



## EFFECT OF DIVIDEND POLICY ON VALUE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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### Abstract

*This study examines the effect of dividend policy on the value of listed consumer goods companies in Nigeria for the period of 2012 to 2019. A sample of fifteen (15) consumer goods companies listed on the Nigerian Stock Exchange (NSE) was used. Data were collected from audited financial statements of the sampled consumer goods companies. Panel data regression techniques were employed. OLS pooled regression was more appropriate. The results show that dividend per share has a significant positive relationship with market price per share of consumer goods companies in Nigeria. Dividend payout ratio has insignificant positive relationship with market price per share, retention ratio also has an insignificant relationship with market price per share. The study concludes that dividend policy affects the value of listed consumer goods companies in Nigeria. Investors in listed consumer goods companies in Nigeria are risk averse and have need for current income and pay higher premiums on the stocks of companies that pay dividends. The study recommends that managers of consumer goods companies increase their dividend payment per share as this will lead to greater firm value in terms of Market price per share.*

*Keywords: Dividend Policy, Dividend Payout, Dividend per Share, Retention Ratio, Share Price and Firm Value*

## INTRODUCTION

Financial managers are faced with several important decisions among which are financing decision, investing decision, dividend policy decision and working capital management decision. All of these decisions are of great importance to the management and owners of corporate entities. The primary objective of management in organizations may be to maximize the organization's value to the shareholders. This value may often be reflected in the company's share prices. However, shareholders (prospective and existing) are greatly affected by the dividend policy decisions of firms (Duke, Nneji, and Nkamare, 2015). The importance of dividend policy in the business world cannot be overemphasized. A number of stakeholders, including investor, managers, and analysts among others may use it in making informed decisions. Considering the importance of dividends from investor's point of view, dividend may not only be a source of income but also a way to assess whether to invest in a company or not (Ahmadu and Abulkarim, 2018). From companies' perspective, selecting a suitable dividend policy may be an important decision for the company because flexibility to invest in future projects may depend on the amount of dividends that they pay to their shareholders. As such, certain important factors like managerial and behavioral environment, firms' profitability, the willingness of the company among other things may be considered by companies in designing their dividend policies. (Chelimo and Kiprop, 2017).

Dividend policy is referred to as a deliberate action by managers to distribute a portion of their earnings to the shareholders in a proportion of their holdings in the firm called dividends (Egbeonu, Edori, and Edori, 2016). Dividend policy may involve determining the amount to be paid to the shareholders and that to be retained in the company for future investment in profitable projects or other justifiable needs. (Chelimo and Kiprop, 2017) Dividends are payments made by a company to a shareholder usually after a company earns profit. These earnings can be distributed to shareholders in form of cash dividends, bonus or script dividends and repurchased stocks. Dividend decision may be externally important to a company's valuation because it is expected to communicate to investors the financial health of a company and thus increase the value of a firm measured in share prices (Egbeonu, Edori, and Edori, 2016).

Shareholders make investments expecting returns on their investment and such returns can be in form of dividends. According to Gharaibeh and Qadar (2017) the objective of any firm is to augment (maximize) its shareholders wealth or value. Shareholders wealth can be augmented by either getting dividends or having capital gains. Most listed companies attempt to maximize degree of success. The value of quoted Companies is commonly link to their share prices because firm value is reflected on their share price (Egbeonu, Edori,

and Edori, 2016). Market price per share is a reflection of investor's valuation over equity. Since the improvement of firm value reflects the wealth of shareholders, if a company's value increases then the wealth of the shareholders will increase as well. Firm value is very important for company because firm value shows how efficient the firm is performing (Chelimo and Kiprop, 2017).

Company value is a reflection of how investors perceive the company's. Ahmadu and Abulkarim (2018) opined that an increase in share price increases firm value. A company may choose to retain its earnings for growth. Corporate entities are faced with the problem of whether to pay a large or small dividend or zero percentage of their earnings as dividend. This is desired to satisfy the various needs of shareholders. Some shareholders have the need for current income and as such will prefer dividend payment, while others who need to invest in the future would prefer capital gains. Due to the fact of having to deal with competing interests of various shareholders, the kind of dividend policy a company adopts could either lead to a positive; negative or non-effect on share prices. Share price is the amount it will cost to buy one share or unit of ownership in a company. Market prices of shares fluctuate frequently. One important channel through which managers may gain information on their firm is the observation of the level of changes of the firm's valuation on the secondary financial markets through share prices.

There is a long standing debate in the world of finance as to whether dividend policy affects the value of a company or not. The pioneer arguments are that of Litner 1956 who proposed the Bird in hand theory. He argued that investors are risk averse and will prefer to pay higher premiums for companies that pay dividends hence companies that pay dividends will have a higher value in terms of share price than those that do not pay dividends. An opposing view propounded by Miller and Modigliani in 1961 argued that payment of dividend is not relevant. According to this argument the investors in need of cash can always sale their stock for cash, hence, dividend payments does not matter and investors are not willing to pay higher premiums for companies that pay dividends. A lot of theories have been developed in this area but they all fall under either Litner's Bird in hand theory or Miller and Modigliani's dividend irrelevance theory.

