Effect of Dividend Policy on Shareholders Wealth Creation and Firm Performance of Listed Banks in Nigeria.

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Abstract
This study investigate the effect of dividend policy on shareholders wealth creation and firm performance of ten listed Banks in Nigeria stock exchange. The data were collected from the annual reports of the banks. The study employ descriptive statistic and multiple regress to analyze the data to test the effect of dividend policy on shareholders wealth creation and firm performance. The result indicates that there is positive relationship between the dividend payout and shareholders wealth creation. Based on this findings, study recommend that financial managers of enterprise should ensure that shareholders receive dividend in return of their investment to encourage more investments.

Keywords: *Dividend, Per-share, Earnings per share return on entity.*

Introduction:

Dividends can be refers as that portion of profits left after tax which is distributed among the shareholders of company. According to Baker (2009), dividend refers to the sum of money paid on a regular basis by a company to its shareholders out of its profits or reserves. While dividend policy refers to the practice of management making payment decision or cash or cash distribution from the portion of profits to shareholders. Dividend policy is interrelated with other three (3) decisions namely: Investment Decision, Financial Decision and Liquidity Decision. These three elements of decision making are essential to the growth of the company. The management of companies will decide the proportion of earnings to be distributed as dividend and the proportion of earning to be retained with the aim of wealth maximization of shareholders. The main responsibilities' of the financial manager is to maximize the shareholder wealth and it's important for the financial manger to have good understanding of dividend and dividend policy because any wrong decision on dividend will necessary affect the wealth of shareholders.

According to Azhagaiah and Sabaripriya (2008). Shareholders thinks the wealth is created by increase in firm's market price of shares. Many researcher have proved the same.

The four above mention financial decisions together, contributes in the wealth creation for shareholders. Dividend decision is one of the important financial decision tool that contribute in shareholders wealth creation. Dividend policy and it effect in the share prices of companies has remained a controversial issue. Many researchers have proved that dividend policy affect shareholders wealth (Enhardt, 2013, Ogole, 2012 Azlagaiah & Priya 2008) as against the study of Miller and Modishani (1963) which holds a view that dividend policy has no effect on stock price. Price and cost of capital, resultantly the dividend policy of a firm becomes trivial for shareholders wealth. This controversy has necessitated this study.

Problem Statement

Dividend policy and its effect on shareholders wealth has remained a controversial issues in the society. Many researchers have a view that dividend policy has no impact on stock price and cost of capital, resultantly the dividend policy of a firm becomes trivial for shareholders wealth. While Walter (1963) and Gordon (1962) which shows that firm which pay dividend to their shareholders are considered positively and bear a good image in their minds. If companies don't pay dividends then it increase the uncertainty in the eyes of investors and the payment of dividend increases the stock price of firm. The result of researchers varies significantly across different countries, so researchers have a huge space to explore. The study is looking at the effect of dividend policy on shareholders wealth creation.

Objectives of the study

1. To investigate the effect of Dividend and shareholders wealth
2. To examine the relationship between dividend policy and earning of the firm

Hypothesis of the Study

H1 There is positive relationship between dividend policy and shareholders wealth creation
H2 There is positive relationship between dividend policy and earnings of the firm

Conceptual Framework

The dividend policy adopted by any organizations has a way of maximizing shareholders wealth. It is the responsibility of financial manager to take decision to ensure that shareholders receive high dividend in return of their investment. Therefore dividend policy is defined as the ratio of retained earnings to the distributed earnings. Companies makes decision on the proportion of earning to be distributed as divided and proportions of earning to be retained with the objective of wealth maximization of shareholder. Dividends could be described as payment made out of the company's earnings to shareholders after the obligation of all fixed income earners has been met (Arowoshegbe, 2009). Dividend can be in the form of cash, stock, stock split, stock repurchases and regular dividend payment is a decision by the financial manager whether the firm should distribute all the profit or retain them or to distribute a portion and retain the balance. Chand (2017) identifies some determinate factors of dividend policy.

- Types of industry
- Age of corporations
- Extent of share distribution
- Need for additional capital for investment
- Charges in government policies
- Taxation policy
- Business cycle

Earnings per share (EPS)

Earnings per share can be described as that portion of the company distributable profits which is allocated to outstanding equity share (common share) Alzomaia & Al-khadhiri (2012), defined earnings per share as the amount of earning per each outstanding share of a company's stock and it is derived by dividing the current net profit on total outstanding shares. However earning per share represents the portion of a company earnings, net of taxes and preferred stock dividend, which is allocated to each share of common stock.

Net Asset Per Share

According to Ready (2017) defines Net Asset per share as an expression for net asset value that indicates the value per share for a fund (exchange traded natural, and closed or a company. The asset per share is divided as: net asset (total asset on statement of financial position liability) divided by the number of equity shares. An increase in net asset per share indicates growth in company's share.

