

# Effect Of Dividend Policy on Share Price Of Listed Conglomerate Firms in Nigeria

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### Abstract

This study examines the effect of dividend policy on the share price of listed conglomerate firms in Nigeria. The population of the study consists of six (6) listed conglomerate firms on the Nigerian Stock Exchange as at 31/12/2016. All the listed conglomerate firms were used due to small sample size. Secondary data were collected from the sampled firms via their published audited financial statements for 10 years, ranging from 2007 to 2016. Multiple regression was used to analyze the data. The results show that dividend yield has a positive and significant effect on share prices of the listed conglomerate firms in Nigeria, while earnings yield has a negative and significant effect on share prices of the listed conglomerate firms in Nigeria. However, dividend payout ratio has a negative insignificant effect on share prices of listed conglomerate firm in Nigeria. Based on the findings, the study concludes that the dividend policy has a significant effect on share price. The study, therefore, recommends that firms should adopt a policy of consistent dividends paid to shareholders as it will attract investors to increase their investment by way of buying more of the company's stock. This is because investors see a firm that pays a high dividend as evidence of the company's financial strength and well-being and concludes that management has positive expectations for future earnings which makes the stock more attractive.

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**Keywords:** Share price, dividend yield, earnings yield, dividend payout, conglomerate firms

## INTRODUCTION

For more than thirty decades, there has been controversy over dividend policy and stock prices despite several empirical and theoretical researches (Allen & Rachim, 1996). This gave rise to many theories on dividend policy relevance and irrelevance which resulted in different studies and their effect on share prices (Murekefu & Ouma, 2012). One of the fundamental questions in corporate finance literature is whether a company's profits should be distributed to shareholders in the form of dividends or be plowed back to new investment opportunities. If the decision arrived at is to distribute the dividend, what proportion of the profits should be distributed to shareholders and what proportion should be retained in the business for further investments? (Dawar, 2012). This induces the management of most firms to consider the type of dividend policy that will result in the maximization of shareholders' wealth, and not to focus only on the profits to be plowed back into the business. The management must however, consider the effect of the decisions on the dividend policy on the company's stock prices (Dawar, 2012).

Issues regarding payment and non-payment of dividend give rise to two schools of thought. The first school of thought is of the view that dividend distribution or dividend declaration or payment is irrelevant (Modigliani & Miller, 1961; and Black & Scholes, 1974). For example, Modigliani and Miller (M&M, 1961) argue that dividends are irrelevant, no matter what proportion of profits is distributed to the shareholders. Supporting this opinion, Black and Scholes (1974) employed long-term dividend yield and

found no significant relationship between a portfolio's monthly returns of a share and its dividend yield.

The second school of thought posits that dividend distribution or dividend declaration or payment is relevant (Brigham, 1995; Litzenberger & Ramaswamy, 1979; Litner 1962; and Gordon 1963). For example, Litner (1962) and Gordon (1963) argue that dividends are relevant due to information contents. Similarly, Brigham (1995) opined that dividends convey information as they affect share prices, while Litzenberger and Ramaswamy (1979) employed a short-term dividend yield and found a positive relationship between dividend yield and stock returns. This implies that dividend distribution, declaration or payment is important because it is one of the simplest ways for companies to communicate financial well-being to the shareholders. Also, dividend distributions in form of cash payout regularly to the shareholders from earnings, send a clear and powerful message about future prospects of the financial performance of companies.

A conglomerate firm is a subsector of the manufacturing sector. This sector is regarded as the major driving force of the modern economy. This is because it serves as the vehicle for the production of goods, generation of employment and the enhancement of incomes. Hence, it is described as the heart of the economy (Sola, Obamuyi, Asekunjo & Ogunleye, 2013). The choice of this sector is based on the fact that it contributes a significant portion to the gross domestic product (GDP) in the developed economy while the percentage contributed to the gross domestic product (GDP) in developing economy particularly Nigeria is far below what is happening in

the developed economies. For example, in China, this sector contributed 29% to the gross domestic product (GDP). In Japan, the sector contributed 21.21% to the gross domestic product (GDP). In the UK, it contributed 18.57% to the gross domestic product (GDP). In the USA, it also contributed 17.6% to the gross domestic product (GDP). In developing countries specifically Nigeria, the sector contributed 9% to the gross domestic product (GDP). This percentage is far below what is happening in the developed economies. This could be as a result of many factors including lack of confidence of foreign investors in Nigerian conglomerate sector, quality of management saddled with the responsibility of managing the sector, issue relating to prompt payment or non-payment of dividend, dwindling of share prices of the sector and other determinants. The study, therefore, examines the level of dividend policy in the sector in order to encourage investors and to improve the sector contribution towards the gross domestic product (GDP).

