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CORPORATE DIVIDEND DECISION AND FIRM VALUE IN NIGERIA: A COMPREHENSIVE REVIEW

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Abstract

Corporate dividend decisions play a significant role in managerial decisions, and is often considered as the fulcrum of financial management decisions. While making these decisions, corporate finance is single-minded about maximizing the value of the firm. But the raging issue has been the lack of consensus on the effect of dividend policy on firm. This study therefore undertakes a comprehensive review of dividend policy theories and empirical studies on dividend policy in relation to firm value, with particular focus on Nigeria. The paper adopts the exploratory research approach using secondary data sources involving extensive review of relevant articles, theoretical and empirical studies, as well as other relevant materials. The paper established that, despite the raging theoretical controversies and contradictions of past empirical findings, there is unanimity among many researchers that corporate dividend decisions exert significant influence on firm value- a position which validates the arguments in favour of the relevance of dividends policy in determining firm value. The paper therefore recommends that finance managers of firms should aim at finding an optimal dividend policy, which is the one that maximizes the company stock price that leads to the maximization of firm value.

Key Words: Corporate Dividend, Firm Value, Nigeria

Introduction

Firms are established primarily to maximize their value and that of their shareholders. Hence, the goal of corporate entities is not only to maximize profit, but also to maximize the value of the firm. Managers of firms achieve this through the three corporate financial decisions: Investment, Financing and Dividend Decisions. The decision about dividend has essentially been identified in corporate finance literature as one of the three main groups of decisions companies make. Investment, Financing and Dividend decisions are interdependent and must be resolved simultaneously (Malu & Audu, 2019). Like Financing decision and Investment decision, Dividends decision is also a major part of the financial manager functions and hence explains a firm's dividend

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policy. While making these decisions, corporate finance is single-minded about the ultimate objective, which is assumed to be maximizing the value of the business (Turakpe & Fiiwe, 2017). Therefore, the objective of the finance manager should be finding an optimal dividend policy that will enhance the value of the firm. (Ojeme et al., 2015).

Corporate dividend decision is determined by the company's dividend policy, which is not only an important theme in corporate finance, but has remained one of the most controversial subjects-matter in corporate finance. Dividend policy is a finance management function that determines the proportion of the firm's profit that will be distributed to the shareholders and the proportion that will be retained for further investment (Ayunku & Apiri, 2020). Dividend policy is a company's decision to either pay out profits as dividends to shareholders or to hold it as retained earnings for potential future growth. This decision involves whether to pay dividends, the periodicity of dividend payment and how much to pay as dividends.

Indeed, corporate dividend decisions play a significant role in managerial decisions, and often considered as the fulcrum of financial management decisions. This is because dividend decision involves determining the amount distributed to shareholders as earnings or the amount to reinvest internally (Abdullahi et al. 2020). Dividend policy remains one of the most important financial policies, not only from the viewpoint of the company, but also from that of the shareholders, consumers, employees, regulatory bodies and the Government (Uwuigbe et al., 2012). As an important aspect of corporate finance, dividend policy has gained considerable attention from researchers, providing theories, hypotheses, and explanations as regards the distribution of income to company's shareholders after retaining a specific amount of earnings to be reinvested in the business (Paramasivan & Subramanian, 2012).

Accordingly, extant literature is saturated with the works of foremost Scholars either in support of or against the effect of dividend policy on firm value. While scholars like Modigliani and Miller (1961) believed that dividend policies are irrelevant in determining the value of firms, others like Lintner (1956), Gordon (1959) and Walter (1963), argued that dividend policies are relevant and greatly influenced the value of firms. In fact, the study of dividend policy in the modern era has its foundation in the classical pioneer Article by Merton Miller and Franco Modigliani, published in 1961, in which they argued that under certain perfect market conditions, dividend policy does not have significant effect on a firm's value and is therefore irrelevant. Since then, efforts have been made by researchers in building up the literature on dividend policy and firms' value. It has been argued that one of the likely areas of addressing the dividend puzzle is linking dividend policy and performance of firms (Ali & Shboul, 2023).

Adelegan et al. (2021) observed that the study of dividend policy started to receive attention among academic scholars in Nigeria when Uzoaga and Alozienwa (1974) attempted to highlight the pattern of dividend policy pursued by Nigerian firms, particularly during the period of Indigenization and participation programme, defined in the first Indigenization Decree of 1973. They reported that they found very minimum evidences to support the classical influences that determine dividend policies in Nigeria during this period. However, despite years of investigations, Financial Scholars have not yet reached an unequivocal answer to the question of whether or not dividend payments have any connection to a firm's value (Budagaga, 2017).

