



EFFECT OF DIVIDEND POLICY ON INVESTMENT DECISIONS OF BLUE CHIP COMPANIES IN NIGERIA

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Abstract

This study is aimed at investigating the effect of dividend policy (dividend per share, dividend payout ratio earnings per share and dividend yield) on investment decisions of blue chips companies in Nigeria over the period of ten years (2007-2016). An ex-post factor research design is used. Using panel data, the study indicated that Earnings Per Share (EPS) and Dividend Yield (DY) have negative and significant effect on Investment Decision (ID) of Blue Chip Companies in Nigeria, Dividend Payout Ratio (POR) has a significant positive effect on Investment Decision (ID) of Blue Chip Companies in Nigeria whereas Dividend Per Share (DPS) has an insignificant positive effect on Investment Decision (ID) of Blue Chip Companies in Nigeria. From the result, it is recommended that the investors should therefore invest in companies that consistently pay cash dividend since this would increase investment decision in the long run due to its ability and positive signals. It is further recommended that the management of blue chip companies should consider paying higher payout ratio more than share dividend due to its positive effect on the investment decisions.

Keywords: Earnings, Dividend, Payout Ratio, Yield, Investment Decisions.

Introduction

Investment decisions are major decisions made by investors and investment managers; it is mostly concern with how companies managers distribute or allocate their finances into different investment can be result oriented in the future (Sutrisno, 2009; Umar & Saidu, 2016). The nature of the flow of information often determines the investment decisions of individual systematically (Ambrose & Vincent, 2014). In investment decision, maximizing shareholders wealth is the primary objective which is achieved through proper evaluation of investment opportunities in relation to the expected returns and risk (Uwuigbe, Jimoh, & Ajayi, 2012). Afza, and Hammad, (2010) assert that Firms with higher financial leverage pay lesser dividend due amount of interest that affect the liquidity as a result of the excessive use of debt. They also noted that the size of firm is an important

determiner of firm financial performance as small firm does not have easy asses to external funds due to the low rate of their assets so their dividend is reduced in order for them to finance future projects.

Dividend policy can affect the value of the firm and in turn, the wealth of shareholders (Baker, Veit & Powell, 2001). It has future effects for share prices and hence returns on investment, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran & Pointon, 2004). Frankfurter and McGoun (2000) concluded that the dividend puzzle, both as a share value-enhancing feature and as a matter of policy is one of the most challenging issues of modern financial economics. Blue-chip stocks are considered high-valued, supreme long-term investment vehicles also historically; they have shown to generate growth in long-term

portfolios (Upasana & Reyaz, 2016). They also concluded that they are stocks of well-known and well-established companies, which have stable earnings, and during an economic downturn, investors may turn to these safe havens because of their secure nature.

According to Nigeria's National Bureau of Statistics (NBS, 2016), Nigeria's Gross Domestic Product for the second quarter of 2016 contracted by 2.06 percent to record its lowest growth rate in three decades. This negative growth has caused companies to seek ways to de-risk, re-strategize, and, most importantly, cut costs and reduce their payout ratio, which includes refinancing expensive debt and looking for new funding options. One of such options has been raising funds through the capital markets both cross-border and domestic because many companies have lost their values and investors. This paper is an attempt to investigate the effect of dividend policy on investment decisions of blue chip companies in Nigeria.

Nigerian Stock Exchange has in the recent past faced severe fluctuation in market price of shares due to insecurity, political instability, and in recent economic recession which has significantly affected the value of many listed firms (Umar & Saidu, 2016). Equity markets tend to decline in periods of recession and Nigeria is not an exception (NBS, 2016). Companies' stock valuations drop, hitting stock market performance, and as a result, a reduction in the number of new entrants. There have been no Initial Public Offerings (IPOs) or Further Offers (FOs) on the Nigerian Stock Exchange, or by Nigerian companies on foreign exchanges, up to date, in 2016 (NBS, 2016). Companies and Allied Matters Act (2014) restricts companies to pay dividend out of profit. This is backed with the restrictions by Central Bank of Nigeria (CBN) to financial institutions, that they must not pay dividend at all if they do not have minimum capital ratio, even if they have their Composite Risk Rating (CBN 2014). More also, they should not pay more than 10 percent of their Non-performing Loan.

