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The Effect of Dividend Policy on the Market Value of Firms in the Financial Services Sector in Nigeria

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Abstract

The main thrust of this study is to find out the relationship between dividend policy and market value of firms in the financial services sector of the Nigerian economy. The study used panel data constructed from the financial statements of firms listed on the NSE for a period of 10 years, from 2002-2011. These financial statements were obtained from the NSE Fact Book. The Ordinary Least Square (OLS) statistical technique was used for the data analysis. From the results of the study, cash dividend, stock dividend and investment policy have a negative but not significant relationship with the market value of firms in the financial services sector of Nigeria, while earnings was found to have a positive and insignificant relationship with market value (though significant at 10% level of significance). Generally, the result is in tandem with the dividend irrelevant hypothesis, that dividend policy has no effect on market value of firms. Based on these results, some recommendations were made prominent amongst which was that companies operating in the financial services sector of Nigeria should not see dividend policy as a strategy towards increasing their market value and therefore, the dividend irrelevant hypothesis should not be jettisoned.

Key words: dividend policy, cash dividend, stock dividend, earnings, retained earnings, market value

INTRODUCTION

There have been a lot of controversies as to the right dividend policy that will impact positively on the market value or share price of a firm. There are two schools of thought in this regard (1) the dividend irrelevant school of thought and (2) the dividend relevant school of thought. Therefore, according to Okpara (2010), corporate dividend policy has been a thing of concern to firms at large. They are faced with the dilemma of declaring dividends and making provision for retained earnings so as to make room for more investments and invariably increase the market value of the firm. Dividend policy decision is concerned about how much earnings could be paid as dividend by the firm and how much could be retained.

According to Miller & Modigliani (1961), payment of dividend increases the share price of a company and this has the counter effect of reducing the capital gain of the same company, thereby making dividend payment ineffective. Likewise Brennan (1970) and Litzenberger & Ramaswamy (1982), in their Tax-Effect-Hypothesis, are of the view that if there is no tax for capital gains, or if the capital gains tax is less than the cash dividend tax, investors prefer

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companies that do not distribute cash dividends and retain profits in the form of undistributed profits. The dividend irrelevant hypothesis of Miller & Modigliani (1961) and Brennan (1970) was further supported by Black & Scholes (1974) when they submitted that each investor has his/her own implicit calculations regarding preference between high cash dividend benefits or their retention according to the circumstances he/she is experiencing such as the tax category into which he/she falls.

There is however other dividend theories in literature opposing the dividend relevance theory presented above. For example, Baker & Powell (1999) proposes that capital gains are more risky than cash dividends and investors prefer companies that distribute cash dividends to companies that hold profits to convert them into capital gains. That is a bird in hand is better than a sparrow on a tree. The signaling effect theory by Denis, Denis & Sarin (1994) supports Baker & Powell's (1999) theory when they opine that the increase in the dividends rate is an effective means of delivering information to investors that the firm is viable. The Agency costs theory of dividend policy by researchers like Rozeff (1982) also supports this position when it presents that shareholders can reduce the agency costs by encouraging debt financing through high dividend payment and invariably increasing the market value of the firm. The point is that, the results are mixed which makes the issue inconclusive.

Interestingly, most previous studies have dealt with the dividends policy concept but most of them have dealt with one type of dividend (the cash dividend) (Miller & Modigliani, 1961; Partington, 1985) and do not make a clear distinction between the dividend policy concept and dividend types (cash and shares) (Salih, 2010). Since there are many types of dividend policy (cash and share) with different effect on company market value, the firm management can use one or more of them at the same time; while trying to enhance a company's market value. In this study, both types of dividend (cash and stock) were covered. This therefore generates the question: what is the relationship between dividend (cash and stock) policy and market value of firms in developing countries?

According to Salih (2010), in studying the relationship between the market value of a firm and dividend policy (i.e. shareholders' preference – dividend) one cannot do it in isolation of the managers (agents) preference, which is retention of earnings (investment policy). Also, in a study on the development of corporate financial markets in developed countries, Baskin (1988) found that, the higher the net profit from current investment of the firm, the higher will be the share price. This cannot be said to be the case in developing countries (e.g. Nigeria). Which, therefore, means that any approach to dividend policy intended to be operative under real world conditions should consider the investment policy of the firm and difference in net profit from the company's current investment and retained earnings in ascertaining its market value, since the difference (dividend) has been assumed to impact the market value of the firm; the questions then are: what is the relationship between investment policy of a firm and its market value and what is also the relationship between the net profit from the firm's current investment and market value of the firm?

