

IMPACT OF DIVIDEND POLICY ON SHARE HOLDERS'S WEALTH: A STUDY OF SELECTED FIRMS ON THE NIGERIAN STOCK EXCHANGE (2000-2014)

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Abstract

The study is concerned with the impact of Dividend policy on shareholders' wealth with reference to public liability companies in Nigeria from 2000-2014. Samples were drawn using the availability sampling method drawn from the non-probability sampling technique. The pooled Fixed, as well as random Effect Estimators, have been applied on a panel Sample of 76 firms quoted on the Nigerian Stock Exchange has drawn from 18 industries. The major findings of the study revealed that although all the variables in the model are jointly significant with MPS proxy for Market Price of Shares, the individual independent variables gave varying results. Of the 14 industries, gross retained earnings showed that 06 of the industries have a significant positive impact on MPS. Earnings per share revealed that 08 out of the 14 industries have significant positive impact on MPS. Price Earnings Ratio as a determinant of MPS showed that 10 of the 14 industries have a significant positive impact on the wealth of Shareholders. With respect to dividend per share (DPS), 07 industries have a significant positive impact on MPS, Gross dividend payment however shows that three independent industries have a significant positive impact on Market price of shares. In the final analysis, the individual industry in the pooled data has all the variables jointly significant with Market Price of Shares (MPS). It is however established that 09 of the 14 industries have significant positive relationship with market price of shares. Another significant outcome of the Cross Industry analysis is that going by WALD Restriction Test results, nine of the fourteen industries showed that they are significant at 1 percent; three are significant at 5 percent and only one of the industries is positive but insignificant. Recommendations proffered in the course of this study are as follows:

Keywords: MPS, DPS, RE, PER, EPS, NSE, Dividend Policy

Introduction

Dividend Policy of quoted firms has long occupied the minds of financial economists, as far back to the irrelevance theorem of Modigliani and Miller (1961), where it was stated that there are no illusions in a coherent and perfect economic environment (Gupta, et.al (2008) Since then, this rather controversial findings have been challenged and tested by slacking and diluting the assumptions as well as introducing imperfections into the analysis.

The rather on-going debate as far back as 1960 and the fact that there are no convincing explanations even by the academicians as to whether firms should pay or not to pay dividends has today generated into what Black (1976) called the dividend puzzle. Fisher & Black (1976) wrote and finally concluded that ".....the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". They opined that in spite of the number of

researches providing theoretical as well as empirical evidence on different aspects of dividend policy yet a lot of issues are yet to be resolved.

As related in Frankfurter and Wood, (2003), corporate dividend policy theorists over the years are divided as to their predictions of the dividend payment's effect on share price. Managements' primary objective is the maximisation of shareholders' wealth, which results into maximizing the value of the firm as measured by the price of the firm's common stock. This objective can only be achieved by giving the shareholders a "fair" payment on their investments. However, the impact of company's dividend policy on Shareholders' wealth is yet to be unresolved

There is no painstaking to say that there is controversy over dividend and this is why literature works as to whether firms should pay dividend or not to shareholders have been on for decades and few among them are the works of Lintner (1956), Gordon (1959), Modigliani and Miller (1961, Walter (1963), and Brittain (1964). One of the most influential and celebrated works was the Seminal work by Modigliani and Miller (1961) popularly known as MM hypothesis which states that in a perfect capital market, the pay-out decision is irrelevant because it does not create nor destroy value for shareholders. To Modigliani and Miller (1961), as long as the investment decision is held constant, shareholder's wealth remains unchanged since higher dividends result in a lower capital gain. Contrary to Modigliani and Miller hypothesis (1961), firms have been paying dividend. This because in a real-world full of market imperfections such as taxes, transaction costs as well as other factors such as asymmetric information and agency cost, dividend policy becomes very relevant for managers of companies, existing shareholders, potential investors as well as market analysts. While it is a fact that managers of firms show great concern on the dividend pay-out policy of their firms, the markets equally reacts to dividend changes, dividend omissions and initiations as provided in the work of Michael, Thaler and Womack (1995).

