Effect of Dividend Announcement on Share Prices of Listed Money Deposit Banks in Nigeria

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Abstract

This study examined the effect of Dividend Announcement on the share Price of Listed Money Deposit Banks in Nigeria. This study used secondary sourced data, the data collected were analysed using the multiple regression analysis technique and presented using tables. The population of the study was twelve (12) money deposit banks that are listed in the Nigeria stock exchange and a sample of four (4) banks were considered. It was discovered that Dividend announcement has effect on share price of listed money deposit banks in Nigeria and EPS has no effect on share price of listed money deposit banks in Nigeria. We recommend that managers should act in the best interest of investor as to reduce the agency problem, thus complete information about the dividend polices of the firm should be provided. It is argued that dividend announcements convey information to investors regarding the firm's value prospects. Thus, stock prices tend to increase when an increase in dividend is announced but tend to decrease when a decrease or omission is announced and that strict adherence to interest of shareholders in choosing dividend policies that will maximize shareholders' value by management. The decision taking authority in a company lies in the hands of managers. Shareholders as owners of the company are the principals and managers are their agents. Thus, there is principal-agent relationship between shareholders and managers therefore managers should and must act in the best interest of shareholders as consistent with shareholders' wealth maximization objectives of the firm. This will ensure that project will enhance the growth of the firm should be undertaken while those that will not undertake.

Keywords: Dividend, Shareholders, Money Deposit Bank, Earnings per Share, Retained Earning, Dividend clientele effect

INTRODUCTION

Aside a financing and investment decision, dividend decision is another important decision in financial management. The significant role of dividend policy is to determine the proportion of earnings to be distributed to shareholders and the proportion to be retained for running the company. The proportion of earnings paid to shareholders is known as dividends, while the proportion of earnings retained in the company is referred to as retained earnings. Retained earnings formed part of the equity financing of a company and are known as internal equity Retained earnings are the most crucial internal source of financing, particularly for a growing firm. The shareholders who are the owners of a company may prefer dividends be paid to them instead ploughing it back to the company. The argument in favour of dividend pay-out is because dividend increase shareholders' return and because of the uncertainty associated with future returns. Dividend policy involves balancing of the shareholders' desire for current dividends and the company's needs for funds for growth (Pandey, 2010). Pandey (2010) further asserted that in theory, the objective of a dividend policy should be to maximize a shareholder's return so that the value of the investment is maximized. An important concept of dividend policy is the pay-out ratio. The pay-out ratio is the proportion of dividends that is distributed to shareholders. It is defined as dividend per share divided by earnings per share. A low pay-out policy might produce a higher share price because it accelerates the growth in earnings (Pandey, 2010). A high pay-out implies a company is paying out higher portion of its earnings as dividends to shareholders, and lesser portion is retained for financing growth of the company. The implication is that higher pay-out ratio is slow growth and possibly lower market share price.

Dividend is the most familiar and easily understood corporate action (Grooves, 2008). It is also the most common type of corporate action. A dividend is a distribution of cash to shareholders in proportion to their equity holding. No company is compelled to declare a dividend and those that do may vary the amount. Typically, a company will pay an interim dividend and a final dividend. An interim dividend is a dividend

payment that is announced during the release of a company's half year announcement of the profits while a final dividend is announced during the full year announcement of the profits. The importance of dividends naturally varies from one company to another and there are also cultural differences in attitudes to dividends from one country to another. The amount of dividend paid out by a company depends on which life cycle stage they are in. A company that makes profit can do one of the three things: pay out that profit in form of dividends, reinvest it in the business through expansion, debt reduction or share repurchases or both. Dividends must be approved by a company's Board of Directors each time they are paid. There are three important dates during the process of dividend announcement: declaration date, record date and the payment date. Declaration date is the day that the BOD announces their intention to pay the dividend. On this day, the company creates a liability on its books and now owes the money to the shareholders. The BOD also announces the record and the payment dates on this day. The record date, also known as the ex-dividend, is the day in which the shareholders are entitled to the upcoming dividend payment. This means that only the shareholders on or before the ex-dividend will receive the dividend payment. If you purchased any shares of the company after the ex-dividend date, then you are not entitled to any dividend payments. The payment date is the day in which the dividend is given to the shareholders of the company.

