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Relevance of Corporate Dividend Policy on the Shareholder's Wealth

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Abstract: This paper assessed the impact of dividend policy on shareholder's wealth. The objectives of the study are; to ascertain the significant relationship between dividend policy and corporate performance whether it will enhance their profitability and attract investors to the firm. Data obtained from 2006 to 2012 annual reports and accounts of the companies in Nigerian Stock Exchange. Regression (ANOVA) was applied with the aid of statistical package for social sciences (SPSS). Findings show that there is a significant relationship between the companies earning Per Share; dividend Per Share and corporate performance. It is therefore recommends that Organizations should ensure that they have a robust dividend policy in place because it will enhance their profitability and attract investments to the organizations.

Keywords: dividend policy, corporate performance and shareholder's wealth.

INTRODUCTION

The appropriation of a company's profit is a sensitive function in financial management, most especially because of the need to maintain optimality in the allocation of profit between the shareholders (i.e. dividend) and the company itself (retained earnings). Dividend policy remains the most indispensible element in financial policies not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government[1]. desire adequate returns on their investments to ensure continued loyalty to the business and, at the same time, the company requires to plough back adequate profit to increase the capital base that would translate into increased production, sales, profitability, etc. all of which encapsulated in organizational growth. The philosophy of dividend is that the investors would not want any dividend less than the expected except they have the conviction that the investment to which the retained earnings are committed would yield returns over and above what they could be opportune to elsewhere.

Financing decision relates to the source of finance for investing, and dividend decision includes distributing profits as company's dividend and retained earnings. According to Hussainey *et al*.,[2], dividend policy is a policy when a company distributes profits as dividend to shareholders and retains some of them to re-invest in the business. Dividend policy has been empirically studied by financial experts with various findings which are why in financial management; it is still debatable as to whether dividend policy influences company's value. The answer has yet to be resolved and remains a puzzle[3-4].

The dividend policy decision is one of the most important decisions in any organization in order to achieve efficient performance and attainment of objectives, because the role of finances increased significantly in company's overall growth strategy that's why dividend decisions are recognized as centrally important. The attention of economists and scholars of management have been attracted by the field of dividend policy culminating into theoretical modeling and empirical examination. In finance dividend policy is a complex aspect and is among the top 10 perplexing issues in finance as suggested by Brealey and Myers [5].

The policy that results in maximization of the firm's stock price which in turn maximizes shareholders wealth is called an optimal dividend policy. However, the association between dividend policy and shareholder's wealth is still unsolved. The maximization of the wealth of shareholder's is the ultimate goal of company's management, which will result in maximizing firm's value as measured by the price of the company's common stock,[6]. In order to achieve the desired goal management needs to give shareholders a "fair" payment on their investments. The market price of common stock of a firm actually represents the wealth of shareholders, which, in turn, is a function of financing, investment, and dividend decisions of a firm.

Studies show that firms in developing Countries (e.g. Nigeria) smooth on their income and therefore, their dividends. The pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging Capital markets. If the value of a company is the function of its dividend payments, dividend policy will affect directly the firm's cost of capital [7].

The influence of dividend payout in the performance of Nigerian listed brewery companies. The paper revealed that EPS was correlated and a positive significant relationship is established; that is, dividend paid this year is a signal to performance of the following year(s). This finding thus establishes the relevance of dividend policy and is in agreement with the findings of Murekefu, et al[8]; Amidu [9]. On the other hand, Dividend Policy and Corporate Performance in Nigeria [7]. It found that there is a significant positive relationship between dividend policies of organizations and profitability, there is also a significant positive relationship between dividend policy and investments and Earnings Per Share.

Sajid, et al, [6], on "The Relationship between Dividend Policy and Shareholder's Wealth Evidence from Pakistan, the paper found that the difference in average market value (AMV) relative to book value of equity (BVE) is highly significant between dividend paying companies and non-paying companies. Retained earnings have insignificant influence on market value of equity. There is significant influence of dividend policy on wealth of shareholder's, as far as the dividend paying companies are concerned.