There are number of empirical studies looking at the impact of dividend policy on shareholders' wealth. For example, Musa (2000), Foong, Zakaria and Tan (2007), have agreed that, changes in dividends communicate information to the market and affect stock prices. One short coming associated with this study is that the empirical evidences revealed by the studies could not stand the test of time due to changes in policies and restructuring of the financial markets. Also, Most of these papers restricted to very few sectors and as a result, their findings could not be generalized. The present study attempts to update the literature by extending the periods of study to 2014 while at the same time, ensuring that 76 firms are represented.

The pertinent question in this paper to be addressed here is whether dividend per share and Gross retained earnings are positive determinant of share holders' wealth. This paper therefore examines the impact of dividend policy on shareholders' wealth with special reference to selected Public Liability Companies quoted on the Nigerian Stock Exchange from the period 2000-2014 while proffering solutions as guided by the following hypotheses:

1. H_{01} : There is no significant positive relationship between Dividend per share and shareholders' wealth.
2. H_{02} : There is no significant positive determinant between Retention policy of firms and the value of shareholders.

Literature Review and Theoretical framework

Conceptual and Literature Review

Literarily, dividend refers to that portion of a firm's earnings that is paid to stock holders who have provided capital funds for the business. It is the amount of a company's profit which the Board of Directors recommends for distribution to the stock holders. The new Encyclopedia Britannica Volume four page 132 defines it 'as an individual share of earning distributed among shareholders of corporation or company in proportion to their holdings'.

The free online dictionary provides economic definition of the subject matter as "a portion of a Publicly-traded company or fund's earnings that is distributed to shareholders. It is the amount of earnings distributed as dividends which is usually determined by the board of directors and divided by the number of shares. Dividends are provided in order to promote investment in the company and to allow shareholders to partake in the profits" (Farlex Financial Dictionary, 2009). Omogoriola (1999) in his view, defined dividend as the return to the shareholder hence, the shareholders will try to relate dividend record to their expectation and the state of the economy, this is to say that shareholders are interested in dividend changes in the value of their share (capital gain).

An optimal dividend policy is that which maximize the wealth of the shareholders; it can be expressed as the responsibility of the company's management, which also entails, declaring and paying dividends that meet the aspirations of the shareholders.

Campbell, 2004 defines Dividend policy as 'the standard by which a firm determines the amount of money to be paid as dividends. By dividend policy, it means the pay-out policy that managers pursue in deciding the size and pattern of cash distributions to shareholders over time. Dividends are payments made by a company to its shareholders. It is the portion of corporate profits paid out to shareholders'. When a corporation earns a profit, the money can either be re-invested in the business in the form of Retained Earnings, or it can be paid to the shareholders in the form of dividend.

Shareholders wealth on the other hand refers to the value delivered to shareholders because of management's ability to grow earnings, dividends and share price. In other words, shareholder value usually used interchangeably with shareholders wealth is the sum of all strategic decisions that affect the firm's ability to efficiently increase the amount of free cash flow over time.

Scholastic literature has suggested that Dividend Payment should have no impact on shareholders' value in the absence of taxes and market imperfections. Hence, companies should invest excess funds in the positive net present value projects instead of paying them out to the shareholders. Literature also suggests that market valuation of stocks depends on the expected future dividends. If company pays out all of the earnings, funds for future investment will decrease and dividend may not increase in the future. Moreover, when dividend is taxable, paying out more cash would increase the shareholders tax liability.

A number of theories/models could be used to study dividend policy of quoted firms. However, this paper employs three major theories as its framework namely, the Dividend Preference theory (Relevance of dividend), Modigliani and Miller Hypothesis (Irrelevance of dividend) as well as the tax preference theory. The reasons for adopting the above three theories as the theoretical framework of this study from among the numerous theories of dividend policy cannot be over-emphasized.

The dividend preference theory believes strongly in the Relevance of dividend and consists of Walter's model (1956), Lintner's model (1956), Gordon's model (1962) as well as Gordon's and Lintner's Bird-in-hand theory (1959).

