

Review Article

The Effect of Dividend Policy on Shareholders' Value (Comprehensive Review)

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Abstract: The aim of the study is to examine the effect of dividend policy on shareholders' value: a comprehensive review. The paper reviewed relevant studies that affect the impact of dividend policy on shareholders' value. It should be concluded that all financial determinants have an impact on the dividend policy of firms. Measures such as control of inflation, enactment and enforcement of laws to ensure shareholders protection are desirable.

Keywords: Dividend, Shareholders' value, company, Payout ratio.

INTRODUCTION

Dividend is the share of company's net profit made available to shareholders as return on their investment in a company in the form of cash or stock. The payment of dividend has the tendency to enhance the firms' share value in the capital market which would result in greater performance of the firm that can also enhance the market value of the firm in the long run. An effective dividend policy is, therefore, extremely important to a company in its desire to maximize the wealth of its shareholders and, adequate knowledge of dividend policy of companies would guide investors in their choice of investments.

It was Lintner (1956) who laid the foundations of dividend theory. Using a survey of US Chief Finance Officers, he uncovered three main stylized facts that lead to a standard model of dividend payout: (i) firms have long term target dividend payout ratios; (ii) managers focus more on dividend changes than on absolute levels; (iii) dividends changes follow shifts in long-run, sustainable levels of earnings rather than short-run changes in earnings; and (iv) managers are reluctant to make dividend changes that might have to be reversed. This suggests that firms smooth their dividends. Consequently, the empirical evidence shows that dividends at particular year can be explained by current earnings and lagged dividends. Over the years, these two factors which constitute what is known as the Lintner's model, has become the gold standard of

dividend theory, and has been developed and supported by a relatively very large number of subsequent studies (e.g. Fama and Babiak, 1968; Lasfer, 1996; Baker and Powell, 1999; Garrett, Priestley, 2000, 2012; Dhanani, 2005; Brav, Graham, Harvey, Michaely, 2005). The implications of this model is that dividends act as a signal of past as well as future firm's prospects (Tao, 2012).

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. This has been an issue of contrivance and a subject of intensive theoretical and empirical examination. The linkage between dividend policy and share prices remains one aspect of dividend policy that is puzzling. However, the amount that shareholders are willing to pay in exchange for shares of a company is influenced by the firm's dividend policy (Van Horne, 1998; and Pandey, 2005).

In the work of Issa, (2015), The Clientele effect theory proclaims that the investors or the "clienteles" prefer a specific dividend yield; investors who are in high income tax brackets could find it more beneficial to hold low dividend yield stocks, whilst those have lower income tax brackets inclined to have high dividend yield stocks (Perretti, Allen, & Shelton, 2013). Signaling Hypothesis argue that as the management of the company have more precise

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information about the company than the outsiders, they can bridge this information gap by using dividend payout as a tool to convey internal information to the investors (Bhattacharya, 1979), (Miller and Rock, 1985). The Agency theory argues that agency cost arises due to conflicts of interest between shareholders and management: Payment of dividend, therefore, can decrease the costs of investors and managers conflict (Jensen, *et al.* 1976, Easterbrook, 1984). Agency cost may also arise due to the conflict of interest between the stockholders and bondholders; typically, bondholders would like to leave as much free cash as possible in the firm by putting in place debt covenant so that this cash would be available to pay bondholders during the time of financial distress whereas shareholders would like to have this cash for themselves. Bird-in-hand theory posits that due to uncertainty, the investors prefer the cash on hand rather than capital gains in the future. It is argued that the uncertainty of dividends payout increases with the time in the future (Gordon, 1963). This proposition has however been criticized and there is no strong evidence to support the contention. This study is in support of the above theories because the study wanted to see the effect of corporate ownership on the valuation and the dividend policy. Most of the past studies conducted on the effect of dividend policy on share prices have been carried out in both developed and emerging securities exchange markets, but none have been carried out on Nigerian consumer goods industries. This is why the study is different in the sense it is an industry specific study, and also supported in the work of (Jabbouri, 2016).

Despite the above explanations the issue of how dividend affects shareholders' value in the Nigerian listed firms is another area of interest in corporate finance that has not been judiciously reviewed. So, the study wanted to look at whether dividend policy influences the shareholders' value. Therefore, the aim of the study is to examine the effect of dividend policy on shareholders' value a comprehensive review.

LITERATURE REVIEW

A number of studies abound in the literature which studies various aspects of dividend policy. Lintner (1956) was the first researcher to develop and test the partial-adjustment model of dividend. His model suggests that change in dividends is a function of the target dividend payout less the last period's dividend payout multiplied by the speed of an adjustment factor. Lintner (1956) found that the most important determinant of a company's dividend policy was a major change in earnings "out of line" with existing dividend rates. He thus concludes that managers tend to smooth dividend in the short-run because they believe that shareholders generally prefer a steady stream of dividends (Musa, 2009).

