

**IMPACT OF DIVIDEND PAYOUT AND UNCLAIMED  
DIVIDENDS ON STOCK PRICE IN NIGERIA**

**By**

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**BEING A DISSERTATION SUBMITTED TO THE  
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**DECLARATION**

I declare that the work in the dissertation entitled "IMPACT OF DIVIDEND PAYOUT AND UNCLAIMED DIVIDENDS ON STOCK PRICE IN NIGERIA" has been performed by me in the DEPARTMENT OF ACCOUNTING under the supervision of Professor Aminu S. Mikailu. The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this dissertation was previously presented for another degree or diploma at any University.

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KIGHIR, APEDZAN EMMANUEL

.....  
Date

## CERTIFICATION

This dissertation entitled "IMPACT OF DIVIDEND PAYOUT AND UNCLAIMED DIVIDENDS ON STOCK PRICE IN NIGERIA" written by Kighir, Apedzan Emmanuel meets the regulation governing the award of the degree of Doctor of Philosophy of Ahmadu Bello University, Zaria and is approved for its contribution to knowledge and literary presentation.

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## DEDICATION

This dissertation is dedicated to Almighty God for His mercies.

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## **ABSTRACT**

This study is a response to the controversy among regulatory authorities, company executives and registers of companies, shareholders and the general public regarding the increasing incidence of unclaimed dividends in Nigeria. Specifically, the research is aimed at providing an in-depth investigation and analysis into the impact of dividends payout and unclaimed dividends on stock price in Nigeria. The increase in unclaimed dividends has consequences on the efficiency and credibility of the Nigerian Stock Market and regulatory authorities and hence a negative impact on the Nation's efforts in attracting portfolio investment into the economy. This study is significant as it tries to capture the omitted variable 'the unclaimed dividends', which earlier researchers had ignored in dividends payout studies. The study employed survey design, using cross-sectional secondary data from 55 companies quoted on the Nigerian Stock Exchange to test the research hypotheses, using statistical package for social sciences to perform the regression. Questionnaires, interviews and group discussions were used to collect the primary data. The study reveals that there is a positive relationship between paid cash dividends and current stock price; there is a positive relationship between unclaimed dividends and current stock price. The study also reveals that 50% (1:1) of impact of declared dividends on stock

price in banking industry, 33.3% (2: 1) in manufacturing industry and 50% (1:1) in Nigeria as a whole are as a result of in-built slack of unclaimed dividends. The study recommends issuance of a standard on dividends including unclaimed dividends; setting a threshold value above which unclaimed dividends must be reported to Securities and Exchange Commission; establishment of Abandoned Financial Assets Trust Fund and Amendment to CAMA 1990 and ISA 1999 to make it mandatory that above a certain threshold value all companies must include amount, names and addresses of all persons entitled to unclaimed dividends of previous years in notes to the accounts.



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## ABBREVIATIONS

$P_{it}$  = Mkt Price per share – It is the stock price on the day of dividends announcement. This is because excess returns are significant on these days (Adelegan, 2003).

$D_{it}$  = Declared Dividend per share - It is the cash dividend that is expected to be collected by the shareholders.

$R_{it}$  = Retained earnings per share - It is for the purpose of this research the difference between earnings per share and declared cash dividends.

$S_{it}$  = Paid dividends per share - It is the dividend that is actually collected out of the declared dividends.

$U_{it}$  = Unclaimed dividend per share - It is the unclaimed portion of the declared cash dividends. It is the difference between declared cash dividends and paid portion of the dividends.

$e_{it}$  = Random variable

$b_0, b_1, b_2, b_3$  and  $b_4$  = Coefficients.

CAMA – Company and Allied Matters Act, 1990.

ISA - Investment and Securities Act, 1999.

SEC - Securities and Exchange Commission.

NSE – Nigerian Stock Exchange.

AGM – Annual General meeting

SPSS – Statistical package for social sciences.



## CHAPTER ONE

### INTRODUCTION

#### 1.1 BACKGROUND TO THE STUDY

Dividends are distributable earnings of a company. The earnings, which are not distributed, constitute retained earnings. The decision on dividends payout and retained earnings constitute the dividends payout policy. The decision on whether or not to declare dividend rests in the hands of the board of directors of a company. However, when declared, it becomes a liability on the company, CAMA (1990).