PROBLEM STATEMENT

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The primary problem centers around the controversy surrounding the effect of dividend policy on the value of firms. Several theories have been proposed over the years to ascertain whether there is a relationship between dividend policy and the value of firms, but yet, there has not been any universal consensus (Idewele & Murad, 2019). The raging issue is that there is lack of consensus and unanimity (Ayodele, 2019). Dividend policy has long been a puzzle in corporate finance. No wonder Black (1976) argued that "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". The controversies on the effect of dividend policy on firm value have deepened on the Stock Market of the emerging economies such as Nigeria. Despite the extensive discourse in existing literature, a lack of consensus persists, particularly in the context of the Nigerian stock market.

PAPER OBJECTIVE AND METHODOLOGY

This paper is aimed at taking a comprehensive review of dividend policy in relations to corporate value in Nigeria. In order to accomplish this, the paper adopted the exploratory research approach using secondary data sources involving extensive review of relevant articles, theoretical and empirical studies, as well as other documented materials found to be relevant to the article.

LITERATURE REVIEW

CONCEPTUALIZING DIVIDEND, DIVIDEND POLICY AND ITS VARIABLES

Dividends are the rewards that investors as companies' shareholders receive, in the form of cash, shares or other medium (Ukpong et al., 2019). Dividend is that portion of a company's net earnings which the Directors recommend to be paid to the shareholders in proportion to their shareholdings in the company. Company pays dividend to reward existing shareholders and encourage others that are prospective shareholders to buy new issues of the common stock at high price (Adam & Tobias, 2018). Considering the importance of dividends from investor's point of view, dividend may not only be a source of income but also a way to assess whether to invest in a company or not (Abubakar & Garba, 2017). However, the choice of paying dividends is ultimately decided by the Board of Directors of the company, and once dividends have been declared, it becomes a debt to the firm and cannot be overturned easily. Dividends are good explanations of company's stewardship. Good dividends are effectively communicated and initiated through effective dividend policies (Ukpong & Ukpe, 2023).

The decision to announce dividends, amount of the earnings to distribute, when to distribute it, and mode of distribution are known as Dividend Policy, and this decision is taken solely by the firm and its Board of Directors based on the organizational long-term earning ability. Dividend policy is the regulations and guidelines that a company uses to decide to make dividend payments to shareholders (Foong & Malek, 2022). Dividend policy is a company's policy which determines the amount of dividend payments and the amount of retained earnings for reinvesting in new projects. Thus, the policy is related to dividing the firm's earnings between payments to shareholders and reinvestment in new opportunities (Pauley, 2018). Dividend policy is concerned with division of the net profit after taxes between payment to shareholders (common stockholders) and retention for reinvestment on behalf of the shareholders (Kurfi, 2021). Hamid et al. (2012) defined dividend policy as the exchange between retained earnings and paying out cash or issuing new shares to

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shareholders. The Dividend policy of a firm is directed towards establishing the proportion of current income that should be retained and the proportion that should be distributed among its shareholders (Tijjani, 2019). Dividend policy can provide information to stakeholders concerning the company's performance (Velnampy et al., 2014). On the whole, dividend policy is a statement which guides the payment or the appropriation of profit between a firm and its residual owners. It is a statement which clarifies the proportion of profit that should be paid out as a dividend to shareholders, taking into cognizance the organization's environment and the expectations of the shareholders. The amount of dividend can be shown as: dividend per share, dividend payout ratio, and dividend yield.

Dividend per Share is an accounting ratio used to evaluate the total number of dividends declared for each share of issued stock (Emuze, 2020). It is calculated as Dividend paid, divided by Number of Shares. Calculating the dividend per share allows an investor to determine how much income from the company he or she will receive on a per-share basis. Dividends are usually a cash payment paid to the investors in a company, although there are other types of payment that can be received. Dividend Payout Ratio refers to the percentage of net profit paid to shareholders in cash. This indicator is calculated by dividing the total amount of paid dividends (in monetary units) by net profit, and it is also often seen as the indicator of the generosity of the company's dividend policy or the lack of one (Emuze, 2020). Dividend payout ratio is a very important part of dividend decision of a company. The payout ratio will act as a very important indicator affecting shareholders decisions. Companies always try to make a balance between dividends to be paid and retained earnings.

Dividend Yield is one of the financial ratios that measures the cash dividends paid out to shareholders relative to the market value per share. In other words, it is a financial ratio that shows how much a company pays out as dividends to its shareholders each year relative to its share price. Dividend yield is significant because it provides a measure of that component of the total return that comes from dividends, with the balance coming from price appreciation (Idewele & Murad, 2019). Dividend Yield is measured by dividing dividend per share by market price per share, multiplied by 100.