Dhanani (2005) contend that it is possible for a firm to develop a dividend policy that takes into consideration the different circumstances of its shareholders due to their rationality either cash dividend or capital gain. Since the 1950s the debate on the impact of dividend policy on stock market price has triggered many studies on the impact of dividend policy on stockholder's value. Yet, the results are not conclusive. Some of the studies have reported that dividend policy has no influence on the wealth creation of stockholders (Uddin & Chowdhury, 2005; Adefila, Oladapo, & Adeoti; 2013). Others studies have also argued that

dividend policy has impact on the wealth of stockholders (Khan, 2009; Salih, 2010; Joshi, 2011; Mohammad, 2013). More also, Waworuntu, Natasia, and Shreta (2016), Mohammad, (2013) suggested that research should be conducted using this variables dividend per share, dividend yield and dividend payout ratio. While Evans and Hadrat (2016) and Adnan, Farzand and Ilyas (2015) suggested that more studies can be conducted using other industries and employing more samples. This paper is an attempt at proposing a model that will empirically examine the relationship between dividend policy and investment decisions of blue chips companies in Nigeria.

Literature Review

Dividend Policy and Investment Decision

There appeared mixed findings on the relationship between dividend policy and investment decisions. Many studies show a positive relationship while others show negative relationship between the variables. This inconsistency shows there is need for extensive studies between the variables. Tuigong Jagongo and Ndede (2016) investigated the effect of dividend policy (cash and share dividend) on the stock prices. 55 companies sampled for the study were used. Secondary data were obtained from Nairobi Securities Exchange, Capital Market Authorities, Kenya Bureau of Statistics and from sampled companies for a period between the years 2001 and 2011. Ordinary Least Square diagnostic tests were run. The results of the market indicated that there was a statistically significant positive relationship between cash dividend and share prices while there was statistically insignificantly negative relationship between share dividend and share prices.

More also, Evans and Hadrat (2016) examined the impact of dividend policy on the investment decision (wealth of stockholders) of selected registered companies on the Ghana Stock Exchange (GSE). Secondary data were collected on 25 listed firms using annual reports from 2005 to 2011. The regression results showed that dividend payment, retained earnings, and price earnings ratio have significant positive impact on the stock market price. It was also found that the impact of dividend is more pronounced than that of retained earnings in the context of companies registered on the Ghana Stock Exchange.

Sahibzada and Zubair (2017) investigated the impact of dividend policy on investment decision (Shareholders Wealth) in technology companies of USA. The research is carried on 60 companies divided into two Strata's of Paying and Not Paying Dividend listed under Technology sector at NYSE and AMEX stock exchanges which covered the period of 2010-2014, total observations of 150

firms-years. The data were analyzed using E-views software. The findings show independent variable (Dividend payout ratio) place no significant impact on all three dependent variables in Strata 1 of paying Dividend companies. While in Strata 2 of Not paying Dividend, Dividend payout ratio place no significant impact on Lagged price ratio and Return on Equity whereas, places significant positive impact on Capital Gain Yield Ratio. All the above studies on the subject matter show that more need to be done in the relationship between dividend policy and investment decision to provide clear understanding.

Pankaj (2017) investigated the impact of earning per share on price earnings ratio on the market price of share of company. The sample of the study are eight companies of auto sector based on Nifty auto index and for a period of five consecutive financial years from 2012 to 2015-16. Multiple regression analysis was employed. The result of the study concludes that earning per share was found to be a very strong forecaster of market price of share, while price earnings ratio impact significantly on the prediction of market price of share of select companies of auto sector as whole. The implications and limitations of study are also discussed. The period of the study needs further investigation. Kehinde, Uwalomwa, Olubukola, Osariemen, and Sylvester (2017) basically looked dividend policy in Nigerian banks and how it impacts on investment decision (share valuation). Findings from the study show that dividend yield and retention ratios had a significant negative impact on the market price per share for the sampled firms. This outcome therefore, suggests that the dividend policy of banks operating in Nigeria should favor high payout ratio for their share value to be enhanced.