The generation of profits in companies represent the most crucial indicators of management performance, investors, and stockholders Shehadeh and Hannon (2016). Organizations intend to maximize benefits related to investments, process, or action in capital investments. In the event a company generate profits, it will bedistributed to shareholders as a way of dealing with the risk of owning company stocks, or will keep it for future expansion/investments, since profits are seen as a quick source of funding. The distribution of profits is predicated on a few methods, the majority of which are in the form of cash or bonus shares or sharesowned by companies in other companies being distributed in the form of goods produced by the company Nour (2003). However, it should also be pointed out that psychological factors are crucial vis-à-vis the method of distribution; shareholders are more inclined towards cash distribution, as they see it as an acceptable form ofcompensation from the risk, they are obliged to bear from being the owner of stocks. The link between dividends and firm's value and share price has been the subject of study for a few decades. However, the influence of dividends on the value firms' value and price remains unresolved. Some studies pointed out that stock prices remain unaffected by the announcement of dividends (Sharma, 2011; Pan et al., 2014), while others reported otherwise, whether positively (Liu and Chi, 2014; Perepeczo, 2014) or negatively (Abbas, 2015; Mamun, 2013). Information signalling theory, the free cash flow hypothesis, and the dividend clientele effect hypothesis are the three major theories that explains the influence of dividend announcements upon share prices (Kadıoğlu et al., 2015; Nour, 2003).

If a stock market is operationally efficient there is little or no friction in the trading process. Information on prices and volumes of past transactions is widely available and price sensitive information is both timely and accurate. According to the Efficient Market Hypothesis (Fama, 2000) an operationally efficient stock market is expected to be externally and informational efficient. Price changes are only expected to result from the arrival of new information. Given that there is no reason to expect new information price changes are expected to be random and independent. In a semi-strong, efficient market where most of the information is incorporated into prices, stock value performance is, as it is widely accepted the best measure of estimating whether firms are creating value for shareholders or not (Brealey and Myers, 2001). It may be expected that efficient firms perform better than inefficient firms and this fact will be reflected in market prices. The event studies examine the stock returns to determine the impact of a particular event on stock prices. Most event studies have shown that stock prices change before announcement of a particular event. The strong form states that share prices reflect all public and private information.

Black (2006) in his study referred to dividends as a 'puzzle'. Up to date the question remains unanswered for sure. Investors generally seek returns on their investments through dividends paid by the firms whose shares they have invested in. Stock returns therefore are of great interest for the investors. Research has shown that dividend announcement affects the stock returns of that firm making announcement. This is despite Miller and Modigliani (1961) who explained that the value of the firm is unaffected by dividend policy in the world

without tax. In an efficient market, security prices reflect in totality all publicly available information thus eliminating any opportunity to make excess profits from available information because it is already captured in the market prices (Fama, 2000). During share trading, investors are faced with fallacious information generated by speculation and misinformation noise traders. Dividend announcement is treated as new information by the investors. Investors tend to overreact to new information (Fama, 2000). Gordon (2003) and by Lintner (2002), argued that dividends are relevant in determining of the value of the firm. Walter (2003) came up with a model which holds that dividend policy is relevant in determining the value of a firm. Dhar and Chhaochharia (2008) found a positive average abnormal return which was very significant. Uddin and Chaudhary (2003) in their study regarding investigation of dividend announcement impact on stock price of Dhaka market found that there were no abnormal in response to dividend announcement. Locally, the studies done are also not conclusive. Bitok (2004) in his study about the effect of dividend policy on the value of the firm concluded that there was a significant relationship between the dividend pay-out ratio and the value of the firm. Mulwa (2006) established that at least in the year of dividend payment a relationship exists.Njuru (2007) observed a continuation of positive returns in the days following stock dividend announcement and concluded that there is existence of under reaction of stock dividend announcement at NSE. Muigai (2012) examined the effects of dividend declaration on share prices of commercial banks listed in the NSE and concluded that there was no pattern observed during the event window. This shows that there exists a research gap. The broad objective of this study is to assess the effect of dividend announcement on the share price of listed money deposit banks in Nigeria. And the basic hypothesis underlying this study is stated thus;

$H_{O1:}$ Earnings per share has no effect on share price of listed money deposit banksin Nigeria.
$H_{O2:}$ Date ofDividend announcement has effect on share price of listed money deposit banks in Nigeria.

