Dividend Policy and Shareholders Wealth; A case of Nigerian Deposit Money Banks

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*Abstract:-*The study tempts to explain the effect of dividend policy on shareholders' wealth of Nigerian deposit money banks. The main objective of this identify the effect of dividend of policy on shareholders; wealth. The study used secondary as method of data collection, the date was collected from annual report of deposit money banks listed on Nigerian stock exchange for the period of 10 years. Praeson correlation and regression analysis were used to explain the outcome of the study. The study identify that has both positive and negative effect on shareholders' wealth of Nigerian deposit money banks.

I. INTRODUCTION

1.1 Background to the Study

Prior to directive by the Central bank of Nigeria (CBN), to Deposit Money Banks (DMB), not to pay dividend on its shares until all its expenses have been completely written off, saying the decision is a disincentive to investors. Most banks adopted an aggressive dividend policy, partly to shore up their share price and secondly to splash cash to shareholders. Consequently, banks resorted to external funding sources to support their balance sheet, as against internal capital consolidation in the form of retained earnings. In a bid to further comply with the Basel ac-cords, the CBN in October 2014 issued a directive aimed at preventing a systemic failure and effectively pushing banks to enhance their capital buffers. This was in form of restricting deposit money banks (DMBs) and discount houses (DHs) with low capital base and high non-performing loans (NPLs) from paying out dividend. This order ensured banks provided adequate capital buffers and prevented them from paying out cash dividend out of their reserves. On January 31, 2018, the CBN added an-other paragraph to its existing directive on dividend policy, allowing banks who maintained capital adequacy ratio (CAR) of at least 3% above minimum requirement, low composite risk rating (CRR) and NPLs between 5% and 10%, to retain a pay-out ceiling of 75%. (Proshare 23rd February, 2018)

Investors with shares in the banking sector on the Nigerian Stock Exchange, NSE have lost over N100.8 billion in two trading days of the week following the directive by the Central Bank of Nigeria, CBN that restricted dividend payments by banks with high Non Performing Loans, NPLs, and low Capital Adequacy Ratio, CAR from paying dividend to their shareholders. Vanguard's trail of the implications and impacts on the banks quoted on the Nigerian Stock Exchange, NSE, shows that while 11 out of the 16 banks in the NSE began losing prices in the market on Monday, the remaining

joined by Tuesday, except United Bank for Africa Plc (UBA). The banks that appreciated include: Access Bank (5 kobo) per share to close at N12.56 per share from N12.60 per share, GT Bank gained N1.00 per share to close at N47.50 per share, from N46.50 per share, Fidelity Bank gained (8kobo) per share to close at N3.28 per share from N3.20 per share and Jaiz Bank gained 4 kobo per share to close at N1.04 per share from N1.00 per share. In the second day trading session, investors reacted as the news on CBN's directive filtered to the market, with virtually all the banks' share prices dropping, except UBA which gained 20 kobo per share to close at N12.20 from N12.00 per share it closed on Monday. The high point in the CBN's revised guideline on payment of dividend which came to public knowledge through media reports on Monday, was that no bank shall pay dividend on its shares until all its preliminary expenses, organizational expenses, share selling commission, brokerage, amount of losses incurred and other capitalized expenses not represented by tangible assets have been completely written off; and adequate provisions have been made to the satisfaction of the bank for actual and contingency losses on the risk assets, liabilities, off balance sheet commitments and such unearned incomes as are derivable there from (Vanguard 21st February, 2018).

Shareholders in the nation's capital market have condemned recent directive by the Central bank of Nigeria (CBN), to Deposit Money Banks (DMB), not to pay dividend on its shares until all its expenses have been completely written off, saying the decision is a disincentive to investors; promising to challenge this in court if necessary. The shareholders, who argued that the market is information-driven, said with the little signs of recovery and capital appreciation witnessed recently, government at all levels must be cautious, and avoid any actions and decisions that could send wrong signals, and erode investors' confidence in the market. According to them, expectations are that the relatively low interest rates in the money market, and sell-off in the bond market will boost inflow into the stock market, as fund managers play earnings season for quick returns in high dividend paying stocks. The shareholders however argued that the decision by the apex regulator on dividend payout would definitely erode the optimism and confidence on huge investment inflow into the equity market, which has trailed it since the beginning of the year. Furthermore, they added that there are possibilities of some hasty sell-off reactions by investors especially in stocks that are affected by the dividend payment restrictions. Specifically, the President, Proactive Shareholders

