

Dividend Policy and Shareholder Value in Nigerian Foods and Beverages Industry

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Abstract

Dividend policy has always been a source of controversy and concern despite years of theoretical and empirical research of equal concern is the effect dividend policy has on the shareholder value and whether or not shareholders portray preference towards such policy. This paper examines how dividend policy affect the value of firms quoted in the Nigerian foods and beverages industry and also assess shareholder perception towards dividend. Data was generated from the annual reports and accounts of sampled firms from the industry and also using questionnaire for information not obtainable from the reports. The generated data was analysed using multivariate regression analysis and chi-square test. The results of the analysis established a positive relationship between dividend policy and value of firms with a tilt of preference for higher dividend payouts than higher retention ratio, leading to the conclusion that low retention ratio could increase firms' value.

Keywords: Dividend Policy, Shareholder Value, Payout Ratio, Retention Ratio, shareholder Preference

Introduction

Dividend policy is one of the most controversial subjects in finance. Finance scholars have engaged in extensive research to explain why companies should pay or not pay dividends. Prior researches concentrates to find the relationship though yet to be generally agreed upon as Black (1976) hinted that, "The harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together". In over thirty years since then a vast amount of literature has been produced examining dividend policy.

However, Frankfurter et al. (2002) concluded in the same vein as Black and Scholes (1974) that dividend "puzzle", both as a share value-enhancing feature and as a matter of policy, is one of the most challenging topics of modern financial economics. Research into dividend policy has shown not only that a general theory of dividend policy remains elusive, but also that corporate dividend practice varies over time and among firms. The most important aspect of dividend policy is to determine the amount of earning to be paid as dividend to shareholders and amount to be retained

in the firm. Retained earnings are the most significant internal sources of financing the growth of firm. On the other hand dividend may be considered desirable from shareholders point of view as they increase their current return (Pandy, 2005).

Shareholders have divergent expectations and conflicting objectives with regards to payment of dividend, some shareholders like to receive their reward of investment as dividend ignoring the investment opportunities of the firm which might result in higher dividend in the future. On the other hand the second categories prefer to receive their reward as capital gain which is future earnings. However the company needs to retain certain proportion for extension purpose. Notwithstanding the above controversies the decision is based on the dividend policy of the company. The optimum dividend policy is the one that maximize the value of the firm shares. Encarta defines value as the adequate or satisfactory return on or recompense for something.

The shareholder value of a firm is the monetary market value of the interest of its owners. The idea of shareholder value had its origins in accounting when some academics, notably Alfred Rappaport, pointed out that traditional accounting measures of performance like earnings per share (EPS) were not very good estimates of the true worth of a business. Instead, these academics argued for the use of discounted future cash flow streams (future cash flows

multiplied by discount factors to obtain their present value) to gauge a company's value. With such improved measures, they suggested, companies could manage themselves more effectively to produce higher value for their shareholders.

Neither theoretical nor empirical work have provide complete and satisfactory answer to the question of wether dividend policy affect the value of firms. Some reseachers are of the view that dividend policy effects value as it increase the value of the shareholders, Williams (1938), Linter (1956), Gordon (1962), Rubner (1965), Long (1978), Bhattacharya (1979) Farrelly, Baker and Edelman (1986), Sterk and Vandenberg (1990). Baker and Powell (1999), Musa and Mamman (2004) found dividend payouts to be positively associated with stock prices of firms,

On the other hand, Miller and Modigliani (1961), Black and schools (1974) Jose and Stevens (1989) believe that dividends are irrelevant and still others believe that dividends decrease shareholder wealth (Litzenberger & Ramaswamy, 1979). Similarly, researches by Cornell & Shapiro, 1987; Peterson & Benesh, 1983; Prezas, 1988; Ravid, 1988 suggests that there are interactions between investment and financing decisions. Cornell and Shapiro (1987) suggest that non-investor stakeholders (customers, employees, suppliers, distributors, and other firms providing complementary goods and services) influence this

interaction of investment and financing decisions. Survey research by Farrelly, Baker, and Edelman (1985) shows that corporate managers typically believe that dividend policy affects a firm's value and that an optimal level of dividend payout exists.

