between stock prices and dividend policy had been done previously, but Akhmadi, Nurohman and Robiyanto, (2020) suggested that future study should include macro economics/external factors as the control variables. The study therefore comes in to fill the void by establishing whether there is effect of dividend policy on share price among listed Deposit Money Banks in Nigeria: A post global financial crisis, by including; inflation rate, and economic growth rate as control variables.

1.2 Research Objectives

The purpose of this research is to examine the effect of dividend policy on market price of shares among listed deposit money banks in Nigeria. The following specific research objectives have been developed to take the issue.

i. To determine the effect of dividend yield on share price of deposit money banks in Nigeria

ii. To determine the effect of dividend payout ratio on share price of deposit money banks in Nigeria.

iii. To determine the effect of dividend cover on share price of deposit money banks in Nigeria.

2. Literature Review

In this section, relevant literature is reviewed and synthesized.

2.1 Concept of Share Prices

Shares are among the main investment vehicles used by investors to invest their monies, it has become an important investment vehicle because it makes holders of the shares part owners of the business. Gitman (2006) divides shares into common and preferred; holders of common shares have ownership claim against the real or productive assets of the firm. When the firm is performing shareholders are the main beneficiaries. On the other hand, if the firm is not performing, they are the main losers. Investors purchase shares for varying reasons: while some are interested in the long run growth of the firm, others expect to receive returns in the form of regular dividend on their investment. Therefore, Share price refers to the price of a single share of a number of saleable stocks of a firm (Huang, 2004). These factors include; Investors tend to respond to factors that affect the company's future as merger proposals, takeover bids, quality of management, growth history, competitive position of the company and potentials for technological breakthroughs. Hence, in a corporate valuation, a company's analysis is done to select a firm that is not only competitive but has a reasonable chance of at least maintaining its competitive position in future.

i. Speculation of the performance of a company of an aggravate share price movement: Investors generally react to economic conditions which may lead to a bullish or bearish market. For instance, fear or hope of budgetary or monetary measures or even publications of the balance of payment figures that can influence investors (Huang, 2004).

ii. Level of interest and yield differentials: During the period of rising interest rate, stock prices tend to drop or level-up. The price of bond will move in the opposite direction because of its attractiveness, but from a corporate point of view, as interest rate increases, stock prices might rise depending on the use of internal financing by companies (Huang, 2004).

i. Money supply and by extension inflation: According to Kraff and Kraff (1977) as supply of money increases, stock price tends to increase, normally which suggests that real stock prices remained constant except if the increase in the supply of money is a lot less than the increase in the stock price.

Trading volume: Ying (1966) suggested that it takes volume to move the price of a stock on the stock exchange because trading volume is indeed a measure of investor's emotions.

Another important factor that can affect stock price is the financial performance of a company, i.e., the company's earnings. The world economy and political situation within the country can influence investors' confidence in the economy and therefore, in their investment behavior (Huang, 2004).

2.2 Dividend Policy

The concept of dividend has been defined by many authors and researchers. According to Bierman (2001), dividend is an appropriation of profits to shareholders after deducting tax and

fixed interest obligations on debt capital. It constitutes 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. Watson and Head (2010) define dividend as a cash payment made on a quarterly or semiannual basis by a company to its shareholders. It is a distribution of after-tax profit. Jo and Pan (2009) assert that dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices.

2.2.1 Factors Affecting Dividend Policy

According to Brigham and Gapenski (1985) factors affecting dividend policy include but not limited to the following: tax position of the shareholders (high and low income tax bracket), loan repayment, availability of acceptable project, inflation floating cost, information content of dividend, investment oppor tunities, company size, company growth, profita bility, liquidity etc. Dividend policy may come in different form as noted by Pandey (2010) it may come in stable dividend payout ratio, extra dividend (interim dividend), residual dividend and stock dividends.

2.2.2 Dividend Relevance & Irrelevance

Developed by Gordon (1963) and Lintner (1962), the dividend relevance theory states that there is a direct relationship between the market value of a company and its dividend policy. One aspect and addition to this theory is the bird-in-the-hand argument which main point is that investors value current dividend over future dividend or capital gains (Gitman&Zutter, 2012). The argument is based on the notion that certain dividend today is more valuable than uncertain cash flows or returns in the future. The dividend irrelevance was developed by Miller and Modigliani (1961), the theory states that a firm's value is determined by its earning power and its risk of investment. How the firm chooses to distribute its earnings, as dividend or reinvestments, is not relevant for the valuation of the firm. Another aspect here is that investors are indifferent whether their capital gain is derived from dividends or capital gain since if they are in need of cash they can sell some of their stocks. The return gained by the investor is, therefore, the same whether the stock pay dividend or not, thus, the dividend policy is irrelevant for the stockholder and the possible returns (Gitman&Zutter, 2012).