The consumer goods sector in Nigeria is the second largest sector contributing to the Nation's Gross Domestic Product (Nigerian Stock Exchange Fact book, 2015). It contributes about 21% of Nigeria's Gross Domestic Product, due to the importance of this sector to the growth of the Nigerian economy, there is need for the activities of this sector to be closely examined

## Objectives of the Study

The study examined the effect of dividend policy on the value of listed consumer goods companies in Nigeria. The objectives in specific terms are:

- i. To evaluate the effect of dividend per share (DPS) on the market per share (MPS) of consumer goods companies listed on NSE.
- ii. To examine the effect of dividend payout ratio (DPR) on the MPS of consumer goods companies on NSE.
- iii. To assess the effect of retention ratio (RR) on the MPS of consumer goods companies listed on NSE.

## Research Hypotheses

The following null hypotheses were formed to provide answers to the above research questions:

- i. **H<sub>01</sub>:** DPS has no significant effect on the MPS of consumer goods companies listed on the NSE.
- ii. **H<sub>02</sub>:** DPR has no significant effect on the MPS of consumer goods companies listed on the NSE.
- iii. **H<sub>03</sub>:** RR has no significant effect on the MPS of consumer goods companies listed on the NSE.

## LITERATURE REVIEW

### Conceptual Framework

#### *Dividend policy*

The concept of dividend policy has been viewed by a number of authors and scholars. Dividend policy is seen as one of the three major decisions that financial managers are faced with. Khan, Amir and Nasir (2011) defined dividend as the distribution of the business recent profit to its owners and also a reward for investors but also a signal of company's performance. Hamid, Khurram and Ghaffar (2017) defined dividend as the distribution of incomes between the shareholders in relation to their ownership of shares. Dividend is always paid to shareholders after tax income. Mazlan, Mohamed, Aziz and Azman (2016) see dividend policy as the policy that a company uses to decide how much it will pay out to shareholders in dividends. Basically, the decision whether to issue dividends and its amount are determined mainly on the considerations of the company's appropriate profit. Dividend policy is measured with different variable among which are dividend per share, dividend pa out ratio and retention ratio.

## **Firm value**

According to Thavikulwat (2004) a firm's value or enterprise value is an economic concept that reflects the value of a business; it is the worth of a business as at a particular date. It is the amount needed to buy or takeover a business entity. Thavikulwat (2004) posits that a firm's value can be obtained through different measures; to him each of these measures is capable of giving a value different from the one given by another measure. A firm value reflects its ability to create economic wealth. Measures of a firm's value may include of human judgment and the firm's accounting net worth adjusted for intangibles; book value, market value, capitalization value of its projected future performance, deductive application and idiosyncrasies of accounting rules.

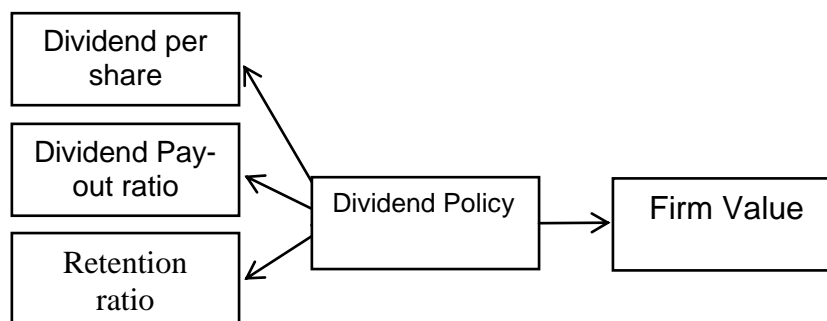


Figure 1: Conceptual Framework of the Study

## **Theoretical Framework**

### ***Bird in-hand Theory***

This study is anchored on the Bird in-hand theory. This theory argues that company's value can be affected by dividend and this proposition is denoted as bird-in-hand theory. Litter (1956) first presented this theory and it became umbrella term for all those studies that claim that firm's value is positively correlated with dividend payments. This theory developed on concepts that better a bird in the hand than two in the bush. This theory proposes that the preference of investors is one bird in the hand represented by dividends disbursement from a stock, because it is better than two in the bush with a prospective higher and unclear capital gain. In financial terms, investors are more eager to invest in the stocks that give dividend than those that disburse dividends in future and retain the earnings.