Added to the above motivation for this study, the methodologies of some of the previous studies which discussed the effect of dividend policy on market value (Adefila, Oladipo & Adeoti, 2004; Fodio, 2009) covered only about 6% of firms listed on the stock exchange, which poses questions about their sample impartiality. Covering only 6% of firms listed on a stock exchange in a study, makes the sample size too small and therefore their results could not be reliable. The important point here is that the sample size used in their study is not representative of the population of study. Therefore, this study sets out to find out the

relationship between the dividend policy and the market value of companies in the industrial sector of Nigeria.

LITERATURE REVIEW

This section reviews literature on the dependent variable (market value) and the independent variables (cash dividend, stock dividend, retained earnings, earnings per share). It also presents the theoretical underpinnings of this study.

Market Value of a Firm and Cash Dividend

Salih (2010) found a positive significant relationship between cash dividend and market value for the full UK market; however, this result was different when based on individual economic sectors. Miller & Modigliani (1961) asserts that the cash dividend policy is not important because it has no effect on a company's value, and as such it does not affect shareholder wealth. Watts (1973) study on the information contained in the dividend tested the relationship between unexpected dividend changes, future earnings and abnormal returns on shares in companies that announce unexpected changes in dividend. He found out that the unexpected change in cash dividend provides little information about future earnings and there is no abnormal return around dividend announcements month.

In their study, Black & Scholes (1974) set out to find the impact of dividend policy on market value of companies listed on the New York Exchange. The study covers from 1931 to 1966. They found that prices of shares may change temporarily in response to a change in cash dividend but in real sense such an increase will not affect the market value of companies. Lintner (1962) is of the view that the value of one dollar received by shareholders as dividend is more than the value of one dollar in retained earnings, therefore the market value of a company is positively related to dividend policy. Collecting announcement dates of all dividend changes for a set of 625 New York Stock Exchange firms for the period January 1964 – June 1968, Pettit (1972) found that share price reacts to increases or decreases individuals.

Blume (1980) in his study covering over 41 years to 1976 on the relationship between dividend payment and market value of a company found that the total returns on non-dividend paying stocks tended to exceed the return on most dividend paying stocks. Aharony & Swary (1980) in their study tried to isolate the impact of dividend from the impact of earnings, and found that the market's reaction to a dividend increase is positive, and negative for dividend decrease. Agreeing with the findings of Aharony & Swary (1980), Asquith & Mullins (1983) tested the initial dividend where they find that the market's reaction to initial dividend appears smaller than the earnings announcement with ten days from the dividend announcement. Based on this, it is assumed in this study that:

H1 There is no significant relationship between a company's cash dividend and its market value.

Market Value of a Firm and Share Dividend

A substantive body of empirical research supports the view that share prices are influenced by changes in company stock dividends. For example, questionnaire surveys of investors indicate that stock dividend information plays an important part in their assessment of the current value of a share (Arnold & Moizer, 1984; Pike, Meerjanssan & Chadwick, 1993) while interviews with financial managers suggest that companies take a great deal of care when setting their stock dividend level (Lintner, 1956). In addition, stock market studies demonstrate that share prices respond to stock dividend news; stock dividend increases tend to be associated with share price increases while stock dividend cuts are usually associated

with share price falls (Ahrony & Swary, 1980). Campbell & Shiller (1987) in their study supported the above submission that stock prices reflect dividend policy of a firm in the short-run. MacDonald & Power (1995) considers the results of Campbell & Shiller (1987) as poor because they fail to incorporate a measure of the company's growth prospects into their model of study.

According to MacDonald & Power (1995), once this deficiency is remedied, a unique long-run relationship can exist. Specifically they demonstrate that the inclusion of a retention ratio variable into the analysis to proxy for future growth prospects yields a more accurate estimate of the real rate of interest of 7.2%. They also calculate the error correction model implied by the relationship which shows how prices adjust to their long-run equilibrium levels and indicate that the predicted values from this model track the actual data well, capturing most of the important turning points. However, a number of criticisms can be leveled at these previous studies. First, they all employ the same US data set in their investigation; price and dividend information for the Standard and Poor's Composite Index is used in all the studies mentioned above. Therefore, one may conclude that, the findings as discussed above may be country specific and may not apply outside the USA. Second, no dividend information is provided by Standard and Poor prior to 1926 for this index; the dividend data for the early years of these investigations are constructed by adjusting a data series in Cowles (1938). Again, the conclusions may be the result of data problems from splicing together two different dividend series. Based on this, it is assumed in this study that:

H2 There is no significant relationship between a company's stock dividend and its market value.