LITERATURE REVIEW

Concept of Dividend Policy

Kapoor (2009) sees dividends as the distribution of earnings (past or present) in real assets among the shareholders of a firm in proportion to their ownership. Dividends have been seen differently by different writes. According to Arthur and Sheffrin, (2003) they are payments by a corporation to its shareholder members; that part of corporate profits that paid out to shareholders. In this understanding, when a corporation earns a profit or surplus, that money can be put to two uses: it can either be re-invested in the business, or it can be distributed to shareholders. Some research reports (De Cesari, Espenlaub, Khurshed and Simkovic 2001; Simkovic, 2009) supports two ways to distribute cash to shareholders which includes: share repurchases or dividends. Managers avoid reduction in dividend because of the sticky signal it sends to the investors and shareholders. It may be a hallmark of incompetent management or a tip of an iceberg of future failure (Odia and Ogiedu 2013). The corporate dividend plans vary over time but also across the different countries, especially between industrialized, unindustrialized, and evolving Capital markets. Pandey (2011) defines dividend as that portion of a company's net earnings which the directors recommend being paid to the shareholders in proportion to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. According to William and Scott (2006), dividend is referred to as a periodic cash payment that firms make to investors who holds the firms' preferred or common stock.

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 a dividend policy being to maximize shareholders' wealth, by which is dependent on both current dividend and capital gains. Mishra and Narender (2006) found that not all profit-making state-owned enterprises have adhered to the dividend policy guidelines. Emekekwue (2005), the essence of the dividend policy is to determine what portion of firms' earnings that will be paid out as dividend or held back as retained earnings. Retained earnings are one of the important sources of financing of firms' 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 while dividend, puts disposable income in the hands of

shareholders. Juma'h and Pacheco (2008) assert that, on average, profitability, liquidity, and the size of companies are important determinant of cash dividend decision. Arif, et al (2011), opines that discretionary accruals do not significantly influence dividend policy. It means that the practices of earnings management are not only for the sake of dividend avoidance, but there can be several other reasons for this manipulation. The investor while making investment decision with a hope to have dividend, should not focus on the earnings management as a signal for the dividend policy formulation. Emekekwue (2005) found that dividend policies vary among firms. Some vary with the business cycle while others do not. The so-called growth firms usually pay out paltry amounts to shareholders and use what is left to address the financial needs of the firm. However, the objective of providing funds to build up reserves to finance expansion projects, service and retire existing obligations and, consequently, enhance the earnings power of the firm is at variance with putting disposable income in the hands of shareholders. A high rate of retained earnings translates to a lesser amount of disposable income to shareholders. Similarly, if a large portion of corporate earnings is paid out as dividend, the firm will not have enough to service and retire existing obligations, and of course, for reinvestment. Since retained earnings act as a buffer to the future earnings capacity of the firm, it is generally argued that a drop in retained earnings will precipitate a drop in the market value of stocks. Basse (2009) is of the view that firms seem to increase their dividend payments when facing an environment of a rising price level to stabilize the real value of dividend income. Therefore, higher inflation is a major driver of dividend increases.

The concept of dividend has been defined by many authors, researchers. Lease et al. (2000), Bierman (2001), Baker (2002), Frankfurter (2003) have described it as an appropriation of profits to shareholders after deducting tax and fixed interest obligations on debt capital (Uwuigbe, 2012). According to Olimalade&Adewumi (2007), it is seen as cash flows that accrue to equity investors. That is a form of return to shareholders on their investment, and the aim is to increase their confidence in the future of the company in which they have invested. Dividends are compensatory distribution to equity shareholders for both time and investment risks undertaken (Uwuigbe, 2012). Such distributions are usually net of tax and obligatory payments under debt capital and they represent a depletion of cash assets of the company (Lipson, 1998). Pandy (2010) defines dividend as that portion of a company's net earnings which the directors recommend being distributed to shareholders in proportion to their shareholdings in the company. It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. Dividends are usually paid out of the current year's profit and sometimes out of general reserves. They are normally paid in cash, and this form of dividend payment is known as cash dividend (Adefila, Oladipo, and Adeoti, 2013). Dividend payment is a major component of stock return to shareholders (Zakaria, 2012). Jo and Pan (2009) assert that dividend payment could provide a signal to the investors that the company is complying with good corporate governance practices. The dividend policy decisions of firms are the primary element of corporate finance policy (Uwuigbe, 2012). Nissim & Ziv (2001) define dividend policy as the regulations and guidelines that a company uses to decide to make dividend payments to shareholders. Lintner (2006) presented a model based on stylized yield of the specific characteristics of a 'sticky of dividend'. The author found that firms are reluctant to decrease dividends since this could lead investors to interpret poor performance and cause the stock prices to fall as well.