This conception was also supported by Gordon (1962) they said that investors are interested in their returns and proffer to get dividends today because high degree of uncertainty exist in capital gains and future dividends. This perception was supported by Al-Malkawi (2007)

who states that investors consider dividends of more worth than retained earnings due to high level of uncertainty involved. The solid reason behind this is investors are willing to secure certain amount of the money invested as investment holds a level of uncertainty. The bird-in-hand theory suggests that getting the cash dividend now can decrease the risk linked with the uncertainty of deferred income (capital gain). Therefore, investors will be interested to buy the shares of the companies that pay continuous dividends than those firms, which retain much for growth and expansion.

Gordon's model is based on the concept of comparison among dividends available today and capital gains available in the future. The logic behind this is that if the future is at more distance then the possibility of uncertainty regarding future dividends and capital gains will be higher. While capital gains may give higher return in the future as compared to present dividends, but no surety exists concerning investment getting better returns because high level of uncertainty exist. Thus, investors will not be interested to invest in the firms where time frame of dividends is at a more distant. Hence, from investor's point of view. The price of the firm will be for those that would be giving current dividends, investors will use higher discount rate to discount earnings of these firms, and thus the value will be lower as compared to current dividend paying firms.

Based on this theory dividend policy measured in dividend per share, dividend payout ratio is expected to have a significant positive effect on market price per share of the sampled companies, this is because higher dividend payments are expected to translate into higher firm value measured by market price per share. Investors per a premium for companies that pay dividends. While retention ration is expected to have a negative effect on share prices because investors are risk averse and prefer to companies that pay dividends than those who retain earnings.

### **Empirical Studies**

Several studies have examined the effect of dividend policy on firm value among which are: Chinnaiyah (2020) investigates the impact of dividend payout on the value of firms listed on National Stock Exchange in India. A sample of 39 firms was selected. The data from the period of March 2010 to March 2019 was analysed using regression. Hausman specification was used to determine between random effect regression and fixed effect. The study used fixed effect model. Results of the study indicated that, dividend payout is positively related to firm value but not statistically significant. Whereas the current year's profit, size, growth opportunities and price-earnings are variables that significantly influence the value of a firm

Cristea and Cristea (2018) examine the influence of dividend policy and the share price volatility of non-financial companies listed on Romanian stock market. A sample of 175 Romanian non-financial companies listed on the Bucharest stock exchange market for the period of 2002-2017 were selected for investigation. Data were analyzed using multiple least square regressions. The study revealed a negative effect of the two components of dividend policy (dividend payout and dividend yield) on the share price volatility and growth in assets. The result supports the idea that the lower the dividend yield the higher the risk faced by the shareholders. Growth in assets and share price were negatively related. They also found a positive relationship between firm size and debt ratio to price volatility. However, there was no significant relationship found between earnings volatility and price volatility in the Romanian stock market.

Ahmed, Alrjoub and Alrabba (2018) investigate into the effects of dividend policy on stock price volatility of firms in the Amman stock exchange for the period of 2010-2016. A sample of 228 firms was selected and Pearson correlation and panel GMM estimation was used for data analysis. The study revealed that dividend yield and dividend payout has negative significant relationship with stock price volatility. This implies that the higher the dividend yield and dividend payout of the firms, the lower the stock price volatility which lead to more stability of the stock market

Yudawisastra, Sumantri and Manurug (2018) examine the relationship between dividend policy and sock price at 100 compass index companies in Indonesia for a period 2011-2015. A sample of 21 companies was used and panel data regression for data analysis. The results of the study showed that dividend payout ratio has a positive significant relationship with stock price which means the higher dividend payout will attract investment into the company so it will increase share price, while dividend policy measured by dividend yield has no significant effect on share price. The suggested that the relationship between dividend yield and share price could be due to the tax burden on dividends which is too high. The study further revealed that the relationship of financing decisions using debt to equity ratio does not affect stock price, which the study attributed to the fact that companies prefer internal sources of funds rather than selling shares.

Rozaimah, Nurul and Chee (2018) analyze the effect of dividend policy and stock price volatility of industrial product firms in Malaysia. A sample of 166 industrial product public-listed firms for a period of 2003 to 2012 was selected, using multiple regression analysis to analyze the collected data using Bakin's framework. The study reveals a significant negative relationship between dividend policy (measured with dividend payout) and share price volatility. The study further revealed that earning volatility significantly explains stock price volatility during the crisis



period while dividend payout significantly influences volatility during pre- and post-crises periods of Malaysian industrial firms

Ozuomba and Ezeabasili (2017) examine the effects of dividend policies on firm value in Nigeria, using a sample of 10 companies listed on the Nigerian stock exchange between the periods of 1995-2015. The study used ordinary least square regression analysis to analyze data. The study found that dividend policy variables (dividend per share and earnings per share) have an overwhelming positive significant effect on firm value (market price per share) of quoted companies in Nigeria.