Corporations pay dividends to their shareholders. This payment depends on their financial situation and development needs. Firms make decisions about whether to pay dividends or not. If firms decide to pay dividends, the method, the amount, and the form of dividends is also decided. Since Miller and Modigliani (1961) seminal dividend irrelevance theorem, corporate dividend policy has continued to puzzle financial economists for over 50 years. In the real world, researchers observe that many firms pay dividends, while others do not. This phenomenon encourages scholars to find explanations for the question of why firms pay and change dividends, as well as the effect of dividends on firms' value. A complete understanding of corporate dividend policy has not been achieved yet in spite of the extensive research in this area (e.g., Brav *et al.*, 2005).

The signaling theory of dividends has been proposed in traditional corporate finance, which employs the standard assumption of fully rational, self-interested and utility maximising agents, attempting to explain firms' dividend policy. This theory argues that companies use dividends to convey information about their future prospect to the markets (Bhattacharya, 1979; John and Williams, 1985; Miller and Rock, 1985). That is, in the presence of asymmetric information between agents and shareholders, managers use dividends as a communication device. The empirical studies on this theory tend to focus on the market reaction to dividend announcements, and on the relationship between dividends and earnings. Although researchers find some support for the effects of dividend announcements on stock prices in both developed and developing markets (e.g., Aharony and Swary, 1980; Dasilas and Leventis, 2011), results on the association between dividend changes and earnings are inconclusive (Aggarwal *et al.*, 2012).

For example, Grullon *et al.*, (2005) affirm that dividend changes do not convey any information about future earnings changes, which is inconsistent with the earlier study of Nissim and Ziv (2001), and argue that the opposite pattern revealed in the previous work is due to the assumption of linearity in the earnings process. Aggarwal *et al.* (2012) introduce another argument to the inconsistent findings on the relationship between dividends changes and future earnings. According to their argument, the mixed results are attributed to the variation of asymmetric information across public firms. They argue that the signalling theory of dividends is more likely to be supported among firms that have high level of asymmetric information. Black (1976) argues that the higher tax on dividends compared to capital gains make dividends effective as a signaling device.

The characteristics of the Omani market offer an opportunity to re-examine the signaling theory of dividends. In Oman there is no tax on dividends and capital gains. This would enable us to test the tax based signaling theory (Black, 1976). Further, Omani firms change their dividend levels more frequently, rely heavily on bank financing and have high ownership concentration. These characteristics suggest that dividend changes should not be informative about future earnings changes. However, other market characteristics such as low corporate disclosure requirements, low transparency, unpublished earnings forecasts and few professional analysts encourage managers to use dividend announcement to signal future profitability.

For example, Wu and Liu's (2008) theoretical model demonstrates that overconfident managers are more likely to pay high dividends due to their biases in their assessment of future earnings. In contrast, Deshmukh et al. (2013) develop a model which shows that, because overconfident CEOs overestimate the value of future projects and view external finance as costly, they are more likely to pay less dividends. However, none of these studies have theoretically considered the influence of agency problems on this relationship. Moreover, empirical studies on the impact of managerial overconfidence on corporate dividend policy have been conducted in the US, for the period from 1980-1994 and have not controlled for corporate governance factors and CEOs characteristics (Cordeiro, 2009; Deshmukh *et al.*, 2013). Cordeiro (2009) finds that the presence of overconfident CEOs is negatively associated with the likelihood of paying dividends, but not with the amount of dividends. In contrast, Deshmukh et al. (2013) show that managerial overconfidence reduces the amount of dividends.

A number of studies have provided insights, theoretical as well as empirical, into the dividend policy puzzle, although, the issue of why firms pay dividends still remains unresolved in the academic literature. Several reasons for corporate dividend policy have been proposed in the literature, but there is no unanimity among researchers. For instance, some scholars like Williams (1938), Lintner (1956), Gordon (1962), Graham, Dodd and Cottle (1962), Rubner (1965), Farrelly Baker and Edelman (1986), Akhigbe, Borde and Madura (1993) found that dividend payouts is positively associated with stock prices of firms. While others such as Miller and Modigliani (1961), Black and Scholes (1974), Miller and Scholes (1978), and Miller (1986) found that dividend policy has no effect on the value of the firm in a perfect market without taxes, transaction costs, or other market imperfections. Also, other arguments based on the presence of market imperfections, such as taxes and asymmetric information suggest that dividends are irrelevant. In the same vein, Brennan (1970) and Litzenberger and Ramaswamy (1982) believe that whenever dividends

are heavily taxed than capital gains, firms should pay the lowest cash dividend they can get away with. By making dividend this way, shareholders' wealth will be maximized. Bar-Yosef and Kolodny (1976) contrary to this, the relevance school suggests that a payment of cash dividends by the firm to its shareholders has a significant impact on the valuation of its securities. The arguments set forth in support of this position vary from the informational content of dividends to the clientele effect and return prospects on retained earnings (Denis & Osobov, 2008).