When a dividend is not claimed by the shareholder for any reason, it gives rise to the issue of unclaimed dividends, (Unegbu 2002). According to CAMA (1990), dividends are considered unclaimed after fifteen (15) months from the date of declaration.

In Nigeria, there has been a lot of worry among regulatory authorities, company executives, Registrars of companies and the general public regarding the increasing incidence of unclaimed dividends. If dividends remain unclaimed for whatever reason, they become a disincentive to investment and may erode investor's confidence in the Nigerian capital market.

Most researches conducted in the area of the impact of dividend announcement (declared dividends) on stock price, conclude that dividends have positive or negative impact on stock price; Benishay (1961), Fisher (1961) and Lintner (1962). Other researchers conclude that the impact of dividends on stock price is several times that of retained earnings, Graham and Dodd (1934, 1961). These studies are of the assumption that whatever is declared as dividend is paid out to the shareholders within a reasonable time period.

Dividend can be in the form of cash dividends or shares known as stock dividends (Bonus shares) or stock repurchase (where excess cash is used to buy company shares). Paying a cash dividend reduces corporate cash and retained earnings shown in the balance sheet. In stock dividends, no cash leaves the firm; rather it increases the number of shares outstanding thereby reducing the value of each share. Earlier research findings reveal that many investors are attracted to companies, because of their dividend payout policies Feldstein and Green (1983).

Unclaimed Assets Register (2002), a United Kingdom Database Company, estimates that over **£15 billion of financial**

assets lie unclaimed in the United Kingdom. Of this amount, unclaimed dividends constitute **£3 billion**. The situation is not different in other advanced economies.

Unegbu (2002) states that the growth of unclaimed dividends over the years has constituted a problem and that as at the end of 1999, the figure of unclaimed dividends in Nigeria had risen to over ~~₦~~2.9 billion.

Michaelis (1994) reports how a bill introduced in the House of Representatives of the United State of America overturns court-approved procedures that require banks and brokerage houses to transfer unclaimed dividends and interest on stocks and bonds respectively to the state where the bank or security firms are incorporated. Under the new bill, the unclaimed funds, which are called escheatable funds, will be distributed to the home states of the corporation that issues the stocks or bonds. About \$100-\$150 million per year is estimated to be at stake.

In the same vein, Land (1993) introduces a bill in the senate to amend certain sections of the code of laws of South Carolina, 1976. This bill seeks to increase from twenty-five dollars to fifty dollars the threshold value above which certain unclaimed property must be reported.

In Malaysia, the Unclaimed Moneys Act 1965, governs the administration of unclaimed dividends. According to the Act, a shareholder may present a claim to the company Registrar for payment of any unclaimed dividends prior to the expiry of twelve months period. After that period, a shareholder can only request or apply for a refund of any unclaimed dividends from the Registrar of Unclaimed Moneys.

In India, S. 205B of the Companies Act 1956, has a limitation period of seven years after which unclaimed equity dividend would have to be transferred to the Investor Education and Protection Fund (IEPF) constituted by the central government as general revenue account. No claim is allowed for unclaimed dividends from the IEPF account.

It is, therefore, the belief of the researcher that there is a gap created by the wholesale application of dividend policies and models from developed capital markets in the Nigerian market.

## **1.2 STATEMENT OF THE PROBLEM**

In Nigeria today, the issue of unclaimed dividends has remained a topical issue of the stock market (Ekanem, 2002). The concern is not only to the shareholders and investors, but to regulators as well.

The decision to take up the challenge to research into the topic is hinged on the grave concern expressed by regulatory authorities on the growth of unclaimed dividends despite their effort at stemming the tide. Ekanem (2002) quotes the Director General of the Securities and Exchange Commission as saying: "Unclaimed dividends have unfortunately grown from one billion naira (~~N~~1.0 billion) in 1995 to over two billion naira (~~N~~2.0 billion) in 1999 and it is on the increase, despite effort from the commission to stem the tide".

Unegbu (2002) finds that in Nigeria, most of these declared dividends remain unpaid after many years. What are the reasons for this? Adelagan (2003) documents that in Nigeria; the impact of dividends on current stock price is within a period of 55 days (i.e. 30 days before and 25 days after announcement). With unclaimed dividends, would the impact of partly paid dividends on current stock price remain the same as documented by earlier researchers? What is the impact of these unclaimed dividends on stock price?