Budagaga (2017) analyses dividend payment and its impact on the value of firms listed on Istanbul Stock Exchange (ISE). A sample of 44 firms listed on ISE for the period of 2007-2015 was used for the study. The study employed a residual income approach valuation model using fixed effect regression technique on panel data. The study found that there is a positive significant relationship between dividend payments and firm value

Mladenoska (2017) examines the impact of dividend policy on share price volatility in the Macedonian stock exchange. A sample of 10 companies was selected for a period of 2006 to 2016. The study used dummy variable in regression analysis and panel regression to analyze data. The study revealed decision of dividend payment was declared, share price went up by 9%. Second, the quarter on the ex-dividend date, the share price decreased.

Matharu and Changle (2015) investigate the reactions of stock prices to dividend announcement of companies on the Bombay stock exchange. A sample of 25 companies across different sectors was chosen. Data for a period of 30 trading day before and 30 trading days after the day of announcement in 2013 was analyzed using paired t-test. The study revealed that there is a significant positive difference in dividend announcement in pre and post announcement period on the share price of the selected companies.

Hussainery, Mgbame and Chijoke-Mgbame (2011) analyzed the relationship between share price volatility and dividend policy in U.K. A sample of 123 English companies was used. Data for a period of 1998 to 2007 was analyzed using multiple regression technique. Their results revealed that a negative relationship exists between dividend payout ratio and stock price changes, the study also found a positive relationship between share price and dividend yield. The study further revealed that firm size has significant negative relationship with share price volatility of the stock market and debt level, firm's growth rate, size and earnings explain stock price changes.

Amirul and Anders (2011) study the behavior of stock price on ex-dividend day in London stock exchange and New York stock exchange. A sample of 200 companies was used and data for a period of 2007 and 2008 was analyzed using multiple regression technique. The



study revealed that the same amount of stock price drop in 2008 New York Stock Exchange compare with dividend amount. On the other hand in London Stock Exchange higher drop of stock price than dividend amount in 2008 against taxation rate rule. In 2007 both stock market shows less drop of stock price than dividend amounts. Results of the study confirmed that stock price has a positive relationship with dividend policy.

Adelegan (2009) investigates whether the Nigerian stock market reacts efficiently to dividend announcement in terms of share price adjustment. A sample of 990 firms across the economic sectors was selected on the Lagos stock exchange for a period of 1991 to 1999 was analyzed using simple comparative measures for data analysis. The result revealed that dividend policy has a negative relationship with share price.

It can be deduced from the empirical works where conducted in different economic environment. Studies have not specifically focused on the effect of dividend policy on the value of consumer goods sector in Nigeria to the best of our knowledge. This study therefore attempts to fill this gap in literature by providing new evidence on the effect of dividend policy on the value of listed consumer goods in Nigeria. The study focuses on consumer goods companies and uses recent data from 2012 to 2019 which captures current economic realities.

## METHODOLOGY

Study adopted a descriptive research design where study population was 21 listed consumer goods companies. Purposive sampling method was used with the following criteria:

- i. The listed consumer goods companies must have published financial statements for the period under study (2012-2019).
- ii. The consumer goods companies must be listed as at 31st December, 2019.
- iii. The consumer goods companies must prepare it financial reports in compliance with international financial reporting standards (IFRS).

Final sample size was 15 consumer goods companies. Secondary data was collected for the period 2012 -2019. For data analysis, Panel regression was applied using STATA 16.0.

Dependent variable= Market per share

Independent variable= dividend per share, dividend pay-out and retention ratio

Control variables= Profit after tax and Return on equity

Following model was specified:

$$MPS_{it} = \alpha + \beta_1 DPS_{it} + \beta_2 DPR_{it} + \beta_3 RR_{it} + \beta_4 PAT_{it} + \beta_5 ROE_{it} + \mu_{it}$$

Where,

$\alpha$ =shows the unknown intercept for every entity (n entity-specific intercepts)

$\beta_1$ DPS= coefficient of dividend per share

$\beta_2$ DPR= Dividend payout ratio

$\beta_3$ RR= Retention ratio

$\beta_4$ PAT= Profit after tax

$\beta_6$ ROE= Return on equity

$\mu_{it}$ = Error term in the equation

i=the company i, in time t

t=time period

## RESULTS

Table 1: Descriptive statistics of the study variables (STATA 16.0 output)

Variable	Obs	Mean	Std. Dev.	Min	Max
MPS	120	105.67	291.83	0.46	1555.99
DPS	120	3.06	8.76	0.00	63.50
DPR	120	0.66	2.16	-7.36	16.48
RR	120	0.50	1.59	-13.36	8.36
PAT	120	6.99	11.86	-27.79	45.68
ROE	120	12.93	40.82	-372.34	100.28

Table 1 presents the number of observation (Obs) that is consistently 120 for all the study variables. This indicates that data employed for the study were of panel characteristics, since it includes data from 15 companies for a period of eight (8) years each. Also presented in Table 1 are the mean, standard deviation (Std. Dev.), minimum (Min) and maximum (Max) values of all the study variables.