The Maturity Hypothesis, advanced by (Grullon,2002) and DeAngelo has it that;Dividends are commonly described as the distribution of earnings (past or present) in real assets among shareholders of the company in proportion to their ownership (Kapoor, 2009). Dividend payment is a major component of stock return to shareholders, and dividend payment could provide signal to the investors that the firm is complying with good corporate governance practices (Jo & Pan, 2009). Kapoor (2009) defined dividend policy as a policy a firm uses to decide how much it will pay-out to shareholders in dividends. Dividend policy is the regulations and guidelines a company follows in making dividends payments to its shareholders (Nissim & Ziv, 2001). The dividend policy decisions of firms are the primary element of corporate policy (Uwuigbe & Jafaru, 2012). Dividend policy has been a subject of many decades, but no universally acknowledged explanation has been established for companies observed dividend behaviour (Agyei &MarfoYiadom, 2011). Dividend policy is the corporation's choice of whether to pay its shareholders a cash dividend or to retain its earnings (Okafor et al. 2011). They further asserted that dividend policy is a firm's policy with regards to paying out earnings as

dividend versus retaining them for reinvestment in the firm. It is the division of profit between payments to shareholders and reinvestment in the firm. It is an important firm long-run financing strategy (Okafor et al. 2011). Kapoor (2009) documented that dividend policy can be grouped into two types namely residual and managed dividend policy. In residual dividend policy, the amount of dividend is the cash left after the firm makes desirable investments using net present value (NPV) technique. In managed dividend policy, the amount of dividend varies and sometimes may even be zero i.e. the firm may retain 100 per cent of its earnings depending on the prevailing situation of the firm. A stock price is the value attached to equity ownership in a firm. A stock may be traded at its face value i.e. the par value or at a discount a price less than its market value or even at a premium a price greater than its market value. Gordon (1959) identified dividends; the expected growth rate in dividends; a measure of earnings instability; a measure of firm's leverage, an index of the operating asset liquidity and a measure of firm size as the determinants of stock price. Kighir (2006) observed that outsider and insider information are the factors affecting stock price movement. He classified the outsider information as comprising but not limited to demand and supply indices; new product/market share; new technology or machinery or investment in products. The insider information is the information possessed by people in special or privileged position inside the company of government (Kighir, 2006). The parties in possession of insider information are not posed to use the information to take undue advantage of the market in trading in stocks or reveal such information to a third party who could trading in stocks.

Empirical Framework

Abubakar(2018) investigated the effect of dividend policy on the stock price, using 5 quoted deposit money banks in Nigeria, during the period 2010- 2016. Data was sourced through the annual reports of selected banks, and the daily official lists of the Nigerian stock exchange (NSE) for the period under review. Descriptive as well as Fixed Effects Model (FEM) have been applied to achieve the objectives of the study. The findings revealed among others that dividend per share (DPS) has a significant positive effect on the stock price, while retained earnings per share (RPS) has a significant negative effect on the stock price of the selected quoted deposit money banks in Nigeria. The study concludes that increase in the amount of dividend declaration is positively associated with the rise in stock price. Shehadeh and Hanoon (2016) studied the effect of cash dividends announcement on stock prices in the Palestine stock market, the study covered 9 years from 2006 to 2014, and they used the event study to test whether the Palestine stock market is efficient market in its semi-strong form, the study determined to be inefficient. Ramesh and Rajumesh (2015) tested the stock market reaction and market efficiency through the political events in Sri Lanka they used 40 political events from 2008 to 2012, and event window from 10 before and 10 after the events. They found that the stock market reacts badly to the political events, and the investors were rationally during the political events. Mitsuyama and Shimizutani (2015) used the event studymethodology to examine the Tokyo Stock Exchange reaction to the events for firms with non-financial factors.