Furthermore, this study, dividend policy on share price of listed conglomerate firms in Nigeria, provides results that are different from previous studies. This is because conglomerate firms have unique characteristics that distinguish them from other companies. Firstly, due to diversification, conglomerates can reduce their investment risk thereby creating a capital market within the group which allows the growth of the conglomerate. This diversification allows a downturn suffered by one subsidiary to be counter-balanced by stability, or even expansion, in another division. Secondly, a conglomerate can grow by acquiring companies whose shares are more discounted, thereby showing an evidence of growth in

earning when compared with other companies. Thirdly, conglomerates are companies that have diversified interests in so many different sectors and structures as corporations which offer average dividend yields. This dividend yields vary widely from the exposure to so many industries to making the sector offer dividend yields that are above average when compared with the wider market.

The dividend is one of those expectations that investors hope to get as a result of their investment (Maude, Ojo & Okpanachi, 2015). This means a company pays a dividend in order to encourage investors to increase or expand their investment in such a company. The motive behind investing in a conglomerate sector by investors in Nigeria is to get a dividend from their investment. Therefore, if the conglomerate sector is doing well, it will attract many more investors, thereby increasing their contribution to the gross domestic product (GDP) and helping the company to pay dividend as at when due. Thus, any conglomerate firms that delay in payment of dividend in any year or that deliberately refuse to pay in a particular year with the intention of plowing it back to the firm without the approval from the investors, the investors will withdraw their investment and this could affect the firm negatively. There are different ratios with which a company can pay out dividends. Therefore, this study seeks to examine the effect of dividend policy on stock prices using ratios such as dividend yield, earnings yield, payout ratio, and share price ratios.

Numerous studies have examined the effect of dividend policy on share price, yet there exists a controversy on the subject matter.

Modigliani and Miller (1961) one of the pioneers of dividend irrelevance theories opine that dividends are irrelevant in the valuation of a firm. This implies that dividend does not add value to conglomerate firms, showing that whether conglomerate firms pay dividend or not, the conglomerate firms remain the same. Payment of dividend communicates to the investors and potential investors about conglomerates' financial health. The implication of not paying dividend is that it sends signal to potential investors and creditors that such conglomerate is not healthy financially. Walter (1963), on the other hand, disagreed with Modigliani and Miller (1961) and had a view that dividend policy would only be irrelevant if the level of growth rate and weights employed in determining the cost of capital are independent of dividend payout policy. Azhagaiah and Priya (2008) established that higher dividends increase the market value of shares while lower dividends reduce the market value of shares, since shareholders prefer dividends to future capital gains. Given the above problems and the controversies surrounding the effect of dividend policy on stock prices, this study investigates the effect of dividend policy on stock prices considering dividend yield, earnings yield, payout ratio, and share price ratios.

The main objective of this study is to determine the effect of dividend policy on stock prices of listed conglomerate firms in Nigeria. To achieve this, the study examines the effect of dividend yield on stock prices of listed conglomerate firms in Nigeria; assessed the effect of earnings yield on stock prices of listed conglomerate firms in Nigeria and; investigates the effect of dividend payout ratio on stock

prices of listed conglomerate firms in Nigeria.

The following hypotheses were formulated and tested:  $H_1$ : Dividend yield has no significant effect on stock prices of listed conglomerate firms in Nigeria;  $H_2$ : Earnings yield has no significant effect on stock prices of listed conglomerate firms in Nigeria; and  $H_3$ : Dividend payout has no significant effect on stock prices of listed conglomerate firms in Nigeria.

## LITERATURE REVIEW

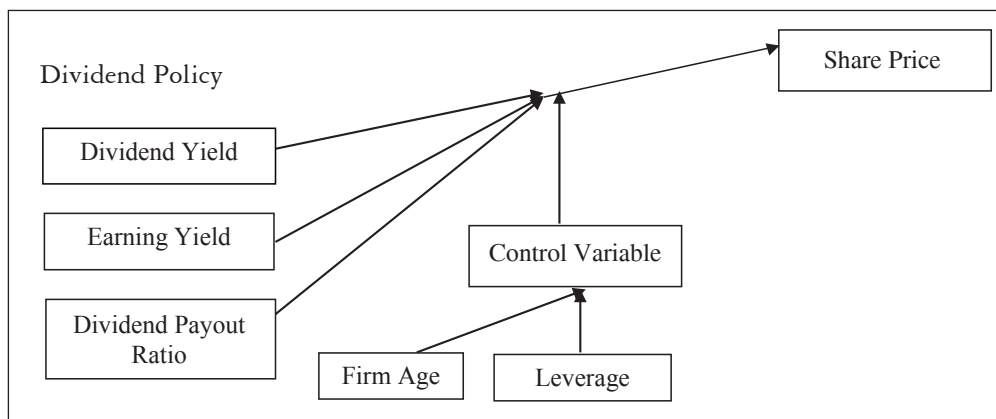
The concept of dividend policy and share price is well researched and discussed as an aspect of corporate finance. But dividend policy and share price remain a source of controversy despite years of theoretical and empirical research (Allen & Rachim, 1996; Nishat & Irfan, 2001; and Asamoah, 2010). However, dividend policy is one of the most important policies not only to the firm but also to the shareholders, customers, regulatory bodies and the government (Uwuigbe, Jafaru & Ajayi, 2012). This is because dividend policy is the reflection of a company's value as shareholders are interested in return on investment; consumers are interested in the price charged, while workers key on the ability of the company to pay, as payment of dividend depends on the financial solvency and stability of the company. On the other hand, regulators are interested in capital adequacy and the government is interested in taxes. Therefore, dividend policy cannot be underestimated. As such, Directors, in making decisions on investments, financing and dividends, in most cases, are careful in balancing these decisions before acting in the long-term interest and continuity of the company.