Market price per share (MPS) revealed a mean, standard deviation, minimum and maximum values of 105.67, 291.83, 0.46 and 1555.99 respectively. This indicates that during the period under investigation, the average value of MPS of the companies stood at N105.67 with variation in this sum amounting to N291.83. The results also indicate that during the period, the minimum value of MPS of the companies stood at 46k, while the maximum stood at N1,555.99. The results imply that MPS consistently varied among the companies that formed the study and this explains the high standard deviation recorded. However, with companies recording as low as 46 kobo market price per share and others as high as N1,555.99, there ought to be strong forces acting behind the market price per share of the companies and dividend policy is perceived to be prominent.

Dividend per share (DPS) revealed a mean, standard deviation, minimum and maximum values of 3.06, 8.76, 0 and 63.50 respectively. This indicates that during the period of the study, the average value of DPS of the companies stood at N3.06 per share, with fluctuations in the mean estimated at N8.76 per share. It also indicates that during the period under review, some of the firms had no dividend per share while the maximum value of DPS stood at N63.50 per share. Results from Table 1 however imply that the average earnings distributed to ordinary shareholders in relation to the number of ordinary shares outstanding of the companies during the study period was high. This may be attributed to the fact that some of the companies paid dividends more than the total number of shares outstanding during the study period.

Dividend payout ratio (DPR) revealed a mean, standard deviation, minimum and maximum values of 0.66, 2.16, -7.36 and 16.48 respectively. This indicates that during the study period, the average value of DPR stood at 0.66 with variations in the mean amounting to about 2.16. The results also indicate that during the period the minimum value of DPR stood at -7.36 while the maximum stood at 16.48. This implies that the average amount of dividends paid in relation to the total income of the companies during the study period stood at about 66 percent and this is more than 50 percent of the total income of the companies. The minimum value of DPR (-7.36), implies that some of the sampled companies paid dividends despite incurring losses for the reporting period while the maximum value of 16.48 implies that some of the companies paid dividends more than their total net income.

Retention ratio (RR) as presented in Table 1 revealed a mean, standard deviation, minimum and maximum values of 0.50, 1.59, -13.36 and 8.36 respectively. This indicates that during the study period, the average value of RR stood at about 0.50 with variations to the tune of 1.59. It also indicates that the minimum value of RR during the period stood at about -13.6 while the maximum stood at 8.36. This implies that during the study period, the average ratio of the companies' income that was not distributed in the form of dividends was high at about 50 percent. However, the negative minimum value of RR suggests that some of the companies paid dividend despite incurring losses while the maximum value of 8.36 implies that some companies accumulated earnings from previous years and paid dividends even when losses were made in the current periods.

Profit after tax (PAT) revealed a mean, standard deviation, minimum and maximum value of 6.99, 11.86, -27.79 and 45.68 respectively. This indicates that during the study period, the average value of PAT stood at about N6.99 Billion with fluctuations in the mean summing to about N 11.86 Billion. The result also indicates that the minimum value of PAT during the period stood at N -27.79 Billion while the maximum stood at N 43.1 Billion. This implies that although

an average of N 6.99 Billion was reported by the companies as profit after tax during the period, some of the companies incurred losses as low as N -27.79 Billion, whereas some reported profit as high as N45.68 Billion.

Return on equity (ROE) revealed a mean, standard deviation, minimum and maximum value of 12.93, 40.82, -372.34 and 100.28 respectively. This indicates that during the period under investigation, the average value of ROE of the companies stood at about 12.93, with variations in the mean amounting to 40.82. It also indicates that during the period, the minimum value of ROE stood at -372.34 while the maximum stood at 100.28. This implies that during the period, the average value of earnings derived per unit of shareholder's fund by the companies was high. The negative minimum value of ROE also suggests that losses were incurred by some of the sampled companies during the period.

