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# Dividend Policy and Share Price: Empirical Investigation of Zenith Bank Plc, Nigeria

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***Authors' contributions***

*This work was carried out in collaboration between two authors. Two authors read and approved the final manuscript.*

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## ABSTRACT

Dividend decision is one of the major decisions taken by the firm which no doubt influences the decision of both local and foreign investors. Investors in developing countries like Nigeria believe that dividend paid to the shareholders is one of the best indicators of profitability market price of the corporate share. This study, therefore examines the impact of dividend policy on a share price with specific reference to Zenith bank Plc, Nigeria. The study relied mainly on the secondary data gotten from the audited annual financial reports and accounts of Zenith bank Plc from 2007-2016. The market value of the share, earnings and the dividend paid in 2007 to 2016 were considered. Descriptive statistics were used to describe the variables while Correlation Analysis and Ordinary Linear Square (OLS) were used to examine the relationship and effect between the dependent and independent variables respectively. Results show that dividend yield (β = -242.032; t = -1.640); earnings yield (β = -.116.549; t = -1.478**)** payout ratio (β = -.61.484; t = -1.425) have negative impact but not significant on share price of Zenith bank. This implies that dividend policy measured by dividend yield, earnings yield and payout ratios are a weak predictor of the share price of Zenith bank. The study, therefore, recommends that management of Zenith bank should endeavour to strict adhere to the interest of shareholders in choosing dividend policies that will maximize shareholders' value. More also, management of Zenith bank should follow a dividend payout policy that will constantly involve paying dividends annually.

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*Keywords: Dividend policy; earnings; payout ratio; dividend yield; share price; zenith bank.*

## 1. INTRODUCTION

Dividend policy has been an issue of interest and is one of the most widely researched topics in the field of finance. The importance of dividend policy in the business world cannot be under estimated. Dividend decision is one of the major decisions taken by the firm which no doubt influences the decision of both local and foreign investors. Investors in developing countries like Nigeria believe that dividend paid to the shareholders is one of the best indicators of profitability market price of the corporate share. According to [1], maximizing shareholders' wealth depends on the dividend policy of the company because of these shareholders would satisfy their purchasing and consumption patterns. [2] agrees that decision to pay dividends have a notable impact on other decisions of companies such as financing and investment decisions. This has made virtually all organizations to strive to have an optimal dividend policy that maximizes the wealth of shareholders [2] .

Mismanagement of Nigerian capital market which characterized by the crash of the market capitalization from a record high of N13.5 million in early 2008 to less than N4.5 trillion in 2009 has made investors to lose confidence in Nigerian economy, as many investors prefer to convert their naira to foreign currencies, especially the dollar and hold them through their domiciliary accounts. This has a negative impact on exchange rate against the naira. Recently, more than N1 trillion of banks' funds had tapped in the capital market. This has made the banks to force investors to sell their shares at any price, just to have a moment of respite. This action has further increased the supply of shares at ridiculous prices, leading to a greater market crash. This persistent crash in the market price of shares has made investors and financial analysts in Nigeria to be worried. Some researchers attributed the crash to the banks' non-payment of dividends which according to them made investors lose interest in trading on stocks [3].

Dividend policy has been identified by financial analysts as an important decision for the company to survive in the global competitive environment because investors consider payment of dividend as a source of income and the way of assessing whether the company is liquid or not. However, some scholars argue that dividends have no explanatory power to predict share prices [4,5,6]. Also, [7] and [8] have theoretically explained that the value of the firm is unaffected by dividend policy and as such dividend policy is irrelevant.

This study, therefore, intends to investigate whether dividend policy is a predictor of the share price of Zenith bank. The questions that are agitating the minds of the researchers are: is there any relationship between dividend policy and share price of Zenith bank? Does dividend yield have an impact on share price of Zenith bank? To what extent do earnings yield influence share prices of Zenith bank? And what is the impact of payout ratio on share prices of Zenith bank?

### 1.1 Objectives of the Study

The main objective of this study is to examine the effect of dividend policy on the stock price of Nigerian quoted banks. The specific objectives are:

i. To examine the impact of dividend yield on the share price of Zenith bank.
ii. To evaluate the influence of earnings yield on share prices of Zenith bank.
iii. To determine the effect of dividend payout ratio on share prices of Zenith bank.

### 1.2 Statement of Hypotheses

The following null hypotheses were postulated for the study:

$H_{o1}$: Dividend yield has no positive and significant impact on share prices of Zenith bank.
$H_{o2}$: Earnings yield has no positive and significant influence on share prices of Zenith bank.
$H_{o3}$: Dividend payout ratio does not have positive and significant effect on share prices of Zenith bank.