Association of Nigeria, Taiwo Oderinde, in an interview with The Guardian, said: "CBN is only interested in protecting the banks' depositors at the expense of the shareholders. Every bank has its own board that has the prerogative to decide to pay dividend. "It is not CBN's responsibility to decide when or when not to pay dividend to their investors. It is an anti-investors policy and directive, and we will challenge it in court," he said (The Guardian 23rd February 2018).

However, the Financial Vanguard analysis on the dividend pay-outs in the financial year 2018 revealed that four banks were caught in the CBN net forcing their shareholders and directors to go home empty-handed. The banks were Union Bank, Plc, Unity Bank, Plc, Sterling Bank, Plc and Jaiz Bank, Plc. Meanwhile, during the seventh annual general meeting, AGM of Jaiz Bank in Abuja, the chairman, Dr. Umaru Mutallab, had said: "While the board had tried to recommend the payment of dividend for the 2018 financial period, the regulators felt otherwise." Mutallab told the shareholders that the regulators of the bank were of the view that there was the need for Jaiz Bank to improve on some specific benchmarks. He said some of the benchmarks included improvement in capital buffers and reduction in non-performing loans (Vanguard August 5, 2019).

In view of the above, this study is aimed at addressing the issue pointed above by analyzing the effect of dividend policy on shareholders' wealth of listed deposit money banks. The study very important at this time because it will in finding out the win-win point at which the policy makers and shareholder will meet.

1.2 Statement of the Problem

The considerations discovered from empirical review encourage the researcher to fill present gaps identified in an academic literature by analyzing the effect of dividend policy on Market Value Added as the proxy of shareholder's wealth suggested by (Gejalakshmi and Azhagaiah, 2017) and (Farrukh et al 2017). Concerning methodology the gap suggested by Farrukh, et al (2017), which, time period of the study can also be increased and unbalanced panel data could be used to obtain diversity in results.

1.3 Research Questions

Related to the above problem, the research seeks to address the following questions:

i. What is the extent to which Dividend per Share affect shareholders' wealth in DMBs?
ii. What is the extent to which Dividend Payout Ratio affect shareholders' wealth in DMBs?
iii. What is the extent to which Dividend Yield affect shareholders' wealth in DMBs?

1.4 Objectives of the Research

The main objective of this study is to examine the effects of dividend policy on shareholders' wealth in Nigerian Deposit

Money Banks in Nigeria. However, the specific objectives of this study are:

i. To examine the effects of Dividend per Share on shareholders wealth in DMBs
ii. To examine the effects of the Dividend Payout Ratio on shareholders wealth in DMBs
iii. To examine the effects of Dividend Yield on shareholders wealth in DMBs

1.5 Research Hypotheses

$H0_1$: Dividend per Share have no significant effect on the Market Value Added of DMBs

$H0_2$: Dividend Payout Ratio has no significant effect on the Market Value Added of DMBs

$H0_3$: Dividend Yield has significant no effect on the Market Value Added of DMBs.

1.6 Scope of the study

This study evaluates the effects of dividend policy on shareholders' wealth of listed Nigerian Deposit Money Banks in Nigeria for a period of 5 years from 2014 to 2018.