Furthermore, the catering explanation by examining the association between the propensity to pay dividends and the dividend premium. The evidence fails to provide much support for the catering hypothesis outside of the US. Little evidence exists that either the propensity to pay dividends or time series changes in that propensity can be explained by changes in investor sentiment toward dividend-paying stocks. Moreover, we find little evidence that individual firms start and stop the payment of dividends in response to the market's relative valuation of dividend paying firms.

Several studies have been conducted in the association between ownership and dividend policy in many developed countries as well as developing countries which show mixed results. (Short, Zhang, & Keasey, 2002) shows that institutional ownership has a positive association with dividend pay-out in the UK. Farinha (2003) and Mancinelli and Ozkan (2006), find that managerial ownership has a negative association with the dividend pay-out. In Malaysia, Ramli (2010) shows that shareholders own company's shares around 40 percent and above and influence the dividend policy to expropriate minority interests. But if the subsequent shareholders have large shares the relationship turns to positive effect. In addition, Al-Nawaiseh (2013) shows that institutional ownership and foreign ownership are significantly and positively related to dividend policy while family ownership is not related. Al-Nawaiseh (2013) finds that institutional ownership influences the company's policy and decisions on higher returnable investments in Jordan, while Arshad, Akram, Amjad and Usman (2013), on the other hand, do not support the association between ownership structure and dividend policy pay-out.

Nigeria as one of the emerging economies differs from other countries in terms of economic activities, legal frameworks, investments, and investors. Thus, there is a need to conduct this research in Nigerian environment to see whether the findings are consistent or different from previous studies. Miko and Kamardin (2015), Finds that the results show a significant positive association between institutional ownership and block-holders with dividend policy of conglomerate firms in Nigeria. The negative relationship of managerial ownership is a concern and

effective monitoring mechanisms are required to monitor managers' actions to be in line with the outside shareholders. However, for the control variable, free cash flow was significant and positively related to dividend policy.

Since dividend policy of firms is a cultural phenomenon that changes continuously according to environment and time (Frankfurter and Wood, 1997), dividend behavioural models must necessarily be continuously modified to capture those factors that are peculiar to a period and environment. However, Musa (2005) criticises both Lintner's and Rozeff's models which are predicated on the assumption of constant response coefficient implying that investors react identically to the explanatory of all firms. As Collins and Kotheri (1989), Dechow (1994), Charitou and Vafeas (1998) and Adelegan (2003) indicate, the assumption of constant response coefficient is unrealistic. In the same vein, Musa (2009) investigates the dividend policy of a cross-section of 53 firms quoted on the Nigerian Stock Exchange (NSE) during the period 1993 to 2002. It utilizes parsimonious multiple regression model developed by Musa (2005). The model employs five metric variables-previous dividends, current earnings, cash flow, investment and net current assets, and three non-metric variables-growth, firm size and industry classification, in order to explain, as well as predict, the dividend policy of quoted firms in Nigeria. The empirical results reveal that the five metric variables have significant aggregate impact on the dividend policy of the quoted firms. The study finds that none of the three non-metric variables provides a statistically significant improvement to the base model.

Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behavior has been established. Following the publication of the dividend irrelevance hypothesis of Miller and Modigliani, (1961) the literature on dividend policy has produced a large body of theoretical and empirical research. However, no general consensus has yet emerged. After several decades of investigation, scholars also disagree even about the same empirical evidences (Al-Malkawi, Rafferty, & Pillai, 2010). M&M asserted that in perfect capital markets the value of a firm is independent of its dividend policy. However, the fallacy of their assumption can be explained by various market imperfections (taxes, transaction costs, information asymmetry, agency problems). Hence, these market imperfections have provided the basis for the development of various theories of dividend policy including tax-preference, clientele effects, signaling, and agency costs. Adjacent to the controversy, researchers have developed and empirically tested various models to explain dividend behavior. For instance, Rozeff, (1982) Found that a negative relationship between dividend payout ratio and the