Theoretical Framework

The study anchored on irrelevant theory and relevance theory. The dividend irrelevance was propounded by Miller & Modighani (1963), the writers believed that divided does not have effect on the share prices of the firms because the value of the firm is dependent on its assets and revenue strength. The dividend irrelevance theory has been based on these assumption.

- There is an existence of perfect markets
- There is no risk of uncertainty
- There will be free flow of information and investor must be rational
- Investment policy of firms is not based on its dividend policy.

Dividend Relevant Theory

This theory was propounded by Walter (1963). In his opinion, share prices is a reflection of the present value of a future dividends. The writer believed that investment policy and dividend policy are interrelated because if a proper dividend policy is undertaken, the value of a firm is affected. This was illustrated by the model

$P = D+r/k(E-D) /K$

Where

P = market price of equity share,

D = dividend per share

E = earning per share

(E-D) = retained earnings per share

r = internal rate of return on investment

K = cost of capital

Gordon (1962) proposed a constant growth valuation model. He explained that the dividend policy is directly relevant to the stockholders wealth (market price of share) under the condition of uncertainty of future dividends. In uncertainty condition, investors prefer dividends instead of capital gains.

Empirical Review

Shahid et al (2010) investigate the impact of dividend policy on shareholders wealth using 68 companies listed in Karach stock exchange during 2002 to 2008. Annual stock return was used as measure of shareholders wealth and individual payout ratio, size of firm, price earnings ratio, growth and profitability were used as independent variables. The study used fixed effect model for analysing data and it was revealed that dividends payout ratio was insignificant, profitability and price earnings ratio were positively significant with shareholders wealth.

However, Kapoor (2010) examined the impact of dividends policy on shareholder wealth of Indian firm in IT sector, FMCG sector and service sector. The study conclude that in FMCG sector and service sector, cash dividends announcement has an impact on market values of shares.

Iqbal, Waseem and Asad (2014) investigate the impact of dividend policy on shareholders wealth in Pakistan. The study used thirty five (35) companies selected randomly from three sectors, Textile, Sugar and Chemical industries. The data was collected from the annual report of the companies during 2006 to 2011. The simple OLS techniques were used to analyze the data. The result of the analysis showed that dividend policy of the firm has significant positive impact on shareholders wealth.
Ordu, Enikwe and Anyanwaokoro (2014) investigate the effect of dividend payment on the market prices of shares of quoted firms in Nigeria. The study randomly select seventeen quoted firms using time series ratio between 2000 and 2011. Model specification used for the data analysis was ordinary least squares techniques. The findings showed a positive effect between market price per share and dividend per share confirming that a rise in dividend per share increases the market price per share of quoted firms.

Also Adediran and Alade (2015) carried out a study to investigate the effect of dividend policies and cooperate performance in Nigeria. Data was obtained from annual reports of twenty five (25) quoted companies in Nigeria. Data was analysed using regression analysis. The findings showed a positive relationship between organization dividend policies and profitability. Also, there was a significant positive relationship between a firm's dividend policy and earnings per share. The study further conclude that organizations should ensure that they have good and robust dividend policies in place because these will enhance their profitability and attract investment.
Chenchehene and Mensah (2015) investigated the effect of dividend policy on shareholders wealth in the United Kingdom (UK) retail industries from 2004 - 2008. The study randomly selected twenty five (25) firm from the retail industry. The variables used for the study are earnings, profitability, share price, firm size, leverage and investment. The result showed that firm size, current dividend payout and current investment do not have much significant effect on shareholders wealth. However, variables such as earnings, profitability, share price leverage, investment and dividend payout lagged one year have significant effect on shareholders wealth.

Ojeme, Mamidu and Ojo (2015), conducted a study on the implications of adopted dividend policies on the value of shareholders wealth and the extent to which dividend policy affect the market value of shares in quoted Banks in Nigeria. The study focuses on the situation before and after the economic meltdown the result from correlation analysis showed the payment of dividend by the quoted banks is relevant to their market value and the amount paid as dividend by the quoted banks affects the value of their shares.
Akit Hamzah and Ahmad (2015) conducted a study on the impact of dividend policy on shareholders wealth of Shariah and non shariah compliance companies listed in Bursa Malaysia market. A total of 274 Shariah compliance companies and 129 non Shariah compliance companies listed on Bursa Malaysia for a period of 2004 to 2013 were used. The result were obtain through two way fixed-effect Generalised List Squares (GLS) regression for Shariah compliance companies and random-effect GLS regression for non Shariah compliance companies. The result indicates that the measurement for dividend policy (DSP and REPS) are significant determinates of shareholders wealth for both Shariah and non Shariah compliance companies.