II. EMPIRICAL REVIEW

Many relevant studies were conducted on effect of dividend policy on shareholders' wealth such as Brunzell, Sören and Jonsson (2012); Talla (2014); Azhagaiah and Gejalakshmi (2014); Mamidu & Ojo (2015); Ranwat (2016); Omoregie and Eromosele (2018); Frukh, Irshad, Khakwani, Ishauqe and Ansari (2017); Sumathi and Jothi (2017), Gejalakshmi and Azhagaiah (2017), Abdul (2017); Khan and Qureshi (2018), Balagobei (2018), Agila and Jerinabu (2018), Hamza and Hasssan (2018), Thirumagal and Vasantha (2018) and Nagendra, Kumar and Venoor (2018), Etale & Ujuju (2018) from which Frukh, et al (2017) analyzed the effect of dividend policy on shareholders' wealth with a sample of 51 firms listed in Pakistan stock exchange has been selected by including the firms which have been paying dividends for 10 years consecutively or with the gap of 1 or 2 years at maximum and are following stable dividend policies. The study recommended that, further researches can be conducted in particular sectors like banking sector, food producer sector, etc. Their study includes dividend policy as an explanatory variables for analysis. It is recommended to use some other dependent variables to measure shareholders' wealth it may be done using proxies like earnings before interest and tax (EBIT), economic value added (EVA), and market value added (MVA). Furthermore, Gejalakshmi and Azhagaiah (2017), analyzed the effect of dividend policy on shareholders' wealth of Indian cyclical sector, researchers suggest the future study should extend the investigation to other sector(s). Furthermore, their study used market price per share (MPS) as proxy for measuring the shareholders' wealth (SW). Further studies may be conducted using Economic Value Added (EVA) and market value added (MVA) to measure shareholders' wealth. Concerning methodology,

Omoregie and Eromosele (2018), analyzed the effect of DP and SW in Nigerian Banking sector, fixed effect model was employed. The study of Ozuomba, Anichebe and Okoye (2018) was based on survey design covers a one-year period with a sample of 10 quoted companies in the Nigeria stock exchange. In so doing, the methodology adopted is the Anova. The course of carrying out their study was on the return of questionnaires on time and attitude of workers toward responding to the questionnaires. The use of secondary data may increase the accuracy of the result. Omodero and Amah (2017), also analyzed the effect of DP on SW of Brewery Industry a cross-survey research design was adopted and secondary data extracted from the published annual reports of the firms studied. The statistical tool used was a multi-regression analysis and t-test for hypotheses testing and data analysis with the aid of SPSS version 20. Ishtiaq and Naveed (2017) analyzed the effect of dividend policy on shareholders' wealth of sixty eight companies from Karachi stock Exchange. The study relies on a data that is gathered from sixty eight companies from Karachi Stock Exchange for the period 2003 to 2007. Whereas hypotheses were tested using balanced panel data Ordinary least squares and fixed effect model were used to estimate regression equation. In the study Gejalakshmi and Azhagaiah (2015), a sample of 13 FMCG firms is considered for analyzing the impact of dividend policy on shareholders' wealth. In the study, OLS model of regression and chow test are used for analysis, therefore inclusion of some more appropriate methods of analysis, if used for analysis, will enable a further step in exploring new and further inference in the area of research. Gejalakshmi and Azhagaiah (2017), analyzed the effect of dividend policy on shareholders' wealth of Indian cyclical sector, tools like Johnson co-integration test, multiple regression and chow test for analyzing the co-integration between dividend policies on shareholders' wealth. it is recommended that more appropriate method of analysis like Block Exogeneity, Wald test (1943), BaiPerron test (2003) and varience decomposition for analysis may add to exploring new and further inferences in the area of study. Farrukh, *et al* (2017) analyzed the effect of dividend policy on shareholders' wealth with a sample of 51 firms listed in Pakistan stock exchange has been selected by including the firms which have been paying dividends for 10 years consecutively or with the gap of 1 or 2 years at maximum and are following stable dividend policies. This study covered the time period of 2006 2015. Data have been taken on annual basis. Total number of observations in this study were 510. This research applied multiple regression using E-Views for a period of 10 years from 2006 to 2015. Moreover, time period of this study can also be increased. Additionally, the future research may use unbalanced panel data to obtain diversity in results.

III. RESEARCH METHODOLOGY

3.1 Research Design

The study employs Ex-post factor research design in which the data were extracted from the annual reports and accounts of the sampled banks for a period of 10 years from 2009 to 2018.The population for this study is the entire listed Banks on the Nigerian Stock Exchange as at 31st December, 2018. Under this sector, there are a total of fifteen (15) listed banks on the floor of the Nigerian stock exchange.

