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## Dividend Policy and Shareholders' Wealth in Nigerian Quoted Banks

S. Ojeme<sup>[a],\*</sup>; A. I. Mamidu<sup>[a]</sup>; J. A. Ojo<sup>[a]</sup>

<sup>[a]</sup>College of Social and Management Sciences, Accounting Department, Achievers University, Owo, Ondo State, Nigeria.

\*Corresponding author.

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### Abstract

In 2008, the global financial meltdown was partly responsible for the bearish movement of stock prices in the Nigerian Stock Exchange. This shows that more than a single factor could be responsible for the movement of prices of quoted stocks. Company performance and information about the introduction of new technologies are among the factors that have significantly affected the market value of shares in the past. Therefore, this paper examines empirically, the implications of adopted dividend policies on the value of shareholders' wealth and the extent to which dividend policy affects the market value of shares in quoted banks in Nigeria. The paper focuses on the situation before and after the financial meltdown. Correlation results of dividend paid in 2007-2010 and their corresponding market value showed that payment of dividend by quoted banks is relevant to their market value and the amount paid as dividend affects the value of their share. The paper also provides insight into the implications and effect's of policy decisions as it affects dividend payout and dividend retained for further growth on shareholders' wealth.

**Key words:** Dividend; Dividend policy; Shareholders' wealth; Quoted banks; Capital market

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### INTRODUCTION

The role of the capital market in the mobilization of medium and long-term capital and the distribution of this fund to firms that need them for the financing of their business activities is indispensable in the growth of any economy. However, when businesses become profitable, the issue of how to apply this profit between the need to retain it for further growth of the organization or distribute it as dividend arises. The quest to arrive at an optimal decision between these contending needs in the interest of shareholders has plunged stakeholders in businesses and the academia to seek the best policy for firms. Walter and Gordon (1959) led the group that argued that dividends were all that mattered in the determination of share prices. However, Modigliani and Miller (1961) argued against the claim that an active dividend policy should be pursued as a means of maximizing shareholders' wealth. They argued that in a tax-free world, shareholders are indifferent between dividends and capital gains, and the value of a company is determined solely by the earning power of its assets and investment. This research work therefore is to establish the true position in the Nigerian Stock Market using quoted banks as a focal point.

### 1. LITERATURE REVIEW

#### 1.1 The Nigerian Capital Market

The origin of the Nigerian capital market date back to colonial times when the British government ruling at the time sought funds for running the local administration (Osaze, 2007). According to Osaze (2007), most of the revenue at the time was from agriculture, produce marketing, and solid mineral mining. These sources of funds were inadequate to meet its growing financial obligation, therefore it saw the need to raise fund from

the public since revenue from tax and other payments was inadequate. This led to the establishment of the basic infrastructure for a financial system. According to Odife (2000) (as cited in Osaze, 2007), the first step in this direction was to secure the necessary finance for the development of this infrastructure by promulgating the 1946 10-year plan Local Loan Ordinance for the floatation of the first three hundred thousand pounds 8% government stock with its management vested on the Accountant-General. According to Osaze (2007), the Nigerian capital market has grown to a level where it recorded the following feat between 1946 and December, 2005:

- 1 Stock Exchange with 9 trading floors
- 1 commodity exchange
- 288 security listings
- 168 broker dealers/fund managers/portfolio managers
- 80 broker dealers/issuing houses
- 242 solicitors
- 85 reporting accountants
- 35 registrars
- 1 powerful Securities and Exchange Commission
- 1 investors' Protection Fund
- 769 capital operators (stockbrokers and dealers, issuing houses, registrars, investment advisers etc)
- 1 Investment and Securities Tribunal

Babalola and Adegbite (1993) opine that using the following generally acceptable criteria of number of listed companies, number of listed securities, size of the market or market capitalization and all share indexes. Nigerian capital market has experienced remarkable progress since 1986 when it was deregulated. He however noted that transactions in equities in the market based on its current level of development could be considered to be weakly formed at the level of information dissemination and processing to influence market behavior remained weak. He posited that with the computerization of trading and increased transparency in delivery of corporate information, the market has become more efficient.