If dividends remain unclaimed for whatever reason, they become a disincentive to investment and may erode investors' confidence in the Nigerian capital market. Individual

shareholders (especially pensioners) may be impoverished as a result of their inability to access their income from current dividends for current consumption. This may have negative multiplier effect on education, health and food security resulting in children dropping out of schools to embrace armed robbery, economic crimes and other social vices as a means of livelihood, thus endangering national security.

Finally, considering the current ugly rating of Nigeria by Transparency International on corruption index, the unclaimed dividends may further jeopardize the transparent nature of the Nigerian capital market. The unclaimed portion of these dividends has the potential of augmenting the impact of the paid dividends on current stock price. This can create loopholes for manipulation by directors of companies.

### **1.3 OBJECTIVES OF THE STUDY**

The research is aimed at providing an in-depth investigation and analysis into the controversy between regulatory authorities company executives, Registrars of companies and shareholders regarding the increasing incidence of unclaimed dividends in Nigeria.

The specific objectives of this study are:

1. to determine whether the information available to the Nigerian capital market about declared cash dividends and paid dividends by a firm has any impact on its current stock price.
2. to find out whether retained earnings have any impact on current stock price in Nigeria.
3. to find out whether firm effects ( firm size and risk factors) have any impact on current stock price.
5. to find out whether unclaimed dividends have any impact on current stock price at national and sectoral levels.
6. to identify the main factors that are responsible for high incidence of unclaimed dividends in Nigeria.

#### **1.4 RESEARCH QUESTIONS**

The present investigation puts forward the following research questions:

1. Do declared cash dividends have any impact on current stock price?
2. Do retained earnings have any impact on current stock price?

- 3 Do firm effects (firm size and risk factors) have any impact on current stock price?
- 4 Do paid cash dividends have any impact on current stock price?
- 5 Do unclaimed dividends have any impact on current stock price?
- 6 What are the main reasons for unclaimed dividends in Nigeria?

#### **1.5 STATEMENT OF HYPOTHESES**

The investigation proposes the following hypotheses:

H<sub>01</sub> Declared cash dividends have no significant relationship to current stock price in Nigeria.

H<sub>02</sub> Retained earnings have no significant relationship to current stock price in Nigeria.

H<sub>03</sub> Firm effect (firm size and risk factors) have no significant relationship to current stock price in Nigeria.

H<sub>04</sub> Paid dividends have no significant relationship to current stock price in Nigeria.

H<sub>05</sub> Unclaimed dividends have no significant relationship to current stock price in Nigeria



## 1.6 SIGNIFICANCE OF THE STUDY

In trying to revamp the Nigerian economy, emphasis has been on alleviating poverty of the citizenry, enhancing transparency among Nigerian firms especially on dividend declaration and in attracting foreign investment into the economy.

This study is significant as it tries to capture the omitted variable, "the unclaimed dividends" in the regression model of the effect of declared cash dividends on stock price, which earlier researchers could not consider or ignored. This has the potential of augmenting the stock price rise and could create loophole for manipulation by some directors of companies.

The study tries to find out whether dividend announcements by Nigerian firms are real or a manipulative tendency by directors to take advantage of dividend-signaling hypothesis. The hypothesis documents that unexpected increases (or decreases) in regular cash dividends generally elicit a significantly positive or negative stock market reaction, Fama *et al* (1969), Pettit (1972), Aharony and Swary (1980). This questions the transparency among Nigerian firms regarding dividend declaration and its 'still baby', unclaimed dividends.

The findings of this study would be of benefit to capital market regulatory authorities if implemented. This would assist them to instill transparency in the operators and the problems of individuals and institutions desiring cash dividends, which are locked up in "unclaimed dividend vaults", would have been solved. In addition, the destructive investment climate as a result of unclaimed dividends would be cleared and the investors' confidence in the Nigerian capital market would be enhanced.

### **1.7 THE SCOPE OF THE STUDY**

This study limits itself to the variables of interest. These are declared cash dividends, retained earnings, paid dividends, unclaimed dividends and stock price. The secondary data cover the period 1999 to 2003 and include data from 99 out of 119 quoted companies with a history of dividend declaration as at December 2003, representing 25 sectors of the Nigerian Stock Exchange. The study excludes stock dividends, stock repurchase and liquidating dividends. The time covers the period when unclaimed dividends became a material issue and allows the assessment of the implementation of Investment and Securities Act 1999, as it relates to dividends management.