Meanwhile, that company's dividend policy has implications for many parties such as managers, investors, lenders and other stakeholders. Through dividends, investors can value a company and for them it is a regular income whether declare today or at some future date. Dividend policy also has implications for managers because when they distribute dividends they will have fewer funds available to invest in projects, thus their investment decision depends on dividend policy[6].

Companies in developing countries have low payout, if they pay at all. In Nigeria, finding reveals that though firms have dividend policies that dependent on earnings, the trend is not very consistent and proportionate[10]. Uwuigbe, et al [1] also assert that while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout, the same is not true in developing economies like Nigeria. In the light of the above studies, this study seeks to redress the existing study hence, ascertain the relationships that exist between the dividend policy; Earning Per Share and shareholder's wealth.

Objectives

The main objective of this study is to examine the impact of dividend policy in the corporate organizations in order to maximized shareholder's wealth. Specifically, the study intends to achieve the following:-

i. To ascertain if there is any significant relationship between dividend policy and corporate performance whether it will enhance their profitability and attract investors to the firm.
ii. To determine if there is any significant relationship between dividend policy and Earning Per Share of the companies.
iii. To determine the significant relationship between dividend policy and companies return on equity.

REVIEW OF RELATED LITERATURE

Conceptual Framework

According to Olimalade & Adewumi [11], it is seen as cash flows that accrue to equity investors. That is a form of return to shareholders on their investment, and the aim is to increase their confidence in the future of the company in which they have invested. Dividends are compensatory distribution to equity shareholders for both time and investment risks undertaken[1]. Such distributions are usually net of tax and obligatory payments under debt capital and they represent a depletion of cash assets of the company[12]. Pandy [13] (in Oyinlola, Omolola, and Adenira**,** defines dividend as that portion of a company's net earnings which the directors recommend to be distributed to shareholders in proportion to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as cash dividend[10]. Dividend payment is a major component of stock return to shareholders[14]. Jo and Pan [15] assert that dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices.

The dividend policy decisions of firms are the primary element of corporate finance policy[1]. Nissim & Ziv [16] define dividend policy as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders. A number of theories have been propounded on the policy of

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dividend/retained earnings trade-off and the contended effect of dividend payout on stock values[16-21]. In effect, all the dividend theories bother on whether dividend is relevant or irrelevant in the valuation of firms' stocks. Lintner [22] presented a model based on stylized yield of the specific characteristics of a 'sticky of dividend'. The author found that firms are reluctant to decrease dividends since this could lead investors to interpret poor performance and cause the stock prices to fall as well. Supporting Lintners' [22] model, Bhattacharya [23] and Miller and Rock, [24] suggested that dividend announcements convey information about the future prospects of the firms.

Empirical Studies

Several researches carried out locally and outside Nigerian borders on dividend policy bother on whether dividend is relevant or irrelevant in the valuation of firms' values to provide evidence for or against the established theories. The behaviour of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets[25].

Sharing the same view, Samuel & Edward[26] assert that dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behaviour has been established. There are researches that seek to explain relationship between dividends and share prices [27-29Some empirical studies were conducted, examining how dividends have affected performance [30]. Investigations were also made to examine the influence of performance in dividend payouts[1, 10, 27].

Rashid and Rahman [31] found that there is positive but insignificant relationship between share price volatility and dividend yield for 104 nonfinancial firms listed in the Dhaka Stock exchange during the period of 1999 – 2006. Nazir, et al [29] applied fixed effect and random effect models to test the role of corporate dividend policy in determining the volatility in the stock price for 73 firms listed in Karachi Stock Exchange (KSE-100) indexed. Contradict to Rashid and Rahman, [31], the researcher found that the share price volatility is significantly influence dividend policy as measured by dividend payout ratio and dividend yield.

The result of the empirical findings made by Zakaria, et al, [27] also suggests there is a significant positive relationship between the dividend payout ratio of a firm and share price volatility.

Rahim, et al [28] detected a symptom of underinvestment when there was positive relationship between dividend policy and the firm's firm value. The increase in firm's value was contributed by the decreased in investment, increased dividend and stagnant debt ratio. They suggested that underinvestment happens because the management cautiously chooses only secured investments and distributes the excess cash to shareholders as dividends.