In the Nigerian context, the work of Musa and Mamman (2004) provided substantial support to dividend relevance theory; they further show that dividend policy affects the value of firms in Nigeria and that optimal dividend payout materially affects share price. Although many researches were conducted in relation to dividend policy and value in other areas e.g. Banking, and supported that dividend policy matters as it positively affects the value of banks in Nigeria (Kantudu and Isah 2005) and Isah (2005), but none of the empirical researches have focussed attention on food and beverages companies. This research will therefore examine the extent of the relationship between the dividend policy and value of Nigerian food and beverages companies. Specifically, the paper aimed at achieving the objectives of:

- a. Determining the relationship between dividend policy and value of Nigerian food and beverages companies
- b. Determining the effect of earnings on the value of food and beverages companies in Nigeria.
- c. Examining the preference of the shareholders to dividend policy.

The research hypothesizes that:

H₀₁ There is no significant impact between earnings and value of food and beverages industry

H₀₂ There is no significant relationship between dividend policy and value of food and beverages companies.

Literature Review

Concept of Dividend

Kurfi (2003) define dividend as the return of investment to the shareholders (both equity and preference) who have stake in the business of the firm. Akinsulure (2005) viewed dividend as the amount and proportion of companies earning to be distributed to the shareholders as return on their investment. Olada (2002) viewed dividends as distribution made out of a company's earnings after the obligation of all fixed income holders have been paid. Therefore, Dividend entails the division of earning after interest and tax to the shareholders for the risk undertaken in a particular organization. Shareholders return can be in form of cash or in shares. Kurfi (2003) argue that cash dividends is the most familiar and expected types of dividends on common stock. Van Horne (1996) sees stock dividend as payment of additional stock to shareholder.

Dividend Policy

Dividend policy refers to the decision regarding the magnitude of the dividend payout, the percentage of earnings paid to the stockholders in the form of dividends. The central, and as yet unresolved, issue concerning

dividend policy is whether payment or not and changes affect firm value. The first empirical study of dividend policy was provided by Lintner (1956), who surveyed corporate managers to understand how they arrived at the dividend policy. Lintner found that an existing dividend rate forms a benchmark for the management. Companies' management usually displayed a strong reluctance to reduce dividends. Dividend payout policy is determined using criteria including sustainability, current firm profitability, future cash flow expectations, and industry norms.

Dividend policy is affected by factors such as legal restrictions, liquidity, access to capital market, financial conditions and borrowings, and inflation (Pandey 2005). Akinsulure (2006) further identified restriction on dividends by lenders to protect their interest when company is experiencing low liquidity, also the objective of maintaining control over the company by the body of shareholders can be an important variables factors in influencing the dividends policy of the company's panel.

Other researchers have developed and empirically tested various models to explain dividend behavior. Some researchers have surveyed corporate managers and institutional investors to determine their views about dividends policy, despite extensive debate and research, the actual motivation for paying dividends remains a puzzle. Osaze and Anao (1990) stated that the

decision of what should be paid to shareholders and what should be retained out of the company's earnings constitute the dividend policy of a firm. Aborade (2002) view dividend policy as the guiding principles for determining that portion of a firm's net profit after tax which is to be paid out to shareholders during a particular financial year. Baker, Powell and Veit (2001) describe dividend policy as payout policy that managers follow in deciding the size and pattern of cash distributions to shareholders overtime. The significant aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and amount to be retain, thus dividend policy has a direct influence on shareholders returns (Pandey, 1999). Kantudu and Isah (2005) posit that there's a significant relationship between dividend policy and value of firms and in the same vein, Musa and Mamman (2004) also stated that dividend policy affect the value of firms in Nigeria.