### 1.3 Rationale for Hypotheses

**Hypothesis One:** Previous studies have mix results on the relationship between dividend yield and share price. Some studies confirm that dividend yield has significant impact on share prices of quoted firms, while some studies have contrary views [5,6,9,10,11,12,13]. Based on these mix findings, this current study, therefore, formulates $\mathbf{H_{o1}}$.

**Hypothesis Two:** Earnings yield and a share price of firms are contentious. Some studies view the earning yield as improving the market share price of the firm, while some studies disagree that earnings yield is a predictor of the share price [9,14,5,13]. Thus, $\mathbf{H_{o2}}$ is formulated.

**Hypothesis Three:** Previous empirical studies and theoretical studies have divergent opinions on the effect of payout ratio on the share price. Some find a positive effect, some find a negative effect, while some find no effect [9,15,16,13] Based on these divergent views, $H_{o2}$ is formulated.

## 1.4 Justification for the Study

This study is relevant and significant because it deals with a contemporary issue and is buildups on the previous investigation by various scholars and researchers on the impact of dividend policy on share prices, especially in Nigerian quoted banks and is aimed at building up on the lapse of previous investigations. The study is expected to contribute to existing literature on dividend policy in Nigeria, and the result of this research work serves as input for other researchers who interested in research on dividend policy.

## 1.5 What is Dividend Policy?

The term dividend refers to that part of profits of a company which is distributed by the company among its shareholders. It is the reward of the shareholders for investments made by them in the shares of the company [10]. Dividend policy, therefore, is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Some evidence suggests that investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash.

The investors are interested in earning the maximum return on their investments and to maximize their wealth. A company, on the other hand, needs to provide funds to finance its long-term growth [17,18]. Since dividend is a right of shareholders to participate in the profits and surplus of the company for their investment in the share capital of the company, they should receive a fair amount of the profits. The company should, therefore, distribute a reasonable amount as dividends to its members and retain the rest for its growth and survival [19].

According to [19], dividend decision is one of the three basic decisions which a financial manager may be required to take, the other two being the investment decisions and the financing decisions. In each period any earning that remains after satisfying obligations to the creditors, the government and the preference shareholders can either be retained or paid out as dividends or bifurcated between retained earnings and dividends [20].

## 1.6 Types of Dividend Policy

[19] Identify the following various types of dividend policies:

**Regular Dividend Policy:** Payment of dividend at the usual rate is termed as a regular dividend. The investors such as retired persons, widows and other economically weaker persons prefer to get regular dividends.

**Stable Dividend Policy:** The term ‘stability of dividends' means consistency or lack of variability in the stream of dividend payments. In more precise terms, it means payment of the certain minimum amount of dividend regularly.

**Stable Rupee Dividend plus Extra Dividend:** Some companies follow a policy of paying a constant low dividend per share plus an extra dividend in the years of high profits. Such a policy is most suitable to the firm having fluctuating earnings from year to year.

## 1.7 Theoretical Review

There are conflicting views as far as the impact of dividend decision on the value of the firm and market price per share of the company. According to some scholars, dividends are relevant to the valuation of the firm. Others argue that dividends do not affect the value of the firm and market price per share of the company. For instance, dividend relevant theory argues that since the choice of the dividend policy affects the value of a firm, it is considered as relevant. Gordon has suggested that dividend policy affects the market value of the share. That is the valuation gets affected as the dividend payment is increased or decrease so payout ratio and retention ratio plays a vital role to analyze or to evaluate the market price of the shares. Gordon model which opines that dividend policy of a firm affects its value is based on the following assumptions: a) The firm is an all-equity firm (no debt). b) There is no outside financing, and all investments are financed exclusively by retained earnings. c) The internal rate of return (R) of the firm remains constant. d) Cost of capital (K) of the firm also remains same regardless of the change in the risk complexion of the firm. e) The firm derives its earnings in perpetuity. (f) The retention ratio (b) once decided upon is constant. Thus the growth rate (g) is also constant (g=br).

In the same vein, Walter also argues that the choice of dividend payout ratio almost always affects the value of the firm. According to this theory, the optimum dividend policy depends on the relationship between the firm's internal rate of return and cost of capital. If R>K, the firm should retain the entire earnings, whereas it should distribute the earnings to the shareholders in case the R<K. The rationale of R>K is that the firm can produce more return than the shareholders from the retained earnings. Previous studies such as [20,21,22,23,24,15] agree with the dividend relevant theory that dividend policy is a predictor of value of the firm and market price per share of the company.