FORMS OF DIVIDENDS

Dividend, as earlier defined, is a reward paid to shareholders for their investment in a company's equity, and this depends on a company's net profits. Forms of dividends represent the different ways a part of earnings per share of each particular stock in a company is paid to the shareholders. Forms of dividend payment include the following:

Cash Dividends

Cash Dividend is payment of dividends in cash. It is customary for any company that declares dividends to pay in cash. When a cash dividend is paid, the implication on the balance sheet is that the company's cash account and reserves account will be reduced, thus reducing both the total assets and the net worth of the company. A company that declares cash dividend must ensure that it has sufficient cash to meet its requirements. The Board of Directors proposes the declaration of dividends by declaring a date of dividend. A date of record for the closure of shareholders' register

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is announced. The date of record is established by the company in order to determine which shareholders are eligible to receive a dividend. A payment date (which is when the money gets credited to investors' accounts) is declared. The declaration of cash dividend is concluded when the shareholders approve the dividends at the Annual General Meeting. Cash dividends provide information about the fundamental economic health of the company (Karethio, 2013).

Property Dividends

A property dividend, also known as dividend in kind, is a dividend paid in assets rather than cash. It is the formal distribution of an asset rather than cash to shareholders. A property dividend can take many forms which include real estate, merchandise, investments, items held in inventory, equipment, etc. Accepted Accounting Principles require property dividends to be recorded at a fair market value which is often different from the carrying amount of the asset. The company is also required to recognize a gain or loss on the asset when distributed. Recording property dividend at a fair value allows for comparisons of other dividend rates in the future (Kennedy, 2015).

Liquidating Dividends

Liquidating dividend refers to the process of returning to the shareholders their full distribution of their original capital investment in the company (Borad, 2019). Liquidating dividends are typically paid when a company is going out of business or when it has sold a portion of the enterprise. Shareholders may believe the corporation has been operating at a profit without proper disclosure and to avoid this misunderstanding, a clear statement of the basis of every dividend must be required to accompany the dividend check (Kennedy, 2015). The difference between regular and liquidating dividends is that while the former are taxable, the latter are not taxable since they are merely the return on the shareholder's investments.

Stock dividends or Bonus Issue

A stock dividend is a dividend payment made by a company in the form of shares rather than cash to its shareholders. They are payments to existing shareholders in the form of stock as a replacement for or a supplement to cash dividends. This method reduces the value per share even though the company's assets, profits and total value are unaffected (Ozuomba & Ezeabasili, 2017). Although Prabakaran (2019) stated that stock dividends are issued in addition to the cash dividend and not in lieu of cash dividends, Kennedy (2015) opined that bonus dividends are primarily issued in lieu of cash dividends when the company has low liquid cash on hand. Stock dividend is a form of dividend where a part of the earnings of a company is capitalized and retained in the business. It does not change the total shareholders' equity. In other words, there is no dilution of ownership (Prabakaran, 2019).

Stock Splits

This is another form of dividend payment whereby the number of shares outstanding for each shareholder increases, but consequently reduces the par value of each share. Stock split is done to infuse liquidity and make shares affordable for various investors who could not buy the shares of that company before due high prices. For example, a 2-for-1 stock split would double the number

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of shares outstanding and halve the par value per share. Existing shareholders would see their shareholdings double in quantity, but there would be no change in the proportional ownership represented by the shares (i.e., a shareholder owning 2,000 shares out of 200,000 would then own 4,000 shares out of 400,000).

The main purpose of a stock split is to increase the marketability of the stock and also for management to take control (Kennedy, 2015). Stock splits do not change anything about an underlying business or its valuation. They simply multiply the number of shares and make each share worth proportionally less. Ozuomba and Ezeabasili (2017) noted that stock split is commonly used to lower the market price of a firm's stock by increasing the number of shares belonging to each shareholder. This is also known as the dividend valuation model

Scrip Dividend

Scrip dividend is referred to as a promissory note to the shareholders to be paid on a later date. A company uses this type of dividend when it does not have sufficient funds for the issuance of dividends (Borad, 2019).

TYPES OF DIVIDEND POLICY

As identified by Arora (2019) and Oladipupo (2017), the following are the various types of dividend policies:

Constant Payout Dividend Policy

This is a policy where a constant percentage of earnings is paid as a dividend. For instance, a company could have a policy of paying out 10% of its earnings as dividends. With this policy, dividends fluctuate just as earnings do. Investor who seeks a particular level of dividend as a steady source of income will not be favoured by this policy.

No Immediate Dividend Policy

This policy is generally pursued when it is difficult for a company to access the capital market or when shareholders have agreed to go for future higher returns as opposed to a short-term dividend income. The policy of no dividend should be followed by the issuance of bonus shares in order to increase a firm's capital.

Regular Dividend Policy

This policy involves paying a regular steady dividend. With this policy, once a company begins with a particular level of dividend, shareholders can be sure of steady dividends as a source of income that can be sustained in the future if earnings grow at a steady rate. However, if earnings drop below the estimated dividend sustainable level consistently, the firm might eventually consider a cut in dividends.

Irregular Dividend Policy

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Here, dividend per share varies with change in earnings level. There is no fixed amount of dividend per share. The higher the earnings, the higher the dividend, and vice-versa. Shareholders are entitled to dividends only when there are earnings and the liquidity position of the firm is good.