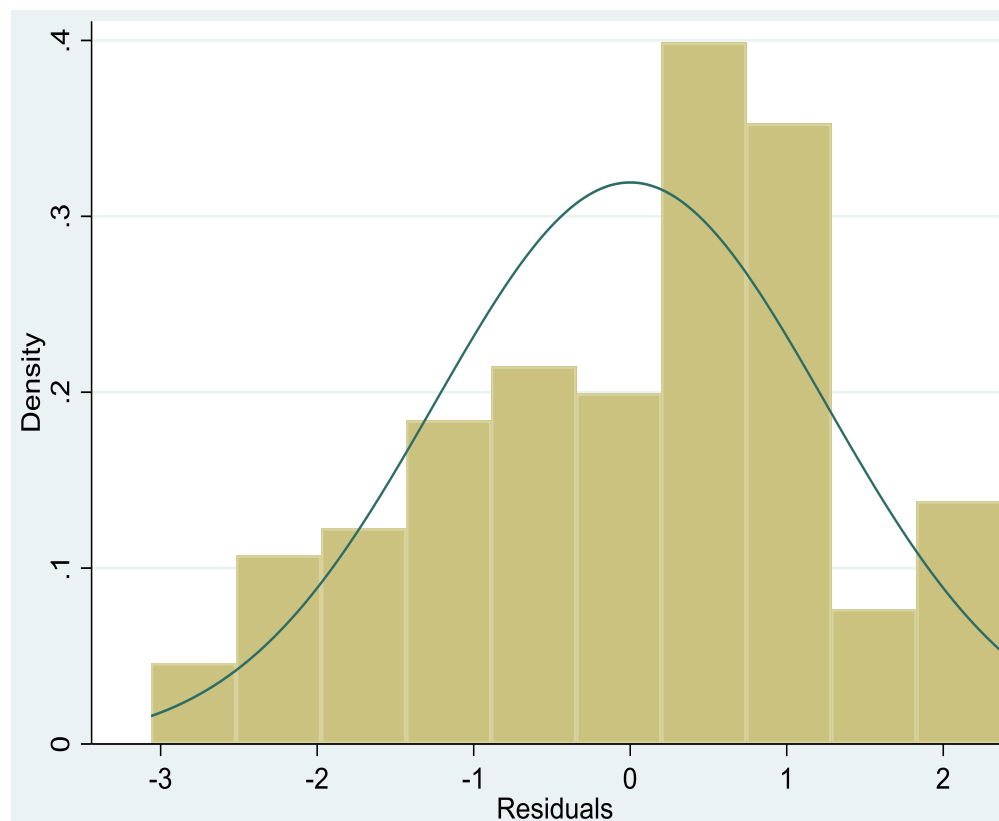


Figure 2: Histogram plot for data normality

Figure 2 presents the histogram plot for data normality. The x-axis shows the residuals while the y-axis represent the density of the data set. Results present a somewhat bell-shaped distribution of the residuals, thus indicating data normality.

Table 2: Variance inflation factor (VIF) statistics (STATA 16.0 output)

Variable	VIF	1/VIF
RR	1.89	0.53
DPR	1.89	0.53
PAT	1.86	0.53
DPS	1.53	0.65
ROE	1.44	0.69
Mean VIF	1.72	

Table 2 presents the VIF results for the independent variables of the study arranged from highest to lowest VIF respectively. The variance inflation factor aims to detect the presence of multi-collinearity among the variables employed in a regression model. It measures the extent to which the variance of an estimated regression coefficient is inflated as compared to when the predicted variables are not linearly related. A VIF greater than 10 suggests too much correlation between the independent variables which is deemed problematic (Akpa, 2011; Gujarati & Sangeetha, 2007). The VIF of the independent variables as presented in Table 2 are consistently less than 10, indicating that there is no evidence suggesting the presence of collinearity among the variables.

Table 3: Heteroscedasticity Test (STATA 16.0 output)

Variable	Chi <sup>2</sup> (1) <sup>*</sup>	Prob>Chi <sup>2</sup> *
MPS	1.46	0.2263

\*Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

In order to ascertain whether the error term in the model have no constant variance, the heteroscedasticity test is employed. A regression result normally assumes that the variance of the error term is constant (homoscedasticity). If the error term has no constant variance, it is said to be heteroscedastic. Richard (2015) posits that in the Breusch-Pagan / Cook-Weisberg test for heteroscedasticity, if the Chi-Squared value of the heteroscedasticity test is significant with p-value below an appropriate threshold ( $p < 0.05$ ), then there is heteroscedasticity. Therefore, since the p-value as presented in Table 3 is 0.2263 and greater than 0.05, there is no heteroscedasticity in the model employed.

Table 4: Hausman Specification Test (STATA 16.0 output)

<b>Chi<sup>2</sup>(6)</b>	<b>Prob&gt;Chi<sup>2</sup></b>
10.79	0.0556

The Hausman specification test ascertains whether the difference in coefficients is not systematic. If the test result is consistent with this assumption, the random effect is the most appropriate model otherwise the fixed effect model is adopted (Sarveshwar, 2016). The decision rule for the Hausman specification test is that if the p-value is less than 0.05, the null hypothesis that random effect model is appropriate is rejected and the alternative fixed effect model is accepted. Therefore since the p-value as presented in Table 4 is 0.0556, the null hypothesis is accepted. The random effect is most preferred to fixed effect.

However, to further determine whether to go with the random effects model or pooled OLS regression model, the Breusch–Pagan Lagrange multiplier test is employed. This test is performed with the aim of determining whether to use pooled OLS or random effect model.