Vinh (2014) examined the impact of dividend policy which is measured by pay-out ratio and dividend yield on stock price volatility. By using panel data and regression models to analyze a sample consisting of 103 listedfirms in Vietnam from 2008 to 2012, he presented a statistically significant correlation between dividend policy and stock price volatility. After that, Vinh (2015) applied the event study methodology to study the market reaction to cash dividend announcement. This research was conducted based on a sample comprisingnon-financial companies listed on Vietnamese stock market in the period of 2008-2014 and the results were inconsistent to the semi-strong form of efficient market hypothesis (Fama, 1970). Trung and Dat (2015) also used the traditional event study methodology to investigate the effect of dividend announcement on stock price in Vietnamese stock market. They chose a sample including 979 dividend events of 233 listed companies in the period of 2008-2014 for this research. These authors found that the stock market react positively to share prices and trading volume around the dividend announcement day. Sharif, Purohit, and Pillai (2015) on factors affecting the stock price revealed that the share price in the Bahrain market is significantly determined by variables of return on equity, book value per share, dividend per share, dividend yield, price earnings, and firm size. Much as their findings identified several factors, dividends given to stockholders were key among them. From their study, it was evident that dividends could not be ruled out in establishing the

determinants of stock prices on the Bahrain market as corroborated by the findings of Masum (2014), whose study indicates that a dividend policy a company chooses has a significant positiveeffect on stock prices.

Bougatef, (2011) examined the impact of dividend payments on the stock price in Tunis stock price. The sample covered 24 publicly traded Tunisian firms. Data were collected from Tunis Stock Exchange and completed from firms' web sites during the period 2000 – 2008 by using Panel Data Regression; Fixed effect model, Random Effect Model and OLS Model. The results indicated that cash dividend have positive impact on stock prices of Tunisian firms. In addition, Tunisian investors reward firms paying cash dividend. Inflation has negative impact on stock price, but profitability has positive impact on stock price. Khan (2012) investigated the effect of dividend policy on stock prices by taken 25 companies listed at KSE- 100 Index from the period of 2001 to 2010. The study is based on Fixed and Random Effect Model. The results indicated that there is significant positive relationship between cash dividend and stock prices. Also, there is negative insignificant between stock dividend and stock prices. This study further indicated that Dividend Irrelevance Theory is not applicable in case chemical and pharmaceutical industry of Pakistan. Hashemijoo, et al (2012) investigated the relationship between dividend policy and share price volatility by taking a sample of 84 companies listed on Bursa Malaysia during the period 2005 to 2010 by using Multiple Regression. The results indicated that significant negative relationship between share price volatility and two main measurement of dividend policy which are pay-out ratio and dividend yield. Also, there is significant negative relationship between share price volatility and size.

Theoretical Framework

Dividends Relevance

Walter's Model Walter (1963) argued that the choice of dividend policy affects the value of a firm. Walter's model shows the association between a company's rate of return, r, and it's cost of capital, k, in determining the dividend policy that will maximize shareholders' wealth (Pandey, 2010). As documented by Francis (1972), Walter's model was based on the following assumptions: the firm finances all investment through retained earnings; the firm's rate of return, r, and its cost of capital, k, are constant; there is low percentage pay-out or retention; beginning earnings and dividends never change; the values of the earnings per share, EPS, and the dividend per share, DPS may be changed in the model to determine results, but any given values of EPS or DPS are assumed to remain forever in determining a given value, and finally, the company has a very long or infinite life.

Dividend Relevance: Gordon's Model

Another theory that explains the relevance of dividend policy on the value of a firm is the Gordon's model. The assumptions underlying the Gordon's model were documented by Francis (1972) as follows: the firm is an all-equity firm; no external financing available; the internal rate of return is constant; there is constant cost of capital; the firm and its stream of earnings are perpetual; corporate taxes do not exist; there is constant retention i.e. the retention ratio once decided remains unchanged; and finally, cost of capita is greater than growth rate. The market value of share according to (Gordon, 1962) is equal to the present value of infinite streams of dividends received by the shareholder. Pandey (2010) summarized the Gordon's model in the following ways: the market value of share increases with the retention ratio for firms with growth opportunities i.e. when internal rate of return is greater than cost of capital; the market value of share increases with the pay-out ratio for declining firms with internal rate of return is less than cost of capital; and the market value of share is not affected by dividend policy when internal rate of return is equals to cost of capital.