Zakaria [14] also stressed the fact that investments made by firms' influences the future earnings and future dividends potential. In their research on 50 listed firms operating in high profile industries in the Nigerian Stock Exchange, Uwuigbe, et al [1] observed that firm performance has a significant impact on the dividend payout of listed firms in Nigeria. That is, an increase in the financial well-being of a firm tends to positively affect the dividend payout level of firms. However, Adefila, Oladapo and Adeoti [10] conclude that Nigerian firms do have a dividend policy that is dependent on earnings though the trend is not very consistent and proportionate. This is in agreement with the assertion made by Uwuigbe, et al [1] that while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout, the same is not true in developing economies like Nigeria. Ajanta suggests that a firm's dividend policy is seen as a major determinant for a firms' performance[32].

Kale and Noe in Oyinlola, Omolola, and Adenira**,** [33] in a related study opined that a firm's dividend basically indicates the stability of the firm's future cash flows. Based on the survey of S&P 500, Lazo[30] showed that 87 per cent of dividend paying companies believed the usefulness of dividends to signal information regarding the company future earnings. Murekefu, et al [8] observe that dividend generally increases future earnings in the short-run but not in the long-run. Amidu [9] found out that dividend influences performance in Ghanian companies. Fersio[34] in Oyinlola, Omolola, and Adenira**,** reveals negative relationship between dividend and performance.

However, future earnings could as well be powered by firms' investment [35]. The survival of any company is dependent on the continuous investment in facilities and the employment of internal financing, through the use of retained earnings from an integral part of the sources of finance to foot the investment needs[36, 37].

Meanwhile, the earliest major attempt to explain dividend behaviour of companies has been credited to John Lintner [22] who conducted his study on American Companies in the middle of 1950s. Since then there has been an ongoing debate on dividend policy in the developed countries.

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This issues did not receive any serious attention among academic scholars in Nigeria until 1974 when Uzoaga and Alezienwa attempted to highlight the pattern of dividend policy pursued by Nigerian firms particularly since and during the period of indigenization and participation programme defined in the decree. Their study covered 52 company-years of dividend action (13 Companies for four years). They claimed that they "checked but found very little evidence" to support the classical influence that determine dividend policies in Nigeria during these period. They concluded that fear and resentment seem to have taken over from the classical forces.

However, Inanga [38] and Soyode [39] commented on the work of Uzoaga and Alozienwa. Inanga concluded that the problem arising from the change in dividend policy can be attributed to the share pricing policy of the Capital Issue Commission (CIC) which seemed to have ignored the classical factors that should govern the pricing of equity shares issues. This in turn made companies abandon "all the classical forces that determine dividend policy". Soyode criticized Uzoaga and Alozienwa's work on the ground that it glossed over some important determinants of optimal dividend policy and questioned certain conclusions made in the study because they are inadequate or a mistaken evaluation.

Furthermore, Oyejide [40] empirically tested for company dividend policy in Nigeria using Lintner's model as modified by Brittain. He disagreed with previous studies and concluded that "the available evidence provides a strong and unequivocal support for the conventional devices for explaining the dividend behaviour of Nigerian limited liability business organization.". Nyong [41] conducted a study on dividend policy of quoted companies in Nigeria using the behavioural approach between 1983 –1987, to determine the factors that influence dividend policy of cross section of Nigeria quoted companies and also to assess the magnitude of these factors in predicting the observed share prices of the companies, he observed among others that the conventional Lintner's model performs creditably well.

Adelegan [42] in a more recent study of the impact of growth prospect, leverage and firm size on dividend behaviour of corporate firms in Nigeria between 1984 – 1997; observed that the conventional Lintner's model does not perform quite creditably in explaining the dividend behaviour of corporate firms for the period under review. Supports that factors that mainly influenced the dividend policy quoted firms are after tax earnings, economic policy changes (due to the partial liberation of the indigenization decree in 1989 and the subsequent simultaneous abolition of the indigenization decree of 1995), firm growth potentials and long term debts.