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Methodology

Population of the study and Sample size.

The population of the study consists of all the 233 firms quoted on the Nigerian Stock Exchange as of December 2014. This is justified by the fact that the study takes cognisance of population of firms quoted on the Nigerian Stock Exchange within the period in question. This figure however, represents the first stratum from which the true population was derived. (See Appendix A) The true population took into consideration only those firms existing from Year 2000 to 2014 to enable the study to have data on which 11 years' analysis could be based and this represented the second stratum. (see Appendix B). The choice of 11 years is because Adelegan (2000), Adesola, (2004) as well as Musa, (2009) have all had their studies based on a 10-year data pooled from sampled firms quoted on the Nigerian Stock Exchange. This study is based on an 11-year-pool which is an improvement over their pools. Another important justification for this is the fact that it reflected the beginning of a new decade seriously threatened by Economic as well as financial crises.

The second stratum which represented the true population of this study excluded firms quoted on the Nigerian Stock Exchange after the Year 2000 and considered only firms that have been in the books of record from 1st January 2000 through to 31st December, 2014. The total firms of 130 were considered to constitute the true and final population of the study from which the sample of 85 firms was drawn through availability sampling method and constituted the final sample of the study.

Sources of Data

The data for this study came from secondary sources. The study has deemed it fit to source data extracted from the Publication of the Nigerian Stock Exchange (NSE), Fact books 2000 to 2014.

Techniques of Data Analysis

In analysing the impact of dividend policy on the wealth of shareholders taking five independent variables, namely DPS, RE (Gross), EPS, PER as well as DIVPMT (Gross) with respect to listed firms on the Nigerian Stock Exchange from Year 2000- 2014, the study relied solely on both qualitative and quantitative techniques of data analysis (descriptive and inferential) for establishing the needed relationships between the different variables involved in this study for the purpose of answering questions itemised in the statement of the problem and testing the relevant hypotheses.

The method of analysis adopted in this paper is the empirical analysis method. The study made use of the Panel Data Regression Analysis as provided by Pesaran et al, (2000), Wooldridge, (2003) by focusing on cross-sectional longitudinal data analysis in explaining the qualitative/descriptive and quantitative/inferential statistics in the analysis of data through the application of the fixed effects estimator only. The work of Adam and Mehran (2008), He, (2008) and Sanda et al (2008) adopted the OLS and Fixed Effects estimator in arriving at their results thus, justifying the study's technique in this case.

Other test statistics in our model are the R2 and the adjusted R2 known as the coefficient of determination which helps to show the percentage of the total variation of the dependent variable in our model. It shows the percentage of variations in factors affecting our dependent variable as explained by the model while the rest is left to random errors. It provides the extent to which the independent variables affect the dependent variable. The adjusted R2 provides a better measure of the degree of variation of our dependent variable which in most cases has little or no significant difference.

In the data analysis technique, we made use of the result of Durbin-Watson in testing for Autocorrelation. This test tries to estimate the extent to which the error term of one period is associated with the error term of other periods and relevant only for first-order auto-regressive schedule. The Panel regression took into consideration the Market price of Shares (MPS) as the only dependent variable in the model and it has been used as proxy for shareholders' wealth while DPS (Dividend per Share) has been used as proxy for dividend policy.

To determine the proportion of explained variation in the independent variable, the coefficient of determination (R2) was used together with the help of F value.

Dependent Variable

The Market Price per Shares (MPS) has been taken as the dependent variable of the study and stood as a proxy for shareholders' wealth. The MPS was gotten for the year-end reports of each year. The use of MPS as a proxy for Shareholders' wealth can be found in the work of Azhagalah and Sabari (2008) in which they considered the Market Value of Equity of the companies under study as a proxy for measuring the Shareholders' wealth and also used as the dependent variable. Market Shares is defined as the share of a market held by a particular firm. The size of this depends largely on the definition of the market.