Dividend Policy and Uncertainty

The Bird-in-the-Hand Argument Based on the assumptions of Gordon's model, dividend policy is irrelevant when internal rate of return equals cost of capital. However, when the assumptions are modified to more realistic conditions, Gordon argued that dividend policy does affect the value of a share even if internal rate of return equals cost of capital. This view followed the assumption that under conditions of uncertainty, investors tend to discount distance dividends (capital gain) at a higher rate than they discount near dividends (Pandey,

2010). Investors behaving rationally are risk averse and, therefore, have a preference for near dividends to future dividends (Pandey, 2010). This kind of behaviour can be referred to as the bird-in-the-hand argument, which is based on the concept of time value of money.

METHODOLOGY

The population of this study consists of four (5) quoted deposit money banks in Nigeria as of 31st December 2014 and still remain quoted up to 31st December, 2020. The beginning year 2014 corresponds to the year banks in Nigeria prepare their annual reports using uniform financial year end i.e., 31st December. The end year 2020 was chosen because 2020 annual report is the latest annual report available for banks in Nigeria. From a total of 12 banks listed on the banking sub-sector of the Nigerian stock exchange (NSE) as of 31st December 2020 as contained in the daily official list of the NSE for 31st December, 2020, 8 banks that did satisfy the criteria, four selection were excluded. The criteria for selection include banks with record of dividend payment for at least 6 years during the period of study; banks with record of retained earnings for at least 6 years during the period of study; banks with record of market share price during the period of study; banks that are quoted on the floor of the NSE and are PLCs, and banks that are classified as deposit money banks. The lists of quoted deposit money banks selected in this study are: Access Bank Plc; Guaranty Trust Bank Plc; United Bank for Africa Plc and Zenith Bank Plc.

Model Specification

The researcher adopts the model used by Hashemijoo, (2012) with little modifications to suit the researcher's need. The model is as follows:
$SP = \beta 0 + \beta 1EPS + \beta 3DDA + e$
$\beta 0$ = intercept
EPS = Earnings per Share
SP = Share Price
DDA=Date of Dividend Announcement
E = error term

Measurement of Variable

Earnings per Share (EPS) Log of Earnings per Share
Share Price (SP) Log of Share Price
Date of Dividend Announcement (DDA) Log of Date of Dividend Announcement
Note: Earnings per Share, Share Price and Date of Dividend Announcement were already stated in annual report of sampled banks

RESULTS AND DISCUSSION

Regression Results

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.245[a]	.060	.029	1.77947	1.636

a. Predictors: (Constant), DDA, EPS

b. Dependent Variable: SP

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.248	2	2.124	3.671	.022[a]
	Residual	66.497	21	6.167		
	Total	70.745	23			

a. Predictors: (Constant), DDA, EPS

b. Dependent Variable: SP

Table 3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.441	1.513		2.935	.008
	EPS	-.028	.042	-.141	-.667	.512
	DDA	2.118	2.136	.210	.992	.003

a. Dependent Variable: SP

From table 1, the result shows that the co-efficient of the regression which is R^2 is relatively high at 6%. This means that 6% of SP is explained by the explanatory variables while 94% is unexplained. The Durbin Watson (DW) statistics of 1.636 suggests that the residuals are positively auto correlated at the 5% level of significance. This indicates that there is a positive autocorrelation among the error term of each of the variables used in this study.From table 2 above, the result shows the overall fitness of the model formulated. The F-statistics as presented in the table is 3.671 which is significant at 5%. This shows that the model is well fitted as seen from the ANOVA table. Table 3 shows the regression results on the relationship between DDA and EPS, SP. The estimated regression relationship for the model is:

SP= 4.441 -0.028 (EPS) +2.118 (DDA).From the table 3 above, the result shows the overall fitness of the model formulated. The Coefficientsshows that EPS has0.512which is insignificant at 5%. Because the p-value is greater than 0.05 i.e 0.512>0.05. This therefore means that Earning per share does not have influence the share price Nigeria. This however leads to the acceptance of the null hypothesis that Earning per sharehas no effect on share price of listed money deposit banks in Nigeria. Also, the Co-efficient shows that DDA has0.003 which is significant at 5%, because the p-value is less than 0.05 i.e 0.003<0.05. This therefore means that date of dividend announcementhas influence the share price Nigeria. This however leads to the acceptance of the alternate hypothesis that date of dividend announcementhas no effect on share price of listed money deposit banks in Nigeria.