According to Sanni and Adeyemi (2011), for ten years (1999-2008) the stock market grew, soared, and gained extreme strength. The market experienced a period of record expansion and boom. Investors, Market Operators, Regulators, and Market Analysts were all pleased with this development. The NSE All share Index grew from 5,672.76 on January 2, 1999 to 58,579.77 on January 2, 2008, a 933% increase. Between 1999 and early 2008, total returns on most stocks exceeded 1000%. The Nigerian Stock Market emerged as the world's best performing stock market in 2007 with a return of 74.73%. The market hit a new high on March 5, 2008 when the NSE All Share Index hit a record 66,371.20 points or an increase of 1,070%. Thereafter the index started to head

down. The NSE All Share Index dropped by 45.8% or 26,539.44 points to close at 31,450.78 on December 31, 2008 there by earning the unenviable record as one of the world's worst performing stock markets after losing about N5.7 trillion in market capitalization and 46% in the NSE All Share Index.

Babalola and Adegbite (1993), asserted that the problems of the Nigerian capital market include; the small size of the market, illiquidity, slow growth of securities market, delay in delivery of share certificates, problem of manual call-over, double taxation, lack of effective underwriting and problem of macroeconomic instability. They however recommend the following as useful tips for improvement:

- *Review of cost of borrowing from the market*
- *Appropriate savings/investment inducing measures*
- *Tax incentives and listing requirements*
- *Enlightenment on need to patronize the capital market*
- *Increased internalization of the capital market*
- *Formation of under-writing syndicate*
- *Cooperation between SEC and the stock exchanges*

## 1.2 Impact of 2008 Financial Meltdown on the Nigerian Stock Market

According to Anao (2010), the 2008 financial meltdown manifested clearly in the fall of 2008 although the underlying cause can be traced back to several years before then. According to him, the US stock market crash reverberated throughout the Western world, including UK, Germany, France, Iceland, as well as in Eastern Europe and even in Asia and the far East (China, Japan and Korea). He opined that some developing countries such as Nigeria, Kenya and Egypt were affected. He however noted that the collapse of stock prices in Nigeria actually preceded that of the US. According to him, the Nigerian stock market crash actually commenced in April, when foreign investors began pulling out their investments in order to shore up emerging illiquidity occasioned by the 'toxic debts' syndrome back home. He also asserted that the Nigerian stock market crash is partly attributed to the widespread abuse of margin trading by banks and stock broking firms. This abuse according to him created acute illiquidity that necessitated heavy interbank borrowing and the frequent resort to the Expanded Discount Window (EDW) of the Central Bank.

Sanni and Adeyemi (2011) opined that the genesis of the global financial meltdown could be traced to the default in the United States on sub-prime mortgage loans. They opined that the direct effects of the global economic meltdown were felt mostly through the financial sector as stock market volatility increased during this period in losses recorded in major stock exchanges. According to them, in Egypt and Nigeria, the stock market indices declined by about 67 percent

between March 2008 and March 2009. They maintained that the Nigerian capital market started the year as the toast of investors and was acclaimed to be the third best in the world with 303 listed equities and market capitalization of N10.18 trillion in January 2008. This according to them further appreciated to N12.395 trillion as at March 2008. Shortly after, the NSE had its worst decline in its 48-year history with capitalization and All Share Index declining to N3.233 trillion and 31,450.78 from N10.18 trillion and 63,016.60 respectively at the beginning of the year. They asserted that the problem was worsen by the loss of investor's confidence, exit of offshore portfolio investors, conflicting regulatory signals on the margin lending policy, increased pressure on banks to call back margin trading facility and banks' year-end harmonization. The year ended with a double-digit inflation rate of 14.7 percent and the naira began to slide against the dollar.

### 1.3 History of Dividend Policy

Frankfurter and Wood (1997), (as cited in Husam-Aldin, Michael and Rekha, 2010) asserted that corporate dividend date back to the early sixteenth century in Holland and Great Britain when captains of sixteenth century sailing ships started selling financial claims to investors, which entitled them to share in the proceeds of the voyages. According to them, this was not an annual thing as the profits and the capital were distributed to investors at the end of each voyage thereby liquidating and ending the venture's life. However, by the end of the sixteenth century, these financial claims began to be traded in the open markets in Amsterdam and were later replaced by shares of ownership. Diversification of risk during this period was done by buying shares from more than one captain.

