DIVIDEND POLICY PAYOUT AND SHAREHOLDERS FUNDS. A STUDY OF FIRST BANK PLC. NIGERIA

Olaleye John Olatunde PhD

Faculty of Social and Management Sciences Department of Management and Accounting .Lead City University, Ibadan, Oyo State, Nigeria

OLA SIKIRU BATULA

Faculty of Social and Management Sciences Department of Management and Accounting .Lead City University, Ibadan, Oyo State, Nigeria.

ABSTRACT

Interest in shareholders' value is gaining momentum because of several recent developments in the business environment. It is a critical decision and quite challenging for bank managers to decide on an appropriate and ideal dividend policy to adopt, that will improve shareholders' fund. In such decision dilemma, the managers will be faced with the decision of whether to pay dividend or to plough back distributable earnings into the business. Therefore, this study will examine the effect of dividend policy on shareholders' fund .Bank managers should ensure that optimal decision is attained in the choice of the portion of distributable profits to be given as returns on shareholders' investment as this is important in attaining its wealth maximization objective. A crucial objective of the financial manager is to find out an optimal dividend policy that will enhance value of the shareholders. It is therefore, pertinent to establish whether relationship exist between dividend policy and shareholder's fund. This study's aim is to analyze the various concepts and construct that relates to dividend policy and shareholder's fund. Furthermore, various theories that is postulated by authors will be reviewed. The study intends to makes a significant contribution toward the relationship between dividend policy and shareholders fund creation. It is very important for Deposit Money Banks (DMBs) to formulate a dividend policy, which enhances the value of the business. To determine the shareholders' funds and how it is affected by dividend policy payout in the Nigerian Deposit Money Bank,precisely First Bank Plc, The study shall employ the use of secondary data. The results will highlight the influence of *institutional investors on dividend policy decision in deposit money banks. The data will be sourced from First Banks' audited financial reports, the Nigerian Stock Exchange 'fact book' and Central Bank of Nigeria statistical bulletin.*

Keywords: Shareholders Fund, Deposit money banks, Dividend policy, Institutional ownership, Management ownership, shareholders' wealth, dividend yield,

INTRODUCTION

Dividend policy is one of the most controversial issues in modern corporate finance. It is argued that[i] the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". This mystery led to the emergence of a handful of competing theoretical and empirical research to explain why companies pay or do not pay dividends. After decades of non-stop research, dividend policy is listed as one of the top ten crucial unresolved issues in the world of finance in which no consensus has been reached[ii].Dividends, and how it affects the way investors evaluate stocks is a topic debated by many over a long period. The financial performance of a firm is essential to sustain and increase stock price and financial returns of investors. The underlying idea is that different payout policies lead to different relationships between financial performance and stock price. Firms that cannot deliver expected financial returns should have a devaluation in stock price[iii]. However, discussions has shown that[iv] firms are afraid of cutting dividends, as the signaling effect will have a negative impact on stock price. According to this and the signaling effect, firms can manipulate the stock price and sustain a higher stock price than what the financial performance otherwise would produce. Therefore, the authors intend to investigate if there is a difference between how the stock price and firm performance interact between high dividend and low dividend firms. The financial performance will represent the performance of the firm and is measured using return on equity and gross profit margin. So far, the authors' conception on how dividend and stock performance are interacting is unsatisfactory since limited research has been performed in this specific area, especially on the Swedish market.

Dividend represents a distribution of earnings to the dividend policy influences the cost of capital in making these interrelated decisions, the goal is to maximize shareholder wealth. An investment analyst[v] asserted that equity capital entitles shareholders to dividend payment. The financial management has the responsibility of ensuring equity and fairness in apportionment of any benefit to the various shareholders. Dividend decision entitles striking a balance between future growth of the firm and payment of current dividend to firm is shareholders. The ability of a bank to pay dividends will depends on its financial performance.

STATEMENT OF PROBLEM

The questions are; is it that the financial status of these organizations did not favour the payment of dividend during these periods? Is there any relationship existing between the financial performance and the dividend policies made by banks in Nigeria. The study therefore comes in to fill the void by establishing whether there is a relationship between dividend policy and financial performance among listed Deposit Money Banks in Nigeria.

OBJECTIVES OF STUDY

The main objective of the study is to examine the effect of dividend policy on shareholders wealth. These objectives shall include;

1. determining the effect of dividend end policy on shareholders wealth, to examine the effect of dividend per share on shareholder wealth, and
2. to investigate the effect of earning per share on shareholders wealth and to determine the effect of net asset per share on shareholders wealth.