Theoretical Underpinning: Dividend Irrelevancy Theory

The study is underpinned by irrelevance theory (1961). It states that dividend policy has no effect on the value of firm. M&M argues that firm’s investment decision is the determinant of it value. As such, payment of dividends to shareholders has no effect (Olang, Akenga, & Mwangi, 2015). Miller and Modigliani (1961) explained that dividend policy is irrelevant as far as the value of the firm is concerned especially in a perfect market situation where flow of information and investment is constant. Miller and Modigliani’s (1961) supported the dividend irrelevance theory on the assumption that number of dividends (dividend payout ratio) which is given to the firm’s shareholders is usually equal or greater than free cash flow which is generated by a fixed investment policy and optimum investment policy has no effect on shareholder’s wealth (Salih 2010; Ajikaiye 2013).

According to this theory, dividend policy only affected by the amount of external financing which is needed to finance future projects. It means that any amount that is given to shareholders as dividend (dividend per share) represents them amount of loss of capital (Salih, 2010). Also state investment policy is responsible for the firm’s future profits not the dividend policy firm follows (Miller & Modigliani, 1961). As such, this theory concludes that the value of the firm is dependent on firm’s current and future free cash flow and that the amount or level of dividends payout ratio to be paid or paid has no effect on the value of the firm since firms usually maximize their value through investment (Deeptee & Rosan, 2009).

Conceptual Framework

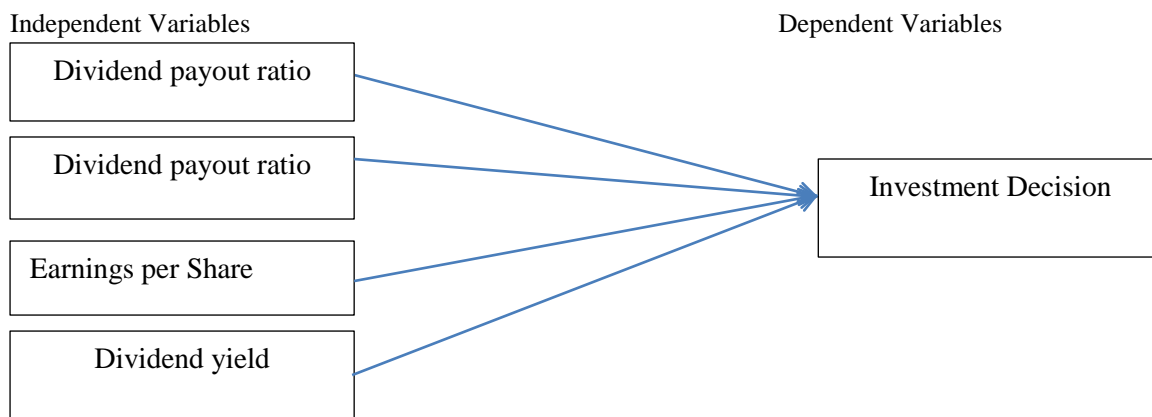


Figure 1: Research Framework

Methodology

Research Design

This paper adopted the choice of the *ex-post facto* research design. This type of research design can be useful where survey is descriptive or explanatory. This research technique will be employed because of its suitability in research survey of this nature. The researcher’s inability to manipulate already existing variables is a basic feature of *ex-post facto* research design (Onwumere, 2009). Kerlinger (1973) posit that the *ex-post facto* research design is also called causal comparative research and is used when the researcher intends to determine cause-effect relationship between an independent and dependent

variable with a view to establishing a causal link between them.

Population

A population of thirteen blue chips companies that registered with the Nigeria Stock Exchange as at December 2016, will be considered using census procedure. The data for the study will be obtained from secondary sources. These sources will include published audited financial statements of sampled firms on the NSE over a period of 10 years (2007-2016). The data will also be extracted from the annual financial reports of the sampled listed blue chips companies. In addition, the investment decision of the selected companies will be obtained from the data repository of the NSE.