Objectives of Dividend Policy

Opinions have differed on what dividend policies aim to achieve. To some writers, dividend policies are formulated basically with dual objectives of maximizing the wealth of shareholders on one hand and providing sufficient sources of funds on the other hand (Ishaq, 2012). Such objectives are not mutually exclusive but rather inter-related. Thus, Aborade (2005) earlier on argued that the firm dividend policy has effect of dividing its earning into two parts: retained

earnings and dividends. More so, Pandey (1999), and Parker (2001) argue that the earnings provide funds to finance the firm's long term growth. Thus the distribution of earnings using the available policy plays an important role in almost every organization.

Brigham and Houston (1998) posit that managers should bear in mind two aims in fashioning out dividend policy: the central objective is to maximize shareholders' wealth, and the cash generated by a firm belongs to its shareholders. DeAngelo, DeAngelo, and Skinner (1992) found evidence that current income is a critical determinant in dividend decisions. As such, managers are reluctant to reduce dividends except during periods when earnings are especially poor. This implication suggests that an earnings loss is a necessary condition to prompt a dividend reduction by firms with established earnings and dividend records. Likewise, it is reasonable to expect that not all firms with losses reduce dividends. Only those firms with deep and persistent earnings problems will cut dividends.

However Brealey and Myers (2001) stated that every company that desires to maximize the wealth of its shareholders must have set the following objectives. The first is to maintain a stable amount of firm value of the dividend in spite of the company's performance during a year. This policy has the disadvantage of reducing earnings available such that if a firm makes a particular rate of

earnings per share during the year and has a policy of paying the same rate of earnings per share as dividend every year. However, the policy encourages investors to pay higher price for company's stock and it reduces the cost of equity capital since the risk attached to dividends streams is reduced when dividends remain stable. But in the view of Hexter, Langrehr, and Holder (1998), objective of dividend policy is to maintain stable payout ratio.

Theoretical Framework of Dividend Policy

The finance literature has three distinct dividend theories which involve dividend relevance theory, dividend irrelevance theory and tax preference theory.

The dividend relevant theorists posit that the choice of dividend policies almost always affect the value of the firm. The proponents of this school include, Williams (1938), Gordon (1959) and Walter (1963). Walter argues that the choice of dividend policies almost always affect the value of the firm. In support of the literature Banerjee, Gatchev & Spindt (2002), Friend & Puckett (1964), Lintner (1956), Darling (1957), and DeAngelo, DeAngelo & Skinner (1992) found that earnings strength and profitability relate positively with the dividend payout ratio but are insignificant in explaining the dividend behavior of the firms studied. Firms with larger profits are more likely to pay a dividend. Companies that are facing uncertainty about future profits would adopt a

lower payout ratio as a means of hedging the risk of having to cut their dividend in the future. As such, managers are unwilling to reduce dividends except for periods when earnings are mainly poor. In Nigerian context, Adelegan (2001), Mainoma (2001), Musa and Mamman (2004) Kantudu and Isah (2005) believe that there's a significant relationship between dividend policy and value of firms in Nigeria.

In contrast, dividend irrelevant theorist such as Miller and Modigliani (1961) posits that dividend policy of the firm is irrelevant to the firm value, since a higher dividend would necessitate more sale of stock to raise finances for the investment program. The crucial assumption here is that the future market value will remain unaffected by current dividends. They further said if a firm does not paid any dividend, a shareholder can create a "homemade dividend" by selling a part of his share at a market (fair) price in the capital market for obtaining cash. Therefore M & M consider dividend to be irrelevant in determining value of firm.

In the view of tax preference theory, investors may favor retention of funds over the payment of dividends for tax-related reasons. It holds that anytime dividend are greatly taxed than capital gains, firm should pay the lowest cash dividend they can get scot-free. The model developed by Farrar and Selwyn (1967) assumes that investors maximize after-tax income. In a partial equilibrium framework, investors have

two choices. Individuals choose the amount of personal and corporate leverage and also whether to receive corporate distributions as dividends or capital gains. This model contends that no dividends should be paid; rather, share repurchase should be used to distribute corporate earnings. Other contributors in this school of thought include Allen et al. (2000) and Wurgler (2004).