The primary data cover empirical evidence from sampled capital market operators, regulators, academia, shareholders and corporate executives.

## **1.8 LIMITATIONS OF THE STUDY.**

In conducting this research some factors, which would have constituted limiting factors, were considered. These include: Institutional barriers, quantitative factors, qualitative factors, sample size, finance and period of study. Each of these factors and how they tend to affect the study are discussed hereunder:

Institutional Barriers: In gathering the primary and secondary data, many organizations prevented access to their chief executives who were to answer unscheduled questions and complete administered questionnaires. This could be due to the secrecy some of the organizations treated issue of unclaimed dividends. This affected the comprehensiveness of the data collected. This was, however, largely resolved by using secondary data submitted to regulatory authorities like the Securities and Exchange Commission (SEC) and the Nigeria Stock Exchange (NSE).

Quantitative Factors: Most of the figures (e.g unclaimed dividends per share) arrived at were as a result of approximations before the data were inputted into the computer. This could result in quantitative errors, which could bias our estimates. However, efforts were made to ensure accuracy as much as possible.

Qualitative Factors: Some omitted variables, which could equally affect the price of stock in the market but could not be reduced to quantitative values might constitute a limiting factor. Qualitative factors like speculative activities or political stability or instability were not incorporated in the coefficient of determination ( $R^2$ ) and remain a limitation to the study.

Sampling: In a research of this nature, it might not be necessary to take the whole population. A representative sample could give the approximate result. The sample chosen might not be representative enough and could constitute an error and a limitation. However, this was largely avoided by choosing a large sample size.

Finance: The researcher may not have all the resources he requires to study all the population, hence the need for sampling.

Period of Study: The study restricts itself to years [1999 - 2003] for secondary data. This period witnessed policy stability as a result of the advent of democratization in Nigeria. This could affect share price positively as against the quantitative result of our findings in some cases.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 INTRODUCTION**

This chapter reviews the works of other researchers relating to dividend as it affects the value or stock price of the firm. The chapter begins with an introduction, objectives and determinants of dividends payout policy, followed by a discussion on the proponent views on relevance of dividend to the value of the firm and that of opponent views on irrelevance of dividends to the value of the firm. The literature on the cash flow signaling hypothesis, the agency cost problem or free cash flow hypothesis, the dividend clientele hypothesis, dividend information in emerging capital markets, unclaimed dividends, dividends regulation in Nigeria and determinants of stock price are all reviewed. Finally, the theoretical framework is provided at the end of the chapter.

#### **2.2 OBJECTIVES OF DIVIDEND PAYOUT**

**Dividend payout entails dividend policy of firms especially as it signals the future profitability of the firm, Bhattacharya (1979). Dividend information from a firm has implications for potential investors, managers, lenders and shareholders. For investors, Lintner (1956) argues that**

dividends, whether declared today or accumulated and provided at a later date, are not only a means of regular income, but also an important input in valuation of a firm.

Similarly, managers' flexibility to invest in projects is dependent on the amount of dividend that they can offer to shareholders as more dividends may mean fewer funds available for investment. Lenders may have interest in the amount of dividend a firm declares as the more the dividend that is paid, the less would be the amount available for servicing and redemption of their claims. Why do firms pay dividends at all? Feldstein and Green (1983) argue that the birth and survival of an entity to a large extent lie on shareholders' interest. This interest, which manifests as investment, depends on expectations of a return in form of dividends. It is usually hoped that the earnings will be commensurate with the risk and sacrifice attributed to such decision. Black (1976) submits that "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together".

Van Horne (1980) says that as long as a firm has acceptable investment opportunities whose actual returns exceed the expected returns, the firm should use all earnings to finance such projects in order to maximize the value of the shareholders. If the firm has earnings left over after financing all acceptable investment opportunities, these earnings would then be distributed to stockholders in the form of cash dividends. When

payment of dividends is treated as above, it is known as a passive residual decision.

The theory is, however, based on certain assumptions: maximization of the value of shareholders as the main objective of the firm and holding of business risk constant i.e. uncertainty as to the future cash flow on acceptance of investment proposals as perceived by suppliers of capital is held constant.