Table 1: List of Firms

S/N	Name of Company	Sector
1.	First Bank Holding Nig. Plc	Financial Services
2.	Total Nig. Plc.	Oil and Gas
3.	11 plc. (Mobil)	Oil and Gas
4.	Guinness Nig. Plc.	Consumer Goods
5.	Nigeria Breweries Plc.	Consumer Goods
6.	Nestle Nig. Plc.	Consumer Goods
7.	PZ Cusson Nig. Plc.	Consumer Goods
8.	Julius Berger Nig. Plc.	Construction/ Real Estate
9.	Flour Mills Nig. Plc.	Consumer Goods
10.	Guaranty Trust Bank Plc.	Financial Services
11.	Cadbury Nig. Plc.	Consumer Goods
12.	7 Up Bottling Company Plc.	Consumer Goods
13.	Unilever Nig. Plc.	Consumer Goods

Source: CBN, (2017); NSE (2017)

Results and Discussions

Table 2: Summary Statistics

	Observations	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
ID	130	-73.1281	126.263	20.93819	22.58266	0.970271	10.20402
POR	130	-155.372	684.8602	61.61284	72.16017	4.886009	45.03461
EPS	130	-2.44	43.58	6.082615	7.145662	2.266842	9.609718
DY	130	0.001	11.39751	3.801147	2.327202	0.688539	3.394565
DPS	130	0.000218	32.93363	3.901349	5.16186	2.651474	12.27889

Source: Authors computation using e-views 9.0

The table 2 above shows the summary statistics of the variables used in the study. The variables include Investment Decision (ID), Payout Ratio (POR), Earning Per Share (ESP), Dividend Yield (DY) and Dividend Per Share (DPS) Independent Variable.

The results show a total of 130 observations included in the study. Investment decision (ID) is the dependent variable proxied by price earnings ratio. It measures investors’ confidence in the firm growth level, since the higher the price earnings ratio of the firm the higher the investors’ confidence in the firm, (Kurfi 2003). The mean of ID is 20.9. Indicating the average level of confidence on the companies is 20.9%. The possible deviation from the average is 22.5. Also

the mean and standard deviation of POR is 61.6 and 72.1 respectively. Likewise, the mean and standard deviation of ESP is 6.08 and 7.14 respectively. Also, the mean and standard deviation of DY is 3.80 and 2.32. Also, the mean and standard deviation of DPS is 3.90 and 5.16 respectively. The results from all the table showed the Skewness and the Kurtosis of the variables. This result showed that all the variables are positively skewed.

Panel Results of Fixed and Random Effects Regression

The study used the traditional panel estimation techniques, namely fixed effects and random effect to investigate the influence of Earning Per Share (ESP), Payout Ratio (POR), Dividend Per Share

(DPS), and Dividend Yield (DY) on Investment Decision (ID). The Fixed effects is used because it takes into account the individual effects or both individual and time-specific effects across individual variables. While, the random effect is

Table 3: Hausman Test

chi2(4)	6.70
Prob>chi2	0.1526

Sources: Author’s Computation using Stata version 14.0

Test: Ho: difference in coefficients not systematic

Regarding choice of a more efficient and appropriate panel estimation technique between fixed and random effects, Hausman Test reported in tables 4.2 suggest with chi2=6.70 and P=0.1526, it is not possible to reject the null hypothesis of common intercept, and conclude that the fixed effect significantly perform better than random effect. This means the fixed effect is more

used because it allows the individual or times-specific effects or both of them to be random which captures time-variant and time-invariant characteristics of explanatory variables?

appropriate and robust estimator when compared to the random effect.

Also, after obtaining an appropriate estimation technique using the Hausman test there is also need to conduct post estimation test. This involves carrying out diagnostics test to check consistency and reliability of the fixed effect panel estimation techniques. Table 4.3 reported all the two test conducted, which are multicollinearity test, Serial Correlation Test and heteroscedasticity tests.

Table 4: Fixed Effect Post Estimation Test

	Multicollinearity	Heteroskedasticity Test	Serial Correlation
VIF	7.59		
X ² –Statistics		6005.75**	
F-Statistics			10.113**

Sources: Authors’ Computation using Stata version 14.0 (2018). The asterisks ** and * indicate significance at 5% and 10% respectively.

Multicollinearity is a problem that can arise with multiple regression analysis. It refers to a situation where two or more of the independent variables are highly correlated with each other resulting in a paradoxical effect. This problem can be detected using variance inflation factor (VIF). When multicollinearity is present, one of the highly correlated variable must be removed from the regression equation (Gujarat & Porter 2004 in Maladjian & El-Khoury 2014). The results of the multicollinearity test suggest absence of collinearity among explanatory variables. This is evident in table 4.3 where the variance inflation factor (VIF) test for multicollinearity indicates the mean VIF of 7.59 which implies that colinearity is not a concern in this model. The fact that model is free of multicollinearity problems suggest the results is consistent with the advantage of using panel data which is characterized by less collinearity.