Concept of Shareholders Value

A share is a unit of ownership of a company. CAMA (1990) state that shareholders are the legal owners of the company but their dividends do not accumulate and in addition, dividends paid on ordinary shares is tax deductible. Different stakeholders value different things. Managers – profit; shareholders – earnings per share; customers – quality and usefulness; employees – rewards and status. But the four variables all taken together and not in isolation, give a coherent value purpose, which can be shared by all. For instance, the link between customer and firm value is based on the premise that customers are usually the main source of earnings for a firm. If we can estimate the value of current and future customers, this provides a proxy for a large part of the value of a firm.

The idea of shareholder value had its origins in accounting when some academics, notably Alfred Rappaport, pointed out that traditional accounting measures of performance like earnings per share (EPS) were not very good

estimates of the true worth of a business. Instead, these academics argued for the use of discounted future cash flow streams (future cash flows multiplied by discount factors to obtain their present value) to gauge a company's value. With such improved measures, they suggested, companies could manage themselves more effectively to produce higher value for their shareholders.

Kennedy, (2000), says the problem, is that the means became the end. In the interest of maximizing short-term value to shareholders, companies mortgaged their future to achieve a higher current share price. Although the new business ethic undoubtedly drove share prices higher and made millions of investors richer, the shareholder value approach and the short-term management practices wreaked havoc in many people's lives. Kennedy further argues that companies subscribing to the shareholder value philosophy are ultimately destined to collapse and that future generation of investors, customers and employees will pay the price. He sees the dotcom collapse as particular evidence of the dangers of the shareholder value approach.

Kennedy firstly describes what he sees as the damaging effects of the shareholder value philosophy. While most high-tech exponents of the shareholder value ethic made their money through providing innovative products and services, this was not true of the managers of more mature companies who adopted the ethic. They

squeezed more earnings out of their firms through "management innovations" suggested by academics and consultants. These included downsizing, outsourcing and mergers. Adoption of these management techniques undercut some of the most deeply held assumptions about corporate life – such as the notion that loyal and performing employees deserved employment for life. The result was skyrocketing stock prices, mounting personal fortunes for the managers involved, and a massive widening of the gap between haves and have-nots.

Researchers have different views about whether the percentage of earnings that a firm pays out in dividends materially affects its long-term share price. Some empirical studies appear to support Miller and Modigliani's (1961) classic dividend irrelevance proposition e.g., Black and Scholes (1974), Miller and Scholes (1978), Jose and Stevens (1989); others do not such as, Long (1978), Sterk and Vandenberg (1990) In addition, survey research by Farrelly, Baker, and Edelman (1985) shows that corporate managers typically believe that dividend policy affects a firm's value and that an optimal level of dividend payout exists. Corporate aggregate dividend policy will tend to vary directly with current profits, past profits, the rate of amortization recoveries, and shifts in anticipation of future earnings and will vary inversely with persistent changes with the level of sales (Darling, 1957).

In practice, most firms pay cash dividends, although paying dividends is costly in various ways. Thus, empirical evidence on whether dividend policy affects a firm's value offers contradictory advice to corporate managers. Today, many academicians and corporate managers still debate whether dividend policy matters. According to Bhattacharya (1979) dividend payout behavior is also thought to be highly influenced factors that determine the market value of firms. Similarly, Oseki (1918) argues that share price depends among other things on the past declared dividend per share, company size and reputation for good management. Higgins (1972) found that dividends varied positively with earnings but negatively with investment. Nevertheless, Oyigede (1976) examined empirically the factors driving dividend policy of companies in Nigeria using Litner's (1956) model as modified by Britain (1964). He observed that there's substantial support in Nigeria for Litner's theory,

In contrast to the work of Miller (1987) criticizes the view that dividends are better described as lagging earnings rather than leading earnings. DeAngelo and DeAngelo (2006), who expand the well-known work of Miller and Modigliani (1961), argue in the setting of frictionless markets that the irrelevance theorem of Miller and Modigliani (1961) is only a product of the implicit assumption ruling out the retention of free cash flow. If retention is allowed and the NPV of investment

policy is fixed, a firm can reduce its value by paying out less than the full present value of free cash flow. Therefore payout policy matters and investment policy is not the sole determinant of the firm's value in frictionless markets. This reasoning presupposes that retained free cash flow may be invested in zero NPV projects, but not distributed in the future.