factors such as the growth rate of sales, insider ownership, and the beta of the firm. Contradictory of this, Crutchley and Hansen (1989) suggested that the greater the size of firm, the greater the risk of firm's operation, and the lower the costs of capital has positive relationship with the greater dividend payout ratio of the firm. Moreover, studies that have been conducted on dividend policy in the SSA region have mostly concentrated on the link between dividends and particular variables of interest. For instance, Nnadi and Akpomi, (2008) study the interrelationship between dividends, profits and taxes of Nigerian banks; Abor and Bokpin (2010) look at the interaction between investment opportunities sets, dividend payout and corporate finance; while Abor and Fiador, (2013) focus on the link between dividend payout and corporate governance. The difference in researches findings, while on the same topic, justified by Al-Malkawi (2007) that, dividend payment patterns of firms are a cultural phenomenon, influenced by customs, beliefs, regulations, public opinions, perceptions and panic, general economic conditions and several other factors, all in perpetual change, impacting different firms differently, hence the researchers couldn't have a uniform policy for all firms at all times. Furthermore, Dickens, Casey, and Newman (2002) stated that, the important elements are not difficult to identify but the interactions between those elements are complex and no easy answer exists. Furthermore, researchers have primarily focused influential factors of dividend policy on developed and emerging markets, while the study in the countries like Ethiopia without active secondary market is not extensively researched. As a result, the subject is not well established in the financial literature.

Dividend policy in country without active secondary market is often very different in its nature and characteristics from that of developed and emerging markets. This particular study takes into account the insurance companies in Ethiopia to identify factors who influence dividend payout. In Ethiopia as far as the knowledge of the researcher is concerned, there are very few researches conducted about dividend policy. Dagnaw, (2009), Kinfe, (2011) and Simegn, (2013) all conducted a study on determinants of dividend payment in Ethiopian private banks. As all of the three researches are on banking sector, this research quite different in its industry selection and incorporate the business risk variable. A single study corresponding with this research is that, the research conducted by Nuredin, (2012) on determinants of dividend policy of insurance companies in Ethiopia from year 2003 to 2011 using mixed research approach (in depth interview and multiple regression technique). Nuredin (2012) have used five independent variables; profitability, growth, liquidity, size and leverage of the firm and dividend policy as dependent variable. However, it couldn't assess the effect of lagged dividend and business risk on dividend payout decision of Ethiopian insurance companies. Hence, this research incorporates

these two important variables. Investors need to know factors that affect dividend policy thus research needs to be conducted so as to managers and investors make careful decisions. Therefore, the aim of this study is to fill this research gap by incorporating a more complete list of variables in determining the factors that affect dividend policy on two dimensions the decision to pay or not to pay dividend.

In Nigeria, according to Musa (2009) the earliest studies on dividend policy focused attention on the dividend behaviour of Nigerian companies during the period of indigenization, but the results of the studies were controversial and inconclusive. For example, Uzoaga and Alozieuwa (1974) investigated the pattern of dividend policy pursued by a sample of 13 companies within four years (1969-1972) which covers the indigenisation period. They find that the change in the level of dividend paid by the companies could best be explained by fear and resentment rather than the conventional factors used in the Linter's model. However, this finding was challenged by later studies such as Inanga (1975) Soyode (1975), and Oyejide (1976). They criticized Uzoaga and Alozieuwa's study for its failure to empirically test the contribution of conventional factors to change in dividend of the affected companies. But they also failed to empirically investigate the extent to which Lintner's model could be used to explain the dividend policy of the companies in Nigeria.

According to Musa (2009), the work of Oyejide (1976) appears to be the first study in Nigeria that tested empirically the Lintner's model as modified by Brittain (1966). The study covered a longer time period of eight years from 1968 to 1976 and an increased sample size of 19 companies in comparison with the four-year period and 13 companies used in previous studies. The study finds strong support for the Lintner's model in Nigeria.

Prevalence of non-payment of dividend has been reported in the Nigerian stock market as the leading financial information service, Proshare, (2013) stated that 43 out of 200 companies listed on the Nigerian Stock Exchange (NSE) have not paid dividends in the last five years. However, no empirical explanation exists on this issue. Similarly, the significant presence of foreign investors on the NSE stimulates the interest to observe foreign ownership effects on corporate payout decisions. The market was liberalized in 1995 in order to increase free flow of foreign capital into the country. The percentage of foreign investors' shareholdings increased over the years to 61.4 per cent as at the end of 2012. Dividend legislation in the Nigerian market which prohibits firms from borrowing to meet dividend payments also stimulates the interest to study this market. The listed firms are subject to the Companies and Allied Matters Act (1990, as amended) which provides that dividends

shall be payable to shareholders only out of distributable profits and that a company should not pay dividends if such payment will affect its ability to discharge its liabilities when they fall due. This legislation may have influence on the payout decisions of firms if it is observed. Based on the foregoing, the study examines the disappearing dividends phenomenon in Nigeria by observing dividend payout patterns on a sample of 126 listed firms over a 10-year period. The study also examines whether foreign ownership can explain a firm's decision to pay or not to pay dividends on the NSE and examines whether the factors already established in the developed markets can explain payout decisions in Nigeria.