2.2.3 Measures of Dividend Policy

Dividend policy can be different for different countries because of different tax policies, rules, regulations and different institutions & capital markets (Zameer, Rasool, Iqbal & Arshad, 2013).

i. Dividend Payout Ratio= Dividend per Share/Earnings per Share

Dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company. There are two metrics which are commonly used to gauge the sustainability of a firm's dividend policy (McManus, Ap-Gwilym, &Thomas, 2004).

ii. Dividend Yield= Dividend per share/ Price per share

Dividend is an annual rate of return on common stock (ordinary shares) or preferred stock (preference shares), computed by dividing the annual dividend by the shares' market price. Dividend yield reflects the return on the current 'opportunity value,' and not on the historical cost of the investment. As the price of the shares declines, the dividend yield goes up indicating that the shares are priced cheaply and are a 'good buy.' Such shares usually attract risk averse investors (Warren, Reeve, &Duchac 2011).

i. Dividend cover: is calculated by dividing the company's cash flow from operations by the dividend, this simply mean earning per share/dividend per share = dividend cover. This ratio is apparently popular with analysts of income trusts in Canada (Eriotis, 2005).

2.3 Relationship between Dividend Policy and Share Price

In the signaling theory, the existence of dividend changes can give signals to external parties about the company's prospects in the future. An increase in dividend payments is considered a good signal because it illustrates the conditions and good prospects of the company so that it can affect the stock price increase (Hang *et al.*, 2018). Several empirical studies state that dividend policy had a positive effect on stock prices i.e. Hunjra*et al.* (2014) and Ernayani*et al.* (2017). They confirmed that there was a positive influence of dividend policy on stock prices. For this reason, the main hypothesis is formulated as follows: there is positive significance relationship between dividend policy and share prices.

2.4 Conceptual Framework

The framework (figure 1) for this study presented below shows the hypothesized conceptual framework guiding the study and it also show the relationship between the independent variable (Dividend Policy) and the dependent variable (share price).

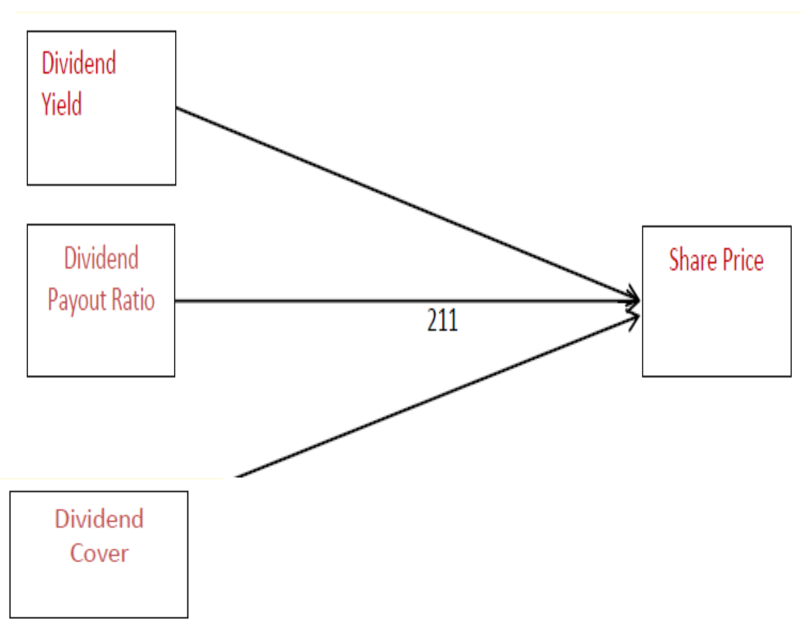

Figure 1: Conceptual Model

3.0 Research Methodology

The research design that have been used in this research is the ex-post facto method, as the study entails the use of annual reports and accounts of listed deposit money banks in Nigeria. Therefore, the non-survey design is adopted to actualize the research objectives, which aim at examining the effect of dividend policy on market price of shares of deposit money banks in Nigerian stocks exchange.

The population of the study consists of all the 15 deposit money banks listed by the NSE as at year 2019. Filter sampling technique was used through applying criteria, for a bank to be part of the sample; the bank should be qualified in terms of the following: They should have been listed on Nigerian Stock Exchange as at 2009, there should be no change in the fiscal year during the period, there should be no transaction cease for more than six months, the required data should be available. Therefore, the application of the criteria resulted to the selection of 13 deposit money banks as sample size of the study.

Moreover, the researchers used secondary source of data for the purpose of this paper. It consists of existing information which may be useful for the purpose of the study at hand. The secondary data were sourced from the banks' financial statement for the period of 10 years from 2010 to 2019 contained in the banks' annual reports and accounts.