Black (1976) adduced that the more one looks at the dividend picture, the more it seems like a puzzle, with pieces that do not just fit together. This means that dividend policy can be seen as a mirror in which the image of the dividend object does not resemble the object. What this means is dividend policy is difficult to settle both in theory and in practice because the demands of the investors that operate are in opposing directions. On the other hand, a share price is the price of a single share in a number of sellable stocks of a company, derivative or another financial asset. The share price of a firm is directly observable from the stock exchange which is part of the securities segment of the capital

market (Seitz, 1990). The most common types of securities are stocks, bonds, and options. Securities markets are the mechanisms that allow suppliers and demanders of funds to make transactions. They also allow transactions to be made quickly and at a fair price (Feldstein and Green, 1983).

In order to bridge the gap in the literature on effect of dividend policy and share price, the study examines the effect of dividend policy on share price of the listed conglomerate firms in Nigeria, considers dividend yield, earnings yield and dividend payout, which appear on the left hand side, while share price on the right hand side, size and leverage as control variable at the centre.

Below is the conceptual framework for the study:



Source: Built by the author based on literature

The above conceptual framework was developed to examine the relationship between dividend policy and share price. In this conceptual framework, dividend policy and share price are independent and dependent variables respectively. The independent variables comprise dividend yield, earnings yield, and dividend payout

while the dependent variable was measured by share price.

A dividend yield is a financial ratio that indicates how much a company pays out dividends each year relative to its share price (Paulo & Pedro, 2015). This implies that dividend yield represents a proportion of dividend paid by a firm and can be calculated by dividing the naira value of

dividends paid in a given year per share of stock held by the naira value of one share of stock. Dividend yield can be seen as the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the market value per share. This, however, makes investors view companies that have paid out significant dividends for an extended period of time as safer investments, as a dividend yield of a company is always compared with the average of the industry to which the company belongs. For instance, investors on the conglomerate sector may consider how often dividend is paid in the sector with another, like the banking sector. If the banking sector, for example, pays high dividend consistently for five years or more, when compared with the conglomerate sector, this would send a signal to the investors that investment in the banking sector is more viable than the conglomerate sector due to high return and prompt dividend payment.

Earnings yield is a type of financial ratio that explained the percentage of a company's earnings relative to its purchase price or a ratio of net income to price, or the reciprocal of the price-earnings ratio (Abraham, Harris & Auerbach, 2017). This means earning yield is the portion of variation in the stock price that is attributable to changes in corporate profitability. According to Basu (1983) earnings yield which is the inverse of the P/E ratio shows the percentage of each dollar invested in the stock that was earned by the company. This also suggests that earnings yield is the ability of firms to earn profits from the sale of goods and services or ability to employing resources to produce a stream of products that

attract a growing customer base (Abraham *et al.*, 2017).

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company (Kartal, 2015). This means that dividend payout ratio is calculated by dividing the total dividend to a net profit of every stock (Mahira, 2012). According to Robert (2015), the payout ratio is a key financial metric used to determine the sustainability of a company's dividend payments. This is because the amount that is not paid out in dividends to stockholders is held by the company for growth, while the amount that is kept by the company is called retained earnings. In addition, payout ratios that are between 55% to 75% are considered high because the company is expected to distribute more than half of its earnings as dividends, which implies less retained earnings. A low ratio may indicate that the company is using much of its earnings to reinvest in the company in order to grow further. Similarly, a high payout ratio may also indicate a willingness to share more of the company's earnings with shareholders.