Multiple Increase Dividend Policy

With this policy, a firm announces frequent but small dividend increase periodically just to give an impression of growth and movement. A firm that follows this policy believes that the stock market will consistently respond to a dividend increase.

Regular plus Extra Dividend Policy

Here, a firm pays extra dividends. The firm will divide its announced divided into two portions: a regular dividend and an extra dividend. The regular dividend is paid at the announced level while the extra dividend is paid as circumstances permit.

The Residual Dividend Policy

This is a dividend policy whereby dividends are paid after all capital projects have been met. This policy requires the company to maintain a target project before making any dividend payment.

THE CONCEPT OF FIRM VALUE

Firm value represents the assets owned by a company and it is crucial because it describes the prosperity of the owners of the business in terms of the shareholders' wealth maximization. It has been well documented that the goal of management is to create value for shareholders; specifically, to maximize shareholder wealth (Lee & Lee, 2019). The company's goal is to maximize stakeholders' wealth by maximizing the value of the company. Measures of a firm's value may include human judgment and the firm's accounting net worth adjusted for intangibles; book value, market value, capitalization value of its projected future performance, deductive application and idiosyncrasies of accounting rules (Azenda & Apebo, 2021).

Firm value is an important concept for companies and investors, and is considered an indicator for the market to assess the company as a whole. Firm value is very important for companies because firm value shows how efficient the firm is performing (Chelimo & Kiprop, 2017). Hence, a company is considered prosperous when the firm value is high, and this translates to high prosperity level for its shareholders. Investors also perceive the company through its firm value, and this is related to its stock price. The higher the stock price, the greater the company's worth (Fali et al., 2023). In any case, both investors and business management are highly interested in how dividend policy affects a company's valuation. As it influences investors' cash flows and perceptions of risk, the choice to pay dividends has some effects on a company's value. On the whole, the outcome of a good performance by a firm do not only affect the sources of financing, growth and survival, but also has a powerful influence on the larger economy because of its utmost importance to both the shareholders, managers of firms, creditors and government.

Payment of dividend has the tendency to enhance the firms' share value in the capital market as a result of its informational content about the performance of the firm. An effective dividend policy is therefore extremely important to a company in its desire to maximize the wealth of its

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shareholders. Once management pursues a dividend policy that is contrary to the shareholders interest, dissatisfied investors will sell their holdings. Widespread selling will increase the supply of the firm's share in the market and can result in low prices, subsequently affecting the value of the firm. If a firm retains profit rather than declaring dividends, the price of the firm's shares can rise accordingly. However, shareholders desiring a current return always desire to create income by selling some shares and capture the appreciated value. Furthermore, if all the profits of the firm are distributed immediately to the shareholders, the value of the firm might be affected (Tijjani et al., 2019). Therefore, the objective of the finance manager should be finding an optimal dividend policy that will enhance the value of the firm. (Ojeme et al., 2015). The optimal dividend policy is the one that maximizes the company stock price that leads to the maximization of firm value (Ozuomba & Ezeabasili, 2017).

MARKET MEASURES OF FIRM VALUE

Market Value Per Share (Share/Stock Price)

The share/stock price is the value of the firm's common stock at the stock market. Abubakar and Garba (2017) opined that an increase in share price increases firm value. The market value per share indicates how well a firm is performing in relation to the price of shares. The stock price of a firm is a good proxy for the value of the company, which is defined as investors' estimates of the company's prospects for future profitability (Fali et al.,2023). The value of shares reflects the value of the company, not only intrinsic value at a time, but also reflects the expectation of the company's ability to increase the value of wealth in the future (Sampurna & Romawati, 2019). The Signal theory states that the firm value is shown through signals in the form of information that will be received by investors, and this information can be received essentially through the company's stock price. Abubakar and Garba (2017) opined that an increase in share price increases firm value. Andabai (2020) argued that Dividend policy management has the potential to positively or negatively affect stock prices in the capital market, which has a direct effect on the value of a firm. The market value of a company's shares reflects the choices made by management in terms of where and how much money should be invested. When stock prices go up, investors are optimistic about the future of the companies involved (Reschiwati, et al., 2020). When a firm pays cash dividend or omits such a payment, the firm is making an extremely visible and qualitative change in corporate policy. The decision may have short and long-term effects on the price and volume of the company's shares (Adelegan, et al., 2021).

Market-to-Book Value

The Market-to-Book Value Ratio, which is also called the Price -to-Book Value Ratio, is a financial valuation metric used to evaluate a company's current market value relative to its book value. Market- to-Book value ratio (MBV) assesses the market value of the firm from investor's perspective relative to a share's book value (Fatoki & Nasieku, 2017). Market to book value ratio is a valuation ratio that is used by investment advisors, fund managers and investors to compare a company's market value (market capitalization) to its book value (shareholders' equity) (Marangu & Jagongo,2014). It is typically used by investors to show the market's perception of a particular stock's value.