Stanly (2002) opines that the value of common stock may be interpreted by the shareholders as the present value of an expected stream of future dividends. However, Aborade (2005) posits that share value is influenced by factors such as dividend policy of the firm, value and competition of the company's asset, ownership as well as potential earnings capability of the firm. He equally identified income capitalization, equity/net asset basis and replacement value methods as some of the methods for determining the value of shares.

Materials and Methods

Population and Sample

The population for this study comprised of all the sixteen Nigerian food and beverages companies that are publicly quoted on the Nigerian Stock Exchange Market. This is because the accounting information is much more interested in the quoted companies because information is always readily available in the market. The population of the study are presented in the table below

Table 1: Population of the Study

No.	CompanyName	Year of Incorp.	Year of Listing
1	7 Up Bottling Company	1959	1986
2	Cadbury Nigeria Plc	1965	1965
3	Ferdinand Oil Mills Plc	1988	1992
4	Flour Mill [Nig] Plc	1978	1979
5	Foremost Dairies Plc	1970	1979
6	Northern Nig Plc	1971	1978
7	National Salt Co.[Nig] Plc	1973	1992
8	Nestle Nigeria Plc	1961	1979
9	Nigerian Bottling Co. Plc	1951	1973
10	Ps Mandrides Plc	1949	1979

Using random sampling, the following were selected as the sample of the study

Table 2: Sample Size

No	CompanyName	Year of Incorp.	Year of Listing
1	7 Up Bottling Company	1959	1986
2	Flour Mill [Nig] Plc	1978	1979
3	Northern Flour Nig Plc	1971	1978
4	Nestle Nigeria Plc	1961	1979
5	Nigerian Bottling Co. Plc	1951	1973
6	Cadbury Nigeria Plc	1965	1965

Sources of Data

The research utilizes both primary and secondary sources. The primary data for the study was generated through the administration of questionnaire while secondary data were generated through the use of annual report and account of the sampled companies and other published material relevant to the research work such as market stock price.

Method of Data Analysis

The following tools of analysis were employed by the research:

Regression Model

In a bid to determine variations in Ishare price, the research adopted the regression model. This is because multivariate linear regression is expected to explain the variation in share price (proxy as value of firm), due to variation in any of the independent variables (dividend per share and earning per share).The study adopted and modified regression model of Dumontier and Raffornier (1998). The model is shown below:

$$V = a_0 + a_{iep} + a_{adpo} \quad .$$

ao = constant;
 aiep- earnings per share,
 aadpo=dividend per share

Use of the above model is consistent with Al-shammari (2005) and Kantudu (2006) and Barde (2010).

The Chi-Square (X^2) Technique

Chi - square and simple percentages was used to see whether or not high payout enhance value of firm. Similarly the chi square test is limited to analyzing hypothesis 3. The chi-square test can be expressed as:

$$x^2 = \sum_{i=1}^n (fo - fe)/fe$$

Where:

X = chi-square

f = Frequency

$\sum$ = Summation or addition

n = Number of cells in the contingency table

o = Observed frequency or value

e = Expected frequency or value

Xt = Table value of chi -square

The decision rule or acceptance criteria at 5% significance level are that we accept the null hypothesis if x^2 is less than X_i , and reject H_0 if computed value is greater than critical or table value. The degree of freedom (df) is given by $(r-1)(c-1)$ and the null hypothesis was accepted where the significance (p-value) exceeds 0.05. This is consistent with Mamman (2002), Kantudu (2006), and Barde (2010)

Variables of the Study

The variables measured is share price (dependent variable), dividend per share and earnings per share (independent variables)

Dependent Variable

The dependent variable of the study is the share price published by Nigerian Stock Exchange and this proxy as the value of foods /beverages and tobacco industry. These price are obtained from stock exchange fact book. The research takes the average price of the share i.e. the highest share price plus the lowest share price during the year divide by two.