Also, the study conducted the test of heteroscedasticity using the modified wald statistics for group-wise heteroscedasticity in a residual of fixed effect regression model. The test is based on the null hypothesis that the observations are homoscedastic. However, the results suggest the acceptance of the null hypothesis of homoscedasticity based on the fact that the P-values are more than 0.05. Therefore, there is no problem of heteroscedasticity. A test for serial correlation was also conducted using Wooldridge test for autocorrelation in a panel data. The test is meant to check whether there is serial or autocorrelations in a panel data among the panel data observations. The result detected no signs of autocorrelation under the null hypothesis no first order autocorrelation. It also suggests highly insignificant F-statistic of 10.113 as the P-value more than 0.05. Since the model used has pass the entire necessary test. Then the fixed effect model will be used for further analysis.

Table 5: Results of the Panel Estimation

Dependent variable LOGID		
Variables/Estimators	Fixed Effect	Random Effect
LOGESP	-0.422504** (0.1045269)	-0.3976873** (0.0922822)
LOGPOR	0.6834217** (0.0770293)	0.6652356** (0.0711527)
LOGDPS	0.23152** (0.1243624)	0.3191127** (0.0912925)
LOGDY	-0.8149008** (0.0981745)	-0.823189 (0.0669842)

Sources: Authors’s Computation using Stata version 14.0 (2018). The asterisks ** and * indicate significance at 5% and 10% respectively. The figures in parenthesis () are standard errors.

The results displayed in table 4.4 above presents both the Fixed model and Random Effect model. As the Hausman Test suggest, we will use the fixed effect for the analysis.

From the table above using the fixed effect model, ESP has a negative and significant effect on Investment Decision (ID) of blue chip companies in Nigeria. This finding implies that a sustain improvement in ESP will reduce Investment Decisions of blue chip companies in Nigeria. This result is inconsistent with the findings of Pankaj (2017) which suggested a positive and insignificant relationship between earnings per share and investment decision. It is also in line with the Dividend irrelevant theory which also argued that dividend is irrelevant, M&M argued that firm’s value is dependent on earnings of the firm that results from the firm’s investment decision.

The results further suggest that Dividend Payout Ratio (POR) has a significant positive effect on Investment Decision (ID) of blue chip companies in Nigeria. This implies that an increase in Payout ratio will lead into an increase in Investment Decision of blue chip companies in Nigeria, all things being equal. This result is in line with the findings of Tuigong Jagongo and Ndede (2016). The study also is consonance with the Bird in hand Theory which states that a firm that does not pay dividends, its future market value is always clouded with uncertainty if investors will realize anticipated capital gains. Contrary to the postulation of the dividend irrelevance theory, Gordon (1959) stated that investors are risk averse, that they will rather prefer dividend payment now than future capital gain. A high payout ratio indicates management’s confidence in the stability and growth of future earnings while a low payout

ratio suggests that management is not confident of the stability of earnings or sustainability of earnings growth What also must be determined is the dividend yield, which can best be determined by analyzing comparable companies. Similarly, the results showed that DPS has an insignificant positive effect on Investment Decision (ID) of blue chip companies in Nigeria. This implies that an increase in DPS will lead to an increase in Investment Decision within the companies all other things being equal. The study is not the same with the findings of Evans and Hadrat (2016). This study is in consonance with dividend irrelevancy theory. The dividend irrelevance theory on the assumption that amount of dividends (dividend payout ratio) which is given to the firm’s shareholders is usually equal or greater than free cash flow which is generated by a fixed investment policy

However, the result suggests that DY has a significant negative effect on Investment Decision of blue chip companies in Nigeria. This implies that all other things being equal as an increase in DY will lead to an Increase in Investment Decision (ID) within the companies. The above result is supported by the studies of Kehinde, Uwalomwa, Olubukola, Osariemen, and Sylvester (2017). The result is in line with the Dividend relevancy theory which suggested that the determinants of cost of equity according to the model developed by Gordon are future dividend, the growth rate and the current share price. Therefore, dividend yield and growth provide return to holders of equity. It purports dividend yield is more important in measuring return on equity than cost and that dividends are more relevant in determination of firm’s value.