There are numerous theories that have explained the relationship between dividend policy and share price, which include Bird in the hand theory, Tax preference theory, Signaling theory, Agency theory and Dividend Irrelevancy theory, among others. These theories present conflicting opinions as to the effect of dividend policy decisions on the value of a company's shares. These gave rise to two schools of thought (relevance and irrelevance) concerning decisions on dividend payment. In the opinion of one school of thought (Lintner, 1962 and

Gordon,1963), dividends are significant to the valuation of a company, whilst the other school of thought (Modigliani & Miller,1961) contrarily posits that the value of a firm does not affect its share prices.

The conflicting opinions resulted to numerous studies ranging from Linter (1956) to Modigliani and Miller (1961), Bhattacharya (1979), De Angelo *et al.* (1996), Fama and French (2001), Al-Malkawi (2007) and Al-Najjar and Hussainey (2008). The argument centers on the relevance or irrelevance of dividend policy as regards share valuation. The first school (irrelevance) argues that the current value of a firm is independent of its dividend decisions, rather the value a firm derives from its investment policy. They believe that whatever gains that would be derived from dividend payments would be offset exactly by the cost of external financing (Modigliani & Miller,1961). The other school (relevance) believe that dividend policy should and does affect the value of a firm and as such dividend policy can only be irrelevant when the rate of return on investment equates the cost of financing the investment (Lintner, 1962) and (Gordon, 1963).

Nishat and Irfan (2003) examine the impact of dividend policy on the share price in Pakistan for the period 1981 to 2000. The study sampled 160 firms from the Banks of Pakistan. The market share price was the dependent variable while dividend yield and dividend paid were independent variables. Cross-sectional regression was used to analyze the data. The findings of the study showed that dividend yield and dividend payout ratio had a positive and significant impact on

the share price volatility. This means an increase in market share price results to dividend yield and dividend payout. Once the value of the company's shares appreciates, investors are expected to get more return in form of a higher dividend. Similarly, Barman (2007) examined the effect of dividend policy on the share price in both listed and private companies in the Republic of South Africa for the period of 1993-2001. The study sampled 150 listed firms and 350 private firms in South Africa. Ordinary least square (OLS) regression was used to analyze the data. The results showed that dividend policy had a positive and significant effect on share price. This means that the decision to pay a dividend is subject to share prices. If share price increases, there will be more profit in the firm leading to the decision of dividend distribution and payment.

Khan (2012) examined the effect of dividend policy on stock prices. The study population consisted 55 companies listed at Karachi Stock Exchange from the period 2001 to 2010. Ordinary least square regression was used to analyze the data. The findings showed a positive and significant relationship between dividend payout and stock prices while Suleiman *et al.* (2011) examined the impact of dividend policy on share price volatility in Pakistan. The study sampled 5 sectors from the Karachi Stock Exchange for the period from 2005 to 2009. Multiple regressions were used for data analysis. The findings showed that share price volatility had a significant positive relationship with dividend yield.

Joshi (2011) assessed the impact of dividend yield on stock prices in Nepal for the period 2010-2011. The study covered 210 listed companies in Nepal. The

dependent variable was the current market stock price and the independent variable was dividend yield. The descriptive statistics and regression analysis were used to analyze the data. The findings showed that dividend yield was positively related to market price. Similarly, Baskin (1989) investigated the impact of dividend yield on the stock price of the Commercial Banks in Bangladesh for 2001 - 2006. Multiple regression was used to analyze the data. The independent variable was the dividend yield and the dependent variable was stock price. The findings of the study showed that dividend yield was negatively related to stock price.

Khan (2012) examined the effect of earnings yield on stock prices in 2 sectors in Pakistan's chemical and pharmaceutical industries for the period 2001 to 2010. The study sampled 29 companies listed in Pakistan Stock Exchange. The share price was used as the dependent variable and earnings yield as the independent variable. Ordinary least square (OLS) regression was used to analyze the data. The findings showed the significant negative relationship between earnings yield and share price. Bougatef (2011) investigated the effect of earnings yield on the stock price in Tunisian. The study sampled 24 publicly traded Tunisian firms during the period 2000 – 2008. The stock price was used as the dependent variable and earnings yield as the independent variable. Cross-sectional regression analysis was used to analyze the data. The study found that earnings yield was insignificantly related to market price. Baker and Powell (1999) examined the effect of earnings yield on the stock price of listed firms in Cyprus Stock Exchange during the period 1985-1995. The stock price was the dependent variable

and earnings yield was the independent variable. Multiple regression was used to analyze the data. The findings showed the positive significant relationship between earnings yield and stock price.