The explanatory variables for this study are Dividend Per Share (DPS) proxy for dividend Policy of the firm, firms retention policy proxy by gross retained earnings (RE), while earnings per share (EPS) was used as a proxy for Shareholders wealth. The control variables are Price-earnings Ratio (EPS) and Dividend Payment (DIVPMT).

Model Specification

Multiple regression method has been used to test the two hypotheses highlighted in section one and the model specified for this is adopted from the work of Azhagalah and Sabari (2008) which studied the behaviour of firms quoted on the Bombay Stock Exchange.

$$MPS_{it} = \alpha + b DPS_{it} + e_{it} \text{-----} (1)$$

$$MPS_{it} = \alpha + b DPS_{it} + c RE_{it} + e_{it} \text{-----} (2)$$

$$MPS_{it} = \alpha + b DPS_{it} + c RE_{it} + d EPS_{it} + e_{it} \text{-----} (3)$$

$$MPS_{it} = \alpha + b DPS_{it} + c RE_{it} + d EPS_{it} + e PER_{it} + e_{it} \text{-----} (4)$$

$$MPS_{it} = \alpha + b DPS_{it} + c RE_{it} + d EPS_{it} + e PER_{it} + f DVPMT_{it} + e_{it} \text{-----} (5)$$

Where:

MPS_{it} -- Market price per share (Proxy for Shareholders' wealth)

DPS_{it} -- Dividend per share (Proxy for Dividend policy)

RE_{it} -- Retained Earnings (Gross) (Proxy for retention policy)

Others are:

EPS_{it} -- Earnings per Share

PER_{it} -- Price Earnings Ratio

DVPMT_{it} -- Dividend payout (Gross)

Where: i stands for firm i-----n.

Results and discussions

Presentation and Discussion of Result

Table 4.1: Regression Results of Analysis for all the 85 firms using Fixed Effects Pooled Least Square estimator.

Variables (independent)	Result of Regression Model in respect of five hypotheses		
	Coeff	T-Stat	Prob
C (Intercept)	9.4652	6.4649	0.0000
Lagged Dividend Per Share (DPS _{t-2})	2.0577	2.9105	0.0037**
Retained Earnings (Gross)RE	8.315	0.7809	0.4351
Earnings Per Share (EPS)	0.1052	4.0861	0.0000*
Price Earnings Ratio (PER)	0.2676	3.550	0.0004*
Gross Dividend Payment (Gross DVPMT)	1.375	2.629	0.0088***
Lagged Market price of share (MPS _{t-2})	0.15	3.637	0.0003**
R ²	0.7922		0.0000
ADJ R ²	0.7612		0.0000
D.W	1.842		
F-STATISTIC	25.515		0.0000
PROB (F-STATISTIC)	-		0.0000
X ² (WALD)	44.14		0.0000
X ² (REDUNDANT TEST ¹)	389.99		

Source: Author's computation (2014) *1% LS, ** 5% LS, ***10% L

The impact of Dividend Policy on shareholders' wealth of public liability companies in Nigeria from 2000-2014 using multiple regression analysis and adopting Dividend per Share (DPS) as proxy for dividend policy and being one of the independent variables in the model has been regressed with Market Price per Share (MPS) proxy for Shareholders' wealth and the result on Table 4.1 showed that lagged DPS has positive and joint significant impact on MPS. This is observed from the probability value of 0.0037 as well as the coefficient value 2.06 depicting that a N1 change in DPS results in an increase of N 2.06 in the value of MPS, thus, indicating that Dividend per Share (DPS) has a positive impact on firms' value which ultimately influences shareholders' wealth. It is

expected that higher DPS value is an indication of firms' robust performance which in turn, increases shareholders' wealth in Nigeria.

A number of factors have been identified in previous studies to influence the dividend policy decisions of firms. Profits stand as the primary indicator to pay a dividend. Others are current year's earnings, previous years' dividend influence Dividend Payment. Net income is, however, a better measure of dividend payment. However, the result for all firms is drawn from the study hypothesis formulated by the study is explained with resultant outcome. The hypothesis that states that dividend per share is not a significant determinant of shareholders' wealth is hereby not rejected as given by our result.