Pandey (2000) also argues that the objective of a dividend policy is to maximize the shareholder's return so that the value of his investment is maximized. Pandey notes that not all corporate bodies transfer all their earnings to shareholders. They are normally divided into two parts: Retained earnings and dividend. While the first provides fund to finance the company's expansion, the latter constitutes the use of the fund outside the company.

Ajayi (1984) states that dividend declaration is desirable in the interest of both the management and shareholders. He points out that the shareholders will be willing to receive stable and almost constant award of dividend to enhance their welfare.

### **2.3 DETERMINANTS OF DIVIDEND PAYOUT POLICY.**

Lintner [1956] reports an empirical study on determinants of corporate dividend policy. He surveys 28 well established



industrial companies in order to identify the major factors that determine the dividend decision of the firms. The study reveals that the anticipated level of future dividends and the pattern of past dividends are the major determinants of a firm's dividend payment.

Rozeff [1982] develops a five variable model which relates the level of dividend payout ratio to the percentage of stock held by insiders, average growth rate of revenues, forecast revenue growth, estimated beta coefficient and the natural logarithm of the number of common stockholders. According to Rozeff [1982], the higher the percentage of stock held by insiders, the lower the dividend payout ratio. If insiders held a significant portion of the shares, the demand for higher dividend payout falls.

Baker *et al* [1985], Farrelly *et al* [1986], Baker and Farrelly (1998) find evidence from firms quoted on New York Stock Exchange [NYSE] that the major determinants of dividend payments are the anticipated level of future earnings and the pattern of past dividends.

Pruitt and Gitman [1991] find out from financial managers of 1000 largest US firms to describe the interplay among the investment, financing and dividend decisions in their firms. The

results reveal that the following factors are important influences on the amount of dividend paid: Current and past years' profit, the year to year variability of earnings, the growth rate of earnings and prior years' dividends.

Frankfurter and Wood [1997] criticize the use of mathematical models in explaining dividend policy of firms. They insist that dividend payment patterns of firms are a cultural phenomenon. Accordingly, they advise researchers to study dividend policies more carefully as a cultural phenomenon.

Researchers are not unanimous on the factors that influence dividend policy decisions. Some advance theoretical or empirical reasons; others concentrate on practical arguments.

Brigham and Houston [1998] make comprehensive discussions on the practical factors that influence corporate dividend policy. These are categorized into: Constraints on dividend payments; Investment opportunities; Availability and alternative sources of capital.

Constraints: Five constraints are usually imposed on the dividend decision maker. These include: (i) Bond indentures:- Debts contracts often limit dividend payment to earnings

generated after the loan was granted. (ii) preferred stock restrictions. This restricts payment of common stock dividends if a firm has omitted its preferred dividend. (iii) Capital impairment rule. Most countries forbid payment of dividends above the balance sheet item 'retained earnings'. (iv) insolvency Rule – Legal requirements prevent a firm from paying dividends while insolvent. (v) Availability of cash - Cash dividends can only be paid by cash. Cash shortage can therefore restrict dividend payments. Ability to borrow can sometimes offset this restriction.

Investment Opportunities – Investment opportunities can influence dividend payment negatively or positively. Firms with higher investment opportunities will tend to maintain a low target payout ratio. On the other hand, if a firm's investment opportunities are low, the firm will tend to maintain a high target payout ratio. (ii) the ability to accelerate or postpone investment projects will permit a firm to adhere more closely to a stable dividend policy.

Alternative Sources of Capital – The ability of a firm to raise additional capital from external sources will be determined by the floatation costs of selling new stocks, substitution of debts with

equity and dilution of control. (i) Floatation cost of selling new stocks – Where a firm needs to finance a given level of investment by issuing new common stocks, consideration must be given to floatation costs. Where floatation costs are high, it may be better for the firm to set a low payment ratio and finance the investment through retention rather than through sale of new common stocks. On the other hand, a high dividend payout ratio is more feasible for a firm whose floatation costs are low. (ii) Ability to substitute debts to equity.- Just like equity, if a firm can adjust its debts ratio without raising costs sharply, it can pay the expected dividend, even if earnings fluctuate by using a variable debt ratio. (iii) Dilution of Control – If shareholders are concerned about dilution of control, the Management may be reluctant to sell new stock hence the company may retain more earnings.