Therefore, for the purpose of presentation and discussion of the result of data generated in the course of this research technique (regression) of data analysis was used in STATA statistical tools of analysis.

However before the data analysis, robustness testS (i.e. multi-collinearity test, Hetero-skedasticity test, Normality test of the residuals) were conducted so as to ensure the validity of all statistical inferences and fitness of the model.

4.0 Result of Panel Data Regression Analysis

The dependent variable is Share Price (SPR), Dividend Yield (DY), Dividend Payout Ratio (DPR) and Dividend Cover (DC) which are used as proxies for dividend policy. The Inflation Rates (INF) and Economic Growth Rates (ECOGRW) are introduced as the control variables. The results of the panel data regression for the research model are presented in the table 4.6 below:

Table 1: The test results according to Dependent Variable SPR in the First, Second and Third Hypotheses

SPR	**Research Model**		
	β	**T-Statistic**	**P-Value**
DY DPR DC	-9.206734	-1.75	0.083
INF	1.329748	1.79	0.075
ECOGRW	-.0045134	-0.37	0.710
CONS	0.0109353	0.03	0.975
	-0.2149377	-0.65	0.518
	12.6278	2.53	0.013
	R^2= 0.1306 P-value= 0.0035 Hetero-skedasticity= 0.9365		

Source: *Output of STATA (version 13)*

4.1 The Results of the First, Second and Third Hypothesis Test

The result of the first and second hypotheses tests is shown in Table 1. The research model indicates the relationship between the independent variable (dividend policy) which proxied by (DY, DPR and DC) and the dependent variable SPR. The results of the finding from the model; show that the R^2 which is often referred to as the coefficient of determination of the variables was 0.1306. The R-Squared which is also a measure of the overall fitness of the model indicates that the model is capable of explaining about 13.06% of the variability of banks' share price. This means that the model explain about 13.06% of the systematic variation in the dependent variable. That is, about 86.94% of the variations in share price of deposit money banks are accounted for by other factors not captured by the model. Since P-value of DY (independent variable) is 0.083 at 5% signi ficance level which is greater than 0.05 therefore first null hypothesis is accepted; this mean there is no significant relationship between DY and SPR. Meanwhile, the results shows P-value of DPR is 0.075 at 5% significance level which is greater than 0.05 therefore second null hypothesis is accepted, there is no significant relation-ship between independent variable when proxied with DPR and dependent variable (SPR). Also the results shows P-value of DC is 0.710 at 5% significance level which is greater than 0.05 therefore third null hypothesis is accepted, this means there is no significant relationship between independent variable when proxied with DC and dependent variable (SPR).

4.2 Discussion of Findings

The main objective of this paper is to determine the effect of dividend policy on market price of shares of deposit money bank in Nigeria. The result indicated that there is no significance relationship between the three proxies of independent variable (dividend yield, dividend payout ratio and dividend cover) this means that investors in emerging markets tend to less concerned with volatility in dividends over time, this statement supports the dividend irrelevant theory developed by Miller and Modigliani (1961). Meanwhile, the outcome is in contrary with the study Zakaria, Muhammad, and Zulkifli (2012); Adna, Farzand and Ilyas (2015), Njogo, Ogboi, Inim and Seun (2018), Baral, & Pradhan (2018).

5. Conclusion

The following conclusions can be drawn from the study; in order to comprehend the nature of the analysis, in this critical review a model was theoretically discussed and practically elaborated via illustrative example. The results show that there is no significant relationship between independent variable DY and dependent variable SPR. Moreover, the result also indicated that there is no significant relationship between the second proxy of independent variable DPR and SPR. Meanwhile, it was found that there is no significant relationship between another proxy of independent variable DC and dependent variable SPR. The results obtained from the statistical analysis suggest the all the three proxies of independent variable has no effect on SPR of deposit money bank in Nigeria.

6. Recommendations and Suggestion for Further Studies

Based on the aforementioned results, it is recom mended that; Bank managers should carefully concentrate on dividend yield, even though it proved that DY have no significance effect on share price of the banks. This imply that investors must consider the banks' profitability and the potential dividend in their stock investment decision. The paper provides the required evidences in order to offer the following suggestions for future studies: Evaluating the presented subject using the financial report of other companies in Nigerian stock exchange. As this paper is limited to certain operationalization for dividend payout ratio, it is suggested that other measurement tools may be useful.

REFERENCES

Akhmadi, A., Nurohman, N. &Robiyanto, R. (2020). The Mediating Role of Debt and Dividend Policy on the Effect Profitability toward Stock Price. *Jurnal Manajemen Kewirausahaan*, 22(1), 1–10.