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The Market-to-Book Value Ratio is important because it can help investors understand whether a company's market price seems reasonable compared to its balance sheet. It also helps a company determine whether or not its asset value is comparable to the market price of its stock. Market-to-Book Value Ratio is considered low when the ratio is less than one, and high when the ratio is greater than one. A low ratio could indicate that the stock is undervalued, which implies a bad investment, while a higher ratio could mean the stock is overvalued, signifying that it has performed well. Value investors typically look for companies that have low market-to-book ratios, among other metrics. Many investors use Market-to-Book Value Ratio to find and invest in undervalued stocks on one hand, and identify and avoid overvalued companies on the other hand.

The Price-to-Earnings (P/E) Ratio

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company, which measures its current share price relative to its per-share earnings (Emuze, 2020). The P/E ratio is a key indicator of company value and one of the most widely used valuation and growth rate metrics investors and analysts consider in evaluating a company's future prospects and suitability as an investment. It is a key component of financial markets and sheds light on market perceptions and investor sentiment regarding expected future profits of a company. It is a popular financial indicator that compares a company's stock price to its earnings per share (EPS) and gives information about the price that investors are willing to pay for every amount of money that the firm earns.

Generally, the price-earnings ratio presents a measure of a company's performance and provides an indication of the market's estimation of the company's future growth prospects. A high P/E ratio indicates that the market is anticipating continued growth in a company's earnings performance based on market value and as such shows that investors have high hopes for the company's future growth. A low P/E ratio could mean that a firm is undervalued or that investors have lesser expectations for its future growth. The Price-Earnings Ratio is computed as the ratio of Market Price per Share to Earnings per Share.

Market Value Added

The Market Value Added (MVA) is a representation of value created by the actions and investments of a company's management. It is a performance measurement tool that computes for the increase in the value of the company's stock price, which is derived by comparing the total market value of the firm and the book value of the invested capital. MVA can be interpreted as the amount of wealth that management has created for investors over and above their investment in the company. A high Market Value Added is evidence that the value of management's actions and investments is greater than the value of the capital contributed by shareholders, whereas a low Market Value Added means just the opposite. Companies with a high Market Value Added are attractive to investors not only because of the greater likelihood they will produce positive returns, but also because it is a good indication that they have strong leadership and sound governance. Market Value Added is calculated as the difference between the Market Value of Equity and Shareholders' Equity.

REVIEW OF THEORIES OF DIVIDEND POLICY

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There are basically two schools of thought when it comes to dividend theories. The first is that dividends have an impact on firm value and the second is that dividends do not have an impact on firm value. Below are some of the theories of dividend policy:

Dividend Irrelevance Theory

The Dividends Irrelevance Theory was put up by Franco Modigliani and Merton Miller (M-M) in their Classical Pioneer Article on the subject, entitled "Dividend Policy, Growth, and the Valuation of Shares", published in 1961 (Miller & Modigliani, 1961). This theory argues that dividend policy does not have significant effect on a firm's value and is therefore irrelevant. It contends that dividend policy has no effect on either the price of a firms' stock or its cost of capital. It holds that regardless of how the firm distributes its income, the market value of the firm will not be affected because its value is determined by its basic earning power and its investment decision. The value of the firm, according to this theory, depends on the firm's earnings that result from its investment policy.

Miller and Modigliani (1961) argued that under a perfect market situation, the dividend policy of a firm is irrelevant, as it does not affect the value of the firm This position has been largely criticized by several authors because in real life situations, we have imperfect market conditions such as taxes, transaction costs, asymmetric information and agency costs. Under this theory, Miller and Modigliani (1961) based their premise on the fact that a corporate organization's dividend policy decision is a passive residual. That is; it is autonomous of the market value of its shares. They discovered that corporate values are estimated by the company's investment and financing decision in the best capital structure, and not by its dividend payout decision. In this manner, dividends are seen as an inactive residual and thus irrelevant in determining corporate values.

Bird in Hand Theory

This theory, which was advanced by Lintner (1956) and Gordon (1959), states that dividends are relevant in determining the value of a firm. This theory claims that shareholders prefer to receive dividends instead of the earnings being reinvested in the company on their behalf. According to this theory, the value of the company will be maximized by a high dividend payout ratio because investors think that current dividends are less risky than potential capital gains. Even though investors should expect to benefit from retaining and reinvesting earnings in their company since the future share prices will increase, there is uncertainty about whether that benefit will actually be realized. They proposed the bird-in-the-hand theory, which logically presents the shareholders as preferring to have a sure dividend now rather than a promised dividend in the future (even if the promised future dividend is larger). This, in essence, makes dividend policy relevant, hence, it affects the share price of a firm.

