Impact of Dividend- Per- Share on Common Stock Returns: A Case Study of Some Selected Manufacturing Firms Listed on the Nigerian Stock Exchange.

Abdulkarim Garba, Ph.D
Department of Business Management, Faculty of Arts, Management and Social Sciences.
Federal University, Dutsin-ma, P. M. B. 5001, Dutsin-ma, Katsina State, Nigeria.
E-MAILS: zumasag@yahoo.co.uk & agarba1@fudutsinma.edu.ng

Abstract
This study investigated the impact of dividend –per -share on common stock returns of the Manufacturing firms listed on the Nigerian Stock Exchange. The data for the study was collected from ten companies randomly selected. The study period was from 1991-2003. The common stock returns for each of the 10 firms for the 13-years study period were calculated on weekly basis and annualized using geometric means. And, the actual dividend-per-share for each of the 13-years period was obtained from the various annual reports and accounts of the sampled firms. Multiple regressions were used to study the relationship between the dependent variable and the independent variable of this study. Pearson Moment Correlation was used for assessing the magnitude and the direction of the relationships between the variables of the study. The Pearson Correlation Coefficient was found to be 0.735, which is highly significant because it is closer to 1 than it is to 0.The regression analysis of the data conducted in order to test the research hypothesis indicates that dividend-per-share has a significant impact on the common stock returns of the sampled firms ($P \leq 0.01$).
Keywords: dividend-per-share, common stock return,

1. Introduction

Dividend policy is a major financing decision, which involves the payment of cash or bond or stock to shareholders in return of their investments. Dividend decision is a significant function that needs to be under taken by the financial manager. The financial manager must to decide whether the whole profits generated by the firm should be distributed to the shareholders or retained, or what percentage of profits should be distributed and what percentage should be retained to be used in financing expansion activities of the firm. Like the financing function or policy, the dividend function or policy should be determined based on its expected impact on the firm's share value. The financial manager must strive to get an optimum dividend policy, one which maximizes the market value of the firm's shares, (Kurfi, 2005).

The financial manager must, therefore, determine the optimum dividend payout ratio to be used by the firm. The dividend payout ratio refers to the percentage of dividend distributed to shareholders from the earnings made available by firm. Dividend can be in form of cash, bond or stock. The financial manager is expected to always consider the present and future stability in the firm's business activities while deciding upon the types of dividend payout ratio to be adopted by the firm.

Emphasizing the importance of the formulation of sound dividend payout ratio, Abdullah (2014) argues that the demand for a firm's share should to some extent depend on the firm's dividend policy.

Despite the perceived importance of dividend policy as outlined above, economists as well as other financial experts have for long been trying to identify the significant role of dividend empirically but have not yet arrived at a common consensus, (Wang, 2005). Modigliani and Miller (1961) advance that what a firm pays in form of dividend is irrelevant and that stockholders are indifferent concerning receiving dividends, (dividend relevance.htm). Under a perfect market condition, as argued by the Modigliani and Miller (1961), dividend

policy does not affect a firm's value and is thus irrelevant. Therefore, the Modigliani and Miller (1961)'s proposition provides a benchmark for studies in dividend policy. Several other theories have since been formulated. For instance theories developed by Bahattacharya (1979), Asquith and Mullins (1986), Ofer and Thakor (1987) , John and Williams (1985) and Miller and Rock (1985), as cited in Wang (2005), indicate a signal hypothesis. These authors argue that dividend payments represent favourable signals about the future prospects of firms.

Therefore, this paper intends to examine the impact of dividend-per-share on the common stock returns of the Manufacturing firms listed on the Nigerian Stock Exchange (NSE).

The objectives of this paper are to discover the relationship between dividend-per-share and average stock returns of some selected manufacturing firms listed on the NSE, to measure the degree to which dividend-per-share affects the stock returns of the selected manufacturing firms listed on the NSE, to recommend   an appropriate stock returns pricing model with a reliable explanatory power for assessing the impact of the dividend-per-share on the stock returns of the manufacturing firms listed on the NSE and to establish whether or not the evidence from Nigeria contributes to the international evidence from both developed and developing financial markets.

The research hypothesis for this paper is therefore as follows**: Dividend-per-share has no significant impact on the common stock returns of the manufacturing firms listed on the NSE.**

2. Literature Review

2.1 Dividend policy and stock returns

The effect of dividend initiation announcements on firms' stock returns was measured by Wang (2005) through the use of propensity stock matching approach, which, as he argues, could reduce the bias in the estimation of dividend initiation effects for controlling for the existence of confounding factors. Wang (2005) found that dividend initiation have significantly positive effects on stock returns. More interestingly, the method of stock returns to dividend initiation announcement, as further explained by Wang (2005) shows apparent heterogeneity. The overall empirical `evidence presented in Wang (2005) is paper supports a proposition for a made off model based on the benefits and costs of dividend payments. The cost of the dividend payment, as argued by Wang (2005) are relatively not difficult to measure and compute for managers.