However, Emeni and Ogbolu (2015) study the relationship between dividend policy and market value of firms in financial sector of Nigeria economy. The study used panel data obtained from annual report of firms listed on Nigerian stock exchange for the period of ten (10) years from 2002 to 2011. The ordinary least square statistical model was used for the data analysis. The

result of the model indicated that cash dividend, stock dividend and investment policy have a negative but significant relationship with the market value of firm in financial sector of Nigeria, while the studies also indicates that earnings have a positive and insignificant relationship with market value. The study is in line with dividend irrelevance of Miller ace Modighani that dividend policy has no effect on market value of firms.
Also, Priya (2008) examine the relationship between dividend policy and stockholders wealth in chemical industry of India. Data was collected from 28 companies on BSE and study the significant difference between dividend payers and non-payers. The result showed that dividend yield had a negative relationship with stock returns in Kuala Lumpur stock exchange. The little change in dividend policy will give a large change in stock returns as well as shareholders wealth.

However, Ogolo (2012) conducted a study on the impact of dividend policy on share prices with a sample of sixty one (61) companies quoted on Nairobi stock exchange. The study covered a period of ten years, from 2003 - 2012. The study indicates that there is significant positive relationship exist between market price per share. The study conclude that dividend policy has strong influence on share prices.
Munyua (2012) investigated the effect of individual policy on stock price for firms listed at Nairobi securities exchange. The study used descriptive research design using secondary data from 61 quoted firms in Nairobi securities exchange from 2004 to 2013. The study used regression model and the result indicates that there is strong positive relationship between dividends per share prices. It was also indicated that share prices are affected by the paid out dividend per share. The study concluded that share prices are strongly affected by dividends.

Research Methodology
The data were collected from annual report of ten (10) banks quoted in Nigeria stock exchange ranging from 2013 to 2018. The sample of firms studied include the following;

1. Access Bank Plc
2. Fidelity Bank Plc
3. First City Monument Bank Plc
4. First Bank of Nigeria Plc
5. Guaranty Trust Bank Plc
6. Union Bank of Nigeria Plc
7. United Bank for Africa Plc
8. Zenith Bank Plc
9. Sterling Bank Plc
10. Wema Bank Plc

The study adopted descriptive statistics and multiple regress to analyze the data to test the effect of dividend policy on shareholders wealth creation and firm performance. For the purpose of this study, dividend policy is used as independent variable, while shareholders wealth creation and firm performance were taken as dependent variable was measured with the earning per share, while shareholders wealth creation and firm performance were measured using earnings per share on equity.

Statistical Instrument and Techniques
The study employed descriptive statistics and multiple regression to analyse the data collected from the above listed banks to determine the effect of dividend policy on shareholders wealth creation and firm performance. For the purpose of analysis, dividend policy will be taken as independent variable while shareholder wealth creation and firm performance are taken as

dependents variable while shareholders wealth creation and firm performance are taken as independent variable. In the study dividend policy was measured with dividend per share while shareholders wealth creation firm performance was measured with earning per share and return on equity.

Table 1

Variable	Mean	Median	Maximum	Minimum	Standard Deviation
DPS	4.86	1.5	45	0	10.01385
EPS	44.46046	13.833	461.825	-1.826	92.17684
ROE	513495	7.062	15.14	-24.833	9.82024

From the table above maximum OPS is 45 and minimum is) with an average of 4.86, the median is 1.5. The EPS has the highest standard deviation which is 92.176 54 and median is 13 .833 while the minimum value ranges from-1826 to 461.825 with the average of 44.46046. The minimum value of ROE is -24.833 while the maximum of 15.14 with an average of 10 sample is 513495. The standard deviation showed 9.82024.

Table 2

Variable	Coefficient	Standard error	T. statistics	Profitability
constant	50.01326	589176	74147	0.0000
EPS	0.6312	0.00853	37,81238	0.000
ROE	0.275138	0.19669	1.94415	0.0078

Table 2 indicates the multiple regression result. The relationship between dividend per share and earnings per share is significant level at 5% which shows that the positive relationship between the dividend policy and shareholders wealth creation. From the above analysis there is a positive relationship between the dividend policy and firm performance, therefore hypothesis is accepted.

Conclusion and Recommendation

The objective of this study was to empirically analyze the effect of dividend policy on shareholders wealth creation and firm performance. From the result above, dividend policy of a firm has effect on its shareholder wealth creation. Dividend per share (DPS) and retained earnings (RE) were found positive significant relationship with shareholders wealth creation and firm performance. Therefore the study recommend that management of companies should operate dividend policy that will satisfy the need of shareholders as well as investment needs of the company.

Secondly, the financial managers of company should ensure that dividend policy decision taken will maximize shareholders wealth and investment decision, need of the company should be considered along with the payment of dividend.

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