Al-Malkawi (2007) asserted that in a World of uncertainty and information asymmetry, dividends are valued differently from retained earnings (capital gains). Due to uncertainty of future cash flow, investors will often tend to prefer dividends to retained earnings. Though this argument has been widely criticized and has not received strong empirical support, it has been supported by Lintner (1962), and Walter (1963). The main assumptions are that investors have imperfect information about the profitability of a firm; that cash dividends are taxed at a higher rate than when capital gain is realized on the sale of a share; and that dividends function as a signal of

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expected cash flows. Despite the tax disadvantage of paying dividends, management still go ahead to pay dividends to send a positive signal about the firm's future prospects. The cost of this signaling is that cash dividends are taxed higher than capital gains. While some investors would rather have capital gains to cut down on tax impact others may want dividend because of immediate cash requirement.

Agency Cost and the Free Cash Flow Theory

Agency cost is the cost of the conflict of interest that exists between shareholders and management. This arises when management act on their behalf rather than on behalf of shareholders who own the firm. This could be direct or indirect. Though this is contrary to the assumptions of Modigliani and Miller (1961), who assumed that managers are perfect agents for shareholders and no conflict of interest exist between them. This is somewhat questionable, as the owners of the firm are different from the management. Managers are bound to conduct some activities which could be costly to shareholders such as undertaking unprofitable investments that would yield excessive returns to them, and unnecessarily high management compensation (Al-Malkawi, 2007). These costs are borne by shareholders, therefore shareholders of firms with excess free cash flow would require high dividend payment instead.

Dividend Signaling Theory

The dividend signaling theory expounds that dividend payments tend to communicate insider information to the market based on the asymmetric information between insiders (Managers and Directors) and outsiders (shareholders) (Abdullahi et al., 2020). In other words, the signaling theory proposes that dividend policy can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable information, which shareholders do not have about management's assessment of a firm's future profitability, thus reducing information asymmetry. Investors may therefore use this information in assessing a firm's share price and performance (Ukpong & Ukpe, 2023).

Signaling Hypothesis argues that there is an existence of asymmetric information between managers and shareholders. Modigliani-Miller Hypothesis (1961) assumed that in a firm, information that is available for insiders and outsiders are same; but managers may have information pertinent to the value of the firm which outside investors do not have (Robinson, 2006). This therefore creates a gap between managers and investors. This information gap illuminates the way managers use dividend declaration as a signal which expresses valuable information about future performance of the firm to investors. In order to bridge this gap, management use dividend as a tool to convey private information to shareholders (Al-Malkawi, 2007).

The theory supports the fact that dividend policy positively affects the financial performance of a firm. The change in dividend payment is to be interpreted as a signal to shareholders and investors about the future earnings prospects of the firm. Generally, a rise in dividend payment is viewed as a positive signal, conveying positive information about a firm's future earnings prospects resulting in an increase in share price. Conversely a reduction in dividend payment is viewed as negative signal about future earnings prospects, resulting in a decrease in share price and wealth of

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investors (Uwuigbe, et al., 2012). But Lintner (1956) observed that management are reluctant to reduce dividend even when there is the need to do so. And only increase dividend when it is believed that earnings have permanently increased.

Clientele Effects of Dividends Theory

Investors tend to prefer stocks of companies that satisfy a particular need. This is because investors face different tax treatment for dividends and capital gains. And also face some transaction cost when they trade securities. Modigliani and Miller (1961) argued that for these costs to be minimized, investors tend towards firms that would give them those desired benefits. Likewise, firms would attract different clientele based on their dividend policies. Though they argued that even though clientele effect may change a firms dividend policy, one clientele is as good as another, therefore dividend policy remains irrelevant. Al-Malkawi (2007) affirmed that firms in their growth stage, which tend to pay lower dividend would attract clientele that desire capital appreciation, while those firms in their maturity stage which pay higher dividends attract clientele that require immediate income in the form of dividend.

REVIEW OF SOME EMPIRICAL STUDIES: EVIDENCE FROM NIGERIA

Ojeme et al. (2015) examined 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 study focused on the situation before and after the financial meltdown. The study considered secondary data for the twenty-one quoted banks in Nigeria from 2007-2010. Correlation results of dividend paid during the period and their corresponding market value showed that payment of dividend by quoted banks was relevant to their market value and the amount paid as dividend affected the value of their share.

Omoregie and Eromosele (2016), using a panel data of ten (10) quoted banks in Nigeria, examined the effects of dividend policy on shareholders' wealth, from covering 2010 to 2014. The findings revealed that dividend per share and retained earnings had a positive and robust significant relationship with shareholders' wealth; while earnings per share exerted a robust negative significant effect on shareholders' wealth. The study then concluded that the dividend policy of a firm has an impact on its shareholders' wealth as supported by the Dividend Relevance theory which explains that dividend policy has a significant effect on shareholders' wealth as well as firms' value

Ozuomba et al. (2016) sought to find out how share value cum shareholders' wealth is affected by dividend policies in Nigeria. The study involved a survey design that cover a one-year period with a sample of 10 quoted companies in the Nigerian Stock Exchange. Shareholders wealth was measured by share price as the dependent variable, while dividend payout was the proxy for dividend policy as the explanatory variable. With the use of ANOVA technique, the study showed the relevance of dividend payout in determining share value and further proved that dividend policies of public limited companies influence the wealth of shareholders in Nigeria.