Table 5: Lagrange Multiplier Test for Random Effects (STATA 16.0 output)

<b>Chi<sup>2</sup></b>	<b>p-value</b>
0.00	1.0000

Table 5 reveals the Lagrange multiplier test for random effects. The decision rule is to select pooled OLS when the p-value of the Lagrange multiplier test is greater than 0.05 otherwise, select random effect (Zulfikar, 2018). Since the p-value is 1.0000 and greater than 0.05, the Pooled OLS model is selected as the most suitable model for the study.

Table 6: Pooled OLS Regression Results (STATA 16.0 output)

MPS	Coefficient	t	P>t
DPS	0.087	5.28	0.000
DPR	0.066	0.88	0.380
RR	0.069	0.68	0.499
PAT	0.056	4.15	0.000
ROE	-0.006	-0.83	0.407
Constant	2.236	13.53	0.000
R-Square = 0.4863			
F Statistics =21.59			
P >F = 0.0000			

Table 6 presents the pooled OLS regression results for the study model. It revealed the coefficients, t statistics (t) and the p-values ( $P>t$ ) for all the independent variables of the study model. It also revealed the R-Square, F statistics and P-value ( $P>F$ ) for the general regression results. The F Statistics which depicts the joint significance of all estimated parameters in predicting the dependent variable in a pooled regression model revealed a value of 21.59, with a p-value of 0.0000, which is significant enough to conclude that the model is fit for analysis. The R-Square in Table 6 which represents the coefficient of determination revealed a value of 0.4863. This indicates that 48.63 percent of the total variations in MPS is jointly explained by DPS, DPR, RR, PAT and ROE. This implies that the independent variables of the study can only account for 48.63 percent of the changes in the dependent variables, while the remaining 51.37 percent are explained by other variables not included in this model.

Table 6 also presents a statistical measure of the average functional relationship between the dependent and independent variables in terms of regression coefficients. DPS revealed a coefficient of 0.087. This indicates a positive relationship existing between DPS and MPS. This implies that a unit change in dividend per share will lead to an increase in market price per share to the tune of 0.0021. DPR revealed a coefficient of 0.066. This indicates that there is a positive relationship existing between DPR and MPS. This implies that a unit increase in dividend payout ratio will lead to a corresponding increase in market price per share to the tune of 0.066. RR as presented in Table 6 revealed a coefficient value of 0.069. This indicates a positive relationship existing between RR and MPS. This implies that a unit change in retention ratio will lead to an increase in market price per share to the tune of 0.069. Similarly, PAT revealed a coefficient of 0.056, indicating a positive relationship between PAT and MPS. This implies that a unit change in profit after tax, will lead to an increase in market price per share. Finally, ROE as presented in Table 6 revealed a coefficient of -0.006. This indicates a negative relationship existing between ROE and MPS such that a unit change in return on equity will lead to a decrease in market price per share to the tune of -0.006.

## DISCUSSION OF FINDINGS

This study examined the effect of dividend policy in terms of DPS, DPR, RR, on the market price per share of consumer goods companies listed on NSE with PAT and ROE as control variables. Findings from the study revealed that dividend per share has a significant effect on the market price per share of consumer goods companies listed on the NSE. Results however indicates a positive relationship between DPS and MPS. This implies that an increase in dividend payment to shareholders will increase the market price per share of consumer goods companies in Nigeria. This corroborates with the bird in hand theory which supports that



investors are more eager to invest in the stocks of companies that pay dividend than companies that retain earnings. Therefore dividend per share significantly predicts the value of a firm. This substantiates the findings of Ahmad and Abdulkarim (2018); Egbeonu, Edori and Edori (2016); Anton and Cuza (2016); Suleiman and Migiro (2015), who all found a significant relationship between DPS and market value of shares. However, the study findings fail to corroborate with the findings of Cristea and Cristea (2018) and Budaga (2017).

Findings also revealed that dividend payout ratio (DPR) has no significant effect on the market price per share (MPS) of consumer goods companies listed on the NSE. The relationship existing between DPR and MPS is positive in nature, indicating that an increase in dividend payout ratio will lead to an increase in the market price per share. This also takes a cue from the Bird-in-hand theory as investors are willing to buy more stocks from a company with high dividend payment ratios. Nevertheless, this is not significantly achieved among consumer goods companies in Nigeria. This may be attributed to the fact that some of the consumer goods companies pay dividends despite incurring losses so as to give positive signals to investors. Although the companies gain more as investors are willing to buy more of their stocks, their performance in terms of profitability dwindles. This is similar to the findings of Jahfer, and Mulafara (2016); Adefila, Oladipo and Adeoti (2004); Dhungul (2013), who found that DPR insignificantly but positively affects share price volatility. This however contradicts the findings of Ahmad, Airjoub and Airababa (2018); Yudawisastra, Sumantri and Manurug (2018); Chelimo and Kiprop (2017); Okafor, Mgbame and Chijoke-Mgbame (2011) who found a significant and negative effect of DPR on market value of company shares.