The initiation of dividends, as he advance , usually has to do with a double tax, a short fall in capital resources, high flotation costs of new security issues, a future payout commitment , management fees, and other associated cost . in as much as adequate accounting and market information are provided , managers, as explained by Wang (2005), could reasonably by fruits in the initiation of dividends in contrast, the benefits of dividend, as explained by wang (2005), are more difficult to identify when compared with the cost of dividends. Although dividends payment could cause a decline in capital resources as well as high floatation cost of raising external funds , they serve as a monitoring mechanism. The observed benefits of dividend payments are given by Wang (2005) as a signing of a firm future prospect and the reduction of agency costs. And for institutional investors and individuals investors in low tax bracket, dividend payments also have tax advantage. Although neither of these benefits could easily be measured, the market reaches to dividend payments, according to Wang (2005) offers an indirect measure of these benefits. Accordingly a straight forward method of measuring the net benefits of dividends is by nothing the market reactions to dividend initiation announcements.

A similar study was conducted by Sealy and Knight (1987) hoping to identify the possibility of the existence of any systematic effect of a firm's dividend policy on its share price. They used the Johannesburg Stock Exchange data. The specific objective of the Sealy and Knight (1987) study was to identify whether dividend announcement convey any information to the market that results into a price reaction for adjusting the dividend announcement information. The empirical part of their study employed a Standard Event Study Methodology in order to analyze the stock price reaction for dividend announcement. Out of the 25 sampled banks in their observation period, market stock price, as they found, declined for up to 11 banks, rose for 6 banks, while the stock market price for 8 banks did not change. Also the statistical pooled t-test conducted by Sealy and Knight (1987) reveals that stock prices reactions to dividend announcements are not statistically significant. Therefore, they conclude that dividend announcement does not convey any information due to strong contribution of insider trading as well as other influencing factors in the capital market.Thus, announcement of dividend, in their argument, does not generate any significant impact on the movement of stock prices.

2.2 Stock Return and Dividend Yield

In another development, Blame and Friend (1978) is survey of 1041 individual investors indicated a strong preference for dividend payout, even if retained earnings were to be reduced. as revealed by their survey, if the proportion of cooperate earning paid out as dividends were to increase substantially , 41.8 percent of the respondents that took part in the survey would plan to increase their holdings, while only 10.5 percent would plan a reduction in their holdings. In addition, Blume and Friend (1978) uncovered that the greater the investors income.

This pattern of response as perceived by Blume and Friend (1978) contradicts the usually more favorable tax treatment of capital gains to individuals.

(a)   why dividend policy is interesting five empirical observation, an summarized by Allen and Michaely (1995) have played a significant role in discussions of dividend policy
   i.   Corporations typically pay out a significant percentage of their earning on dividends;
  ii.   Historically, dividends have been the predominant form of pay out share repurchases were relatively unimportant until the mid 1980s;
 iii.   Individuals in wish tax brackets receive large amounts in dividends and pay substantial amounts of taxes on these dividends;
 iv.   Cooperation smooth dividends
  v.   The market reacts positively to announcements of dividend increases and negatively to announcements of dividend decreases.

2.3 Stock Price Volatility in Relation to Dividend Policy.

In a study conducted by Sadiq etc (2013), the Stock price vitality was analyzed using non-financial firms listed on the Karachi stock Exchange. The study concludes that price volatility of stock has a negative relationship with dividend yield and earnings per share. However, Sadiq et al (2013) have identified positive relationships between price volatility and size as well as growth assets of firms. In addition, Sadiq et al.(2013)discovered that there was no significant relationship between price volatility and earnings volatility of firms in Pakistan

In another study, Bhanavatana (2007) examined the relationship between dividends yield and realized rates of return using data collected from return using data collected from the Thailand stock exchange. The result of their study indicates that that dividend yields do not have significant effect on the realized rates of returns on the Thailand stock exchange.

Similarly, Arnott and Ashes (2001) do not support the view that indicates a positive relationship between dividend payout ratio and future earnings. They do not agree with the idea that extensive reinvestment of retained earnings could cause the future earnings to grow faster.

According to Jensen and Meckling (1976), with payment of dividends cost decreases and cash flow increases. The motivating aspect to managers is, however, the disbursement of dividends in the form of cash to company's shareholders rather than the reinvestment of the company's earnings at a rate below that of the cost of capital.