RESEARCH QUESTIONS

The research questions in this study will be answering questions like;is there any significant relationship between dividend payout ratio and financial performance?; and Is there any significant relationship between dividend yield and financial performance?

Research hypotheses

This study is guided by the following hypotheses:

$H0_1$: Dividend Payout policy does not have a significant effect on shareholders' funds

$H0_2$: Dividend Yields does not have any significant effect on shareholders' funds.

Review of Related Literature

Dividend Policy

Dividend policy is a statement guiding the payment or appropriation of profit between the firm and the residual owners. It is a statement clarifying the proportion of profit that should be paid out as dividend to shareholders taking cognizance of the organization environment and the expectations of the shareholders. Dividend policy is a statement guiding the payment or appropriation of profit between a firm and its residual owners. It is a statement clarifying the proportion of profit that should be paid out as dividend to shareholders taking cognizance of the organization environment and the expectations of the shareholders[vi]. Dividend policy is one of the most controversial issues in corporate finance. It is a policy a company uses to determine whether to pay dividends out of the profit made in a particular financial period to shareholders or to plough it back to the business. If earnings are to be paid as dividends, dividend policy also guides the company on when to pay and the intervals of payments[vii]. Nissim and Ziv[viii] described dividend policy as the regulation and guidelines that a company uses to decide to make dividend payments to its shareholder. It was Miller and Modigliani [ix] who presented the M&M hypothesis and the dividend policy thesis irrelevance,proving that the value of a firm was not affected by dividends. They argued that the effect observed was because of the information converged by the dividend changes and not necessarily due to the dividend itself. The dividend irrelevance theory, as posited by the authors, is that a dividend policy has no effect on either the price of a firm's stock or its cost of capital, and that the value of the firm depends on the income it produces from its assets and not by how this income is divided between dividends and retained earnings[x].

Types of Dividend Policy

As identified by Oladipupo and Arora ,[xi] the following are the various types of dividend policies:

Constant Payout Dividend Policy

This is a policy where a constant percentage of earnings is paid as a dividend. For instance, a company could have a policy of paying out 15% of its earnings as dividends. With this policy, dividends fluctuate just as earnings do. Investor who seeks a particular level of dividend as a steady source of income will not be favoured by this policy.

No Immediate Dividend Policy

This policy is generally pursued when it is difficult for a company to access the capital market or when shareholders have agreed to go for future higher returns as opposed to a short-term dividend income. Arora stated that the policy of no dividend should be followed by the issuance of bonus shares in order to increase a firm's capital.

Regular Dividend Policy

This policy involves paying a regular steady dividend that is the most common dividend. With this policy, once a company begins with a particular level of dividend, shareholders can be sure of steady dividends as a source of income that can be sustained in the future if earnings grow at a steady rate. Management should try as much as possible to avoid cutting dividend. In other words, as dividends go up, the firm should make efforts to ensure that they do not go down. Oladipupo, however, stated that if earnings dropped below the estimated dividend sustainable level consistently, the firm might eventually consider a cut in dividends.

Irregular Dividend Policy

Here, dividend per share varies with change in earnings level. There is no fixed amount of dividend per share. The higher the earnings, the higher the dividend, and vice-versa. Arora opined that shareholders were entitled to dividends only when there were earnings and the liquidity position of the firm was good.

Multiple Increase Dividend Policy

With this policy, a firm announces frequent but small dividend increase periodically just to give an impression of growth and movement. A firm that follows this policy believes that the stock market will consistently respond to a dividend increase.

Regular plus Extra Dividend Policy

Here, a firm pays extra dividends. The firm will divide its announced divided into two portions: a regular dividend and an extra dividend. The regular dividend is paid at the announced level while the extra dividend is paid as circumstances permit.

The Residual Dividend Policy

This is a dividend policy whereby dividends are paid after all capital projects have been met. This policy requires the company to maintain a target project before making any dividend payment.