Independent Variable

Below are the independent variables of the study:

Earnings Per Share (EPS)

Earnings per share is' the net income of a firm divided by the number of its outstanding shares i.e. the shares held by the stockholders (shareholders). It is the most frequently use of all accounting ratio and is generally felt to give the best view of company performance. It indicates how much of company's profit can be attributed to each ordinary share in the company. It is calculated by dividing profit after tax by the total number of common stocks outstanding.

Dividend Per Share (DPS)

It is the amount of dividend that a Shareholder will receive for each share of stock held. It can be calculated by taking the total amount of dividends paid and dividing it by the total shares

outstanding. Thus, dividend payout ratio is the ratio that reveals the percentage of the dividend in relation to the percentage retained to expand the growth of the firm. In theory, there is a balance to be struck between maximizing the dividend payout and retaining profit for the company. In practice, company usually prefers to keep the dividend payout steadily and gently rising. It's simply dividend per share divided by earning per share.

Discussion of Results

This section presents and discusses the data generated from the annual reports and accounts of the sampled firms, as well as the questionnaires administered for the purpose of testing the formulated hypothesis.

Impact of Earnings on the Value of Firms

Determination of whether or not Earnings per share has an effect on the value of foods/ beverages and tobacco industry in Nigeria is one of the objectives of this research. To achieve this objective and to test hypothesis one of the study, data was obtained on earning per share (proxied as dividend policy) and Value of foods/beverages and beverages industry (proxied as average share price) which was used to run regression analysis, the model's summary of which is shown in table 3 below:

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin- Watson
1	874(a)	.764	.756	28.01386	.707

From Table 3 above, the figure from entry level R square mean that 76.4% variability in share price is explained by changes in any of the independent variables: earning per share and dividend per share, while 23.6% variability is explained by other factors not captured by the model such as past revenue growth rate, percentage of insider holdings and equity ownership as it has been pointed out by Hexter, Langrehr and Holder (1998). Thus, the ability of the independent variables of the research to explain variation in the dependent variable is additional proof of overall model fitness. The

regression's R value i.e. 87.4% indicates a very strong relationship between the variables of the study also the adjusted R square of 75.6% shows the conformity between data and an approximating curve of the study. Therefore, the R, R square, adjusted R indicates that, the regression equation has effectively predicted the models, which suggest that, the regression model fits the data very well; meanwhile, it is apparent that the research model has satisfied linear regression assumptions.

The Regression Result is presented in

Table 4.

Table 4 Multivariate Regression Result

Model		Unstandardized Coefficients		Stand. Coeff.	t	Sig.
		B	Std... Error	Beta	Tolerance	VIF
1	(Constant)	-6.161	5.868		-1.050	.298
	Eps	18.496	3.614	.822	5.118	.000
	Dps	.628	1.764	.057	.356	.723

a. Dependent Variable: *Ava_st* The regression equation is given by:

$$V = -6.161 + 18.496\text{eps} + .0.628\text{dps}$$

Table 4 shows the results of multivariate regression which indicates that, earnings per share has a positive relationship with value of firm and similarly dividend per share has a positive effect on the value of firm. It's evident that, the relationship between dividend policy and value of foods/beverages and tobacco industry is positive. This finding has lend support to Graham, Dodd and Cottle (1962), Inanga (1975), but inconsistent with Fama and French (2001).

Dividend Policy and Value of Firms

This study also utilizes the chi-square test to test the second hypothesis of the study to determine whether or not high payout ratio enhance value of firms in Nigeria. To this extent, questionnaire was used to generate the preference of shareholder with regard to payment of dividends. Table 5 and Table 6 below present the result of the Questionnaire administered.