However, dividend irrelevant theory argues that dividend does not affect the value of the firm and market price per share of the company. [7] in 1961 argue that there is no effect from dividends on a company's capital structure or stock price. MM's dividend-irrelevance theory assumes that investors can affect their return on a stock regardless of the stock's dividend. As such, the dividend is irrelevant to an investor, meaning investors care little about a company's dividend policy when making their purchasing decision since they can simulate their own dividend policy. Modigliani – Miller theory is a major proponent of ‘Dividend Irrelevance' notion. According to this concept, investors do not pay any importance to the dividend history of a company, and thus, dividends are irrelevant in calculating the valuation of a company. This theory is in direct contrast to the ‘Dividend Relevance' theory which deems dividends to be important in the valuation of a company. Works of [25,26,27,28] support the Modigliani – Miller theory that dividend policy has no significant effect on market share price.

## 1.8 Brief History of Zenith Bank

Zenith Bank was established in May 1990; the bank started operations in July of the same year as a commercial bank. It became a public limited company on June 17, 2004 and was listed on the Nigeria Stock Exchange on October 21, 2004. Zenith Bank has its headquarters in Lagos, Nigeria, it has over 500 branches and business offices nationwide, with a presence in all the state capitals, Federal Capital Territory (FCT), major towns and metropolitan centres in the country. For the past 21 years, Zenith Bank has grown to be one of the biggest and most profitable banks in Nigeria. The bank currently has a shareholder base of over one million and is the bank with the highest shareholders' funds – $2.46bn – Q3 2011 – in Nigeria. In April 2007, Zenith became the first Nigerian bank in 25 years to be licensed by the United Kingdom giving rise to Zenith Bank (UK) Limited. Zenith Bank also has a presence in: Ghana, Zenith Bank (Ghana) Limited; Sierra Leone, Zenith Bank (Sierra Leone) Limited; the Gambia, Zenith Bank (Gambia) Limited and a representative office in Johannesburg, South Africa. Another representative office is being opened in Beijing, China this year (www.worldfinance.com/strategy/esg/zenith-bank-the-success-story-of-nigerian-banking, 2017).

Zenith Bank, at its 26th Annual General Meeting in Lagos, paid a total dividend per share of N2.02k to its shareholders for the 2016 financial year. The bank last year paid an interim dividend of 25k, while making a final payment of N1.77k at the AGM, raising it to N2.02k. This was also the result of a remarkable 2016 market performance by the bank in key measures and indicators, despite the challenging economic environment in Nigeria. From the analysis, Zenith Bank recorded a total deposit increase by 9.44% of N2.55trl in 2016, from N2.33trl in 2015. Profit-before-tax (PBT) rose by 21.4% from N115.22bl (2015) to N139.93bl in 2016. Profit-After-Tax (PAT) rose by 20.75% from N98.75bl in 2015, to N119.29bl in 2016. Total Assets of the bank grew by 14.2%, from N3.75trl (2015) to N4.28trl in 2016.

## 1.9 Description of Research Variables

**Market Price (SP):** Is a price at which buyers and sellers agree to trade in an open market at a particular time. Market price is measured by summing up all the stock prices for each month for a year by twelve months [13,9,29,10,11].

Market Price =

$$\frac{MarketP1 + mp2 + mp3 \ldots\ldots\ldots\ldots + mp12}{12}$$

**Dividend yield (DY):** Dividend yield of a stock signifies how much a company pays a dividend about its stock price. Dividend yield was used to calculate the earnings on investment (shares) considering only the returns in the form of total dividends declared by the company during the year [9,10,11,12,13].

$$\text{Dividend Yield} = \frac{\text{Dividend Per Share}}{\text{Market Per Share}}$$

**Earning Yield (EY):** This is the ratio of the earnings per share to the current market price of the stock. This ratio indicates to the return shareholders are obtaining on their investments in the form of a dividend. The earnings yield can be used to compare the earnings of a stock, sector or the whole market against bond yields [9,14,13].

$$\text{Earnings Yield} = \frac{\text{Earnings Per Share}}{\text{Market Price Share}}$$

**Payout Ratio (POR):** Payout is the ratio of dividends per share to earnings per share. The use of this procedure controls the problem of extreme values in individual years attributable to low or possibly negative net income. Dividend payout ratio shows how much of the profit is distributed as dividend to stock holders. The higher the dividend payout ratio, the more attractive the stock is to the stock holders [9,15, 16,13].

$$\text{Payout Ratio} = \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

### 1.10 Model Specification

In specifying this model, researchers followed the theoretical and empirical specification of previous studies. The model is in line with [9,3,30,13].