Proffitt and Bacon (2013) assessed the impact of dividend payout on stock price in the U.S equity capital market for the period 2000-2006. The study covered 500 publicly traded firms in the U.S capital market. The stock price was dependent variable and dividend paid was the independent variable. Ordinary least square (OLS) regression was adopted for data analysis. The findings showed the positive and significant relationship between dividend payout and stock price. Rashid, Rashid, and Rahman (2008) investigated the impact of dividend payment on stock price in Bangladesh for the period of 1999-2006. The market share price was the dependent variable and dividend payment was the independent variable. The study population consisted of 104 non-financial firms of different sectors listed in Dhaka stock exchange. Descriptive statistics and cross-sectional regression were used for data analysis. The findings showed a negative significant correlation between dividend payment and share price while Azhagaiah and Priya (2008) examined the impact of dividend payment on shareholder wealth in South India for a period of 1997 to 2006. Market share price was the dependent variable and dividend payment was the independent variable. A Sample of 28 companies in the chemical industry were chosen from 114 listed companies in Bombay stock exchange using multi-stage random sampling techniques. Cross-sectional regression was used for data analysis. The findings of the study showed that there was

a significant impact of dividend payment on the share price in organic chemical companies.

In the light of the above empirical reviews with relevant theories regarding dividend policy on share prices, the relevance school of thought is appropriate and it is anchored on agency theory as agency theory is consistent with the empirical evidence that firms need to distribute dividend based on the principle of agent-principal. This is because: first, the dividend payment is an evidence of a company's strength, health and mature financially. Secondly, the board of directors who declare dividend are agents to the shareholders. When shareholders entrust their resources to the director, they expect a return from such resources (investment), which is the same as a dividend. Therefore, the payment of dividend follows the principle of agency and principal relationship. Low return indicates that the director or manager did not utilize the resources effectively and efficiently, resulting in poor performance, while the high return is evidence of good performance. Finally, shareholders in Nigeria expect regular dividend payments and conglomerate firms prefer regular dividend payouts to meet shareholders' expectations. Any decision taken by conglomerate firms to delay or deny the shareholders dividend payment during their annual general meeting (AGM), will have a

severe negative effect on conglomerate firms in Nigeria.

## METHODOLOGY

The study adopted panel data and both quantitative and descriptive research approaches were utilized in order to achieve the objectives of the study. The quantitative research approach was used because the variables examined were agreeable or persuadable to empirical calibration and substantiation (Maude, Ojo & Okpanachi, 2015). The population of the study consisted of six (6) conglomerate firms listed on the floor of the Nigerian Stock Exchange from 1st January 2007 to 31st December 2016. Secondary data were extracted from published audited annual reports and accounts of 6 firms that represented the sample size of the study for the period 2007-2016. This was due to the fact that dividends were usually declared at the annual general meeting (AGM). It was an annual event that determined the performance of firms' management. It was also an annual report, which most often were readily available and accessible and that helped an investor to see at a glance, the strength and weaknesses of the firm. This enabled the investor to make a decision whether to invest or not to invest; to give credit or not to give credit and; to supply or not to supply.

The regression model developed for the study is:

$$SP_{it} = \alpha + \beta_1 DY_{it} + \beta_2 EY_{it} + \beta_3 DPO_{it} + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + it$$

Whereas

$SP_{it}$	= Share Price	= is measured by the Market Price of the common stock as determined at the dealing session
$DY_{it}$	= Dividend Yield	= is measured by Dividend per share ÷ Market Price per share (Nishat & Irfan, 2003)
$EY_{it}$	= Earnings Yield	= is measured by the Earnings per share ÷ Market price per share (Khan, 2012)
$DPO_{it}$	= Dividend Payout	= is measured by Dividend per share ÷ Earnings per share (Profilet & Bacon, 2013)
$FSIZE_{it}$	= Firm Size	= is measured by Logarithm of Total Assets in the year
$LEV_{it}$	= Leverage	= is measured by Long-term Debt Capital divided by Total Equity (Mayers & Franks, 2005).
$\alpha$	= Constant intercept	
$\beta_1 - \beta_5$	= Coefficient of explanatory	
$it$	= Error Term	

The three hypotheses formulated were tested using multiple regression for data analysis. The test of data normality, multicollinearity, heteroscedasticity, fixed and random effects were all conducted. The study was conducted at 5% level of

significance and if the significance level is more or greater than 5%, we reject the alternative and accept the null hypothesis and if the significance level is less than or equal to 5%, we reject the null and accept the alternative hypothesis.