Panel Long-Run Parameter Estimates

After examining the short-run effects of the model, it is necessary to ascertain the Long-run effect and relationship of the variables in the model. The Long-run parameter estimate is computed using Dynamic Ordinary Least Square (DOLS) regression. However, for the sake of completeness and to show robustness of the DOLS regression technique both pooled OLS and Fully Modified OLS are also computed. The preference of DOLS over Pooled OLS and FMOLS is for a number of

reasons. First, it is asymptotically biased and its distribution depends on nuisance parameters in the context of panel estimate (Kao and Chiang, 2000). Secondly, although FMOLS and DOLS can be used to correct the bias inherent in OLS, the differences between the two techniques are that, while FMOLS uses non-parametric approach, DOLS uses parametric approach, hence the superiority of DOLS. The results reported in Table 4.4 are with objective of assessing the dynamic effect of explanatory variables on Investment Decision within the companies.

Table 6: Results of the Panel Long-Run Estimation

Dependent variable LOGID				
Variables/Estimators	LOGESP	LOGPOR	LOGDPS	LOGDY
OLS	-0.397687** (0.092282)	0.665236** (0.071153)	0.319113** (0.091293)	-0.823190** (0.066984)
DOLS	-2.942599** (29.87780)	-1.880693** (29.86170)	2.657923** (29.87409)	-0.768500** (0.079603)
FMOLS	-0.362849** (0.074388)	0.730274** (0.056605)	0.292530** (0.128082)	-0.863819** (0.078250)

Sources: Authors’s Computation using Eviews version 9.0 (2018). The asterisks ** and * indicate significance at 5percent and 10 percent respectively.

The long-run parameters estimated using OLS, FMOLS and DOLS are reported in table 4.5 above. Since the variables used in this study are measured in logarithms, the coefficients obtained from the long-run relationship be considered as long-run elasticity. However, from the estimated techniques, the findings suggest rather mixed results in terms of signs, significant and magnitudes. The results will be interpreted using the DOLS estimator and be compared with the other estimators.

Earnings per Share

The results from the DOLS suggest that estimated elasticity coefficient of ESP indicates a unit change in EPS will lower the investment Decision by 2.9 percent holding other variables constant. However, Unlike the OLS and FMOLS the EPS was found to be statistically insignificant. The magnitude of the DOLS estimator is different with the other estimators. From the OLS and FMOLS result suggest that 1 percent increase ESP will lead to 0.4 percent and 0.36 percent decrease in Investment Decisions respectively.

Dividend Payout Ratio

Also, coefficient of POR is negative and statistically insignificant. The result from the DOLS is different from the other estimators. The others estimators showed a positive and significant relationship. The result suggests an increase in

POR by 1 percent will lead a decrease in Investment Decision by 1.8 percent. From the OLS and FMOLS estimators, the results suggest that an increase in POR by 1percent will lead to an increase in investment decisions by 0.67 percent and 0.73 percent respectively.

Dividend per Share

In addition, the result from the DOLS is inconsistent with the other estimators. However, when it comes to the sign the DOLS estimator is consistent with the other estimators. From the result a percentage increase in DPS will lead a 2.66 percent increase in investment decision. The results form OLS and FMOLS suggest that an increase in DSP will lead to 0.32 percent and 0.29 percent increase in investment decisions.

Dividend Yield

Also, the coefficient of DY in the DOLS estimator is consistent with the other estimators and the magnitude is also consistent with the other estimators. From the results of OLS, DOLS, and FMOLS showed that an increase in DY by 1 percent will lead to decrease in investment decision by 0.82 percent, 0.78 percent and 0.86 percent respectively.

Conclusion and Recommendations

The main objective of the study was to investigate the effects of dividend policy on investment decisions of blue chip companies in Nigeria. Specifically, the study sought to establish the relationship between dividend payout ratio, earnings per share, dividend per share and dividend yield and investment decisions. The hypotheses were tested to achieve these objectives, using the fixed effect regression for ten years' panel data between the years 2007 to 2016. Based on the empirical findings of the study. It could therefore be concluded that dividend policy influences investment decision of blue chip companies in Nigeria. Therefore, managers and investors are advised to pay more attention to dividend as it affects the investment decisions in that, investors prefer immediate gain rather than capital gain.

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