3. The Research Methodology

3.1 The Research Population

In this study, is made up of one hundred and six (106) manufacturing firms listed on the Nigerian Stock Exchange (NSE) from 1991 to 2003. As its extremely difficult to reach the entire 106 firms principally due to resources and time constraints, this study considers only The sampled firms are West African Portland Cement Plc, P. Z. Industry Plc, Aluminium Manufacturing Company of Nigeria Plc, Nigeria Breweries Plc, Northern Nigeria Four Mills Plc, Smithkline- Becham Nigeria Plc, United Nigeria Textile Plc, Grommac Industry Plc, Mobil Oil Nigeria Plc and Dunlop Nigeria Plc. These are sourced from the NSE Fact-book (2004). Each of these firms is listed either as a manufacturing firm, or, manufacturing is mentioned as part of the nature of its business.

The common stock returns for each of the 10 firms for the 13-years study period were calculated on weekly basis and annualized using geometric means. And, the actual dividend-per-share for each of the 13-years period was obtained from the various annual reports and accounts of the sampled firms. The common stock return (ARR)

constitutes the dependent variable while the dividend-per-share constitutes the independent variable in this paper. *Multiple regressions were used to study the relationship between the dependent variable and the independent variable of this study. Pearson Moment Correlation was used for analysing the magnitude and the direction of the relationships between the variables of the stud*

3.2 Specification of the Study Model

A regression model was used as a guide towards the specification of the study model. The implicit form of the model is as follows:

$: \gamma_i = \beta_0 + \beta_1 X_{1i} + U_i,$----------------------1

Where

B_0 = the intercept,

B_1 = the partial slope coefficient,

U = the stochastic disturbance term

i = the ith observation,

N = the size of the population, and

γ = a dependent variable:

$X_1 = $ an independent variables).

The explicit form of the specified model is as follows:

$ARR = \beta_0 + \beta_1 DPS + E$----------------------2

Where

ARR= the stock's average rate of return (as dependent variable),

β_0= the intercept,

$\beta_1 = $ the partial slope coefficient,

E= the stochastic disturbance term,

DPS = Dividend-per-share,

3.3 The Strengths and Weaknesses of the Model

The variables considered in the study model were believed to be fundamental to the problem of stock return computations and measurable after careful examination and evaluation of each of them prior to the data collection exercise. And, the data were collected and regressions were run to gain some insights into the reasonableness of the study model presented above.

The model has a great explanatory power. Moreover, it significantly explains the impact of dividend-per-share on common returns.

The estimated partial regression coefficient (B_1) of the study model will indicate the extent to which dividend-per-share affects the common stock returns of the sampled firms

4. Findings and Conclusion

This section presents the findings, discussions and the recommendations made by the study

4.1 The Empirical Results of the study

The results of the study are presented in the following section.

Table1: Pearson Moment Correlations among the Variables Selected for the Study

	FIRM	ARR
FIRM		
ARR	.268**	
DPS	-.011	.735**

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Sources: Computed from various Finiancial Statements of the Sampled   Firms, Daily Offical Lists of the NSE, CBN Publications& Publications of the Federal Office of Statatistics

Table 1 shows the Pearson Moment Correlation coefficient, which shows the extent of the relationship between the common stock returns and the dividend-per-share. The Pearson correlation coefficient was found to be 0.735, which is highly significant as it is closer to 1 than it is to 0. This coefficient also indicates that the relationship between DPS and the ARR of the sampled firms is direct, meaning that a 1.0% increase in DPS leads to substantial increase in the ARR.

4.2 Hypotheses Testing:

Regression analysis of the data collected was conducted in order to test the stated hypothesis. T–test was used in this paper for the estimated partial regression coefficient. Also, F-ratio and R^2 were used as test statistics for testing the overall significance of the study model.

The hypothesis for this paper as expressed in section 1 can be restated in the form of a null form as presented and tested below:

Dividend-per-share has no significant impact on common stock returns.

This hypothesis was tested using the reject/accept decision criterion from the regression results in Table 2.

Table 2. Regression Results of the Impact of the Dividend-Per-Share

on Common Stock Returns.

Variable	Unstandardized coefficient		t-value	Signt.
	B	Stand. Error		
(Constant)	0.690	5.097	0.135	0.893
DPS	-0.281	0.270	4.747	0.000
R-value = 0.835 R^2-value = 0.696 F-value = 13.553				0.0000

Sources: Computed from various Finiancial Statements of the Sample Firms

Daily Offical Lists of the NSE

CBN Publications, Publications of the Federal Office of Statatistics

From Table 2, it could be observed that DPS has a significant impact on ARR (P$\leq$0.01). Therefore, the hypothesis is rejected. By implication, it means that dividend-per-share (DPS) has significant impact on the common stock returns of the sampled firms.