Discussion of Findings

It was discovered thatDividend announcement has effect on share price of listed money deposit banks in Nigeria. Dividend announcements affect the stock price around the announcement day. Most existing theories imply that dividend announcements convey information and, consequently, affect share prices**.** In an informational inefficient market, managers have more information than investors regarding the prospects of the firm, therefore, dividend announcement may serve as a signal to communicate this information and thereby reducing the level of information asymmetry; this is known as dividend signalling hypothesis. However, it is probable that the stock prices do not adjust in an efficient manner to the new dividend information. Based on the dividend announcement, when information takes a periodto be incorporated into the stock price, investor can make use of this inefficiency and earn abnormal return, which continue to exist over a period of time after the

announcement. Studies that investigate the price effect of dividend announcements are mainly based on developed capital markets data. The use of this procedure controls the problem of extreme values in individual years attributable to low or possibly negative net income. The pay-out ratio is set to one in cases where a total dividend exceeds total cumulative profits. The transmission mechanism through which the dividend pay-out policies of firms are reflected on the stock prices is during announcement of dividend. One of the earliest studies in this direction was by Petit (1972), who found that the market made use of dividend change announcements in pricing securities (see also, Gordon, 1959, 1962), Foster and Vickery (1978), Lee (1995). However, contrary to the above studies, Sinclair (2009) find negative abnormal returns, that is, a negative reaction by stock prices to dividend announcements; this is normally attributed to the tax effect of dividends for shareholders. This supports the findings of this study which indicates that dividend announcements of Nigerian commercial banks have positive and significant impact on share prices.

CONCLUSIONS AND RECOMMENDATIONS

A great deal of theoretical and empirical research on dividend policy effects has been done over the last several decades. Theoretically, cash dividend from earnings means giving reward to the shareholders, that is, something they already own in the company; but this will be offset by the decline in stock value. In an ideal world therefore dividend payments would have no impact on the shareholders' value. In the real world, however a change in the dividend policy is often followed by a change in the market value of stocks. The economic argument for investor's preference for dividend income was offered by Graham and Dodd (1934); Walter (1963) and Gordon (1959 and 1962). Another researcher made efforts to further understand the dividend and earnings controversy on stock prices reveals that on the average investors, subject to their personal tax rates, would prefer to have less cash dividend if it is taxable: size of optimal dividend inversely related to personal income tax rates (Pye, 2002). The theoretical literature on dividend and earnings effect has been well developed. Researchers largely accepted that dividend *per-se* has no impact on the shareholders' value in an ideal economy. However, in a real world, dividend announcement is important to the shareholders because of its tax effect and information content. Thus, given the above problems and the controversies surrounding the impact of dividend and earnings on stock prices, this study examined the impact of dividend policy and earnings on stock prices of Nigeria banks. For a company therefore to improve its rating on the stock market, which is informational efficient, it must consider increasing the wealth of its shareholders by increasing dividends payment overtime which later coaxes more shareholders to buy the stock hence piling up pressure on the price of the stock, leading to the price increase.This study recommends managers should act in the best interest of investor as to reduce the agency problem, thus complete information about the dividend polices of the firm should be provided. It is argued that dividend announcements convey information to investors regarding the firm's value prospects. Thus, stock prices tend to increase when an increase in dividend is announced but tend to decrease when a decrease or omission is announced, this study recommends also that strict adherence to interest of shareholders in choosing dividend policies that will maximize shareholders' value by management. The decision taking authority in a company lies in the hands of managers. Shareholders as owners of the company are the principals and managers are their agents. Thus, there is principal-agent relationship between shareholders and managers therefore managers should and must act in the best interest of shareholders as consistent with shareholders' wealth maximization objectives of the firm. This will ensure projects that will enhance the growth of the firm should be undertaken while those that will not, would notbe undertaken. It is again recommended that Nigerian firms especially banks should follow a dividend pay-out policy that will constantly involve paying dividends annually. According to the classical school of thought who believes that dividends are paid to influence their share prices and that market price of equity is a representation of the present value of estimated cash dividends that can be generated by the equity, However, the result from this study indicates that the pay-out policies of Nigerian banks do not influence stock prices, thus, this will attract the interest of investors thereby enhancing the worth of equity.

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