However, many studies show that large companies have better opportunity to raise funds at comparatively lower cost because of more consistent cash flows, also they are more diversified and bear less risk and they have greater right of entry to capital markets. That's the reason they does not dependent much on internal funding and more likely pay their shareholders higher dividend Fama and French [43]. In a study done by Baker *et al*, [44] it was stated that many Canadian firms paying dividends are remarkably larger in size with higher profits. They are having huge positive cash flows, greater ownership structure and also available with some growth opportunities. De-Angelo *et al*, [45] focused on why the firms pay dividends? This study was based on dividend policy, agency cost and earned equity. It concluded that there is a very significant relationship between the choices to pay or not to pay dividends and the profitability, cash balance, firm size, leverage, growth and dividends paid in past. Study by Amidu and Abor[9], examined determinants of dividend policy in Ghana. After study outcome concluded that the profitable firms tend to disburse more dividends. In a latest study Attiya [46] have taken data from a sample of 320 non-financial companies listed in KSE. The duration of the study is from 2001 to 2006. They found a trend that Pakistani companies fix their dividend payments through past dividends and current earnings. Furthermore, they have showed that more dividends are paid by stable companies. Afzal & Mirza [46] found positive association of operating cash flow and profitability with dividend policy whereas negative association was found for ownership, cash flow sensitivity, size and leverage.

Rashid and Anisur Rahman [47] found that there is positive but insignificant relationship between share price volatility and dividend yield for 104 nonfinancial firms listed in the Dhaka Stock exchange during the period of 1999 – 2006 Similarly, debt and growth also show positive and insignificant relationship with share price volatility. Only payout ratio and size are negative and significantly related to share price volatility. The author found that share price reaction to the earnings announcement in Bangladesh is different from other developed countries. Since Bangladesh has inefficient capital market, the influence of share price risk through dividend still unclear. Thus, the managers may not make decision and choose dividend policy to influence their stock's risk. This result contradict to Baskin's [48] based on the US data where dividend yield is not correlated to share price volatility. The contradiction could be because of the different economic and business environments of the two countries.

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Nazir et al. [29] applied fixed effect and random effect models to test the role of corporate dividend policy in determining the volatility in the stock price for 73 firms listed in Karachi Stock Exchange (KSE-100) indexed. Contradict to Rashid and Anisur Rahman, [47], the researcher found that the share price volatility is significantly influence dividend policy as measured by dividend payout ratio and dividend yield. Size and leverage are negative and insignificantly related to influence stock price volatility. This result supports the arbitrage realization effect, duration effect and information effect in Pakistan. These three effects also exist in Ghana[18]. The researchers did find similar result like Pakistan except size is positively influenced stock price volatility. However, contradict result on dividend policy and the volatility of stock price was found in UK. According to Hussainey et al. [2], company with higher payout ratio or dividend yield, will result in less volatile stock price. Dividend payout ratio is the main determinant of the volatility of stock price. The larger the size of the company, stock price will be less volatile. While, if company incurs high leverage, there is higher probability that stock price be more volatile. Allen and Rachim [49] found that there is positive relationship between share price volatility and earnings volatility and leverage in the Australian listed companies during 1972 to 1985.

In another related study by Sajid, Nasir , and Muhammad [6] on "The Relationship between Dividend Policy and Shareholder's Wealth". The study examined the influence of dividend policy on shareholder's wealth of 75 companies for duration of six years from 2005 to 2010 using multiple regression and stepwise regression. The paper found that the difference in average market value (AMV) relative to book value of equity (BVE) is highly significant between dividend paying companies and non-paying companies. Retained earnings have insignificant influence on market value of equity.

In a study of Zuriawati, joriah and abdul [50] on the impact of dividend policy on the share price volatility, the study found only 43.43 percent of the changes in the share prices are explained by dividend yield (DY), dividend payout ratio (DPR), and investment growth, size of the firm (FZ), leverage (LEV) and earnings volatility (EV).