The census sampling technique will be used for the purpose of this study.The techniques for data analysis to be used in analyzing data for the study are descriptive statistics, Pearson Correlation Analysis, Multiple Regression Analysis multicoloniarity, normality test, heteroskedasticity.

3.2 Model Specification

SW will be regressed on DPS, DPR and DY. As such, the combined effects of the three independent variables, i.e dividend per share, dividend payout ratio and dividend yield on the dependent variable (shareholders' wealth), will be determine on multiple regressions as:

$$SW = \beta 0 + \beta 1\ DPS + \beta 2\ DPO + \beta 3\ DY + e………………$$

Where,

DPS = Dividend per Share

DPO = Dividend Payout Ratio

DY = Dividend Yield

SW = shareholders' wealth

β = Regression Coefficient

ei - Error term

The above model will be used to test the three hypotheses of the study at the 5% level of significance. If the multiple regression result shown is significant at less than 0.05, the hypotheses would be rejected and if the result shows a value above 0.05, the hypotheses would be accepted.

IV. DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1 Tests for Model of Validity and Fitness

For the result of the regression to be accurate, valid, and reliable, the presence of multi-colinearity and heteroskedasticity should be checked. To achieve this, the following tests were carried out to ensure robustness.

4.2.1 Normality Test

The study adopts a Shapiro Wilk test to find statistical evidence as to whether the data of the variables of the study is normal. Thus, the results of the data normality test of the study variables are presented in Table 4.2.1 below:

Table 4.2.1 Normality test result

Variables	W	V	Z	P-Values	N
MVA	0.803	17.58	6.39	0.000	110
DPS	0.621	33.89	7.86	0.000	110
DPOR	0.549	40.30	8.24	0.000	110
DY	0.461	48.21	8.64	0.000	110

Source: Stata output, 2020

Under the Shapiro-Wilk test (W) the null hypothesis is that the dataset is normally distributed. Table 4.2.1 indicates that the data for the dependents variable are normally distributed because the p-values of the MVA are significant at a 1% level of confidence. Also, the dividend per share, dividend payout ratio, and dividend yield recorded the p-value of 0.000 respectively which indicates significant at 1% level of acceptance. Hence, the null hypothesis that the data is normally distributed is rejected.

4.2.2 Heteroskedesticity Test

Heteroskedasticity test was also conducted to check whether the variability of the error term is not constant which will affects the best linear unbiased estimators of the study for both dependent and independents variables. Therefore, the Brreusch-Pagans test for Heteroskedesticity was conducted. The results presented in Appendix (A) produce the value of Chi2 33.31 with the probability of 0.000 which is significant at a 1% level of acceptance, indicating that the data is not homoscedastic. This suggests that the original OLS could not suit the study. Hence, the use of Robust OLS.

4.2.3 Multicollinearity

The VIF test for multicollinearity was conducted to check the presence of multicollinearity. One of the assumptions of the classical regression model states that there should not be multicollinearity among the regressors included in the model. This is an agreement with the rule of thumb (Gujurati, Dawn Porter, 2009). One way to detect the presence of multicollinearity is through the VIF test which is presented in table 4.2.3 below.

Table 4.2.3 multicollinearity Test

Variables	VIF	1/VIF
dpor	1.69	0.591
dy	1.53	0.653
dps	1.3	0.771
Mean VIF	1.51	

Table 4.2.3 reveals that the variables (DPOR, DY and DPS) do not pose a threat to reliability and validity of the results indicating the absence of a multicollinearity problem. This is evident from their VIF values being less than 10 and tolerance values being greater than 0.1 as the Rule of Thumb (Gujurati Dawn and Porter, 2009).