Market Value of a Firm and Earnings per Share

According to Ward (1993) owner's wealth maximization comes as a result of profit maximization. Salih (2010) found a positive significance relationship between Earnings per Share (EPS) and market value for the full UK market; however, this result was different when based on individual economic sectors. Merton (1985) opine that dividend is a mechanism for conveying missing information on earnings to the markets. Therefore, the market value of a company does not respond to dividend policy but rather to unexpected earnings. Taking a sample of 3,800 observations for the period 1988 to 1993, Conroy, Eades & Harris (2000) found that earnings announcement can provide sufficient information to the markets making dividends sound like an additional mechanism for signals. In a study in China, Chen, Firth & Gao's (2002), used 1,232 announcements of listed companies for the period 1994 – 1997 and found that the market value of a company is closely associated with unexpected earnings and that cash dividends play only a limited role regarding this signal.

Taking a sample of 164 corporations, Gordon (1959) tested 3 hypotheses that there are 3 reasons why investors buy shares namely (1) dividend and earnings (2) dividend and (3) earnings. Using a cross section data, he found that it was difficult to conclude that the market value of an organization is impacted positively by dividend and earnings. In the second hypothesis (dividend) he also found that there is no significant and positive relationship between the market value of a corporation and dividend. Based on the result from the third hypothesis, a dividend increase will lead to an increase in the market value of a company and a reduction in the cost of equity.

Using an event study to test abnormal returns around the dividend announcements, Brown, Finn & Hancock (1977) found that a change in both dividend and earnings have a positive

relationship with abnormal returns, however, only the impact of dividend is statistically significant. Using a sample consisting of 352 observations of quarterly dividend and earnings announcements from 1979 to 1981; Kane, Lee & Marcus (1984) finds that the market tends to evaluate both the dividend and earnings announcements jointly. Furthermore, there is a positive and significant relationship between dividend and market value; and also between earnings and market value. In their study in the German market, Amihud & Murgia (1997) took a sample of 200 companies over a period of five years and found that earnings has an interpretation power on share price movement. Likewise, taking a sample of 150 companies on the Nigerian Stock Exchange, Nwaka (2012) finds that the earnings of listed companies in Nigeria proxied in his study by Earnings Per Share (EPS) has a positive and significant relationship with share prices. The above submissions, therefore, generates the hypothesis that:

H3 There is no significant relationship between a company's earnings and its market value.

Investment, Retained Earnings, Dividend Policy and Market Value

Internal financing consists primarily of retained earnings and depreciation expenses, while external financing is comprised of new equity and new debt, both long and short term. Decisions on the appropriate mix of these two sources for a firm are likely to affect both the payout ratio and the capital structure of the firm, and this in turn will generally affect its market value (Lee, 2010). Changes in equity accounts between balance sheet dates are generally reported in the statement of retained earnings. Retained earnings are most often the major internal source of funds made available for investment by a firm. The cost of these retained earnings is generally less than the cost associated with raising capital through new common-stock issues.

It follows that retained earnings, rather than new equity, should be used to finance further investment if equity is to be used and the dividend policy (dividends paid from retained earnings) doesn't seem to matter. The availability of retained earnings is then determined by the firm's profitability and the payout ratio, the latter being indicative of dividend policy. Thus we find that the decision to raise funds externally may be dependent on dividend policy, which in turn may affect investment decisions. Lee (2010) further opines that external financing usually takes one of two forms, debt or equity financing. However, the market value of the firm is unaffected by such factors if dividend policy and capital structures are irrelevant. It should also be clear that dividend policy can affect market values.

Salih (2010) found a positive significant relationship between REPS and market value for the full UK market; however, this result was different when based on individual economic sectors. Miller & Scholes (1978 and 1982) in their study on dividend and taxes confirm the validity of irrelevant theory and concluded that increase in market value comes from the investment policy of the company. Gordon (1962 and 1963) found that the dividend policy and investment policy are interconnected and investment policy cannot alone and in isolation from dividend policy affect the market value of a company. It is, therefore, assumed in this study that:

H4: There is no significant relationship between a company's investment policy and its market value.