### 1.11 Mathematically, the Model is expressed as Follows:

Market Price = f(Dividend Policy).
Dividend policy is measured by dividend yield, earning yield and payout ratio

Therefore,

Market Price = f(Dividend Yield, Earning Yield, Payout Ratio).
Market Price = $\beta_0 + \beta_{1\text{Dividend Yield}} + \beta_{2\text{Earning Yield}} + \beta_{3\text{Payout Ratio}} + \mu$
$\beta_0$ = Regression Constant
$\beta_{01}$ - $\beta_{03}$ = Regression Coefficient
$\mu$ = Error Term

## 2. METHODOLOGY

The study relied mainly on the secondary data gotten from the audited annual financial reports and accounts of Zenith bank Plc from 2007-2016. The market value of the share, earnings and the dividend paid in 2007 to 2016 were considered. The choice of this bank is based on the fact that is one of the biggest banks in Nigeria, since it became a public limited company in 2004, it has won several awards and is one of the 10 richest banks in Africa. Also, Zenith bank took over the leadership of the Nigerian banking industry by the size of the balance sheet in 2016. It accelerated growth from 6.7% in 2015 to 18.3% in 2016 and closed the year with an asset base of N4.739 trillion. **(**https://www.thecable.ng/nigerias-largest-banks-zenith-bank-takes-lead**).**

Descriptive statistics were used to describe the variables while Correlation Analysis and Ordinary Linear Square (OLS) were used to examine the effect and the relationship between the dependent and independent variables respectively. The choice of these techniques was because of their ability to account for several predictive variables simultaneously. According to [31], correlation analysis is a widely used statistic for obtaining an index of the relationships between two variables when the relationships between the variables are linear and when the two variables correlated are continuous. To ascertain whether a statistically significant relationship exists between dividend policy and share price of Zenith bank Plc, Correlation Analysis was used. [32], states that the Correlation Analysis indicates the scope to which the variables being investigated are related to each other or not. Sekaran further states that it also indicates the directionality and strength of the relationship.

Ordinary Linear Square (OLS) was used to know the effect of dividend yield, earnings yield and payout ratio on the share price of Zenith bank Pls. [31] state that OLS takes into account the intercorrelations among all variables involved. This method also takes into account the correlations among the predictor scores.

Multicollinearity test was carried out to ensure that variance inflation factor (VIF) statistics filter the variables that might distort the results of regression analysis [33] as indicated in Table 1.

**Table 1. Multicollinearity test**

| Variables | Tolerance | VIF |
|---|---|---|
| Dividend yield (DY) | .531 | 2.667 |
| Earning yield (EY) | .603 | 1.456 |
| Payout ratio (POR) | .364 | 3.881 |

*Source: Researcher's computation 2017*

From Table 2, VIF value obtained is between 1.456 and 3.881. Since the value is not less than 1 or more than 10, this implies that there is no multicollinearity among the independent variables in the model.

**Reliability and Validity**: Secondary data for the study were drawn from audited accounts of the Zenith bank Plc as fairly accurate and reliable. Necessary checking and cross-checking were done by the researchers. These efforts were made to generate validity data for the present study. In addition to multicollinearity test, Heteroskedasticity test was also performed to ascertain the reliability of data used.

## 3. RESULTS AND DISCUSSION

Table 2 shows that the average share price of Zenith bank is N 24.30k with minimum share price of N12.18 and maximum share price of N 46.60k. The average dividend yield of Zenith bank is 6k with the minimum of 2k and maximum of 10k. Mean value of earnings yield is 10k while the minimum value of Zenith earnings yield is the 2k and maximum value of 17k. Result also reveals that average payout ratio of Zenith bank is 60k while the minimum value of payout ratio of Zenith bank is 50k and the maximum value is a 72k fo9r period of study.

Table 3 represents the correlation amongst variables. Table3 indicates that dividend policy measured by dividend yield (r -.502) earnings yield (-.463) and payout ratio (-.450) have an inverse relationship with a share price of Zenith bank. This study is in line with [6,34], and [35] results. In another study, [9] investigate the impact of dividend policy and earnings on stock prices of Nigeria banks. Results reveal that dividend yield; earnings yield and payout ratio had a negative impact on commercial banks' stock prices in Nigeria. This implies that dividend yield, earnings yield and payout ratio are not factors that influence stock prices.

However, the study is contrary to [36] and [37] findings. The study also disagrees with the theory of dividend relevance which states that dividend policy has a positive relationship with share price.