4.3 Result and Discussions

4.3.1 Descriptive Statistics

Variables	Mean	Std. dev.	Min.	Max.	N
MVA	2.15	2.52	0	1.08	110
DPS	0.619	0.830	0.02	6.44	110
DPOR	0.783	1.246	0.0017	9.24	110
DY	0.141	0.275	0.0015	1.61	110

Source: Stata output Version (15), 2020

Table 4.3.1 of descriptive statistics show the average MVA was N 2.15 with a standard deviation of 2.52 indicating that the data deviate from the mean value by 2.52. This indicates that there is no wide dispersion between the mean value and standard deviation. The minimum and maximum MVA N 0, and N 1.08 respectively. The coefficient of skewness is 1.45 signifying that the data is positively skewed which deviates the condition of being symmetrically distributed that suggests the value of (0) for the skewness. In terms of kurtosis, the coefficient of 4.45 indicates that the data set of dividends per share is not normally distributed which suggested the value of 3. Similarly, the results reveal that dividend per share has a mean value of 0.619 with a standard deviation of 0.830 signifying that the data deviate from the mean by 0.830. This indicates the absence of wide range dispersion between the mean value and the standard deviation. The minimum value of dividends per share is 0.02 while the maximum value is 6.44. The coefficient of skewness is 3.88 implying that the data is positively skewed which also deviates the condition of being symmetrically distributed that suggests the value of (0). The coefficient of kurtosis is 24.33 which imply that the dataset of dividend per share is not normally distributed.

Furthermore, the mean value of the dividend payout ratio is 0.783 with a standard deviation of 1.246. this indicates that the data deviate from the average of by 1.246; which indicates a wider range of dispersion between the mean and the standard deviation. The minimum value of DPOR is 0.0017 with a maximum of 9.24. The coefficient of skewness and kurtosis is positive 4.09 and 23.82 respectively indicate that neither conform to the symmetric distribution of 0 and not normally distributed that suggests the value of 3. However, the mean value of the dividend yield is 0.141 with a standard deviation of 0.275. Indicating that the data deviate from the average value of 0.275 which is not widely dispersed from the standard deviation. The minimum value of dividend yield is 0.0015 with a maximum of the value of 1.61. the coefficient of skewness is 3.66 implying that the data is positively skewed but deviates from the condition of symmetric distributed that suggests the value of (0). The coefficient of kurtosis is 16.33 which implies that the dataset of dividend yield is not normally distributed.

4.3.2 Correlation Matrix

The correlation matrix shows the relationship that exists between the dependent and independent variables as well as between/among the independent variables of the study.

Table 4.3.2 Correlation Matrix

Variables	MVA	DPS	DPOR	DY
MVA	1			
DPS	0.3454	1		
DPOR	-0.062	0.4642	1	
DY	-0.1724	0.365	0.5788	1

Source: Stata output, version (15), 20202.

Table 4.3.2 shows the correlation matrix between the variables of the study. The values of the correlation coefficient vary from -1 to 1. The sign of the correlation coefficient indicates the bearing of the relationship whether positive or negative. The complete value of the correlation coefficient indicates the strength, with larger values indicating stronger relationships. The correlation coefficients on the main diagonal are 1.0 because each variable has an absolute positive linear relationship with itself.

The relationship between market value-added and the dividend per share is positively strong from the coefficient of 0.3454. Also, a negative and insignificant relationship exists between market value-added and the dividend payout ratio with a coefficient of -0.0620. However, negative weak relationship existed between market value-added and the dividend yield with the coefficient of -0. 1724. The relationship between DPS and DPOR positively strong while between DPS and DY also indicates positively strong with a coefficient of 0.4642 and 0.3655 respectively. There is also a strong and positive relationship between DPOR and DY with the coefficient of 0.5788.

Therefore, the correlation that exists between the explanatory variables does not pose a threat to the study analysis and that there is the absence of serious multi-collinearity among the regressors despite, negative relationship of some explanatory variables. The study relied on the assumption that none of the variables reaches a threshold of 0.80 (Hair, Black, Robbin & Anderson 2010).

4.4 Presentation and Interpretation of Regression Results

The regression results of the dependent variable (market value added) and independent variables (dividend per share, dividend payout ratio, and dividend yield) are presented with the interpretations of the relationship between the dependent and each independent variable. The OLS results contain the slope coefficient and related p-value of the independent variables, the F- statistics, and the adjusted R^2.