Al-Malkawi [3] finds that financial leverage of a company significantly has negative relation with dividend policy. The factors used in his research are: Signaling, investment of opportunities, size, financial leverage, profitability, and taxes. Amidu [9] uses factors that affect dividend policy and company performance as follows: return on equity, return on assets, dividend payout, size, leverage, and growth. Azhagaiah *et al*., [51] uses factors like dividend per share, retained earnings, price earnings ratio, and market value of share that affect dividend policy and wealth of shareholders. Nazir *et al*., [26] indicates factors like price volatility, dividend yield, payout ratio, leverage, asset growth, and earning volatility affecting stock price changes in Karachi Stock Exchange. Hussainey *et al*.,[2] tests dividend policy and stock price change in a research using factors such as price volatility, dividend yield, payout ratio, size/market value, earning volatility, long term debt and growth in assets. The result shows positive correlation between dividend yield and stock price change, as well as negative correlation between payout ratio and stock price changes. Okafor [53] uses factors such as dividend yield, dividend payout ratio, asset growth, earning volatility, and size. The result shows that dividend policy is a form of good information for investors which consequently make stock price variable. Khan et al [53] uses factors such as stock price, cash dividend, stock dividend, retention ratio, dividend yield, earning after tax, earning per share, and return on equity. The result shows that dividend yield negatively correlates to stock price in both fixed and disorder effects and significantly explains variations of stock price. This makes it clearer that investors want dividend because it gives future prospect signal of companies. Al Shubiri [54] stated that company liquidity is a critical factor that influences cash dividend payment. Companies with high cash liquidity will pay higher dividend than those with lower cash liquidity. The factors used in the research are leverage, institutional ownership, profitability, business risk, assets structure, liquidity, growth opportunities, firm size, and free cash flow.

The Relationship Between Internal Factors and Dividend Policies

a) The Influence of *Free Cash Flow* towards Dividend Policy

Free Cash Flow is an operation profit that is minus tax and investments in the working capital and fixed assets needed by the company to maintain its business. According to Amidu [9], *Free Cash Flow* is the remaining cash flow after all projects with positive Net Present Value (NPV) is started, so Free Cash Flow reflects the cash that is actually available to be distributed to the investors. Therefore it becomes the manager strategy to improve the company's value, in line with the research [38].

b) The Influence of Company's Size towards Dividend Policy

Large companies usually have a better access to capital market and have facilities in raising funds with lower cost and have fewer constraints compared to smaller companies. The size of companies can be observed from their total asset. The bigger the

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company, the wider its possibility to give and to show maturity so that can reduce uncertainty about the company's prospects which is able to produce profits. It shows its least dependence upon internal funding sources. Therefore, large companies tend to pay higher dividends to shareholders. This is consistent with the research by Gordon[18] , Fama and French [43], Al-Malkawi [3], Based on the explanation above,

c) The Influence of Company's Debt towards the Dividend Policy.

When a company receives a loan to finance its investments, it has committed to pay a fixed cost in the form of interest and principal. A failure to meet these obligations may make the company liquidated. So, this loan has a payment failure risk. Al-Malkawi [3] state that Leverage is negatively related to dividend policy, because the company needs to maintain its internal cash flow to pay the obligation rather than distribute cash to shareholders. The increase of debt would increase the risk of inability to pay the obligations which is the loan principal and interest.

d) The Influence of Asset Growth towards Dividend Policy.

Companies with a high growth and investment opportunities need internal source of funds to finance its investment so they tend to retain profits and pay small dividends or even do not pay them. This is consistent with the research by Al-Malkawi [3].

e) The Influence of Return *on Equity* (ROE) towards dividend policy

Decision to pay dividend that is determined by General Meeting of Shareholders (RUPS) starts from the profits obtained by the company, so its profitability level is the most important variable that can affect company"s dividend decision. According to Lintner [22] and Fama and French [43], the level of Company's Profitability is the important determination of dividend payments. In this research, profitability which is proxy with Return on Equity (ROE) is the ratio of net profit of common stock equity. So this ratio measures the rate of return over the investment ordinary shareholders. De Angelo *et al* [17] propose that there is a very significant relationship between dividend payment policy and ROE

f) The Influence of Financial Risk towards Dividend Policy

Financial risk is the increase of failure payment risk that is resulted from the increase of company's debt. This risk becomes ordinary shareholders burden, and thus financial risk has negative impact on dividend policy; this is in line with the research conducted by[55].

Determinants of Dividend Policy

Most firms quoted on the Nigerian Stock Exchange have clearly defined dividend policies that are based on the general dividend practice in the industry. In our model, higher agreement between the manager and the investors implies a higher stock price. So the model predicts leverage and dividend payout ratio to be inversely related to the firm's stock price.