The result of the hypothesis which states that "Retention policy of firms is not a significant determinant of the value of shareholders" is shown in the table above where Retained Earnings (Gross RE) is regressed with Market Price Per Share (MPS) proxy for Shareholders' wealth and the outcome of the regression shows that Retained Earnings (RE) which is the retention policy of the firms is found to have a positive but insignificant relationship with Market Price of Shares (MPS) indicating that an increase in Retained Earnings undoubtedly resulted in an increase in the Market Price of Shares (MPS) but with insignificant impact on Shareholders' wealth. The positive nature of the variable is given by the coefficient value of 8.32 and the insignificant nature of Retained Earnings is affirmed from the probability value of 0.4351. To be specific, the positive nature of the result means that a N1 increase in Retained Earnings will result in an increase of N8.32 in shareholders' wealth. This means that the Retained Earnings as a factor has positive but not a significant determinant of shareholders' wealth in Nigeria.

The implication of this model is that the dividend decision of any firm is a tradeoff between Retained Earnings and financing decisions. This is because the dividend policy of a firm is generally a residual decision. This means that firms with adequate investment opportunities will retain the entire earnings in order to finance all growth avenues. If on the contrary there are no growth avenues available, the alternative position is for the firm to pay-out all available earnings hence, a relationship between return on investment (r) and the cost of capital (k) exists. Where r is greater than k , it will retain all earnings and where there is a shortfall, the firm goes for external financing requirements to finance the available investment opportunities. (Walters, 1956)

The high level of corruption in the economy coupled with other macroeconomic indices has resulted in the insignificance nature of Retained Earnings among quoted firms as well as the level of profit announcements. Economic theories with respect to product life circle have shown that firms that have grown to maturity stage tend to start declining and this is not untrue for most of these firms. We hereby reject the hypothesis (Ho2) that states that the Retention policy of firms is not a significant determinant of the value of shareholders.

Earnings per share (EPS) has also been regressed with Market Price of Share (MPS) and the result as provided by the table 4.1 showed a coefficient value of 0.1051 and a probability value of 0.0000 which shows a significant level while Earnings per Share (EPS) showed positive and significant impact on Shareholders' wealth level. This can be interpreted to mean that N1.00 rise in EPS resulted in N0.11 increase in Shareholders' wealth proxied by MPS. Also, Price earnings ratio is another dependent variable in the model and was regressed with MPS. The result showed positive and significant impact on Shareholders' wealth. It is significant at 1 percent level

The last of the explanatory variables is gross Dividend Payment (DVPMT Gross). It was equally regressed with market Price of Shares (MPS) and also resulted in positive and significant impact on Shareholders' value depicting that N1.00 increase in gross dividend payment has resulted in an increase in the value of shareholders' wealth to the tune of N1.37. A lagged MPS also showed a positive and significant increase in MPS. It is significant at 1 percent level. The most facilitating outcome of this study work is that all the five explanatory variables rejected the null hypotheses in the model.

The R² which is the Coefficient of determination in the model shows that about 79.23 percent of variations in factors affecting MPS are explained by the model while the remaining 20.77 percent is explained by random errors.

The adjusted R² also shows that approximately 76.12 percent of variations in factors affecting Shareholders' wealth is also explained by the model meaning that there is no significant difference in the R² value and the adjusted R² value.