Theoretical Framework

The Gordon's Model Myron J. Gordon in his work, The Investment, Financing and Valuation of the Corporation, developed dividend growth and capitalization model. In this model, Gordon made a basic assumption that future dividend receipts on a stock determine the value of the equity. The basic rationale behind Gordon's model is that the worth of the share of a given company is no more than the current and future dividend receipts of its shareholders. Dividends are the cash flows that are returned to the shareholder. Being an advocate of the dividend relevance hypothesis, Gordon is of the view that the value of share changes with a change in the retention ratio/dividend ratio. However, such changes are effected only when the rate of return is lower/higher than the discount rate. Equality between the two rates does not cause any change in the value of shares even when there is change in the retention ratio. When $r > k$, an increase in the retention ratio leads to an increase in the share prices. On the contrary, when $r < k$, an increase in the retention ratio lowers the share prices (Gordon, 1962). The Gordon's model assumed that; the only source of financing for the firm is the internal source. Thus, retained earnings are the only source of money to the firm. The firm is an all equity firm with zero external borrowings, rate of return r and cost of capital k are constant for the firm. Both r and k are determinable and are forecasted beforehand, for a given firm, the growth factor g is constant,

Where $g = b \times r$.

The cost of capital or capitalization rate of the firm k is greater than its growth factor g. Thus, $k > g$ or $k > b \times r$, the firm has perpetual earnings, which can be predetermined and finally, no tax environment exists for the firm (Gordon, 1962). Here, the author analyzed Gordon's model under different relationships of r and k

Forms of Dividend Payment

Dividend, as earlier defined, is a reward paid to shareholders for their investment in a company's equity, and this depends on a company's net profits. While a major portion of the company's profit is taken to retained earnings that represent the fund ploughed back into the company's ongoing and future business activities, the remaining is distributed to shareholders as dividends. Forms of dividends represent the different ways a part of earnings per share of each particular stock in a company is paid to the shareholders. The management and board of directors of a company often announce dividend payment at the end of the financial year. The distribution of dividends to shareholders is based on accumulated profits that is retained earnings. However, companies, at times, may still distribute dividend even when they do not make suitable profits. They actually do so in order to maintain their established record of making regular dividend payments[xii].The following are the various forms of dividend payments:

Cash Dividends:

The board of directors proposes the declaration of dividends by declaring a date of dividend. A date of record for the closure of shareholders' register is announced. The company establishes the date of record in order to determine which shareholders are eligible to receive a dividend. A payment date (which is when the money gets credited to investors' accounts) is declared. The declaration of cash dividend is concluded when the shareholders approve the dividends at the Annual General Meeting. As opined by Kennedy, a declared cash dividend is a not a liability rather it is a part of the shareholder's equity since such a decision can be recalled.

Property Dividends

A property dividend, also known as dividend in kind, is a dividend paid in assets rather than cash. It is the formal distribution of an asset rather than cash to shareholders. A property dividend can take many forms that include real estate, merchandise, investments, items held in inventory, equipment, etc. Accepted Accounting Principles require property dividends to be recorded at a fair market value that is often different from the carrying amount of the asset. The company is also required to recognize a gain or loss on the asset when distributed. Recording property dividend at a fair value allows for comparisons of other dividend rates in the future.

Liquidating Dividends

Liquidating dividend refers to the process of returning to the shareholders their full distribution of their original capital investment in the company[xiii]. Liquidating dividends are paid when a company is going out of business or when it has sold a 21 portion of the enterprise. According to Kennedy, shareholders may believe the corporation has been operating at a profit without proper disclosure and to avoid this misunderstanding, a clear statement of the basis of every dividend must be required to accompany the dividend check. The difference between regular and liquidating dividends is that while the former are taxable, the latter are not taxable since they are merely the return on the shareholder's investments.

Stock dividends

A stock dividend is a dividend payment made by a company in the form of shares rather than cash to its shareholders. Although Prabakaran[xiv] stated that stock dividends were issued in addition to the cash dividend and not in lieu of cash dividends, in Kennedy’sopinion, bonus dividends were primarily issued in lieu of cash dividends when the company had low liquid cash on hand. It is a form of dividend where a part of the earnings of a company is capitalized and retained in the business. A stock dividend does not change the total shareholders’ equity. Kennedy concluded inthis wise that, there is no dilution of ownership. Earnings are appropriated equally to shareholders in proportion to the amount of stock they hold with the company.

Stock Split Dividend

This form of dividend payment whereby the number of shares outstanding for each shareholder increases but consequently reduces the par value of each share. Stock split is used to infuse liquidity and make shares affordable for various investors who could not buy the shares of that company before due high prices. For example, a 2-for-1 stock split would double the number of shares outstanding and halve the par value per share. Existing shareholders would see their shareholdings double in quantity, but there would be no change in the proportional ownership represented by the shares (i.e., a shareholder owning 1,000 shares out of 100,000 would then own 2,000 shares out of 200,000).