Table 4 presents the impact of dividend yield on the share price. Table 4 indicates that dividend

**Table 2. Descriptive statistics**

| Variable | N | Minimum | Maximum | Mean | Std. deviation |
|---|---|---|---|---|---|
| Share price | 10 | 12.18 | 46.60 | 24.3043 | 11.05353 |
| Dividend yield | 10 | .02 | .10 | .0621 | .02291 |
| Earnings yield | 10 | .02 | .17 | .1022 | .04393 |
| Payout ratio | 10 | .50 | .72 | .5999 | .08088 |

*Source: Field Survey, 2017*

**Table 3. Relationship between variables**

| | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Share Price | 1.000 | | | |
| Dividend Yield | -.502 | 1.000 | | |
| Earnings Yield | -.463 | 0.609** | 1.000 | |
| Payout Ratio | -.450 | 0.344 | .042 | 1.000 |

***. Correlation is significant at the 0.01 level (2-tailed)*

**Table 4. Impact of dividend yield on share price of Zenith bank**

| Model | | Unstandardized coefficients | | Standardized coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. error | Beta | | |
| 1 | (Constant) | 39.334 | 9.710 | | 4.051 | .004 |
| | Dividend Yield | -242.032 | 147.584 | -.502 | -1.640 | .140 |

*a. Dependent variable: Share Price*

**Table 5. Influence of earnings yield on share prices of Zenith bank**

| Model | | Unstandardized coefficients | | Standardized coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. error | Beta | | |
| 1 | (Constant) | 36.216 | 8.701 | | 4.162 | .003 |
| | Earnings yield | -116.549 | 78.832 | -.463 | -1.478 | .178 |

*a. Dependent variable: Share Price*

**Table 6. Effect of dividend payout ratio on share prices of Zenith bank**

| Model | | Unstandardized coefficients | | Standardized coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. error | Beta | | |
| 1 | (Constant) | 61.188 | 26.097 | | 2.345 | .047 |
| | Payout ratio | -61.484 | 43.151 | -.450 | -1.425 | .192 |

*a. Dependent variable: Share Price*

yield (β = -242.032; t = -1.640; Pens) has a negative but insignificant impact on the share price of Zenith bank. The study is consistent with [35] that dividend yield has an inverse impact on share price. Also, the study agrees with the work of [3] whose Finding shows that dividend yield does not have a significant positive effect on the market prices of shares of quoted firms. In another study, [38] examine the impact of dividend yield on the share price in Nigeria. The result indicates that dividend yield has a negative impact on share price. Similarly, [39] investigate the relationship between the stock price volatility among non-financial listed firms in Karachi stock Exchange. Their findings indicate that dividend yield has the negative relationship with share price.

In a similar study, [26] carry out a study to determine the impact of dividend yield on share price volatility in Kenya. Result reveals that dividend yield has a negative impact on share price. The findings of [6] who investigate the impact of dividend policy on share price volatility in the Malaysian Stock Market, shows that dividend yield has an inverse impact on share price. More also, [28] establish that dividend yield has a negative effect on share price.

However, this revelation is not in line with the findings of [22] and [40] who found a positive relationship between dividend yield and stock price.

Table 5 reveals that earnings yield (β = -.116.549; t = -1.478; Pn) has an inverse influence on the share price in the Zenith bank. This indicates that earnings yield is a week predictor of the share price. This study is in line with the finding of [9] who reveals that earnings yield has a negative impact on commercial banks' stock prices in Nigeria. More also, this study agrees with [35] theory.

Table 6 presents the effect of dividend payout ratio on share prices of Zenith bank. Table 6 shows that payout ratio (β = -.61.484; t = -1.425; Pn) has a negative impact but not significant on the share price of Zenith bank. This implies that payout ratio cannot significantly predict share price of Zenith bank. This outcome supports the findings of [9,3] and [38] that payout ratio has a negative relationship with share price. The results of [28,10] and [35] also indicate that share price volatility has a negative relationship with payout ratio.

However, this study contradicts the findings of [41] whose findings indicate that dividend payout was a major factor influencing share prices in a study of listed companies in Kenya.

## 4. CONCLUSION AND RECOMMENDATIONS

Based on results of this study, it can be concluded that dividend yield, earnings yield and payout ratio do not have a positive and significant impact on stock prices of Zenith bank. This was further supported by the correlation matrix which indicates that there was a negative relationship between share price, dividend yield, earnings yield and a payout ratio of Zenith bank. This implies that dividend policy measured by dividend yield, earnings yield and payout ratios are a weak predictor of the share price of Zenith bank. The study, therefore, recommends that management of Zenith bank should endeavour to strict adherence to the interest of shareholders in choosing dividend policies that will maximize shareholders' value. More also, management of Zenith bank should follow a dividend payout policy that will constantly involve paying dividends annually.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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