Rihanat, Abdullah and Wong (2016), found evidence of a decline in the number of dividend payers from the descriptive analysis. The results from panel logistic regression suggests that the decline in the number of dividend payers and downward trend in amount paid in the later years is due to an increase in the level of foreign ownership. They attribute this to less preference of foreign investors for dividend paying stocks due to tax reasons and due to the fact that they are predominantly institutional investors. Further tests revealed that the conclusion on foreign ownership is robust to the use of alternative measure of dividend policy. Thus, foreign ownership plays a significant role in explaining dividend policy in the Nigerian market. The researcher also identifies a number of determinants of the propensity to pay dividends on the Nigerian Stock Exchange and these include profitability, investment opportunities, leverage, past dividend, cash flow, crisis, stock market performance and interest rate. They conclude from the findings that foreign ownership, past dividend and interest rate are the most important determinants of dividend payout policies on the Nigerian Stock Exchange as they affect the decision to pay or not to pay as well as the amount of dividends paid. Although different theories have used to explain dividend payout decisions on the Nigerian Stock Exchange, the findings indicate preference for clientele theory, profitability as an attribute of a payer, and free cash flow hypothesis in explaining what determines the choice 'to pay' or 'not to pay' in the Nigerian market. Further analysis indicates that clientele theory is the most significant explanation for payout policies in the Nigerian market. However, the findings do not support the catering theory and the lifecycle theory of dividend.

Wen, Lilian, Zaiats, and Zhang (2017), they study Dividend policy and earnings management across countries; The article examines whether dividend policy is associated with earnings management and whether the relationship varies across countries with wide-ranging degrees of institutional strength and transparency, in which they found out that overall firms may employ dividend policies as they have a desire to consume fewer private control benefits, thereby decreasing the necessity to conceal consumption of

these benefits via aggressive earnings manipulation. Importantly, the negative relationship between dividend paying status and earnings management is more pronounced in firms from countries with stronger agency problems.

Koussis, Martzoukos, and Trigeorgis (2017), their study is on Corporate liquidity and dividend policy under uncertainty; the following variables were used; Earnings, growth, profitability, revenue volatility; their examination is on optimal liquidity (retained earnings) and dividend choice incorporating debt financing with risk of default and bankruptcy costs as well as growth options under revenue uncertainty. The study utilized a model that confirms irrelevancy of dividend policy depends critically on the absence of default risk. In the presence of growth options, dividend irrelevancy holds if there are no costs of external financing. They found that deviations from optimal firm value are more pronounced when there is suboptimal exercise of growth options and that managers choose excessive cash holdings to avoid default and the loss of managerial compensation. Several testable implications and predictions stand out, providing a platform for further empirical work in this important area at the intersection of investment, financing and dividend/retention policies. Their study is based on the assumptions of MM where it shows that holding cash will help the organization in terms of growth opportunities, since the objectives of some managers is based expanding the organization.

Vidhya and Mohanasundari (2016), studies dividend policy and its impact on firm value. The research intends to provide an understanding of dividend policy by reviewing the existing theories on dividend policy and their empirical findings. The study established that dividend policy theories have divergent relevance between management and shareholders arising from opposing interests. Oliver, Iniviei, and Edori, (2016), Effect of dividend policy on the value of firms. The study empirically investigates the effect of dividend policy on the value of firms as reflected on shareholders wealth maximization; EPS, share value; Revealed that DPS is significant and inversely related to share value of the firm while EPS is both positive and significant to share value of firms; Finance managers should pay an important role in the debt-equity mix in the balance sheet in order to magnify the EPS as will be reflected in the wealth of shareholders.

Bäuerle and Jaśkiewicz, (2017), Optimal dividend payout model with risk sensitive preferences; First the study can give a mathematically rigorous solution technique for these risk sensitive dividend problems over a finite and an infinite time horizon. Hence, if the shareholders expect that the risk reserve is stable, in the sense that the company will not be ruined so fast, they wish to have payments at once. Otherwise, they prefer to wait until the risk reserve attains some