However**,** Lintner, [22] in a study of dividend policies of large Industrial Corporation in the United States suggested that in the majority of cases, current dividend decisions are intimately related to previous decisions. In the study, he concluded that management takes the existing dividend decision as a question of whether or not to change this rate in the current period. However, other views on the issues suggest that the dividend rate should be related to current earnings and must reflect changes in business conditions. The question therefore is how and why, a company should select a particular payout ratio and determine its rate of adjustment towards that particular rate? At this point, it is pertinent that we consider the factors affecting dividend policy of an organization.

Lintner[22] developed a model to study the determinants of the dividend behavior of American corporations by assuming that the dividend payout is a function of net current earnings after tax (PAT) and dividend paid during the previous year his findings revealed that payout a fixed proportion of their net profits as dividend to common stockholders especially when they are well-known for stable dividends policy and may try to achieve the target level of dividend or targeted payout ratio even whenever profit changes.

The main determinants of dividend policy of a firm can be classified into:

Dividend payout ratio: Dividend payout ratio refers to the percentage share of the net earnings distributed to the shareholders as dividends.

Stability of dividends: Dividend stability refers to the payment of a certain minimum amount of dividend regularly.

Legal, contractual and internal constraints and restrictions: Legal stipulations do not require a dividend declaration but they specify the conditions under which dividends must be paid. Such conditions pertain to capital impairment, net profit and insolvency. Important contractual restrictions may be accepted by the company regarding payment of dividends when the company obtains external funds.

Owner's Considerations: Dividend policy is also likely to be affected by the owner's considerations of the tax status of the shareholder, their opportunities of investment and the dilution of ownership.

Capital Market Considerations: The extent to which the firm has access to the capital markets also affects the dividend policy. In case the firm has easy access to the capital market, it can follow a liberal dividend policy. If the firm has only limited access to capital markets, it is likely to adopt a low dividend payout ratio. Such companies rely on retained earnings as a major source of finance for future growth.

Inflation: With rising prices due to inflation, the funds generated from depreciation may not be sufficient to replace obsolete equipment and machinery. So, organizations may have to rely on retained earnings as a source of fund to replace those assets. Thus, inflation affects dividend payout ratio in the negative side.

Legal Framework: The Companies and Allied matters Act 1990 part II (379-382) provides the basis which dividends can be paid.

Factors Influencing Dividends Policy in Companies

As high-risk financial assets, stock investors suffer from high investment risks and share the company's operating results. This is the main purpose of investors investing in stocks. The more companies distribute dividends, the higher the dividend payout ratio, the more attractive to investors, the more conducive to establishing a good corporate reputation and the market value of the company stock. Luke[56] states that a significant part of returns investors can realize from putting money into stocks comes from dividends paid by companies. The amount of money a company pays in form of dividends varies significantly from one business to the other. Companies use dividend policy to determine how much they will distribute.

There is a connection between dividend policy and retention policy. Retained earnings are important sources of finance for the Nigerian Companies and the factors that encourage retaining the profit instead of dividend payment includes:

a. Dividend policy is determined by Directors. They are, therefore, attractive source of finance for developmental project without resources to outsiders for extra funds.
b. The belief that there is no cost associated with the use of retained earnings although not true. It does not lead to cost involving payments of cash.
c. In periods of prosperity, the management may not be liberal in dividend payments because of availability of larger profitable investments opportunities.
d. In periods of depression, the management may retain a larger part of its earnings to preserve the firm's liquidity position.
e. Retained earnings avoid issue cost.

A company must satisfy shareholders minimum requirement and if looking for extra funds, should not be seen by investors to be paying generous dividend or salaries to owners-Directors.

Theoretically, the assumption is that:

1. Market value of a company's share depends on:
   i. The size of dividends paid
   ii. The growth rate in dividends; and
   iii. The shareholders required rate of return.