According to Husam-Aldin et al. (2010), the ownership structure of shipping firms gradually evolved into a joint stock company form of business. It was the chartered trading firms more generally, that adopted the joint stock form. In 1613, the British East India Company issued its first joint stock shares with a nominal value. According to Baskin (1988), (as cited in Husam-Aldin et al. 2010), the successes of the ventures increased their credibility and shareholders became more confident in the management of the captains and this was accomplished by among other things, the payment of "generous dividend." In the seventeenth century, the success of this type of trading company seemed poised to allow the spread of this form of business organization to include other activities such as mining, banking, clothing, and utilities (Husam-Aldin et al, 2010). They asserted that in the early 1700's, excitement about the possibility of expanded trade and the corporate form saw a speculative bubble formation, which collapsed spectacularly when the South Sea Company went into bankruptcy.

Husam-Aldin et al. (2010) maintained that in the early stages of corporate history and in the nineteenth century, managers realized the importance of high and stable dividend payments. In some ways this was due to the analogy investors made with other forms of financial security traded, namely government bonds. Bonds paid a regular and stable interest payment. Today, dividend is every investors delight. Though some investors prefer capital appreciation, they still expect managers to pay dividend in additions.

### 1.4 Dividend Relevance or Irrelevance Theory

There is considerable debate on how dividend policy affects firm's value. Some researchers believe that dividends increase shareholders' wealth (Gordon, 1959) while others believe that dividends are irrelevant (Miller and Scholes, 1978), and still others believe that dividends decrease shareholder wealth. Husam-Aldin et al. (2010) asserted that there are three main contradictory theories of dividend. They include high dividends increase share value theory, low dividends increase share value theory and the dividend irrelevance hypothesis. According to Husam-Aldin et al. (2010), several other theories of dividend policy have been presented, which further increases the complexity of the dividend puzzle. According to them, these arguments include the information content of dividends, the clientele effects, and the agency cost hypothesis. Despite the large body of theoretical and empirical research, no consensus has yet emerged.

Mohammed (2007) posited that dividend policy remains one of the most controversial issues in corporate finance. I quite agree with this assertion because empirical results of research findings on this subject have remains in some cases conflicting and contradictory as the theories. According to Mohammed (2007), there is a positive relationship between return on assets, dividend policy, and growth in sales. Surprisingly, his study reveals that bigger firms on Ghana Stock Exchange (GSE) perform less with respect to return on assets. The result also reveals negative association between return on assets and dividend payout ratio, and leverage. Also, Mohammed, Aref and Nejat (2012) found that there is significant relationship between share price volatility with two main measurements of dividend policy which are dividend yield and payout. However, according to them, this result was contrary to (Allen & Rachim, 1996) which showed that share price volatility and dividend yield are not associated. They concluded that managers of companies might be able to change their volatility of their share prices by altering their dividend policy.

### 1.5 Nigerian Investors Risk Profile

Investment in the Nigerian stock market is influenced by different motives. While some investors are interested in capital appreciation, some are interested in payments

of dividend. However, some are interested in both, in varying degree. These motives are influenced by age, sex, level of education and attitude to risk amongst others.

Ekpenyong (2005) maintain that majority of Nigerian Investors are willing to take risk at reasonably high level. He asserted that females were more willing to take risk than males with 59.6 to 57.6 percent, but the males were more aggressive in investment behavior compared to the females. According to him, there is the need to foster a stable and predictable macroeconomic environment and the subsidization of investment advisory services in order to spur Nigerian investors from moderate attitude towards risk taking into aggressive investment behavior. He also advocated that the populace should be educated on the benefits derivable from investing in the capital market.

### 1.6 Unclaimed Dividends in the Nigerian Stock Exchange

Unclaimed dividend in the Nigerian capital market has assumed a worrisome dimension and finding lasting solution to this problem has been of great concern to the Security and Exchange Commission (SEC), the Nigerian Stock Exchange (NSE) and investors whose returns on investment continue to accumulate over the years.

The clamour for the reduction of the amount of unclaimed dividends has gathered momentum with corporate agencies, shareholders, individuals, associations and government agencies at one time or the other calling for research and study that would assess the problems and proffer solution to this ever-increasing rate of unclaimed dividend.