According to Kennedy, the main purpose of a stock split is to increase the marketability of the stock, also for management to take control. Stock splits do not change anything about an underlying business or its valuation. They simply multiply the number of shares and make each share worth proportionally less.

Preferred Stock Dividends

Preferred dividends are dividends that are accrued and paid on a company's preferred stock. Any time a company pays dividends; preferred shareholders have priority over common shareholders because a dividend payment on preferred stocks is fixed. Therefore, dividends must be paid to preferred shareholders before they are paid to common shareholders. Because the payments are fixed, preferred dividends don‘t benefit from a company's growth and companies must pay preferred dividends in full before they shell out any common dividends for the period.

. Scrip Dividend

Scrip dividend according to Borad, is referred to as a promissory note to the shareholders to be paid on a later date. A company uses this type of dividend when it does not have sufficient funds for the issuance of dividends

Empirical Studies:

Timing of Dividend Payment

Timing of Dividend Payment (TDP) measures the number of times a firm pays out dividend in a year. Some firms have more than one dividend payments in a year such as interim and final dividends (for 2 time-payments) and interim, special and final dividends (for 3-time payments). Empirical studies [xv] concluded that the timing of dividend payments (number of times which dividends are paid) had a positive and significant impact on firm performance. TDP is measured as a dummy variable; if a firm paid once in a year and if it paid more than once in a year.

METHODOLOGY

This section will be centered on the methodology that is adopted in this study. It is going to be addressing issues relating to the research design, population and sample, data sources, description of variables in the models, model specification, and method of data analysis.

3.1 Research **design :**First Bank Plc will be chosen for this research study, this bank was based on availability of its audited financial statements while those whose audited financial statements were not available were not selected. The data used for this study were secondary data from audited financial statements of First Banks listed on the Nigerian Stock Exchange between 2017 until date. This data is reliable because annual reports undergo series of procedures before approval. Other Sources of Data were textbooks, journals, internet, and Nigeria Stock Exchange publications.

The data used in this thesis is collected from the annual report of the selected commercial banks and the Nigeria Stock Exchange. While dividends paid is collected from the annual reports of individual companies, share prices are collected from the Nigeria stock exchange. The actual dividend paid per share during a particular year will be used to represent the dividend per share (DPS) while the average of the highest and lowest share price during the course of a particular year is used to represent the market price of shares (MPS). The dividend payment record of First Bank Plc obtained and those that have been paying dividend consecutively for five (5) years will be selected. The value of the dividend per share (DPS) will be collected from the annual reports of the commercial banks. Likewise, the share prices of the first Bank Plc will be culled from the Nigerian Stock Exchange using the highest and lowest prices during the course of the year.

Measurement of variables: Dividend policy is measured using the actual dividend paid per share (DPS) while shareholders wealth is measured by taking the average of the highest and lowest share prices during a particular year.

Model specification: The Market Price of Shares (MPS) used in the study as the dependent variable and Dividend per Share (DPS) as the independent variable.

The regression equation below therefore, shows the relationship between the dependent and independent variable in a linear form as follows:

$Y = \alpha + \beta X + €$ (3.1)

Where:

1 Y - average Market Price of Shares (dependent variable)

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3 X - dividend Per Share (independent variable)

4 α - the intercept

5 β - the coefficient of independent variable

Findings and Discussions

The study will make a significant contribution toward the relationship between dividend policy payout and shareholders wealth creation. It is very important for organizations to formulate a dividend policy that enhances the value of the business.

Conclusions and Recommendations

The descriptive method using percentages was used to analyses the ownership structure of DMBs in Nigeria. Institutional owners dominate the results revealed that majority of banks in Nigeria. Based on the findings of this study, in conclusion, that fundamental driver of dividend policy in Nigerian Market is the record and trend of past dividend. This indicated that DMBs try to woo investors to buy shares through declaration and payment of stable dividend over time. This study is suitable and benefits for the policy makers, manager, investor and academician though there are some limitations on this study. This study only focuses on first Bank Plc of Nigeria for only a span of five (5) years period, covering the period 02 2017 to2021. In addition, there are other dimensions to measure shareholders' wealth. Therefore, future research could broaden the study area in different countries and different sectors.

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