critical value. However, the more risk averse shareholders wish to wait longer for their dividends. Here the managers are of the opinion that dividend is relevant only if they can be able to tackle the issue of financial risk, so if there is no risk, they can be able to pay dividend. So this shows that the some of the shareholders are of the opinion that the managers may look at the situation pertaining risk before declaring dividend. Flavin and Connor (2017), studies on Reputation building and the lifecycle model of dividends; they analyze the relationship between corporate dividend policy and firm lifecycle in a low-disclosure regime, where domestic firms have an incentive to use dividends to build capital market reputation among external investors; retained earnings to total equity (RE/TE) (or assets, RE/TA), where total equity (TE) is the sum of retained (RE) and contributed equity, dividends-to-sales, dividends-to-assets, and 'payer; We find that firms in low-disclosure regimes, engage in reputation building behavior, not just in the early stages of their lifecycle but also in the mature stage; Furthermore, the largest growth of dividends is observed for firms transitioning from the third to the fourth quartile of growth opportunities. So, looking at the relationships between growth of a firm i.e. building its name in the capital markets so that it will attract Investors looking at the normal ways of paying dividend, but this kind of decisions falls only on the small firms whether there is no much pressure by the shareholders.

Zakaria, Muhammad, and Zulkifli, (2012), studies on Impact of dividend policy on the price volatility: Malaysia construction and material companies; Debt, firm size, investment growth, earnings volatility, leverage, dividend yield; Dividend payout significant influences the changes in share price. The greater the size of the company the more significant impacts the volatility of share price would be. The size of the company has a significant impact when determining the value of firm. Hashemijoo, Ardekani, and Younesi (2012), impact of dividend policy on share price volatility in Malaysian stock market; Is to examine the relationship between dividend policy and share price volatility with a focus on consumer product companies listed in Malaysia stock market; Size, earning volatility, leverage, debt and growth; Dividend yield and size have most impact on share price volatility amongst predictor variables; Managers of companies may be able to change their volatility of their share prices by altering their dividend policy. In looking at the share price which is an important variable in determining the value of firms, it is necessary for the managers to look at the trend of activities in the stock exchange because the shareholders are always expecting higher price of their share and also expecting declaration of more dividend.

Masum (2014), Dividend policy and its impact on stock price- a study on commercial banks listed in Dhaka stock exchange; the study examine with some real life sample that whether the dividend policy has any effect on the firms' share price determinants; Market price, dividend yield, retention ratio, PAT, EPS, ROE; It shows that ROE and EPS have statistically significant positive impact on stock price and PAT has a significant negative impact on stock market prices of the commercial banks of Bangladesh. Celsing (2017), Share price reaction to dividend announcement; the aim is to examine the dividend announcement effect on the common stock price by a signaling hypothesis approach on the Stockholm stock exchange; the study finds no significant different between the naïve mode and the analyst model, and analysis of the confounding effect between the earnings and dividend announcement strengthen robustness for the results.

Sijol and Basit (2016), Impact of dividend policy on shareholder's wealth; Is to study the impact of dividend policy on shareholders wealth in manufacturing industry in NASDAQ; DPO, dividend yield, lagged price ratio, EPS, market share price and return on equity; The study concludes with an efficient conceptual framework with two different variables to measure the impact of dividend policy on shareholders wealth. Uwuigbe, Jafaru, and Ajayi (2012), Dividend policy and firm performance: a study of listed firms in Nigeria; The aim is to investigate the relationship between the financial performance and dividend payout among listed firms in Nigeria; Ownership structure, size of firms and dividend payouts; There is a significant relationship between the performance of firms and the dividend payouts of the sampled firms in Nigeria.

Azhagaiah and Sabari (2008), The impact of firms size on dividend behavior: a study with reference to corporate firms across India; Is to examine the association between the corporate leverage and dividend policy of firms across India industries in respect of size of corporate firms; Capital structure, leverage, dividend payout; The study proves that the dividend payout of small, medium, and large size and overall corporate firms across industries in India are dependent of the level of debt in capital structure. Mobeen and Hussain (2013), Impact of dividend policy on performance of firms having stocks listed in an emerging stock market; To examine the impact of dividend policy on the performance of the firms; DPO, size of the company, ROA ratio, ROE, market to book value; Shows that dividend policy have an impact on the overall performance of the firm. Kaźmierska-Jóźwiak (2015), Determinants of dividend policy: evidence from polish listed companies; is to examine cash dividend payments of polish listed firms; Profitability, liquidity, size, leverage, and dividend payout decisions; There is evidence of a significant

negative relationship between profitability of a firm and dividend payout ratio.

Kuo, Philip, and Zhang (2013), studies on that drives the disappearing dividends phenomena?; To determine the determinants of dividend payout policy and examine the role of liquidity, risk and catering in explaining the changes in propensity to pay; Liquidity, risk, catering, DPS, market to book value, EPS, Assets per share, net debt, total equity, ratio of retained earnings, total assets and market capitalization; their Results indicate that risk plays a major role in firms' dividend policy.