The E-dividend system of payment that was introduced by SEC in a bid to address the delay associated with the verification of proceeds of public offers as well as delay encountered by investors in getting returns on their investments has not recorded the desired impact at helping in the war against this menace. According to Olajide and Adewale (2011), one of the major problems associated with investing in the capital market is the issue of unclaimed dividends and unclaimed share certificates. In his view when returns are not forthcoming, the investors are likely to lose confidence and divest to other investment opportunities. SEC puts the value of unclaimed dividend in Nigeria, in the region of N52 billion as at December 2011. Olajide and Adewale (2011) recommend that external business environment and internal business environment should be made favorable for the adoption of e-dividends method on the other to reduce the

problem of unclaimed dividends in the Nigerian Stock Market.

## 2. RESEARCH METHODOLOGY AND MODEL SPECIFICATION

### 2.1 Research Methodology

The study relied mainly on the secondary data gotten from the Nigerian Stock Exchange and from the financial statements published by quoted banks. In order to get a meaningful result the study is limited to the banking industry. All the 21 banks quoted in the Nigerian Stock Exchange within the period under consideration constitute the population of this research work. The market value of shares and the dividend paid in 2007 to 2010 was considered. A correlation analysis was made to arrive at a conclusion.

### 2.2 Statement of Hypothesis

- (a) Ho: Payment of dividend is irrelevant and the amounts paid do not affect the market value of banks' share.  
 Ha: Payment of dividend is relevant and the amounts paid affect the market value of banks' share.
- (a) Ho: Payment of dividend is not the only factor that affects the market value of banks' share.  
 Ha: Payment of dividend is the only factor that affects the market value of banks' share.

### 2.3 Model Specification

$$r = \frac{\sum(x - \bar{x})(y - \bar{y})}{\sqrt{\sum(x - \bar{x})^2 \sum(y - \bar{y})^2}}$$

Where  $x$  = Average market value,  
 $y$  = Dividend paid,  
 $r$  = Correl ( $x, y$ ).

### 2.4 Data Presentation

**Table 1**  
**Correlation Result for 2007 to 2010**

Year	Correl (X,Y)
2007	0.9149
2008	0.4227
2009	0.4984
2010	0.7895

**Table 2**  
**Market Value of Shares and Dividend Paid by Quoted Banks in 2007-2010**

Bank	2007				2008				2009				2010			
	Year High	Year Low	Year Average	Div Paid	Year High	Year Low	Year Average	Div Paid	Year High	Year Low	Year Average	Div Paid	Year High	Year Low	Year Average	Div Paid
Access	19.32	7	13.14	0.4	7.3	3.54	5.42	0.65	8.6	8.26	8.43	0.7	9.69	9.36	9.525	0.2
Afribank	36.89	12	24.2	0.3	9.61	6.14	7.875	0.5	2.08	1.96	2.02	0.5	2.26	2.2	2.23	0.5
Diamond	22.78	7.5	15.125	0.55	7.46	4.14	5.8	0.56	8.03	7.81	7.92	0.09	7.6	7.49	7.545	0
Ecobank	10.42	5	7.7	0.09	27.96	27.96	27.96	0.24	3.7	3.66	3.68	0	3.63	3.5	3.565	0
Fidelity	12.71	2.2	7.43	0.16	4.69	2.86	3.775	0.3	2.45	2.32	2.385	0.05	2.75	2.68	2.715	0.025
First bank	57.41	32	44.705	1	21.11	14.38	17.745	1.2	13.2	12.6	12.9	1.35	13.9	13.6	13.745	0.6
First city mon.	18.1	4.1	11.075	0.35	6.15	3.5	4.825	0.5	7.29	6.83	7.06	0	7.7	7.7	7.7	0.05
First inland	12.99	3.4	8.19	0	4.45	2.55	3.5	0	0.69	0.69	0.69	1.05	0.72	0.7	0.71	0.25
Guaranty	37.96	18	28.055	0.75	13	9.7	11.35	0.95	17.2	16.9	17.05	1	17.8	17.8	17.78	1
Intercontinental	29	14	21.3	0.65	13.46	5.55	9.505	0.75	1.89	1.89	1.89	0	2.24	2.19	2.215	0
Oceanic	32	12	22.24	0.42	12.05	6.04	9.045	1.02	2.2	2.2	2.2	0.3	2.53	2.45	2.49	0
Platinum-Habib	32.02	2.9	17.47	0.7	10.24	6.1	8.17	0.45	9.35	9.3	9.325	0	1.74	1.69	1.715	0
Skye bank	14	3.5	8.76	0.35	8.59	3.44	6.015	0.6	7.5	7.32	7.41	0.05	9	8.3	8.65	0.4
Spring bank	7.16	3.8	5.48	0	5.59	5.59	5.59	0	0.78	0.78	0.78	0	0.91	0.91	0.91	0
Stanbic IBTC	12.13	7.1	9.59	0.3	10.9	4.27	7.585	0.25	9.02	8.75	8.885	0.4	9.3	9.15	9.225	0.39
Sterling bank	10.1	3	6.55	0	2.42	1.49	1.955	0.1	1.96	1.96	1.96	0.1	2.3	2.19	2.245	0
UBA	57.75	25	41.53	1	13.4	6.67	10.035	0.25	9.2	8.8	9	0.1	9.19	9.05	9.12	0.05
Union bank	49.99	23	36.45	1	16.27	9.78	13.025	1	4.17	4	4.085	0	4.3	4.15	4.225	0
Unity bank	8.89	2.5	5.695	0	3	1.48	2.24	0	1.14	1.14	1.14	0	1.17	1.14	1.155	0
Wema bank	11.88	3.2	7.53	0	14.29	9.04	11.665	0	1.22	1.19	1.205	0	1.37	1.33	1.35	0
Zenith bank	68.97	24	46.685	1	22	12.1	17.05	1.7	14.1	13.1	13.575	0.45	15.1	15	15.05	0.85