Durbin Watson statistical value of 1.84 approximately 2 implies that the model is free from the problem of autocorrelation. Post Estimation Test (WALD Test) using the chi-square value was also used in testing the significance of a single Coefficient. This was done by imposing restrictions on the explanatory variable in order to test whether DPS is a significant factor explaining the behaviour of shareholders' wealth. In the case of our hypothesis 1, the Chi-Square value of 44.14 with a probability value of 0.0000 which is 1 percent level of significance shows that all the explanatory variables are significant factors in determining the Market Price of Shares (MPS). The MPS which is our dependent variable stood as a proxy for Shareholders' wealth hence, we do not accept the null hypotheses (H₀ 1-5)

The study also went further in carrying out a Redundant Fixed Effects Test (RFF) indicating that all variables that are presently included in the pooled equation proved that they are all jointly significant. By further looking at the statistical values, it showed that the joint statistical value of 389.99 and probability value of 0.0000 do not at conventional significant level; lead us to reject the null hypotheses of all the five explanatory variables significant determinants of shareholders' wealth". Looking at all the hypotheses from the view point of alternative hypotheses, it means that the DPS, Gross RE, EPS, PER as well as Gross DVPMT are not redundant,

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Discussion of Results and findings

The all firms result was drawn from the research hypotheses and the result was very satisfactory. Firstly, retained earnings was regressed with Market Price of Shares and showed that Retained Earnings has positive as well as significant impact on Market Price of Shares (MPS) for all the 76 firms on the Nigerian Stock Exchange from 2000-2014. Though, retention policy of firms is a trade off with dividend distribution; the higher the Retained Earnings, the less the dividend distributed to shareholders of quoted firms. The positive nature of Retained Earnings on Market Price of shares showed that an increase in Retained Earnings undoubtedly resulted in an increase in the

Market Price of Shares while the significant nature showed that it has strong impact on the wealth of shareholders. For all firms' result, it showed that a N1.00 increase in Retained Earnings resulted in an increase of N2.65 in shareholders' value. The result of the study is in line with the work of Herbert E Sim (1960) which indicates that corporations have relied mainly upon internal sources of funds to finance their acquisitions of physical assets. According to him, previous dividend payments and current income are the two factors most influential in determining the level of retained earnings. Also, Friend and Puckett (1964) show that there exists a strong investor preference for dividends in non-growth industries, while in growth industries there is some preference for retained earnings.

Secondly, Earnings per Share (EPS) showed that EPS showed a positive and significant impact on Shareholders' wealth. This is evidenced by the coefficient of 0.145 with a probability of 0.0000. The positive, as well as significant nature of Earning per share, is in line with the findings of Ahmed and Javid (2009) in their determinants of dividend payout policy of non- financial firms listed in the Karachi Stock Exchange during the period of 2001 to 2006 which also supported Linter's policy. They clearly confirmed that the firms rely on both current earnings per share and past dividend per share to set their dividend payments. The profitability, market liquidity, and ownership have positive impacts on the dividend payout whereas market capitalisation and size of the firms have a negative impact on dividend payout policy which clearly shows that the firms prefer to invest in their assets rather than pay dividends to shareholders.

Thirdly, the findings of the study showed that Price-earnings ratio has negative but significant impact on Shareholders' wealth as evidenced by the coefficient value of 0.254 and probability value of 0.0000 and supported by the works of Fama and French 1998, Puckett 1964 in which they found that the Price Earnings Ratio implicitly incorporates the perceived risk of a given company's future earnings. A high Price Earnings Ratio (P/E) suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. Raising dividends reduces the risk of future cash flows to the stockholder which increases stock price and the Price Earnings Ratio. High P/Es may be associated with low risk and higher payout ratios, whereas low PEs may be associated with high risk and lower payout ratios. Risk has a negative relationship with the dividend policy hence, PE ratio is positively associated with the Dividend payouts.

Fourthly, Dividend per Share (DPS) was regressed with Market Price of Shares and showed that DPS has positive as well as significant impact on MPS for all the 76 firms on the Nigerian Stock Exchange from 2000-2014. This showed that higher DPS value is an indication of firms' robust performance which in turn, increases shareholders wealth. The outcome of this study has been generalised in all studies relating to Dividend Payout in the maximisation of the wealth of shareholders in Nigeria and has been established in the study of DeAngelo, DeAngelo and Stulz (2006) which noted that Dividends tend to be paid by mature established firms, believably reflecting a financial lifecycle in which newly established firms face relatively abundant investment opportunities with limited resources so that retention earnings dominates distribution, whereas mature firms are better off in paying dividends because they have higher profitability and fewer attractive investment opportunities. Also, (Pestana, et al, 2008), Kalay and Lowenstein (1986) and Asquith and Mullins (1983) find that dividend changes are positively associated with stock returns in the days surrounding the dividend announcement dates and Sasson and Kalody (1976) conclude that there is a positive association between the payout ratio and average rates of return. On the other hand, studies of Benartzi, Michaely, and Thaler (1997) and DeAngelo, DeAngelo, and Skinner (1996) find no support for the hypothesized relationship between dividend changes and future profitability.

