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The Effect of Dividend Policy on Market Value of Firms: Evidence from Nigeria

FRANCIS KEHINDE EMENI*

Abstract

In this study, the association between a company's market value and its dividend policy (cash and stock), and investment policy was established. Data were collected from a sample of 142 companies listed on the Nigerian Stock Exchange (NSE) for the financial year 2002 to 2011. The ordinary least square technique was adopted in analyzing the data collected. The result shows that (a) cash dividend and investment policy have a negative but significant relationship with the market value of companies listed on the NSE and (b) stock dividend and earnings have a positive and significant relationship with market value of companies listed on the NSE. The study recommends that Nigeria should see dividend policy (cash and share dividend) as a strategy towards increasing their market value. That is, companies in Nigeria should jettison the dividend irrelevant hypothesis and embrace the bird-in-hand hypothesis, since this will increase their market value.

I. Introduction

DUE TO THE complexity of the business world and the huge variety of investment opportunities, there are many different paths management may follow in order to fulfill their policies and procedures. These policies and procedures, however, develop and diversify according to the circumstances of each management. Dividend policy is one of the most important financial policies used by financial management to achieve the main target described above (Baker, 2009). Dividend policy has been studied extensively by researchers to measure the financial impact on a company's share market value and consequently the extent of its contribution to achieve a management's target, namely maximizing the market value of the shares and thus maximizing the owner's wealth (Salih, 2010).

One of the most important studies is that of Miller and Modigliani (1961) which examines the relationship between dividend policy and the market

* Professor, The University of Benin, Faculty of Management Sciences, Benin City, NIGERIA

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signaling theory of dividend policy if they are to improve their market value.

iv. That, companies in the consumable, health and ICT sectors of the Nigerian economy should emphasize dividend policy as a veritable tool in ensuring increase in their market value.

v. That, companies in the consumables, alternate securities market, financial services and ICT sectors should also ensure they lay emphasis on increasing their earnings per share. This may be achieved by increasing their turnover, reducing cost of sales or manufacturing and also reducing operating costs.

vi. That, companies in the consumables, alternate securities market and ICT sectors, in Nigeria, should emphasize retention of earnings for investment purposes; since it was found in this study that there is a significant and positive relationship between retained earnings and market value of companies in these sectors. This result which is not in consonance with the overall result in this study may be attributable to the high growth rate in these sectors given the availability of projects with positive Net Present Value (NPV) in these sectors.

vii Finally, it is recommended that, companies in the agricultural, conglomerates, industrial, oil & gas, services and construction sectors in Nigeria should take dividend policy (cash and share), earnings (earnings per share) and investment policy (retained earnings) as reliable economic tools in considering increase in their market value.

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