Inflation: Pandey [2000] identifies inflation as another factor that can determine dividend policy. According to him, financial statement is usually prepared on historical cost basis. Depreciation is charged on the basis of the original cost of an asset. During inflationary period, funds saved on account of depreciation would not be adequate to replace assets or to maintain the capital intact. Consequently, to maintain the

capital intact and preserve the earnings power of the firm, earnings would be retained.

Mahapatra and Sahu (1993) find cash flow as a major determinant of dividend followed by net earnings; while Bhat and Pandey (1994) find that current earning is the major determinant.

## **2.4 RELEVANCE OF DIVIDEND PAYOUT TO THE VALUE OF THE FIRM**

This section reviews evidence from proponents of the positive effect of dividends to the value of the firm. The theoretical documentation on the relevance of dividend policy to the values of the firms started about seven decades ago.

Krishman (1933) puts forward "the bird in the hand" argument, which posits that stockholders often act upon the principle that "a bird in the hand is worth two in the bush" and for this reason investors are willing to pay a premium for the stock with higher dividend rate just as they discount the one with lower rate.

Graham and Dodd (1934) argue that a typical investor would prefer the dividend of today and let tomorrow take care of

itself. They find a ratio of 4:1 i.e. a dollar of dividend has four times the average impact on price, as does a dollar of retained earnings.

Graham *et al* (1961) argue that the discounted value of near dividends is higher than the present worth of distant dividends, and that between two companies with the same general earning power and same general position in an industry, the one paying the higher dividend will almost always sell at a higher price.

Harkavy (1953) presents a statistical analysis of the relationship between retained earnings and common stock prices. He concludes that while common stock prices vary directly with dividend payout ratios at any given time, their degree of appreciation over a period of time is associated with the proportion of earnings, which are retained. Only a brief reference is made to the fact that the crucial consideration is the profitable utilization of investors' funds. No attempt is made to arrive at the magnitude of the effect on common stock price.

Walter (1956) argues that retained earnings influence stock price principally through their effect upon future dividends. He then attempts to fashion out a theoretical model, which depicts

the relationships between dividend policies and common stock prices. His methodology restricts itself to the common stocks of large public corporations because of the imperfect market for the securities of small companies and of the close identification of small firms with their principal shareholders. The study covers longer periods to permit abstraction from the distortions caused by short-run speculative considerations. He makes the following assumptions in his model: (i) That earnings retention is the sole source of additional funds. (ii) That both the rate of return on added investment and the market capitalization rate are constants. (iii) That all increments to earnings are immediately distributed to shareholders.

He concludes that the lower the dividend payout ratio, under such circumstances, the higher is the value of growth stock, which he explains as that common stock which possesses superior prospects for long-term appreciation.

Walter (1965) argues that dividend policy affects the value of the firm. His model reveals that optimal dividend policy depends on the relation between the firm's rate of return,  $r$  and its cost of capital,  $K$ . He tests his model using three categories of firms: growth, normal and declining firms. For growth firms,

Walter concludes that market value per share will be maximized as the rate of return,  $r$  is greater than cost of capital,  $K$ , ( $r > k$ ), when dividend payout ratio is zero. For normal firms, its rate of return  $r$  is equal to the cost of capital,  $K$  ( $r = k$ ), and the firm is not affected by dividend payout ratio. For declining firms, since its rate of return,  $r$  is less than the cost of capital,  $K$  ( $r < k$ ), the value of the firm will be maximized when the dividend payout ratio is 100%.

Walter's conclusions are based on a number of assumptions: (i) The firm finances all investments through retained earnings; i.e. no debt or new equity is raised. (ii) The rate of return,  $r$  and cost of capital,  $k$  are constants. (iii) All earnings are either distributed as dividend or re-invested internally immediately.

Walter's model is criticized years later by (Pandey, 2000). He argues that the simplified nature of the model has conclusions that cannot be tested in real life situations. However, accepting his assumptions such as no further external fund to be raised implies that the dividend policy and investment policy cannot be optimized. His assumptions of constant rate of return,  $r$  and constant cost of capital are over generalization. The rate of



return decreases as more investments occur as the firm raises its cost of capital.

Lintner (1956) conducts an empirical study on corporate dividend policy of the United States of America (U.S.A) firms and finds out that the dividend decision-making process is based on the change in the existing rate of dividend and not the amount of the newly established rate. He conducts the study on 28 diverse groups of companies and sets up a simple theoretical model of corporate dividend behaviour.