Theoretical Framework

As earlier pointed out, we shall extrapolate on the relationship between dividend policies and market value of the firm. Miller & Modigliani (1961) suggests that there is no relationship between dividend policy and market value of the firm. While many researchers support this

theory, others have suspicions about it. These disagreements as to the relationship between dividend policy and company market value have created a number of theories viz: (1) a bird in the hand theory, (2) tax effect theory, (3) clientele effect theory, (4) signalling effect theory, and (5) agency cost theory.

This proposition stems from the fundamental idea that companies which distribute continuous high cash dividends to shareholders therefore secure a higher share price. As a result, investors' capital gains are very limited in such a company as they receive the same returns as other investors holding another company's shares with low dividends while its prices become high because of the retained earnings. These investors therefore obtain high capital gains which compensates the limited cash dividends. Lintner, 1962; Gordon, 1963; and Baker & Powell, 1999 tend to disagree with the proponents of the Irrelevancy theory. They came up with the 'bird in hand' theory, which proposes that capital gains are more risky than cash dividends and investors prefer companies that distribute cash dividends to companies that hold profits to convert them into capital gains. Due to this preference, investors pay higher prices for a company's shares with cash dividends compared to a company that holds their profits when other factors are fixed. In other words, the bird in hand theory indicates that if the company wants to maximize their share price, then they should adopt a high dividend ratio.

Brennan (1970) and Litzenberger & Ramaswamy (1982) tend to agree with the Irrelevant theory by proposing that if there is no tax for capital gains, or if the capital gains tax is less than the cash dividend tax, investors prefer companies that do not distribute cash dividends and retain profits in the form of undistributed profits. Whenever the cash dividends percentage decreases at the expense of undistributed profits, the owners' wealth will maximize with other factors being constant.

Tax effect theory supporters – in the countries where taxes on cash dividends are greater than the capital gains tax rate – believe that cash dividends cause damage to the investor who receives them because it is subject to a tax rate higher than the taxes applicable to the other alternatives for cash dividends. Therefore, cash dividends lead to a decrease in the company's value and reduce the owner's wealth. Black & Scholes 1974; Pettit, 1977 and Miller & Scholes, 1982 accused Gordon, 1963 and Baker & Powell, 1999 theory of a lack of information. They proposed that investors will invest their money in companies which follow cash dividend policy consistent with their wishes with no effect on the company's value. The clientele effect theory involves two important concepts (1) a company tends to choose clients (investors) through a cash dividend policy consistent with their aspirations, (2) since the company chooses its customers through the cash dividend policy; it can transform from a dividend policy to another without impacting the company's value.

Denis, Denis & Sarin, (1994); Impson, (1997); and Doron & Ziv, (2001) disagree with the dividend irrelevance theory, when they posit that managers use the change in cash dividends distributed rates as a means to deliver information to investors about the company. That is, increase in the cash dividends rate is an effective means of delivering information to investors because competitors cannot follow the company's policy unless they have the same capacity to achieve future profit.

Shleifer and Vishny, (1997) are of the view that the irrelevancy hypothesis on absence of agency costs is wrong; because decisions taken by managers are not always in the interest of shareholders, as many of them focus on achieving personal interests they are seeking to achieve. That is why as at today, shareholders incur 'monitoring costs' (in form of 'auditing

costs' and director's emoluments) and bonding costs (in form of management compensation and dividend payment. According to the proponents of the agency costs theory (Shleifer & Vishny, 1997); the cash dividend can serve as a way of monitoring and controlling managers' performance with the aim of reducing the agency costs. Through increasing cash dividends, the company can be kept in the need of external funding. Such a move is liable to keep managers under the control of external financiers. In addition, the increasing cash dividends would lead to withdrawing cash from the control of managers, which reduces the likelihood of the misuse of the funds. This will invariably increase the market value of the company.

In the present study, we examined similar issues while investigating the effect of dividend policy, companies' earnings and investment policy on market value of companies operating in Nigeria. However, we shall disaggregate the dividend policy not just into cash dividend but also into share dividend (i.e., stock dividend policy).

METHODOLOGY AND DATA

The survey research design* was adopted in this study. This is because we are interested in observing what is happening to sample subjects or variables without any attempt to manipulate or control them. This observation was done at one point in time; therefore we were involved in a cross-sectional survey research design. To be specific, since this observation was done over 10 year's period (2002 – 2011) with 35 readings (i.e., sample size of 35), panel data which is called cross-sectional cum time series data was adopted in this study.