Jabbouri (2016), reviewed determinants of corporate dividend policy in emerging markets: evidence from MENA stock exchange; The study attempt to identify the main factors influencing dividend policy in MENA emerging markets during the period 2004-2013; Size, current profits, liquidity, leverage, growth, free cash flow of the state of the economy; he found that Managers of MENA firms seem to increase dividend payouts during economic slumps in an attempt to reassure investors fearing insiders' expropriation; The results should encourage policy makers, board of directors, analysts, institutional investors to scrutinize corporate governance issues to restore the integrity of local markets. Denis and Osobov (2008), Why do firms pay dividends? International evidence on the determinants of dividend policy; the propensity to pay dividends is higher among larger, more profitable firms, and those for which retained earnings comprise a large fraction of total equity; Finally, outside of the US there is little evidence of a systematic positive relation between relative prices of dividend paying and non-paying firms and the propensity to pay dividends. Overall, these findings cast doubt on signaling, clientele, and catering explanations for dividends, but support agency cost-based lifecycle theories; dividends are affected by firm size, profitability, growth opportunities, and the earned/contributed equity mix. Larger and more profitable firms and those with a greater proportion of earned equity are more likely to pay dividends, while the effect of growth opportunities on the likelihood of dividend payments is mixed.

Khan (2015) a comprehensive examination on the decomposition of the dividend puzzle in the Malaysian stock market; secondary data was used for the period from 2002 to 2013 and the results depicted that corporate profitability, free cash flow, government ownership, firm's maturity, tax and business size as positive determinants of dividend policy; while, financial leverage, growth opportunity, business risk, tax and tangibility negatively affect dividend policy of Malaysian firms. Abdulrahman, (2015) The Impacts Of Dividend Policy On Corporate Performance Of Malaysia Construction Sector; this is aimed at observing the trend of dividend distribution by using

different measurements of dividend policy employed in Malaysia construction sector; According to Priya and Nimalathasan (2013), Rehman and Hussain (2013) also Thafani and Abdullah, (2014) found that dividend payout ratio has a positive significant influence on return on total assets and return on equity. Therefore, it can be concluded that, the results of the impact of dividend policy on firm performance is still inconclusive and different across sectors. The overall conclusion for this study with period from year 2008 to 2012, using 32 firms of constructions sector in Malaysia, firstly the trend analysis is reported that out of three proxies of dividend policy only dividend per share (DPS) had been growing steadily, while, two other proxies which are dividend payout ratio (DPR) and dividend yield (DY) showed the downward trend. Secondly, the dividend policy of construction sector in Malaysia are determined positively by current ratio (CR), quick ratio (QR), net profit margin (NPM), return on total assets (ROA) and return on equity (ROE) also determined negatively by debt to total assets (DTA), debt to equity ratio (DER), price to earnings (P/E) and market price to book value (M/B). Thirdly, the results on multiple regression analysis concluded that only dividend per share (DPS) has a positive significant influence on return on total assets (ROA) and return on equity (ROE), while, dividend Payout ratio (DPR) and dividend per share (DPS) have a positive significant influence on stock price (SP). On contrary, dividend payout ratio (DPR) has a negative significant influence on return on total assets (ROA), whereas, dividend yield (DY) has a negative significant influence on stock price (SP).

Teresiah (2014), the relationship between dividend payout and financial performance: a study of listed companies in Kenya; This design fitted the proposed study which aimed at determining the relationship between dividend payout and the following four financial performance variables namely; profitability, sales growth, cash flow and market to book value. To achieve these objective thirty financial statements of listed companies was analyzed; based on this research the results showed that there was a positive relationship between dividend payout and profitability, liquidity and a negative relationship exist between dividend payout and the following financial performance variables, sales growth and market to book value.

Fairchild, Guney, and Thanatawee (2014) Corporate dividend policy in Thailand: theory and evidence; examines dividend changes in an emerging market. The study considers the impact of investor power and ownership on dividends. Thus, the study found little support for the signaling hypothesis, but revealed considerable support for the free cash flow and life-cycle hypotheses. The analysis of ownership variables suggests that increasing investor power (for example, high ownership concentration together with

the presence of domestic institutional ownership) results in higher dividends, in support of the outcome model, rather than the substitution or expropriation models.

Musiega, Alala, Douglas, Christopher, and Robert (2013), study on the determinants of dividend payout policy among non-financial firms in Kenya. The study revealed that dividend payout ratio was dependent variable while independent variables were profitability, Growth, current earnings, and liquidity. Size and business risk were taken as moderating variables. The study uses descriptive statistics and multiple regressions. Return on equity current earnings and firms' growth activities were found to be positively correlated to dividend payout Business risk and size, both the two taken as moderating variables increase the precision of significant variables from 95% to 99% hence among major determinants of dividend payout.