Table 5: Questionnaire Responses

	Strongly Agree	Agree	Undec.	Disagree	Strongly disagree
Shareholders prefer high payout ratio	24	37	1	13	30

Share price rises and decline, during pre and post announcement of dividend respectively	69	19		9	8
Investor invest, in a company during pre-shareholders divest their investment during post pronouncement	66	28		7	4
	57	29		9	10

Source: Questionnaire Administered (2010)

Table 6: Summary of Descriptive Statistics on Dividend Payout Ratio

	N	Mean	Std. Dev.	Minimum	Maximum
Shareholders prefer high pay out.	105	3.2381	1.69572	1.00	5.00
Share price rises and decline during pre and post announcement of dividend respectively	105	4.2571	1.27874	1.00	5.00
Investor invest, in a company during pre pronouncement	105	4.3810	1.05047	1.00	5.00
Shareholders divest, their investment during post pronouncement	105	4.0857	1.32371	1.00	5.00

Source: Questionnaire Administered (2010)

Table 5 and 6 above show the summary statistics of shareholder preference to payout ratio. The two tables' show that shareholders prefer high payout ratio due to mean of 3 which is close to 5 and 58% are in support of high payout ratio. This entails that overwhelming number of respondents preferred high dividend payout policy.

Shares of company tend to rise (during pre-declaration period due to mean of 4.25, which is nearest to 5 as a cut-off. Also, 83.81% of the respondent agreeing that share price rises during

pre-declaration and declines after declaration of dividend. A mean of 4.38 and 89.52% of respondent believed that, investors invest during the anticipatory period, this shows the existence of signal theory in foods/beverages and tobacco companies in Nigeria. More so, shareholders divest after pronouncement of dividend as has been justified by a mean of 4.08 and 1.90% of the respondent. Meanwhile the managers of a company have access to more information than investors when firms announce changes in dividend policy, they are

conveying information to the market therefore, Investors receiving this information must decide how credible it is, given the fact that, the managers will try to present the company in a

positive way. The research used chi-square to test the second hypothesis of the study.

Table 7: Chi-Square Results on Dividend payout ratio

Chi-Squai-ef	38.57
Def ^a	
Asymp. Sig.	0.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 21.0.

Table 7 shows the result of chi-square test. It can be ascertained from the table that at 5% level of significance and 4 degree of freedom, the significance or p-value of 0.000 is less than 0.05 therefore, we reject the null hypothesis and accept the alternate hypothesis that, high payout ratio enhances value of firms in foods/beverages and tobacco industry in Nigeria. This finding is consistent with the conclusions reached by Graham (1951), Dood (1962), Farrelly, Baker& Edelman (1986) and Baker and Powell (1999). However, Higgins (1972) show that, payout ratios are negatively related to firms' value. Rozef (1982) and Collinset *al* (1996) have all documented significant negative relationship between historical sales growth and dividend payout.

Summary and Conclusions

The most important aspect of dividend policy is to determine the amount of earnings to be paid as

dividend to shareholders and amount to be retained in the firm. The focus of this study is to examine the impact of earnings on the value of foods/beverages and tobacco companies in Nigeria. It also examined whether or not earning per share affect value of food and beverages industry and to establish shareholders preference to dividend policy. The central and yet unresolved issue concerning dividend policy is whether the percentage of earnings that a firm pays out as dividends materially affects firm's value.

Based on the literature reviewed, analysis and interpretation of data, the following conclusions are drawn:

1. There is positive relationship between dividend policy and share price (foods/ beverages and tobacco companies). The relationship is as a result of positive coefficient of correlation (R) between the variables. Similarly the result reveals that, the variability in share

price is significantly explained by the independent variables. This indicates that dividend policy of foods/ beverages and tobacco companies in Nigeria has impact on the value of their share price

2. Shareholders preferred higher dividend payout ratio. Investors always prefer dividends over retained earnings because they fear that retained earnings might be used by insiders for their own benefits against the interest of outsiders.
3. Also shareholders preferred cash dividend payment rather than a future promise of capital gain due to minimizing risk or lowering risk. As such, cash dividend is seemed to be favored by both shareholders and the companies.
4. Share price are rising during pre-declaration period when anticipation is highest. This is because cash dividend carries information regarding the future cash flows of firm that is to be reflected in the market price of share after announcement of dividend, particularly when dividend increases also divest, if the information did not meet their expectation.

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