In the study, there are basically five variables upon which data was gathered. These variables are the market value of the company, cash dividend, share dividend, earnings and investment policy. The secondary source of data collection was employed in this study. The data for market value was got from Nigeria Stock Exchange (NSE) price listings on-line; data for cash dividend was got from profit and loss account of sampled companies, proxied by dividend paid in the year; data for stock dividend was got as difference between the ordinary share capital in current and prior year, given that there is no revaluation of assets or new equity issues during the year; data for earnings proxied by Earnings Per Share (EPS) was got from the profit and loss account of sampled companies; data for investment policy was also got from the profit and loss account of sampled companies proxied by Retained Earnings Per Share (REPS) in the year (Gordon,1963, and Salih, 2010). The financial statements used in this study are as contained in the NSE Factbook (various years: 2002 - 2011).

The research population comprised the 38 companies in the financial services sector listed on the Nigerian Stock Exchange as at 31st December, 2011. We carried out a survey of the financials of these companies. Our sample size is 35. This was arrived at by applying Yaro Yamen's formular as shown below:

$n = N / 1 + N (e)^2$

Where n = Sample size sought

N = Population

e = Level of significance (5%)

The sample size is therefore:

$n = 38 / 1 + 38(0.05)^2 = 35$

The simple random sampling technique was used in this study. The reason for the choice of this sampling technique is for each company in the sector to have equal chance of being selected. The simple random sampling involves numbering the companies in the financial services sector in the adequate range of 01 to 38. After which, a computer package (Excel) was

programmed to select 35 random numbers within the specified ranges. The numbers thus generated were used to choose the companies included in the study sample.

The dependent variable – Market Value – was taken to mean the share price of a company on earnings and dividend announcement day. The independent variables are measured as follows.

1. Dividend policy: two types of dividend (cash and share) were used as a proxy for dividend policy.
- The amount of cash dividend per share as a proxy for cash dividend.
- The share dividend per share as a proxy for share dividend.
2. Earnings: the year net Earnings per Share (EPS) is used as a proxy for the earnings.
3. Investment policy: Retained Earnings per Share (REPS) was used as a proxy for the investment policy (Gordon, 1963, and Salih, 2010).

Derived Model and Model Specification

It should be noted that, when testing the relationship between dividend policy and market value, it should be studied from two perspectives: that of management and that of shareholders (Salih, 2010). Management requires sufficient profit retention (Earnings) to satisfy the company's long-term needs such as investment demand (investment policy) against dividend only. On the other side, shareholders' preferences depend mainly on their income level (Earnings). Therefore, to the shareholder, the higher the net profit, the higher the market value of the company. Therefore:

SP = f (DP, IP) ……………………………………………… (1)

Where:

SP = share price
DP = dividend policy
IP = investment policy

From the above relation, we can see that the share price is a function of the managers (agents) preference (investment/retained earnings) and shareholders (principals) preference (dividend). We would recall that the assumptions (hypotheses) made earlier in Section 1.4 of this study has it that: there is a positive relationship between dividend policy of a company and its market value or share price. From the function above (equation 1), it is obvious that in studying the relationship between dividend policy and market value of a firm one cannot do it in isolation of the managers preference (retained earnings) and shareholders preference (dividends). According to Salih (2010), the above function can be represented as the function of optimizing the market value of the firm. This can be represented as:

MV = f (DP, IP, NP) …………………………………………… (2)

Where:

MV = market value of the firm
NP = net profit from the firm's current investment

From equation 2 above, the higher the net profit from current investment of the firm, the higher will be the share price. In addition, according to Salih (2010: 95):

> *'… The market value of the firm also depends upon the dividend paid to shareholders representing the dividend policy and the retained earnings representing the investment policy…'*

Therefore, the market value of the firm can be represented as:

$$MVt = f\ (DPT, NP\ t, IPt) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

Where:
MVt = market value of the firm,
DPT = dividend policy (shareholders' preference)
IPt = investment policy (managers' preference)
NPt = net profit from the firm's current investment
Since we shall be using a cross-sectional time series data we can write the above equation 3 in a functional form as follows:

$$Y = \propto_0 + \propto_1 X_1 + \propto_2 X_2 \ldots \propto_n X_n \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (4a)$$

Where μ0; μ1; and μ2 … μn are parameters to be estimated, X1, X2, Xn are independent variables, and Y is the dependent variable. Since in the study, we decomposed dividend into cash and stock dividend (see Section 1.4), the form suitable for empirical testing of above functional specification is therefore:

$$MV = \propto_0 + \propto_1 CDS + \propto_2 SDS + \propto_3 EPS + \propto_4 RPS + U_t \quad \ldots\ldots\ldots\ldots\ldots \quad (4b)$$