2. Growth rate in dividends depends on the money re-invested in the company and the rate of earning retention.

3. Shareholders will expect their company to pursue a retention policy that maximizes the value of the shares.

It has been determined empirically that a variety of factors are taken into consideration by the Directors of companies when establishing the level of dividend or planning a long-term dividend policy. Such factors include liquidity; stability of earnings; the market reaction; Dividend policy of similar companies and statutory regulation. So long as they are acting in good faith and reasonable within the ambit of the law, the Directors can determine what is paid out as dividend from the company's earnings. These factors influence company's dividend policy:

Liquidity: if the dividends are to be paid by cash, of course, cash must be available to pay the dividend declared.

Stability of earnings: earnings are subject to varying degrees of risk and the greater the variability, the greater the likelihood of reduced dividend due to sudden drop in earnings.

Taxation: income distribution and capital gain have different tax implications for investors. This will affect the relative desirability of dividend and retained earnings. Hence the marginal rate of tax of the dormant shareholder can be an important consideration in determining dividend policy.

a. **Dividend policy of similar companies:** since a firm does not operate in isolation, it is proper to study the trend in the industry to ensure that the policy is within the industrial norm.

b. **Statutory Regulation:** the information content of dividend payout conveys a lot of massage to investors.

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Therefore, firms re-evaluate their dividend policy to tackle such factors and to convey a positive posture.

c. **Rate of business expansion:** dividend is either defended or reduced to undertake business expansion with the shareholders being expectant of future growth.

Forms of Dividend: Dividend originally is a distribution of profits earned by a joint stock company, among its shareholders. Mostly, dividend is paid in cash, but there are also other forms of dividend which are **C**ash Dividends, Stock Dividend, Script Dividend, Bond Dividend and Property Dividend.

METHODOLOGY

Due to the nature of the study, descriptive design and survey research were adopted. Descriptive research involves collection of data in other to found answers to unanswered questions concerning the current status of a subject[57]. The accessible population for the study consists of the five selected companies in Nigeria, namely; Guinness Nig, Ltd, Nigerian Breweries, Nigerian Bottling Companies, UAC, Unilever Plc and Nestle Nig. Plc. The study covered six years annual reports and accounts of these companies, 2007 to 2012. The choice of these areas and the companies were based on the researcher's easy access to the data needed for the study.

METHOD OF DATA ANALYSIS

The study analyzed the audited accounts of companies. This involves use of financial accounts of the selected companies for the periods six years, 2007 to 2012. The researchers used annual reports and accounts those of the discriminating variables and was analyzed with statistical techniques used for the analyses in this study multiple regression analysis with the aid of statistical package for social sciences (SPSS) version 7.0.

Model Specification

Estimated Model by Oyinlola, Omolola and Adeniran [58] to postulate a function of the dividend policy, denoted as dividend per share (DPS), and the estimation model is expressed as follows:

EPS_{it} = *f*(DPS_{it}-1, ε_{it}), which can be written econometrically as:

$EPS_{it} = \alpha + \beta DPS_{it}-1 + \varepsilon_{it}$ …………………….. (1)

Where; EPS is the earnings per share for **i**th cross-sectional companies for the **t**th period;
α is constant;
β coefficient of the firm's dividend per share
εit is the random error.

EPSit = α + β1DPSit-1 + β2INVit-1 + εit …………. (2)

Where; INV is firms' investment, defined as the net cash flow from investing activities.

Analysis

Table 1: Regression Descriptive Statistics

	Mean	Std. Deviation	N
TOTALEPSt	3127.5714	976.25728	7
TOTALDPSt	2218.7143	2841.86721	7
TOTALINVt	24973.7143	38269.96696	7

Table 2: Correlations

		TOTALEPSt	TOTALDPSt	TOTALINVt
Pearson Correlation	TOTAL EPSt	1.000	.423	.454
	TOTAL DPSt	.423	1.000	.981
	TOTAL INVt	.454	.981	1.000
Sig. (1-tailed)	TOTAL EPSt	.	.172	.153
	TOTAL DPSt	.172	.	.000
	TOTAL INVt	.153	.000	.
N	TOTAL EPSt	7	7	7
	TOTALDPSt	7	7	7
	TOTALINVt	7	7	7