## RESULTS AND DISCUSSIONS

Table1: Descriptive Statistics of SP, DY, EY, DPO, SIZE & LEV

VAR	OBS	MEAN	STD DEV	MIN	MAX	KURT	SKEW
SP	60	0.8612	0.6220	-0.4318	1.7709	2.1115	-0.1438
DY	60	0.0669	0.1428	0	0.8974	25.4652	4.6799
EY	60	0.1325	0.2516	-0.1483	1.5946	25.4064	4.6451
DPO	60	0.5761	0.9172	0	7.0328	42.6621	6.0719
SIZE	60	7.3196	0.5217	6.3953	8.3072	1.9589	0.3468
LEV	60	2.1528	0.3043	1.6032	3.1649	3.5717	0.4954

Source: STATA 13 Output Results based on the study data (See Appendix A)

Table1 presents the descriptive statistics of the data collected for the research variables. The table shows that the dependent variable Share Price (SP) of listed conglomerates in Nigeria, has an average value of 0.8612 with a standard deviation of 0.6220, and a minimum value of -0.4318 and 1.7709 as the maximum value. The mean value indicates that the sampled conglomerates

have an average share price of 0.8612 and the standard deviation of 0.6220 implies that the deviation from the mean value, from both sides is 0.6220, implying that the data are widely dispersed from the mean because the standard deviation is high compared to the mean value. The minimum and maximum SP of the sample listed conglomerates during the period covered

by the study are -0.4318 and 1.7709 respectively. Table 1 also shows that one of the measures of dividend policy of listed conglomerates in Nigeria, dividend yield (DY) has an average value of 0.0669 with a standard deviation of 0.1428, and a minimum value of 0 and 0.8974 as the maximum value. The mean value indicates that the sampled conglomerates during the period of the study have an average dividend yield of 0.0669, and the standard deviation of 0.1428 implies that the deviation from the mean value, from both sides is 0.1428, implying that there is a wide dispersion of the data from the mean because the standard deviation is higher than the mean value.

Table 1 shows that the earnings yield (EY) has an average value of 0.1325 with a standard deviation of 0.2516, and minimum and the maximum value of -0.1483 and 1.5946. The mean value indicates that the sampled conglomerates during the period of the study had an average earnings yield of 0.1325, and the standard deviation of 0.2516 implies that the deviation from the mean value, from both sides is 0.2516, implying that there is a wide dispersion of the data from the mean because the standard deviation is higher than the mean value. Table 1 also shows that the dividend payout ratio (DPO) has an average value of 0.5761 with a standard deviation of 0.9172, and minimum and maximum value of 0 and 7.0328. The mean value indicates that the sampled conglomerates have an average dividend payout ratio of 0.5761 (0.4239 retention policy), and the standard deviation of 0.9172 implies that the deviation from the mean value, from both sides is 0.9172, implying that the data is widely dispersed from

the mean because the standard deviation is high compared to the mean value.

The results from the table indicate that the average firm's size (SIZE), natural log of total assets of the quoted conglomerates in Nigeria during the period of the study is 7.3196 with a standard deviation of 0.5217, and a minimum value of 6.3953 and 8.3072 as the maximum value. The table also indicates that the average leverage (LEV), natural log of long-term debt capital divided by total equity of the quoted conglomerates in Nigeria during the period of the study is 2.1528 with a standard deviation of 0.3043, and minimum and the maximum value of 1.6032 and 3.1649.

The correlation matrix in table 2 was used to determine the relationship between dependent and independent variables and between independent variables themselves. The table shows both positive and negative correlation between a dependent variable which is share price and all independent variables. There is a positive association between share price, dividend payout, and leverage, while there appears to be a negative association between share price, dividend yield, earnings yield, and firm size. The positive statistical correlation between share price and dividend payout with a correlation coefficient of 0.0393 which is insignificant (p-value 0.7654). This means that as share price increases, it leads to an increase in dividend payout but statistically insignificant. The positive statistical correlation between share price and leverage with a correlation coefficient of 0.1613 and p-value of 0.2813. This implies that as share price increases, it leads to an increase in leverage but equally statistically insignificant.

Table 2: Result of the Correlation Analysis and Variance Inflation Factor

VAR	SP	DY	EY	DPO	SIZE	LEV	VIF	I/VIF
SP	1.0000							
DY	-0.4304*	1.0000						
P-VAL	0.0006							
EY	-0.4805*	0.9099*	1.0000				8.69	0.115061
P-VAL	0.0001	0.0000						
DPO	0.0393	0.2050	-0.0418	1.0000			1.60	0.626428
P-VAL	0.7654	0.1161	0.7513					
SIZE	-0.0626	0.1681	0.2672*	-0.2408	1.0000		1.31	0.764669
P-VAL	0.6344	0.1992	0.0390	0.0638				
LEV	0.1613	-0.0197	-0.0323	-0.0430	-0.3292*	1.0000	1.15	0.870510
P-VAL	0.2183	0.8810	0.8064	0.7444	0.0102			
M-VIF								4.33

Source: STATA 13 Output Results based on the study data (See Appendix B)

Note: Statistical significance @ 5%

On the other hand, there is a negative correlation between share price and dividend yield, earnings yield, and firm size. The negative correlation between share price and dividend yield with correlation coefficient value of -0.4304 which is statistically significant at 5% level of significance (p-value 0.0006), implies that as dividend yield increases, it leads to an inverse movement in share price. Similarly, the negative correlation between earning yield and share price with correlation coefficient value of -0.4805 which is significant at 5% level of significance (p-value of 0.0001), indicate that a decrease in share price leads to an increase in earning yield, while a negative correlation between share price and firm size with correlation coefficient value of by -0.0626 coefficient and it is statistically

insignificant (p-value of 0.6344), signifies that as share price increases, it leads to a decrease in the firm size.