## 2.5 Data Analysis

Twenty-one (21) quoted banks on the Nigerian Stock Exchange were considered in the study. This constitutes the listed banks in the period under consideration. Table 1 show the average market value of shares for year 2007 to 2010 and the dividend paid in the same period i.e. 2007 to 2010 while Table 2 shows the correlation result.

## 2.6 Testing of Hypothesis

- (a) Ho: Payment of dividend is irrelevant and the amounts paid do not affect the market value of banks' share.

Ha: Payment of dividend is relevant and the amounts paid affect the market value of banks' share.

From Table 1, correlation result showed that in 2007, 2008, 2009 and 2010, the results obtained are 0.9149, 0.4227, 0.4984, and 0.7895, respectively. Within this period, a positive correlation was established by the result gotten. This showed that the alternative hypothesis should be taken because of the positive figures in all the years, indicating that payment of dividend is relevant and the amounts paid affect the market value of banks' share.

- (b) Ho: Payment of dividend is not the only factor that affects the market value of banks' share.

Ha: Payment of dividend is the only factor that affects the market value of banks' share.

From Table 1, the result of 0.9149, 0.4227, 0.4984, and 0.7895 for 2007, 2008, 2009, and 2010 respectively showed that payment of dividend is not the only factor that affects the market value of a company's share. This is because the result is less than one. Results of less than one, show that other factors are responsible for the difference.

Therefore, the null hypothesis should be taken as the result showed that payment of dividend is not the only factor that affects the market value of the company's share.

## 3. SUMMARY AND FINDINGS

The 2008 financial meltdown was partly responsible for the fall of share prices in the Nigerian Stock Exchange in 2008. This shows that not only dividend policy affects the movement in share prices. However, more than a single factor could be responsible for the movement in the market value of share prices. Correlation results in Table 2 showed that in 2007 to 2010, the results obtained were 0.9149, 0.4227, 0.4984, and 0.7895, respectively. Therefore, results from this research work show the following findings:

(a) Payment of dividend by quoted banks is relevant to their market value.

(b) The amount paid as dividend affects the value of their shares.

(c) Payment of dividend by quoted banks is not the only factor that affects the value of their shares.

## CONCLUSION AND RECOMMENDATION

This research work reveals that in the Nigerian Stock Exchange, payment of dividend is relevant and the amount paid affects the market value of banks' share. However, this is not the only factor that affects the market value of banks' shares. Therefore, sequel to these research findings, the following recommendation is made:

(a) Banks should endeavor to pay dividend regularly, as this is expectation of some investors (current and potential).

(b) Banks should strike a balance between retention and payout ratio. This will however depend on the business opportunity available to the banks.

(c) There should be a steady increase in dividends paid by banks through the years. This shows trend performance in the eyes of investors.

(d) Other factors in the business environment should be considered before arriving at a dividend policy.

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