The study also found that retention ratio (RR) has no significant effect on the market price per share (MPS) of consumer goods companies listed on the NSE. Generally, investors who are risk averse will prefer to invest in a company with low retention ratio because of the likelihood of a greater percentage of the earnings to be shared as dividends. The payment of dividend despite losses as witnessed among the consumer goods companies may be attributed to the insignificant effect retention ratio exerts on the share prices. Most of the companies in this sector have paid greater importance to dividend payment therefore investors are less likely to be affected by their retention ratios. This is similar to the findings of Yudawisastra, Sumantri and Manurug (2018), Duke, Nneji and Nkamare (2015), Asaduzzaman and Karim (2013) and Ahmad and Abdulkarim (2018), who found an insignificant relationship between earnings retained and share prices of companies.

In relation to whether PAT has a significant effect on the MPS of consumer goods companies listed on the NSE, findings from the study revealed that profit after tax has a

significant effect on the market price per share of consumer goods companies listed on the NSE. Findings also indicate a positive relationship existing between profit after tax and market price per share of the companies. Profit after tax is what culminates into retained earnings and dividend payment, hence its relevance in the dividend policy of firms. Profit after tax also stands as a good signal to the investors about a company's performance. This is similar to the findings of Qayyum, Nasir and Khan (2011) who found that profit after tax are positively related to stock prices.

Finally, the study found that return on equity has no significant effect on the market price per share of consumer goods companies listed on the NSE. Findings also revealed a negative relationship existing between ROE and MPS of the companies. ROE represents the profitability a firm derives from shareholders' investment. Investors will definitely prefer the stocks of a company with high returns on equity investment. However, a higher return on equity does not always translate to higher dividend payment. This is an odd phenomena because higher return on equity will mean higher profitability of the companies, as return on equity is calculated by dividing net income with total equity. Two factors could be responsible for this difference. Firstly, shareholders money in the consumer goods sector may not be efficiently utilized for generating profit. Secondly, this could be attributed to the fact that consumer goods companies listed on the NSE nurture themselves with big debts. Even if it negatively affects share price. ROE of consumer goods firms does not significantly affect share prices. This is in line with the findings of Sharif, Ali and Jan (2015) who found a negative relationship between return on equity and share price.

## CONCLUSION

The study provided empirical evidence on the relationship between dividend policy (proxied by dividend per share, dividend payout ratio and retention ration and the firm value (proxied by market price per share) of listed consumer goods companies in Nigeria PAT and ROE were used as control variables.

From the findings, the study concludes that dividend payments reduces the risk of investors and enhance their willingness to pay higher premium for the shares of companies that pay higher dividends, companies who pay higher dividends are likely to have higher share values. Companies with higher dividend payments per share get higher value in terms of market price per share. Therefore dividend payments increase the share prices of companies that pay dividends. This may be attributed to the fact that dividend payments are a sign that the companies are doing well and it also reduces the risk that capital gains may be wiped away by unforeseen circumstances.

## **RECOMMENDATIONS**

From the conclusions drawn from the study, the following recommendations are made:

1. Management of consumer goods companies should increase their level of dividend payments. This will enhance the way investors perceive their companies and will make investors willing to pay higher premiums for their companies hence creating wealth for their shareholders in terms of higher market price per share.
2. Management of consumer goods firms in Nigeria should pay attention to equity contributions by shareholders and efficiently utilize their equity contributions in creating value for shareholders through higher earnings.
3. Management of corporate entities should engage in activities that will boost their company's profit after tax (PAT) by investing in projects that will earn more returns for investors and minimizing activities that will reduce their returns, this will enable them have more earnings out of which they can pay dividends to their shareholders to enhance their value.

## **CONTRIBUTION TO KNOWLEDGE**

This study has contributed to the existing body of knowledge on the effect of dividend policy on company value. Specifically this study has revealed the effect of dividend policy decision on the value of consumer goods sector in Nigeria. The study used recent data up to 2019 and used financial statements prepared under the new international financial reporting standards.

## **LIMITATIONS AND FURTHER RESEARCH**

This study examined the relationship between and the value of listed consumer goods companies in Nigeria. Therefore, the findings of this study are limited to consumer goods companies listed on the Nigerian Stock Exchange. The study was also limited to eight (8) years study period. The study also used secondary data which involve accounting ratios, which may be historical in nature hence may change over time.

This study examines the effect of dividend policy on the value of consumer goods firms listed on the Nigerian stock exchange. The present study focused on the consumer goods sector in Nigeria. A further study that would consider a different sector will be appreciated. Similar study can be done for other possible factors such as political instability and terrorism that may affect the value consumer goods companies in Nigeria.

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