Egbeonu et al. (2016), investigated the effect of dividend policy on the value of firms in Nigeria, using weighted average of five -year summary extracted from the audited financial reports of firms selected at random from the Nigerian Stock Exchange. Earnings per share and dividend per share

measure as the explanatory variables, while market value per share was used as the proxy for firm value The study employed Ordinary Least Square multiple regression analysis and found dividend per share (DPS) to be significant and inversely related to share value, whereas earning per share is positively and significantly related to share value of firms.

Ozuomba and Ezeabasili (2017) assessed the potential implications of dividend policy for firm value in Nigeria. The study considered ten (10) listed firms in Nigerian Stock Exchange between 1995 and 2015. With Market Price per Share as the dependent variable, and Earnings Per Share and Dividend Per Share as the independent variables, the study employed multiple regression approach for the analysis of secondary data gathered from the firms under review. The result proved that dividends are an effective signal and that dividend policy had a significant effect on the value of listed firms in Nigeria.

Mbah and Anichebe (2018) evaluated the effect of dividend payout on the market value of selected brewery firms in Nigeria. The ex-post facto research design was adopted and annual time series data was derived from three selected companies' annual reports for the years 2013-2017. The researchers used panel data and regression analysis and modelled Tobin's Q measure of market value as a function of dividend payout ratio. The findings revealed that dividend payout ratio was favorably associated to company market value, although it was not statistically significant in determining firm market value.

Lucky and Uzokwe (2019) examined the effect of dividend policy on the value of twenty (20) quoted firms in Nigeria for the period of 10 years, from 2008-2017. Tobins Q measure of market value was modeled as the function of dividend payout ratio, retention ratio, dividend per share and dividend yield. Based on the panel data regression analysis, the study revealed that all the independent variables had positive and significant relationship with market value of the selected quoted firms. The study concluded that dividend policy is relevant as opposed to the irrelevant hypothesis of Miller and Modigliani.

Tijjani et al. (2019) assessed the impact of dividend policy on the value of listed firms in the Nigerian petroleum marketing industry. Six firms, out of eight that were quoted on the Nigerian Stock Exchange were selected as sample for the study. Data were collected from secondary sources for the selected firms for the period of 2008-2017. The findings from the multiple regression analysis indicated that dividend payout positively and significantly influenced the market price of the shares of petroleum marketing firms in Nigeria. Based on these findings, the study concluded that dividend policy of petroleum marketing firms in Nigeria affected the value of the firms.

Adeboye and Akinwunmi (2019) examined the relationship between dividend policy and market value of shares of quoted deposit money banks in Nigeria. The panel data research design methodology was adopted using secondary data. The Panel Least Square method was used to test the relationship between the variables for the period 2001-2017. The result showed that dividend policy had a significant positive impact on market value of shares of deposit money banks in Nigeria, implying that all variables relating to dividend policy in the study under the period specified contributed positively and strongly to the market value of shares of deposit money banks listed in the Nigerian stock exchange market.

Ejem and Ogbonna (2019) investigated the controversy raging between dividend policy and firms' value in Nigeria. The study made use of secondary data of 24 quoted companies selected from 10

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sectors of Nigerian economy, which were sourced from the firms' annual reports and accounts for the period of 2012 to 2017. The researchers fitted the three conventional models of panel data analysis (pool regression, fixed and random effects) and found earnings exerting positive and significant influence on the firms' value, whereas dividend per share insignificantly impacts firms' value.

Andabai (2020) investigated dividend policy and its impact on market value of deposit money banks in Nigeria; for the period 1996-2019. The study used equity/stock price of quoted deposit money banks as the dependent variable, whereas dividend payout ratios, retained earnings ratios, dividend yields and earnings per share were used as independent variables to measure dividend policy. Hypotheses were formulated and tested using time series econometric techniques. The study showed a positive significant impact of dividend payout ratio on the market value of deposit money banks in Nigeria. Using a sample of eight-one (81) listed non-financial firms in Nigeria,

Edeh et al. (2021) investigated the determinants of firm value from the dimension of corporate dividend policy during the period between 2010 and 2018. Dividend policy proxies that were considered in the study included dividend yield and dividend per share which were also the independent variables, while firm value (dependent variable) was proxied with firms' market to book ratio. The study employed the robust least square regression analyses technique to evaluate the panel data set that were collected from annual financials reports of the sampled non-financial companies. The findings indicated that that dividend per share indeed did determine firm value.