Arfaoui, M. & Ben Rejeb, A. (2017). Oil, Gold and Stock Market Interdependencies: A Global Analytical Insight. *European Journal of Manag ement Business Economics*, *26*(3), 278–293.

Bibiana, Ogboi, Victor & Ayanwale (2018). Corporate Earnings, Dividend Payment, and Share Price Movements of Deposit Money Banks in Nigeria.*World Journal of Economics and Finance*, 4(1), 085-092.

Bierman, H. (2001). Increasing Shareholder Value: Distribution Policy, A Corporate Finance Chal lenge: *Springer Science & Business Media*; 2001.

Brigham, E. & Gapenski, L. (2002). *Financial Management: Theory and practice*, (10th ed). United States: Thomson Learning, Inc.

Eriotis, N. (2005). The effect of distributed earnings and size of the firm to its dividend policy: Some Greek data. *International Business and Econo mics Journal*, *4*(1), 67-74.

Ernayani, R., Oktiviana, S. &Robiyanto, R. (2017). The Effect of Return on Invest ment, Cash Ratio, and Debt to Total Assets towards Dividend Payout Ratio (A Study towards Manufacturing Companies Listed in Indonesia Stock Exchange). *Advanced Science Letters*, *23*(8), 7169–7199.

Gitman, L. J. (2006). *Principles of Managerial Fina nce* (11th ed.). Boston: Pearson Addison Wesley.

Gordon, M. J. (1963). Dividends, Earnings and Stock Prices. *Review of Economics and Statistics*, 41(2), 99–105.

Hang, M., Geyer-Klingeberg, J., Rathgeber, A. W. &Stöckl, S. (2018). Measurement matters–A meta-study of the determinants of corporate capital structure. *The Quar terly Review of Economics and Finance*, *68*, 211–225.

Hunjra, A. I., Shahzad, M., Chani, M. I., Hassan, S. U. & Mustafa, U. (2014). Im pact of Dividend Policy, Earning Per Share, Return on Equity, Profit after Tax on Stock Prices. *Intl Journal of Econs & Empirical Research*, *2*(3), 109–115.

Huang, X. (2004). China Stock Price Reactions to Financial Announcement: Evidence from Seg mented Markets. *Managerial Finance*, 30, 62-73.

Idewele, I. O. E. & Murad, B. A. (2019). Dividend Policy and Financial Performance: A Study of Se lected Deposit Money Banks in Nigeria. *African Journal of Business Managt*, 13(7), 239-255.

Litner, J. (1962). Dividends, Earnings, Leverage, Stock Prices, and the Supply of Capital to Corporations. *Review of Econo mics and Statis tics*, 243-269.

Njogo, B. O., Ogboi, C., Inim, V. E. &Seun, A. (2018). Corporate Earnings, Dividend Payment, and Share Price Movements of Deposit Money Banks in Nigeria. *World Journal of Economics and Finance*, 4(1), 085-092.

Nurlita, E. &Robiyanto, R. (2018). The Effect of Financial Performance and Company Size on the Indonesian Sharia Stocks. *Jurnal Akun tansiKe-uangan dan Bisnis*, *11*(2), 87–96.

Pandey, M. (2010). *Financial Management* (10th ed). India: Vikas Publishing House.

Purdum, T. (2009). Henry Paulsons Longest Night, *Vanity Fair*, October 2009, www. vanity fair. com/ politics/ features/ 2009/ 10/ henry-paulson200910.

Putra, A. R..&Robiyanto, R. (2019). The Effect of Commodity Price Changes and USD/IDR Ex-Change Rate on Indonesian Mining Companies' Stock Return. *JurnalKeuangan dan Perbankan*, *23*, 103 –115.

Robiyanto, R. (2018). The Dynamic Correlation between ASEAN-5 Stock Markets and World Oil Prices. *Jurnal dan Perbankan*, *22*(2), 198–210.

Roxburgh, C. et al., (2009). *Global Capital Markets: Entering a New Era* (McKinsey Global Institute, 2009), 7.

Warren, C. S., Reeve, J. M. &Duchac, J. (2011). *Corporate financial accounting*. Ohio, Cengage Learning South-Western Pub.

APPENDIX

Sampled Banks

S/NO	Bank
1	Access Bank Plc.
2	EcoBank Transnational Incorporated
3	FBN Holdings Plc.
4	FCMB Group Plc.
5	Fidelity Bank Plc.
6	Guaranty Trust Bank Plc.
7	Stanbic IBTC Holdings Plc.
8	Sterling Bank Plc.
9	Union Bank Nig. Plc.
10	United Bank for Africa Plc.
11	Unity Bank Plc.
12	Wema Bank Plc.
13	Zenith International Bank Plc.