Table 4.4.1 Summary of Regression Results

OLS Model		Fixed Effect Model		Random Effect Model	
Variables	Statistics	Variables	Statistics	Variables	statistics
R^2	0.23	R^2 within	0.1331	R^2 within	0.128
Adj. R^2	0.21	R^2 between	0.2223	R^2 between	0.3216
F- Stat.	10.75	R^2 overall	0.154	R^2 overall	0.1915
Prob> F	0.000	F- Stat.	4.71		
		Prob>F	0.000		
Hausman Specification Text:					
Hausman	Chi^2 36.32		Wald Chi^2		0.1679
Prob> Chi^2		Prob>F	0.000		

Source: Stata Out-Put, Version (15), 2020

1. Table 4.4 presented the results of the regression. The R^2 is the multiple coefficients that give the proportion of complete variation in the dependent variable, which at the same time explained by the independent variable. From the results, the R^2 0.1915 implies that 19.15% of the complete variation of the market value added of listed deposit money banks in Nigeria is explained by dividend per share, dividend payout ratio, and dividend yield while the remaining 80.85% is explained by other factors, not in this study model. However, the results indicated the F- statistics of 0.1679 which is significant at 1%. This implies that the model fitted the study variables. Based on the above analysis, the robust result is presented in Table 4.4.2

Table 4.5 Regression Results

Variables	Beta Coefficient	Sig.	VIF	Tolerance
DPS	7.7	0.001	1.69	0.591238
DPOR	-3.58	0.042	1.53	0.653198
DY	-1.49	0.049	1.3	0.77.602
R^2	0.1915			

Source: Stata Output Version (15) 2020

4.5.1 Hypothesis 1: Market Value Added and Dividend per Share

This section tests the first hypothesis which states that dividend per share has no significant effect on market value added of listed deposit money banks in Nigeria.

From the results in Table 4.5, the coefficient of a dividend share price is 7.70 the p-value of 0.001 which is significant at a 1% level of acceptance. This means that dividend per share has a positive and significant effect on market value added which indicated that it positively affects market value-added of listed deposit money banks in Nigeria. Therefore, the null hypothesis which states that dividend per share has no significant effect on market value added is hereby rejected. This finding is in line with the study findings of Pratheepan, 2018, and contrary to the study findings of Kehinde & Maxwell 2015.

4.5.2 Hypothesis 2: Market Value Added and Dividend Pay-out Ratio

This section also tests the second Hypothesiswhich states that the dividend pay-out ratio has no significant effect on market value added of listed deposit money banks in Nigeria.

It is evident from table 4.5 that the coefficient of dividend payout ratio is -3.53 with a p-value of 0.042 which is significant at a 5% level of confidence. This implies that the dividend payout ratio is negative but significantly influenced the market value added of listed deposit money banks in Nigeria. On this basis, the second null hypothesis is also

rejected. The results support prior literature of Thirumagal and Vasantha 2018, but contradict that of Pratheepan, 2018.

4.5.3 Hypothesis 3: Market Value Added and Dividend Yield

This section tests the third hypothesis which states that dividend yield has no significant effect on market value-added.

The result from table 4.5 shows that the coefficient of dividend yield is -1.49 with the p-value of 0.049 which is significant at a 5% level of confidence. This result posits that there is a significant and negative influence of dividend yield on the market value of listed deposit money banks in Nigeria. as such the results provide and evidence of rejecting null hypothesis three. Therefore, H_{03} is rejected. The study is concise with the study findings of Pratheepan, 2018, and contradicts the study findings of (Nwaiwu & Ali 2018).

4.6 Findings of the study

The of the study show that there is positive relationship between dividend per share and market value added, while the relationship between dividend payout ratio and market value added is negative. It is also negative between dividend yield and market value added.

V. SUMMARY, CONCLUSION AND RECOMMENDATIONS

This study tempted to identify the effect of dividend policy on shareholders wealth, data was collected from the annual report of Nigerian depository banks. Correlation and pearson correction were used for data analysis. It is concluded that there is relationship between dividend policy and shareholders wealth. The future researcher should use economic value added to explain shareholders wealth.

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