A test of multicollinearity was out-carried using the variance inflation factor (VIF) as demonstrated in table 2. The table shows that DY has a VIF of 8.90 and tolerance level of 0.112376; EY has a VIF of 8.69 and tolerance level of 0.115061; DPO has a VIF of 1.60 and tolerance level of 0.626428. SIZE has VIF of 1.31 and tolerance level of 0.764669; LEV has VIF of 1.15 and tolerance level of 0.870510. Furthermore, the table shows the mean VIF of 4.33. This means that there is the absence of perfect multicollinearity among the independent variables, showing the fitness of the data variables for the model used.

Table 3: Hausman Specification and Heteroscedasticity Test

TEST	CHI SQUARE	P-VALUE
Breusch-Pagan/Cook-Weisberg Hetttest	1.38	0.2403
Hausman Fixed Random	15.79	0.0075

Source: STATA 13 Output Results

The Breusch-Pagan/Cook-Weisberg test for heteroscedasticity was conducted to ascertain the existence or otherwise of heteroscedasticity. The result of hettest shows a  $\chi^2$  of 1.38 which is statistically insignificant as the p-value is 0.24023. This provides us with evidence of accepting alternative hypothesis and rejecting the null hypothesis that there is the presence of heteroscedasticity among the variables. The absence of heteroscedasticity among

explanatory variables is an indicating that the variation of the residual or error term is not correlated and would not affect the result of the study. The study further carried out the test of model selection using Hausman specification test to determine between random and fixed effects model. The result of the test helped us to reject the random effect and accept fixed effect estimator as Hausman  $\chi^2$  and its Prob >  $\chi^2$  shows 15.79 and 0,0075 respectively.

Table 4: Regression Results

SP	COEFFICIENT	Z-VALUE	P-VALUE
CONST	0.0749	0.04	0.969
DY	0.6768	2.66	0.045
EY	-0.7962	-4.87	0.005
DPO	-0.0372	-2.41	0.061
SIZE	0.2442	0.80	0.460
LEV	-0.4273	-1.88	0.118
R-Square:	Within = 0.4965 Between = 0.0028 Overall = 0.0122 Adjusted R-Squared = 0.2038		
SP = 0.0749336 + 0.6768173DY - 0.7962759EY - 0.0372648DPO + 0.2442731SIZE - 0.4273697LEV + e			

Source: STATA 13 Output Results

Table 4 contains the result of the fixed effect model. A close examination of the table shows that the coefficient of the intercept (CONST) is 0.0749336, which is positive insignificant. This implies that all other factor remains constant, the effect of dividend policy on share prices have a positive insignificant effect. The implication of this result is that other variables in the model are relevant to have exhibited a meaningful effect on share price. DY has a coefficient of 0.6768173 at the z-value of 2.66 and p-value of 0.045. This indicates that DY is the positive significant effect on SP. This means that an increase

in DY will result in an increase in SP of the listed conglomerate firms in Nigeria. Furthermore, EY has a coefficient of -0.7962759, a z-value of -4.87 and p-value of 0.005. This implies that EY is the negative and significant effect on SP. This implies that an increase in EY will cause a decrease in SP of the listed conglomerate firms in Nigeria. DPO has a coefficient of -0.0372648 at the z-value of -2.41 and p-value of 0.061. This means that DPO is negatively and statistically insignificant. This means that an increase in DPO will result in a decrease in SP. Also, SIZE is insignificantly and positively affect SP with

a coefficient value of 0.2442731, z-value of 0.80 and p-value of 0.460. This implies that increasing the SIZE of the listed conglomerate firms in Nigeria will lead to an increase in SP of firm SIZE, while other variables are held constant.

Table 4 also presents the overall result for fitted values of SP. It shows that 20.38% of variations in SP as explained by dividend policy, while 79.62% is explained by other factors. This is explained by the Adjusted R<sup>2</sup> of 0.2038.