Where:

CDS = Cash Dividend per share
SDS = Share Dividend per share
Ut = Error term

Because there are different types of dividend policy (cash and share) with different effect on company market value, the company's management can decide to use one or more of them at the same time. Therefore, equation (4) can be represented as:

$$MV_{ti} = \propto_0 + \propto_1 CDS_{ti} + \propto_2 SDS_{ti} + \propto_3 EPS_{ti} + \propto_4 RPS_{ti} + U_{ti} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (5a)$$

To control for the model derived above (see eqn. 4), company size (SZ) and age (AG) are introduced as the control variables. Therefore, the derived model in this study is:

$$MV_{ti} = \propto_0 + \propto_1 CDS_{ti} + \propto_2 SDS_{ti} + \propto_3 EPS_{ti} + \propto_4 RPS_{ti} + U_{ti} \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (5b)$$

$\propto_1$, $\propto_2$, $\propto_3$, $\propto_4$, $\propto_5$, and $\propto_6$ are parameters to be estimated. The apriori expectation is to follow the line of;
$\propto_1 > 0$, $\propto_2 > 0$, $\propto_3 > 0$, $\propto_4 > 0$, $\propto_5 > 0$ and $\propto_6 > 0$

The data analysis method used in this study is the ordinary least square method. The reason for adopting the ordinary least square procedure is to find out the amount of variance on the dependent variable (market value) that can be explained by the independent variables and assess their importance.

RESULTS AND DISCUSSION

The ordinary least square regression analysis was conducted for the financial services sector of the Nigerian economy. The results are presented and analyzed below.

Table 4.1 Regression results

Dependent Variable: MV				
Method: Least Squares				
White Heteroskedasticity-Consistent Standard Errors & Covariance				
Variable	Coefficient	Std. Error	t-statistic	Prob.
C	15.595	13.219	1.179	0.239
CDS	-0.726	2.153	-0.337	0.736
SDS	-29.771	28.546	-1.0429	0.298
EPS	0.857	0.492	1.742	0.082**
RPS	-0.643	0.511	-1.258	0.209
AR(1)	0.814	0.101	8.045	0.000*
R-squared	0.664			
Adjusted R-squared	0.659			
S.E. of regression	48.700			
Sum squared resid	877528.5			
Log likelihood	1991.51			
Mean dependent var	15.173			
S.D. dependent var	83.405			
F-statistic	145.981			
Prob(F-statistic)	0.000			
Durbin-Watson stat	1.875			

Source: Eviews 7.0 *significant at 5% level. **significant at 10% level.

The table 4.1 above shows the ordinary least squares regression result. As observed, the R2 and coefficient of determination is 0.664 which indicates that the model explains about 66.4% of the systematic variations in the dependent variable while the adjusted R2 is observed at 65.9%. The F-stat (145.98) and p-value (0.00) do not provide a basis for rejecting the hypothesis of a joint statistical significance of the model at 5% ($p=0.00<0.05$). The evaluation of the slope coefficients of the explanatory variables reveals that CDS ($\beta1=-0.726$), SDS ($\beta2=-29.771$) RPS ($\beta4=-0.643$) all appear to impact negatively on market value with only EPS showing a positive effect on market value ($\beta3=0.857$). At 10% significance level EPS appeared significant while the other variables were observed to be insignificant both at 5 and 10% levels. The Durbin Watson statistic (1.9) does not provide any evidence of serial correlation between the residuals.

Hypotheses Testing

The following hypotheses were specified for the study:

1. H¬0: There is no significant relationship between cash dividend per share and market value

H1: There is a significant relationship between cash dividend per share and market value

From the result conducted for the entire sampled companies, we observe that the evaluation of the slope coefficients of the explanatory variables reveals the existence of negative relationship between Cash Dividend Per Share (CDS) and Market value and also statistically not significant at 5% ($p=0.00<0.05$). Thus, there is no significant relationship between dividend policy (cash dividend) and the market value of companies in Nigeria. This result indicates that the irrelevant theory is valid. Therefore, the null (H0) hypothesis of no significant relationship between cash dividend per share and market value is accepted and the alternative (H1) is rejected.

2. H0: There is no significant relationship between stock dividend per share and market value

H1: There is a significant relationship between stock dividend per share and market value

From the regression result conducted for the entire sample companies, we observe that the evaluation of the long run slope coefficients of the explanatory variables reveals that Stock Dividend per Share (SDS) also appears to impact negatively on Market value and is statistically not significant at 5 % (p=0.00<0.05). Just as in the case of cash dividend enumerated above, stock dividend is also not significantly associated with market value of companies in the financial services sector of Nigeria. This also reaffirms the earlier position that the dividend irrelevant theory is valid. Hence, the null hypothesis (H0) of no significant relationship between stock dividend per share and market value is accepted while we reject the alternative (H1).

3. H0: There is no significant relationship between Earnings per share and market value.

H1: There is a significant relationship between earnings per share and market value.

From the result conducted for the entire sample companies, Earnings per share (EPS) is observed to impact positively on Market value and also statistically not significant at 5% (p=0.00<0.05). Hence the null hypothesis (H0) of no significant relationship between earnings per share and market value is accepted while we reject the alternative (H1).

4. H0: There is no significant relationship between retained earnings per share and market value.

H1: There is a significant relationship between retained earnings per share and market value.

From the regression result conducted for the entire sample of companies, retained Earnings Per Share (RPS) impacted negatively on market value and also statistically not significant at 5% (p=0.001<0.05).

Discussion of findings

Earnings per Share (EPS) was observed to exert a positive long run effect on Market value and also statistically significant at 10% level (p=0.00<0.5). This result is in consonance with the finding of Nwaka (2012) that there is a significant relationship between EPS and market value of shares. Our finding is also consistent with that of Salih (2010) which found a positive and significant relationship between earnings per share and market value for the full UK market. In contrast to our findings, Merton (1985) found that market value of a company does not respond to dividend policy but rather to unexpected earnings.

From the result conducted, we also observe that the evaluation of the slope coefficients of the explanatory variables reveals the existence of negative relationship between cash dividend per share (CDS) and Market value and also statistically not significant at 5% (p=0.00<0.05). Likewise, from the result of this study, Retained Earnings Per Share (RPS) is negatively associated with the market value as shown by the long run slope coefficient and also statistically not significant at 5% (p=0.001<0.05). This result is partially not in consonance with the finding of Gordon (1962 and 1963) that dividend policy and investment policy are interconnected and investment policy cannot alone and in isolation from dividend policy affect the market value of a company. However, the result in our study is in consonance with the finding of Miller & Scholes (1978 and 1982) where in their study on dividend and taxes

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confirm the validity of irrelevant theory and concluded that increase in market value comes from the investment policy of the company alone.

This result also does not reaffirm Nwaka's (2012) finding that dividend payment has a significant effect on share prices. However, in this study like in Nwaka's study, the relationship was found to be negative for stock dividend. Also not in tandem with our finding, Travlos, Tsigeorgis & Vafeas (2001) found positive and significant for both cash dividend increases and stock dividend announcements on market values in emerging markets in line with signaling theory.

CONCLUSION AND RECOMMENDATIONS

The conclusion in this study is that, there is no significant relationship between cash and stock dividend policy and market value of companies in the financial services sector in Nigeria. Also, there is no significant relationship between retained earnings and share prices of quoted companies on the Nigerian Stock Exchange. However, a significant (at 10% level) and positive relationship between earnings (EPS) and market value of companies in the financial services sector was established.

Based on the above conclusions, the Irrelevant Theory is valid in Nigeria's financial services sector, while the bird-in-the-hand hypothesis is invalid.

Policy Implication

The findings in this study have some interesting implications for policy making. Thus the policy implications are discussed below. The overall result shows that Earnings per Share (EPS) exert a positive and significant (at 10% level) effect on Market value. The finding suggest in a broad sense the value relevance of earnings in the financial services sector in the Nigeria capital market and by implication the Nigerian Stock Exchange (NSE) should put in place policies aimed at creating awareness for investors in the financial services sector to key into adjusting their behaviour to earnings announcement thereby making the market to respond through changes in stock prices. A result of interest is that there is a negative relationship between dividend per share (cash and stock) and Market value. This result is most surprising because cash dividend is the most common and important type of dividend in Nigeria. This negative relationship between cash dividend and market value may be attributed to the fact that cash dividend emanate from being a cash flow out. Therefore, policy makers should ensure management of companies' in the financial services sector of Nigeria discontinuance emphasis on dividend payment.

From the result of this study, Retained Earnings per Share (RPS) is negatively associated with the market value and also not statistically significant. This ordinarily would have been very surprising but is not because it can be attributable to the near investment unfriendly climate of Nigeria. Therefore, Nigerian government should that ensure economic polices encompass friendly investment environment.

Policy Recommendations

Based on the policy implications of this study enumerated above, the following recommendations are made.

1. That companies in the financial services sector of Nigeria should not see dividend policy as a strategy towards increasing their market value. That is, companies in the financial services sector of Nigeria should jettison the dividend relevant mentality and lay less

emphasis on dividend policy since it was found to impact negatively and also not significantly on market value.

2. Given the negative relationship between retained earnings and market value, the Nigerian government should put in place policies that will create investment friendly environment in the Nigerian state by ensuring adequate security and empowerment of the anti corruption agencies (e.g. the Economic and Financial Crime Commission – EFCC) to fit into the standard set by the Transparency International (TI) in ensuring a corrupt free society.
3. Since there is a positive and significant relationship between earnings and market value of companies in Nigeria, investors should take into cognizance earnings announcements before taking their investment decision. Moreover, managers of companies should embrace the signaling theory of dividend policy if they are to improve their market value.

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APPENDIX

Data Used To Run the Regression

S/N	NAME OF COMPANIES	MV	CDS	SDS	EPS	RPS
1	Access Bank Plc	7.05	0.52	0.19	0.99	0.42
2	Diamond Bank Plc	9.52	0	0	0.81	0.65
3	Eco Bank Nig. Plc	8.97	0.14	0	0.32	0.14
4	Fidelity Bank of Nig. Plc	4.71	0.26	0	0.48	0.37
5	First Bank of Nig. Plc	26.05	0.26	0	4.83	2.04
6	FCMB Plc	8.23	0	0	1.15	0.94
7	GTB Plc	15.49	1.6	0	2.91	1.28
8	Skye Bank Plc	8.95	0	0	1.66	1.46
9	Stanbic IBTC Bank Plc	10.39	0	0	1.03	1.04
10	Union Bank of Nig. Plc	21.96	2.41	0	0.66	(2.91)
11	UBA Plc	16.63	0.97	0	0.66	2.13
12	Wema Bank Plc	5.11	0.52	0.33	(0.48)	(0.77)
13	Zenith Bank Plc	23.73	2.46	0	3.98	2.06
14	Custodian and Allied Insurance	3.36	0	0	0.72	0.72
15	Egurity Assurance Plc	1.84	0	0	(0.06)	(0.77)
16	Golden Link Insurance Plc	0.55	0.03	0	(0.23)	2.06
17	Guinea Insurance Plc	1.38	0.06	0	0.09	0.72
18	Intercontinental Wapic Insurance	3.08	0.32	0	0.22	(0.06)
19	Confidence Insurance Plc	0.62	0	0	0	0
20	AIICO Insurance Plc	2.09	0.2	0.43	0.31	0.3
21	International Energy Insurance	1.62	0.09	0	(0.2)	(0.13)
22	LASACO Assurance Plc	1.26	0.13	0.4	0.27	0.25
23	Law union & Rock Insurance Plc	1.71	0.27	0.42	0.16	0.1
24	Linkage Assurance Plc	1.42	0	0	(0.01)	(0.01)
25	NEM Assurance Comp. Plc	1.14	0.07	0	0.21	0.2
26	Niger Insurance Plc	3.09	0.22	0.32	0.01	(0.05)
27	Oasis Insurance	2.52	0	0	(0.12)	(0.11)
28	Prestige Assurance Plc	3.77	0.3	0.27	0.68	0.36
29	Sovereign Trust Insurance Plc	1.56	0.09	0.19	0.1	0.06
30	Staco Insurance Plc	2.76	0.04	0	0.13	0.11
31	Standard Alliance Insurance	1.7	0.05	0.11	(0.47)	(0.39)
32	UNIC Insurance Plc	1.37	0.2	0	0.13	0.19
33	Aso Savings & Loans Plc	0.68	0	0	(0.08)	(0.41)
34	Union Homes Savings & Loans	3.39	0.1	0.2	0.15	0.23
35	Crusader (Nig) Plc	2.35	0.14	0	0.31	0.23
36	Deap Capital Nig. Plc	4.09	0	0	(1.38)	(1.48)
37	Nigerian Energy Sector Insurance	658.71	0	0	0.08	0.08
38	Royal Exchange Plc	2.78	0.25	0.36	0.11	0

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