Benavides, Berggrun, and Perafan (2016), their study examines dividend payout policies for firms in six Latin American countries from 1995 to 2013. As predicted by the pecking order and trade-off models, the dividend payout is positively linked to profitability and negatively related to past indebtedness and investment opportunities. The study asserts that the target dividend payout ratio is positively related to governance indicators at the country level. In addition, the speed to which firms adjust their dividends to changes in earnings is lower in high governance countries in the region. Thus, firms' smooth dividends more in countries with higher governance scores. Baker, Kilincarslan, and Haktan (2017), investigates the views of managers of firms listed on the Borsa Istanbul (BIST) on dividend policy. The survey evidence provides general support for Lintner's partial adjustment model, signaling theory, catering, firm life cycle, and bird-in-the-hand hypotheses for explaining cash dividends. The results do not support the agency cost theory, substitution model of dividends, tax-related explanations, transaction cost theory, and residual dividend policy. The findings suggest that after implementing major economic and structural reforms and abolishing a mandatory dividend payment requirement, BIST managers follow similar dividend policy factors and patterns of dividend policy as managers in more developed countries.

Given that Baker, Singleton, and Veit (2011) provide a detailed review of dividend surveys in both developed and emerging markets, we focus on two recent surveys. Baker and Powell (2000) survey dividend-paying firms listed on the Indonesian Stock Exchange (IDX). They find that Indonesian managers perceive dividend policy as affecting firm value. These managers also view the level of current and expected future earnings and the stability of earnings are the most influential determinants of dividend decisions. The survey evidence reveals that managers view the effects of dividends on share prices and the needs of current

shareholders as important. Additionally, Indonesian executives agree that the signaling, catering, and life cycle theories primarily help to explain why their firms distribute dividends.

In a recent study, Baker and Kapoor (2015) survey on managers of National Stock Exchange (NSE) firms in India. They report that the most important factors of dividends relate to earnings (i.e., the level of current and expected future earnings as well as the stability of earnings) and the pattern of lagged dividends. Their evidence also shows that Indian managers rank the dividend factors in a significantly positive way along with their Indonesian, Canadian, and U.S. counterparts. Further, respondents from NSE firms think that dividend policy affects firm value and view maintaining an uninterrupted record of dividend payments as important. Finally, Indian managers highly support the signaling, firm life cycle, and catering theories for paying cash dividends.

Findings

From the foregoing discussions and review the following observations are seen to be relevant:

- The market reaction to dividend announcements, has no impact on the relationship between dividends and earnings which is also seen that dividend changes do not convey any information about future earnings changes.
- It is also found that dividend payouts are positively associated with stock prices of firms, but conversely found that dividend policy has no effect on the value of the firm in a perfect market without taxes, transaction costs, or other market imperfections.
- A further study revealed that a payment of cash dividends by the firm to its shareholders has a significant impact on the valuation of its securities.
- In another development where the study is trying to look at the relationship between corporate ownership and dividend policy and found that institutional ownership has a positive association with dividend pay-out. Moreover, it was found that managerial ownership has a negative association with the dividend pay-out, but some studies are not in support of the decisions that their association between ownership structure and dividend policy pay-out.
- A more recent study from Nigeria revealed that there is a significant positive association between institutional ownership and block-holders with dividend policy of conglomerate firms in Nigeria.
- It was seen that free cash flow was significant and positively related to dividend policy.
- The negative relationship between dividend paying status and earnings management is more pronounced in firms from countries with stronger agency problems.

- Regarding the issue of risk in dividend policy, it has observed that the managers are of the opinion that dividend is relevant only if they can be able to tackle the issue of financial risk, so if there is no risk, they can be able to pay dividend.
- There is a significant relationship between the performance of firms and the dividend payouts of the sampled firms in Nigeria. There is also evidence of a significant negative relationship between profitability of a firm and dividend payout ratio
- Finally, results depicted that corporate profitability, free cash flow, government ownership, firm's maturity, tax, business size, financial leverage, growth opportunity, business risk, tax and tangibility have a relationship with dividend policy.

CONCLUSION

From the above discussion it should be concluded that all financial determinants have an impact on the dividend policy of firms. Finally, the study is in support of arguments that dividend policy is relevant and confirmed the work of Lintner (1956) and Gordon (1962). It rejected the position of Miller and Modigliani (1961) as their assumptions do not fit to the economy at large.

Government need to intervene in the economy by taking effective measures in order to boost private sector participation. Measures such as control of inflation, enactment and enforcement of laws to ensure shareholders protection are desirable. High inflation rate can bring about fear of loss in value of investment if capital appreciation does not commensurate with rising prices and willingness to invest in shares can decrease if shareholder's right is not protected.

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