The following section presents the examination of the significance of the model, which was formulated and presented in section three of this paper.

4.3 Testing the Significance of the Model

This study is on the assessment of the impact of dividend-per-share on common stock returns. The T-test conducted in section 4 had examined the impact of the independent variable on the dependent variable.

The study model, as earlier specified and presented in section three, is as follows:

ARR= $\beta_0 + \beta_1$ DPS

The coefficient of this study model was extracted from the results of the regression analysis shown in Table 2 as follows:

ARR= 0.690 - 0.281DPS

The results in Table 2 indicate that the study model has an F- value of 13.559, which is highly significant (P$\leq$0.01). The R^2 value of 0.696 indicates that the independent variable in the model explains about 69.6 percent of the total variability in the dependent variable. Thus, the explanatory power of the model is great

4.4 Conclusion

This paper has, therefore, found a direct relationship between dividend-per-share and common stock returns of the sampled manufacturing firms listed on the Nigerian Stock Exchange. The Pearson Correlation Coefficient that shows the extent of the relationship was 0.735, which is highly significant because it is closer to 1 than it is to 0.The regression analysis of the data conducted in order to test the stated hypothesis indicates that dividend-per-share has a significant impact on the common stock returns of the sampled firms (P$\leq$0.01).

References

Abdullah, A. (2014), "Dividend Policy and its Impact on Stock Price: A Study on Commercial Banks Listed in Dhaka Stock Exchange", Global Disclosure of Economics and Business, Volume 3, No 1.

Abdullah, N. H., Rashid, R. A. and Ibrahim, Y. (2002), " The Effect of Dividend Announcements on Stock Returns for Companies Listed on the Main Board of Kuala Lumpur Stock Exchange, Malaysian Management Journal, 6,No. 1and 2.

Allen, F. and Michaely, R. (1995), "Dividend Policy", R. Jarrow et al., Eds, Handbooks in OR and MS, Vol.9

Arnott, D.and Asness, C. S. (2001), Does Dividend Policy Foretell Earnings Growth?, Available at : hptt://papers.ssrn.com/so13/papers.cfm?abstract id=2959774>

Bhanavavatana, V. (2007), The Relevance of Dividend Policy on Common Stock prices in the Stock Exchange of Thailand, Available at : <www.iis.ru.ac.th/download/journal/pdf%20vol1 (1)

Black, F., (1971), "Taxes and Capital Market Equilibrium", Working Paper No. 21A, Sloan School of Management, Massachusettts Institute of Technology

Blume, M. E. and Friend, I., (1978), "The Changing Role of the Individual Investor", John Wiley, New York.

Blume, M. E., (1980), "Stock Returns and Dividend Yields: Some More Evidence", Review of Economics and Statistics, vol. 62, 567 – 577.

Garba, A., (2012), " Influences of Book – to - Market Ratio, Liquidity Ratio and Firm's Market Capitalization Rate on Common Stock Returns: A Study of Listed Manufacturing Firms in Nigeria", Bayero Busness Review, Vol. 4, No.2, December, 1 – 9.

Garba, A., (2012), "Impact of Price-Earnings Ratio, Earnings – Per –Share and Total Assets Turnover Ratio on Common Stock Returns: A Study of Listed Manufacturing Firms in Nigeria", Bayero Busness Review, Vol. 4, No.2, December, 23 – 31.

Jensen, M.C., and Meckling, W. H.(1979), "Theory of the Firm: managerial Behavior , Agency cost and Capital Structure", Journal of Financial Economics, 3(4), 305 360.

Kurfi, A. K., (2003), "Principles of Financial Management", First Edition, Benchmark Publishers Limited, Kano

Modigliani, F., and Miller, M. H. (1958), "The cost of capital, corporation finance and the theory of investment" The American economic review 48 (3):261-297.

Sadig, M., Ahmad, S., Aljum, M. J.,Suliman M.,Ul-abrar, S. and Khan, S. (2013), "Stock Price Volatility in Relation to Dividend Policy": A Case Study of Karachi Stock Market, Middle East Journal of Scientific Research, 13 (3), 426-431

Sealy, N. R. and Knight, R. F., (1987) "Dividend Policy, Share Price and Returns: A study on the Johannesburg Stock Exchange", The Investment Analysts Journal- May

Wang, Y., (2005)," The Effect of Dividend Initiation on Stock returns: A Propensity Score Matching Approach", Available at:Homes.chass.utoronto-ca/¬yangwang/dividend.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar