Impact of Dividend Policy on Shareholders Wealth Maximization in Dangote Sugar Company of Nigeria

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Abstract

This paper assessed the impact of dividend policy on shareholders wealth maximization in Dangote Sugar Company. The data were collected from the annual reports of the Nigeria stock exchange. The study employs descriptive statistic and multiple regression to analyze the data to test the effect of dividend policy on shareholders wealth maximization. The result indicates that there is positive relationship between the dividend payout and shareholders wealth maximization. Based on this finding, study recommends that financial managers of enterprise should ensure that shareholders receive dividend in return of their investment to encourage more investments.

Keywords: Dividend, Per-share, Earnings per share Return on entity

INTRODUCTION

Dividends can be defined as the distribution of earnings (past or present) in real assets among the shareholders of a firm in proportion to their ownership (Kapoor, 2009). According to Baker (2009), dividend refers to the sum of money paid on a regular basis by a company to its shareholders out of its profits or reserves. Dividend policy refers to the practice of management making payment decision or cash or cash distribution from the portion of profits to shareholders. Dividend policy is interrelated with other three (3) decisions namely: Investment Decision, Financial Decision and Liquidity Decision. These three elements of decision making are essential to the growth of the company. The management of companies will decide the proportion of earnings to be distributed as dividend and the proportion of earning to be retained with the aim of wealth maximization of shareholders. The main responsibilities' of the financial manager is to maximize the shareholder wealth and it's important for the financial manger to have good understanding of dividend and dividend policy because any wrong decision on dividend will necessary affect the wealth of shareholders. In the world of corporate finance the question that whether the earnings of the firm should be distributed to shareholders or it must be reinvested in future profitable projects has great importance. To answer this question finance mangers must consider which dividend policy will increase the shareholders wealth. Shareholders like the cash dividends but on the other hand they also want the growth of the company by reinvesting the funds. Finance manager's prime objective is to maximize the shareholder's wealth as they are principle agents of them. Shareholders wealth is represented in the market price of the share which is the result of company's financing, investment and dividend policy decisions. The optimal dividend policy is that which increases the share prices of the company which in return increase the shareholder's wealth. The best dividend policy is the one that maximizes the company's stock price which leads to maximization of shareholders' wealth and also ensures more quick economic growth.

Dividends are often unpredictable in the residual policy than in the managed policy where dividend grows in even increments in years to come.If the manager believes dividend policy is important to their investors and it has positive effect on share price value, they will adopt managed dividend policy. The best dividend policy is one that increases the company's stock price which leads to maximization of shareholders wealth. Firms generally take up dividend policies that suit the stage of life cycle they are in. High- growth firms with big cash flows and fewer projects have a propensity to pay more of their earnings out as dividends. The dividend policies of firms may pursue several interesting patterns adding further to the complexity of such decisions. Dividends are dependent on earnings that are increases in earnings increases the dividend and decreases in earnings sometimes by dividend cuts. Firms are usually hesitant to change dividends especially firms avoid cutting dividends even when earnings drop. Dividend decision is one of the important financial decision tools that contribute in shareholders wealth creation. According to Azhagaiah and Sabaripriya (2008)shareholders think the wealth is created by increase in firm's market price of shares. Many researchers have proved the same. Many researchers have proved that dividend policy affect shareholders wealth (Enhardt, 2013, Ogole, 2012) as against the studies of Arunprakash&Nandhini, 2013 which hold view that dividend policy has no effect on shareholder's wealth. Price and cost of capital, resultantly the dividend policy of a firm becomes trivial for shareholders wealth. This controversy has necessitated this paper. The paper is aimed at evaluating how the dividend pay-out has impact on shareholders' wealth maximization in Dangote Sugar company and to study that market value of common stock has strong relationship with cash dividend paid or with the growth in earning per share. And to study how much importance the shareholders give to the lagged market price of a stock when taking decision to buy a stock.

The dividend policy of the firm has remained one of the most contentions, but interesting issues in corporate finance. The relative merits of dividend policy on the performance of firms are important both from the firm and stakeholders' perspective. In examining this issue, the question is whether the dividend policy of a firm actually impacts on its economic value and performance, particularly in developing nations. The theoretical literature in this area particularly in developing nations is sparse in its predictions thereby lacking a unified view on the real consequence of dividend policy on the performance of firms. Opinion from scholars ranges from the position that dividend policy has no real impact on the value and performance of that firm (Benjamin, 2015). This study therefore assumes that dividend policy of an organization would have an impact on its performance and in turn, the wealth of shareholders. Dividend policy is especially critical in imposing discipline and providing fresh leadership when the company is performing sub-optimally and thus unable to guarantee the basic objective of maximizing shareholders' wealth (Al-malkawi, 2007). Several scholars have attempted to examine dividend policy from different perspectives, especially since Lintner (1956) examined the interrelations among incomes, dividends, retained earnings and taxes. Dividend policy has continued to engage the attention of researchers and corporate executives. Twenty years after, Black (1976), observed that, "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that don't fit together". Over the years, research interest in dividend policy has not waned; instead, it has re-inclined a source of concern for researchers, investors, and business leaders, especially in the face of recent global turbulence.But is there any significant relationship between dividend policy and corporate performance in the form of profitability and earnings? This study therefore aims at proffering solutions to these questions.In view of this, this study was carried out to investigate the impact assessed the impact of dividend policy on shareholders wealth maximization in Dangote Sugar company. The study has been taken up for the financial year 2015-2020 with the following hypothesis:

$H0_1$: There is no significant relationship between dividend policy and shareholders wealth maximization inDangote Sugar manufacturing company.

$H0_2$: There is no significant relationship between dividend policy and earnings of Dangote Sugar manufacturing company.

LITERATURE REVIEW

Concept of Dividend and Dividend Policy

The subject matter of dividend policy remains one of the most controversial issues in corporate finance. The dividend policy adopted by any organisations has a way of maximizing shareholder wealth. It is the responsibility financial manager to take decision to ensure that shareholders receive high dividend in return of their investment. Therefore, dividend policy is defined as the ratio of retained earnings to the distributed earnings. Nwude (2003) defines dividend policy as the guiding principle for determining the portion of a company's net profit after taxes to be paid out to the residual shareholders as dividend during a particular financial year. The purpose of dividend policy being to maximize shareholders' wealth by which is dependent on both current dividend and capital gains.Emekekwue (2005) states that the essence of dividend policy is to determine what portion of firm's earnings that would be paid out as dividend or held back as retained earnings. Retained earnings are one of the important sources of financing of firm's projects. Dividend on the other hand is that portion of a firm's after tax profit that is shared out to shareholders as reward for investment.

Wilkes (2005) opine that dividend policy refers to management's long term decision on how to deploy cash flows from business activities that is, how much to invest in the business and how much to return to shareholders. The determination of the amount of dividends payable is an important decision that companies undertake since the objective of the firm is to maximize the shareholders wealth as measured by the price of the company's common stock. Dividend policy connotes to the payout policy, which managers pursue in deciding the size and pattern of cash distribution to shareholders over time (Davis, 2006). According to Nissim and Ziv (2001), dividend policy is the regulations and guidelines that accompany uses to decide to make dividend payments to shareholders. According to them, dividends are commonly defined as the distribution of earnings (past or present) in real assets among shareholders of the firm in proportion to their ownership. It is basically the benefit of shareholders in return for the risk and investment and is determined by different factors in an organization. Basically, these factors include financing limitations, investment chances, and choices, firm size, pressure from shareholders and regulatory regime.

Determinants of Dividend Policy

Dividend policy is determined by a number of factors. Charles, et al (2014) were of the opinion that dividend policy is determined by the following factors:

i. Dividend payout ratio: This refers to the percentage share of the net earnings distributed to the shareholders as dividends.
ii. Stability of dividends: This means the payment of a certain minimum amount of dividend regularly.
iii. Legal, contractual and internal constraints and restrictions. Legal stipulations do not require a dividend declaration but they specify the conditions under which dividends must be paid. Such conditions pertain to capital impairment, net profit and insolvency. Important contractual restrictions may be accepted by the company regarding payment of dividends when the company obtains external funds.
iv. Owner's considerations: Dividend policy is also likely to be affected by the owner's considerations of the tax status of the shareholders, their opportunities of investment and the dilution of ownership.
v. Capital market considerations: Firms accesses to the capital market also affect dividend policy. A firm follows liberal dividend policy if it has easy access to the capital market. On the other hand, if the firm has a limited access to the capital market, it will adopt a low dividend payout ratio.
vi. Inflation: With rising prices due to inflation, the funds generated from depreciation may not be sufficient to replace obsolete equipment and machinery. So, organizations may have to rely on retained earnings as a source of funds to replace those assets. Thus inflation affects dividend payout ratio in a negative way.
vii. Legal framework: The companies and allied matters act 1990, part 12 (379-382) provides the basis which dividend can be paid.

Soondur, Maunikand Sewak (2016) included the following factors to affect dividend policy; Companies profitability: Since dividends are paid out of profits, it is impossible for an unprofitable company to forever go on paying dividends from past retained profit; Net income: A company's possibility of paying dividends is directly related to the net income of the same company. As such, highly profitable companies are more expected to pay high dividends; Retained earnings: This is considered to be an outstanding indicator of a company's possible dividend policy. Retained earnings determine the future financial performance of a company; and Cash balance: Declaration of cash dividends is subject to enough cash at the disposal of a company. Companies with poor working capital are likely not to adopt liberal dividend policy. However, Alli et al (1993) and Brealey – Myers (2002) are of the opinion that dividend payments are more influenced by cash flows; Company's debt: Debt capital exposes a company to a fixed financial obligation of interest payment. High level of financial leverage increases the company's risk of low dividend payments. Rozeff (1982) support this view by asserting that high gearing affects company's dividend payout ratio; Type of industry in which a company operate companies in industries like public utilities are regarded to have stable earnings and hence a more consistent policy than those having a volatile flow of income; and years of companies existence. Newly formed companies need to consistently invest their earnings for improvement and expansion. Old companies on the other hand, have attained a longer earning experience and can consequently be liberal in its dividend distribution.

Empirical Review

Waseem and Asad (2014) investigate the impact of dividend policy on shareholders wealth in Pakistan. The study used thirty five (35) companies selected randomly from three sectors, Textile, Sugar and Chemical industries. The data was collected from the annual report of the companies during 2006 to 2011. The simple OLS techniques were used to analyze the data. The result of the analysis showed that dividend policy of the firm has significant positive impact on shareholders wealth. Enikwe and Anyanwaokoro (2014) investigate the effect of dividend payment on the market prices of shares of quoted firms in Nigeria. The study randomly select seventeen quoted firms using time series ratio between 2000 and 2011. Model specification used for the data analysis was ordinary least squares techniques. The findings showed a positive effect between market price per share and dividend per share confirming that a rise in dividend per share increases the market price per share of quoted firms. Also Adediran and Alade (2015) carried out a study to investigate the effect of dividend policies and cooperate performance in Nigeria. Data was obtained from annual reports of twenty five (25) quoted companies in Nigeria. Data was analysed using regression analysis. The findings showed a positive relationship between organization dividend policies and profitability. Also, there was a significant positive relationship between a firm's dividend policy and earnings per share. The study further conclude that organizations should ensure that they have good and robust dividend policies in place because these will enhance their profitability and attract investment.

Mamidu and Ojo (2015), conducted a study on the implications of adopted dividend policies on the value of shareholders wealth and the extent to which dividend policy affect the market value of shares in quoted Banks in Nigeria. The study focuses on the situation before and after the economic meltdown the result from correlation analysis showed the payment of dividend by the quoted banks is relevant to their market value and the amount paid as dividend by the quoted banks affects the value of their shares. Ahmad (2015) conducted a study on the impact of dividend policy on shareholders wealth of Shariah and non shariah compliance companies listed in Bursa Malaysia market. A total of 274 Shariah compliance companies and 129 non Shariah compliance companies listed on Bursa Malaysia for a period of 2004 to 2013 were used. The result were obtain through two way fixed-effect Generalised List Squares (GLS) regression for Shariah compliance companies and random-effect GLS regression for non Shariah compliance companies. The result indicates that the measurement for dividend policy (DSP and REPS) are significant determinates of shareholders wealth for both Shariah and non Shariah compliance companies. However, Emeni and Ogbolu (2015) study the relationship between dividend policy and market value of firms in financial sector of Nigeria economy. The study used panel data obtained from annual report of firms listed on Nigerian stock exchange for the period of ten (10) years from 2002 to 2011. The ordinary least square statistical model was used for the data analysis. The result of the model indicated that cash dividend, stock dividend and investment policy have a negative but significant relationship with the market value of firm in financial sector of Nigeria, while the studies also indicates that earnings have a positive and insignificant relationship with market value. The study is in line with dividend irrelevance of Miller ace Modighani that dividend policy has no effect on market value of firms.

Also, Priya (2008) examine the relationship between dividend policy and stockholders wealth in chemical industry of India. Data was collected from 28 companies on BSE and study the significant difference between dividend payers and non-payers. The result showed that dividend yield had a negative relationship with stock returns in Kuala Lumpur stock exchange. The little change in dividend policy will give a large change in stock returns as well as shareholders wealth. However, Ogolo (2012) conducted a study on the impact of dividend policy on share prices with a sample of sixty one (61) companies quoted on Nairobi stock exchange. The study covered a period of ten years, from 2003 - 2012. The study indicates that there is significant positive relationship exist between market price per share. The study concludes that dividend policy has strong influence on share prices. Munyua (2012) investigated the effect of individual policy on stock price for firms listed at Nairobi securities exchange. The study used descriptive research design using secondary data from 61 quoted firms in Nairobi securities exchange from 2004 to 2013. The study used regression model and the result indicates that there is strong positive relationship between dividends per share prices. It was also indicated that share prices are affected by the paid out dividend per share. The study concluded that share prices are strongly affected by dividends.

Theoretical Framework

The study anchored on irrelevant theory and relevance theory. The dividend irrelevance was propounded by Miller and Modighani (1963), the writers believed that divided does not have effect on the share prices of the firms because the value of the firm is dependent on its assets and revenue strength. The dividend irrelevance theory has been based on this assumption: There is an existence of perfect markets; There is no risk of uncertainty; There will be free flow of information and investor must be rational; and Investment policy of firms is not based on its dividend policy.

Dividend Relevant Theory

This theory was propounded by Walter (1963). In his opinion, a share price is a reflection of the present value of a future dividend. The writer believed that investment policy and dividend policy are interrelated because if a proper dividend policy is undertaken, the value of a firm is affected. This was illustrated by the model
P = D+r/k(E-D) /K

Where:

P = market price of equity share,
D = dividend per share
E = earning per share
(E-D) = retained earnings per share
r = internal rate of return on investment
K = cost of capital

Gordon (1962) proposed a constant growth valuation model. He explained that the dividend policy is directly relevant to the stockholders wealth (market price of share) under the condition of uncertainty of future dividends. In uncertainty condition, investors prefer dividends instead of capital gains.

METHODOLOGY

The paper adopts the methodology of documentary analysis of the effect of dividend policy on shareholders wealth maximisation.Data were collected from annual report of Dangote Sugar manufacturing companies quoted in Nigeria stock exchange ranging from 2015 to 2020. For the purpose of this study, dividend policy is used as independent variable, while shareholders wealth maximisation were taken as dependent variable was measured with the earning per share, while shareholders wealth maximisation and firm performance were measured using earnings per share on equity.

RESULT AND DISCUSSION

The study employed descriptive statistics and multiple regression to analyse the data collected from Dangote Sugar manufacturing companyto determine the effect of dividend policy on shareholders wealth maximisation. For the purpose of analysis, dividend policy will be taken as independent variable while shareholder wealth maximisation is taken as dependents variable. In the study dividend policy was measured with dividend per share while shareholders wealth maximisation was measured with earning per share and return on equity. Table below shows the regression coefficient of dividends and market prices latitudinal analysis for Dangote Sugar manufacturing company which shows a significant relationship between DPS and MPS with regression coefficient (R) of 0. 922.

Latitudinal Analysis for Dangote Sugar

Model Summary

Model(M)	R	R Square	Adjusted R Square	Std. Error the Estimate
1	.922[a]	.851	.801	2.12096

ANOVA"

Model(M)	Sum of Squares	df	Mean Square	F	Sig-
1	76.932	1	76.932	17.102	32 .026[a]
Regression	13.495	3	4.498		
Residual	90.427	4			
TOTAL					

Coefficients"					
Model(M)	Unstandardized Coefficients		Standardized Coefficients		Sig-
	B	Std. Error	Beta	T	
1 (Constant) DPS	-3.806 28.917	3.220 6.993	 .922	-1.182 4.135	.322 .026

Source: (Compiled by the author)

The regression coefficient(R) of 0.922 indicates that there is a strong positive relationship between dividend policy and shareholders wealthmaximisation in Dangote Sugar manufacturing company. The coefficient of determination (R^2) of 0.851 shows that the Dividend per Share explained 85.1%changes in the Market Prices of Share. Therefore, about 14.9% is accounted for by the factors outside the model. The Adjusted R^2 shows that in actuality, 80.1% of changes in the dependent variable are explained by the independent variable.

Discussion of Findings

First the study showed that there was a positive and significant relationship between dividend per share and wealth maximisation (proxied by earnings per share and return on capital employed) in Nigeria. These findings collaborate with Nissim, D and Ziv, A. (2001) which found a positive relationship between dividend policy and selected manufacturing firms' performance in Kenya. This finding could be attributed to the fact that companies in Nigeria rely so much on equity financing such that as the dividend policy becomes favorable through increased dividend per share, the higher the enthusiasm of the shareholders to invest more in the firms thereby increasing the performance of the firms. Secondly, the study showed that there was a positive and insignificant relationship between noncurrent assets and the performance of firms (proxied by earnings per share and return on capital employed) in Nigeria. This finding collaborate Zhang (2017) which argued in favour of a positive relationship between non-current (intangible) assets and the performance of telecommunication sector. Perhaps, this outcome can be attributed to the high investment in noncurrent assets by the selected companies in Nigeria. It is unarguably true that as these companies in Nigeria invest in R & D and goodwill (which are noncurrent assets), their performance is enhanced.

CONCLUSION AND RECOMMENDATION

The study explored the impact of dividend policy on shareholder wealth maximisation in Dangote Sugar manufacturing company Nigeria. To achieve this broad objective, the study specifically investigated the impact of dividend per share and noncurrent assets on the earnings per share and return on capital employed of firms in Nigeria. Thus, dividend per share and noncurrent assets were used as the independent variables while earnings per share and return on capital employed were used as proxies for corporate performance and they served as the dependent variables. The study relied on data collected from Dangote Sugar manufacturing company. Data collected were analyzed using the Ordinary Least Squares (OLS) multiple regression method. Findings of the study showed that dividend per share had positive and significant impact on performance (whether earnings per share or return on capital employed) of corporations in Nigeria. On the other hand, the study revealed that noncurrent assets had positive but insignificant impact on corporations in Nigeria in both models. In conclusion, the study argued that dividend policy of corporations in Nigeria determined to a large extent their corporate performance. Based on the findings of the study, the researcher recommends the following:

i. The study suggested that, dividend payment should be given priority by Nigeria firms because; it plays a momentous role in shaping the value of shareholders wealthmaximization. Nigerian firms should also consider various factors that affect the dividend pay-out such as legal framework, fund requirement of the firm, nature of business, size of firm, business risk, financial risk, and liquidity when formulating one. They should also endeavour to practice a regular dividend policy so that prospective investor could know beforehand whether or not a firm's dividend policy tallies with their own expectation and therefore guide their investment decisions.

ii. The study also suggested that, decision such as investment and leverage should be carefully handled if firms need to increase their shareholders wealth and management must not increase the size of their business with the purpose of increasing their shareholders wealth, because this does not constantly lead to increase in shareholders wealthmaximization.
iii. Retained earnings should be set aside whenever possible as this could positively impact the performance of firms in Nigeria. Firms willing to maximize shareholders wealth and firms value should endeavor to consistently increase their dividend payout ratio as this sends a signal that the firm is financially healthy.

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