Finally, Lagged Gross Dividend Payment (Gross DVPMTt-2) also resulted in positive and significant impact on Shareholders' wealth as shown in the value of the coefficient of 6.67 and probability value of 0.0000. The positive nature as well as the significant impact of gross dividend payment on Shareholders' wealth is in line with the findings of Kanwal and Kapoor 2008; Ahmed and Javid 2009 which found that Dividend payments depend more on cash flows which reflect the company's ability to pay dividends. A poor liquidity position means less generous dividends due to shortage of cash. (Kanwal and Kapoor 2008; Ahmed and Javid 2009). Liquidity has been measured by the following formula (Kania and Bacon 2005)

The findings of the developed economies may not be directly applied to developing economies like Nigeria due to differences in regulations, culture environment and nature of investors. Many dividend theories have been advanced and tend to explain how dividend decisions are arrived at and whether they have an impact on the value of a firm. Different approaches here include the conservative group which believes that increase in dividend or paying out dividend increases the value of a firm, the radical group believes that it reduces the value of a firm while those in the middle believe that it has no effect on the value of a firm (Anupam, 2012). This was founded by Modigliani and Miller in 1961 which opposed the idea that dividend payment affects the value of the firm thus in perfect market dividend payment does not affect the value of a firm hence dividend irrelevant theory.

Conclusions and Recommendations

This study concludes that all the variables used in the model have positive impact on the wealth of shareholders of firms in Nigeria and except for gross retained earnings which is seen as a trade off between dividend policy and retention policy of firms; all other explanatory variables have significant impact on the wealth of shareholders.

In conclusion, The study clearly shows that all the variables adopted in the study are important considerations in deciding on dividend policy by quoted firms on the Nigerian Stock exchange. The results of the study are similar to the other studies done in other developing countries that the greater is the profitability, the larger is the dividend payout to shareholders. The study has the limitations as it takes into consideration only five independent variables in influencing the outcome of shareholders' wealth. Examining the influence of growth rate, Size of firms, Risk, Profitability, sales growth rate, insider ownership, institutional ownership, capital spending, EPS growth and beta can be explored in future study.

Based on findings, the following recommendations are provided that:

The payment of dividends to shareholders should be intensified in order to break the dominant behaviours of managers of firms with respect to agency theory. The agency problem of incomplete contracts views the dividend policy of firms as the consequence of the separation of ownership and control. The management of a widely held firm could allocate resources to projects that benefit themselves, which are not in the best interest of the shareholders. Therefore, in order to prevent such sub-optimal expenditures, shareholders can minimise the liquidity under the management's control by demanding substantial dividend payment from the firm (Grossman and Hart 1980, Easterbrook (1984), Jensen (1986). However, Fluck, (1999) and Myers, (2000) suggest that the management voluntarily commits to pay out cash under the threat of disciplinary actions.

In line with the above, the present study adopted three different theories as its theoretical framework. The wisdom behind this is based on the belief that there are individual differences. Shareholders determine individual shareholder's preference and as such, adopting a single theory as a theoretical framework cannot fully explain the problem at hand.

In addition, income policy should be used in revamping the Nigerian economy in order to maximize the wealth of shareholders. In this case, the use of taxation, government spending and controls can be used in changing the distribution of real incomes. Although, taxation may be more or less progressive, government spending programmes may be targeted or means-tested to try to concentrate benefits on the relatively needy among others.

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