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Table 3: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.468[a]	.219	-.172	1056.76361	.219	.560	2	4	.610

a. Predictors: (Constant), TOTALINVt, TOTALDPSt

b. Dependent Variable: TOTALEPSt

Table 4: ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1251472.374	2	625736.187	.560	.610[a]
	Residual	4466997.340	4	1116749.335		
	Total	5718469.714	6			

a. Predictors: (Constant), TOTALINVt, TOTALDPSt

b. Dependent Variable: TOTAL EPSt

Table 5: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	2917.847	579.730		5.033	.007	1308.258	4527.437		
	TOTALDPSt	-.199	.781	-.579	-.255	.811	-2.366	1.968	.038	26.435
	TOTALINVt	.026	.058	1.022	.450	.676	-.135	.187	.038	26.435

a. Dependent Variable: TOTALEPSt

Table-6: Residuals Statistics[a]

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2745.7241	4101.9976	3127.5714	456.70420	7
Residual	-865.61353	1534.81616	.00000	862.84388	7
Std. Predicted Value	-.836	2.134	.000	1.000	7
Std. Residual	-.819	1.452	.000	.816	7

a. Dependent Variable: TOTALEPSt

DISCUSSION OF FINDINGS

From table 1 Standard deviation (SD), which measures the variability of a parameter, indicates that DPS is the least volatile with mean of 2218.71and SD of 2841.87. The least stable of the variables was investment (INV) with mean of 24973.71and SD, 38269.97.

Pearson correlation analysis in Table 2 shows a positive relationship between significant EPSt and DPS t-1 with the coefficient of 0 .423, significant at 0.01 level (i.e. $p<0.05$); whereas EPSt has also a significant correlation of 0.454.

The above table also shows coefficient of 0.423 significant at 0.010 level and 0.454 for EPSt/ DPSt-1 and EPSt/INVt-1 relationship respectively. The findings thus provide a basis for rejecting null hypothesis (H_0) and uphold alternative hypothesis (H_1) that significant relationship exists between dividend policy and corporate performance.

Table 3 shows the regression analysis results for the two estimated models. The coefficient of determination in the Model that estimates the relationship between EPSt and DPSt-1 is 0. 219 which by implication estimates that the companies' performance of a year is 21.9% attributed to the dividend payout of the previous year. The remaining

77.1% could be due to the investment financed by external finance of time t and retained profits of time t-1 and some other extraneous variables. The Fisher ratio (F-statistics) gives 0.560 with p-value < 0.05 which confirms the significance of the correlation.

Interpretation of the results of the regression on Model requires the determination of whether multi-collinearity problem exists between the two explanatory variables in the estimated Model. Two important measures of multicollinearity are tolerance and variable inflation factor (VIF). A tolerance value less than 0.1 indicate a serious multicollinearity problem[59] and a VIF value greater than 10 calls for concerns [5]. The clearest sign of multicollinearity, according to Gujarati [60] is when is very high but none of the regression coefficients is statistically significant on the basis of the conventional t-test. In this Model, tolerance (0. 038) is greater than 0.1 and VIF value (26.435).

With the VIF value, result call for a serious concern there exists there is a significant relationship between dividend policy and Earning Per Share of the Companies.

SUMMARY OF FINDINGS

The main findings of this study are:

i. There is a significant relationship between dividend policy and companies return on equity.
ii. The dividend policies of the companies are significantly influenced by their earnings because of the reluctance to cut dividends, companies only partially adjust their dividends to changes in earnings. Meanwhile there is a significant relationship between dividend policy and Earning Per Share of the Companies.
iii. Average earning per share is the significant determinant of Average dividend payment, which confirms the fact that the most important decision for payment of dividend is the current earning.

CONCLUSION AND RECOMMENDATION

1. This paper examines the influence of dividend policy in the performance of manufacturing industries. The company's performance, using EPS was correlated and a positive significant relationship is established; that is, dividend paid in one year is a signal to performance of the following years. This finding thus establishes the relevance of dividend policy on corporate performance and earnings per share.
2. The positive significant correlation between EPS and INV could imply that investments are financed largely from internal sources with low cost of capital, thereby enhancing the expected company's performance. This is an indication that companies have a robust dividend policy in place because that enhance their profitability and attract investments to these companies.
3. It was therefore recommended that organizations should ensure that they have a robust dividend policy in place because it will enhance their profitability and attract investments to the organizations.

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