The first hypothesis stated that dividend yield had no significant effect on stock prices of listed conglomerate firms in Nigeria. Based on the result of the regression as shown in table 4 above, the dividend yield has a significant effect on the share price of the listed conglomerate firms in Nigeria during the study period. This provides us with evidence of rejecting the null hypothesis and accepting the alternative hypothesis that dividend yield has a significant effect on stock prices of the sampled conglomerate firms in Nigeria. This finding is consistent with the findings of Nishat and Irfan (2001); Habib, Kiani, and Khan (2012) who found that dividend yield is significantly positively related to the share price. However, this finding contradicts that of Baskin (1989), who found a negative effect of dividend yield on the share price.

The second hypothesis stated that earnings yield had no significant effect on stock prices of listed conglomerate firms in Nigeria. The regression result as presented in table 4 shows that the coefficient of earnings yield of -0.7962759 with z-value of -4.87 and p-value of 0.005. This shows that earning yield has a significant effect on the share price of the listed

conglomerate firms in Nigeria during the study period. This provides us with evidence of rejecting the null hypothesis and accepting the alternative hypothesis that EY has a significant effect on the SP of the listed conglomerate firms in Nigeria. This finding is compatible with Khan (2012) who found a significant negative relationship between earnings yield and share price but contrary to that of Bougatef (2011) whose findings showed the insignificant relationship between earnings yield and share price.

The third hypothesis stated that the dividend payout ratio had no significant effect on stock prices of listed conglomerate firms in Nigeria. Based on the result of the regression as shown in table 4 above, dividend payout has a coefficient value of -0.0372648 and z-value of -2.41, which is statistically insignificant at a p-value of 0.061. This implies that DPO has no significant effect on SP of listed conglomerate firms in Nigeria during the study period. This provides us with evidence of accepting the null hypothesis and rejecting the alternative hypothesis that dividend payout ratio has no significant effect on stock prices of sampled listed conglomerate firms in Nigeria. This finding is consistent with Rashid & Rahman (2008) who also found a negative relationship between dividend payout and share price but in contrast with that of Proffitt and Bacon (2013) who found a positive relationship between dividend payout and stock price.

## CONCLUSION AND RECOMMENDATIONS

In line with the above findings, the study concludes as follows:

- i. The dividend yield of listed conglomerate firms in Nigeria measured by market price per share is positively and significantly related with share price. This means that the higher the dividend yield, the higher the share price of the firms. This is because dividend yield measures the quantum of earnings by way of total dividends that investors make by investing in that company. Therefore, decreasing dividend yield by the management of the company will discourage investors from investing more in such company as investors view companies that pay a substantial dividend yield for an extended period of time as safer investments.
- ii. The earning yield has a negative and significant relationship with a share price of listed conglomerate firms in Nigeria during the study period. This implies that the higher the earnings yield, the lower the share price. The earnings yield is measured via earnings per share divided by the market price per share. This is because earning yield is one of the most popular valuation measures used by investors and analysts to understand the return of a stock which company offers to them (investors). Therefore, decreases in earning yield will cause an increase in the market prices of the firm and vice versa. It is also an indication that the more valuable an investment is, the lower the earnings yield may be.
- iii. The dividend payout has an insignificant negative relationship on the share price of listed conglomerate firms in Nigeria during the study. The dividend payout was measured as dividend per share divided by earnings per share.

Based on the findings, the study concludes that whether the firm's dividend payout increases or not, it has nothing to do with the share price of the firm.

In view of the above findings and conclusion, the following recommendations are put forward for listed conglomerate firms in Nigeria:

- i. The dividend yield is an evidence of the stability of a company and most often supports a firm's share price. This implies that only profitable companies pay out dividends. Therefore, the board of directors or management of conglomerate firms in Nigeria should adopt a policy of consistent dividend payment. This will encourage investors as most investors like the steady income associated with dividends and as such, they will be more likely to buy company's stock as dividend payment is an evidence of company's financial strength and a sign that management has positive expectations for future earnings which makes the stock more attractive. In addition, investors see a firm that pays a high dividend as a sign of financial health or well-being which attracted them (investors) to invest in such firm as it will yield increase in the value of the firm.
- ii. Dividend decision is the policy formulated by the company's management regarding earnings distribution as dividends among shareholders. Dividend decision determines the division of earnings between payments to stockholders and retained earnings. The Company and Allied Matters Act (CAMA) of 1990 as amended and the law of corporation mandated the board of directors as the corporate body that

determines whether dividends are paid to shareholders or not (Kennon, 2017). Therefore, in taking a decision as regards payment of dividend or not, the board of directors or management of the company should adhere to the interest of shareholders in choosing dividend

policies because they (shareholder) are the receiving end. This is because if the company grows financially, the benefits go to the shareholders. Similarly, if the company is closed due to bankruptcy, the shareholders are also the losers.

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