Nwankwo et al. (2021) examined the effect of dividend policy on the value per share of consumer goods manufacturing firms in Nigeria. The study adopted the ex-post facto design whereby 10 years panel data were collected from the annual reports and accounts of three sampled companies, namely, Nigerian Brewery plc, Cadbury Nigeria plc, and Guinness Nigeria plc. The simple regression model was used to estimate the effect of five independent variables on Market price per share, and the findings showed that Dividend yield, dividend cover and dividend growth had significant effect on Market price per share of consumer goods companies in Nigeria, while Dividend payout and dividend per share had no significant effect on market price per share of consumer goods companies in Nigeria.

Azenda and Apebo (2021) investigated the effect of dividend policy on the value of listed Consumer Goods Companies in Nigeria for the period of 2012 to 2019. The study used dividend per share, dividend pay-out and retention ratio as the explanatory variables, while Market value per share measured as the dependent variable. Panel data regression techniques were employed to evaluate the secondary data collected from a sample of 15 consumer goods companies listed on the Nigerian Stock Exchange. The result showed that dividend per share had a significant positive relationship with market price per share of consumer goods companies in Nigeria, while both Dividend payout ratio and retention ratio had insignificant positive relationship with market price per share. The study concluded that dividend policy affects the value of listed consumer goods companies in Nigeria.

Aroh et al. (2021) empirically examined dividend policy as determinants of firm value of listed companies in Nigeria. The study sampled a panel data of 90 out of a population of 106 listed non-financial companies in Nigeria for a period of 10 years, from 2010 to 2019. Dividend per share, dividend yield and dividend payout ratio measured as the independent variables, while market-to-

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book value measured as the dependent variable. Robust least square regression analysis was employed to test the formulated hypotheses and the results revealed that dividend pay-out was an insignificant determinant of market to book value. Again, dividend per share had a significant positive influence on market to book value, whereas dividend yield had a significant negative effect on market to book value. The study concluded that dividend yield and dividend per share were determinants of firm value, while dividend pay-out ratio was not a significant determinant of firm value in Nigeria.

Rimintsiwa et al. (2022) investigated the effect of dividend policy on the financial performance of all of Nigeria's Domestic Systemically Important Banks (D-SIBs). Dividend policy was measured by dividend payout ratio and retention ratio, while financial performance was measured by profitability, liquidity, solvency, efficiency and valuation ratios The study adopted an ex post facto research design, with dividend policy and bank performance data obtained from the audited financial statements and official annual reports of five D-SIBs (First Bank, GTB, Zenith Bank, UBA, and Access Bank) over a 10-year period (2011–2020). The data were analyzed using panel regression and pooled mean group (PMG) estimators. The study observed that dividend policy had significant impact on the profitability and efficiency of these five D-SIBs, a partial impact on their valuation, and no impact on their liquidity and solvency.

Mopho et al. (2022) examined the nexus between earnings management, dividend policy on corporate performance in Nigeria. The research study used ex-post-facto research design and stratified random sampling techniques to select all the quoted commercial banks in Nigeria. The secondary data obtained from the annual financial reports of the selected quoted banks in Nigeria. were effectively analyzed using descriptive statistics, correlation analysis, normality test, variance inflation test, heteroscedasticity test and multiple regressions. The results showed that accrual earnings management and price-earnings ratio had positive and significant effect on the corporate performance of banks as measured by Return on equity, whereas real earnings management, earnings per share and dividend yield had positive but insignificant effect on banks corporate performance.

Mustapha and Abdullahi (2023) examined the effect of dividend policy on financial performance of listed deposit money banks in Nigeria. The data were collected from seven listed money deposit banks for a period of seven years, from 2015 to 2021. The multiple regression approach was adopted in determining the effect of dividend policy on financial performance, measured by return on assets. The result indicated that dividend per share significantly and positively influenced the financial performance of listed deposit money banks in Nigeria. It also showed that firm size was negatively and significantly related with firm financial performances, while leverage had a positive significant relationship with financial performance.

CONCLUSION AND RECOMMENDATION

Dividend policy is really one of the crucial research topics in the finance literature. Abundant theories and empirical evidence have attempted to explain how corporate dividend decisions affect firm value Several theories have been proposed with no universal consensus reached, while past empirical studies have shown divergent and conflicting findings on the effect of dividend policy variables on various measures of firm value. However, from the reviewed literature, it can

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be established that dividend policy affects firm value. Although some of the empirical findings are contradictory, there is unanimity among many researchers that corporate dividend decisions exert significant influence on firm value. This position, validates the arguments in favour of the relevance of dividends policy in determining firm's value, as against the Dividends Irrelevance Theory (The Miller-Modigliani Hypothesis). Hence, it is recommended that finance managers of firms should aim at finding an optimal dividend policy that will enhance the value of the firm. The optimal dividend policy is the one that maximizes the company stock price that leads to the maximization of firm value (Ozuomba & Ezeabasili, 2017).

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