He finds in the course of the study that: (i) Managers focus on the change in the existing rate of dividends payout and not on the amount of the newly established payout, (ii) Most managements seek to avoid making changes in their dividend rate that may have to be reversed within a year or so. (iii) Major changes in earnings are out in line with existing dividend rates, which are the most important determinants of the company's dividend decision. (iv) Investment requirements generally have little effect on modifying the pattern of dividend behaviour.

Lintner (1956) could not, however, state what would happen with such a change in company dividend policy regarding

value or what signal such a change in dividend policy could give to the shareholders regarding the company.

Lintner (1962) presents argument to show the effect of a change in dividend policy on value in his modified model and concludes that investors will prefer current dividends to re-investment. He maintains that under certain types of uncertainty, retained earnings would be preferred to dividends if the alternative is a new stock issued to finance a given investment. He, however, finds out that for firms with low leverage, investors will prefer higher dividends associated with higher corporate debt to greater retention and lower dividends.

These findings are predicated on the assumptions that (i) the average holder of common stock possesses, at the margin of his portfolio, a very strong preference for current income over future income- this may hardly persist over time. (ii) the expected increase in earnings arising from increased per-share investment is viewed as involving a much higher degree of risk than that attaching to earnings on existing corporate assets. (iii) the profitability of incremental corporate investment, as viewed by shareholders, is extremely low relative to the competitive yield prevailing in the stock market. This seems suspect as marginal

profit rates in a substantial number of industries might be quite high.

Gordon (1959) tries to quantify the effect of dividend policy change and argues that the market price of shares is a function of the present value of estimated cash flow realizable from the shares. The net cash flow consists of the estimated dividends receivable over the share holding period and the market price realizable upon the disposal of the shares.

Gordon accomplishes the above task with underlying assumptions in his model. These include: (i) Dividends continue to grow at a constant rate for an extended period of time. (ii) The growth rate is assumed to be less than the required return on equity ( $K_e$ ) and that, if this were not so, in the long run the firm would grow impossibly large. (iii) The investors are risk averters and they consider distant dividends as less certain than near dividends.

Gordon concludes that investors being averse to risk, prefer current dividends to re-investment. That current dividend is preferred because they are perceived as less risky than future dividends, which might arise from re-investment. This means that the market price of a firm that pays dividend now will be

higher than the firm that pays dividend in the future. The model is criticized for confusing dividend decision with investment decision.

Benishay (1961), Fisher (1961), and Lintner (1962) document empirical evidence to show that dividend is relevant to the value of the firm and that the multiplier contribution of dividend to the value of the firm is several times higher than that of retained earnings.

The results of Benishay (1961), Fisher (1961), Lintner (1962) and Graham and Dodd (1961) are criticized by Friend and Puckett (1964) for not taking into account the effects of some variables like risk and growth variables (like size) from external financing which might have correlated to give undue advantage to dividend payout as compared to retained earnings.

Friend and Puckett (1964) disagree with Benishay and others on the superiority of dividend multiplier over retained earnings. They identify certain behavioural assumptions, which Lintner and others might have implied. These include: (i) The average holder of common stock possesses, at the margin of his portfolio, a very strong preference for current income over future income (a situation which hardly could be expected to persist

over time). (ii) The expected increase in earnings arising from increased per-share investment is viewed as involving a much higher degree of risk than that attaching to earnings on existing corporate assets. (iii) The profitability of incremental corporate investment as viewed by shareholders is extremely low relative to the competitive yield prevailing in the stock market.

Friend and Puckett (1964) then assert that in their opinion, in view of the above-implied assumptions, the empirical studies purporting to show a strong market preference for dividends is an error. They identify some biases in the application of the Lintner's model. These include factors such as omitted variables. The omitted variables here are risk and growth, which are assumed constant. That is, in a real life situation risk is bound to occur and growth can take place through external financing. Factors like regression weights, random variations in income, income measurement error can cause bias in favour of dividend payment. Friend and Puckett (1964) thus modify Lintner's model to include those omitted variables.

They conduct their study using two years 1956 and 1958, with 5 companies, one in each industry and taking corrective measures to address the biases and conclude that there is little

basis for the customary view that in the stock market generally, except for unusual growth stocks, a valuation may be placed on dividends than on retained earnings within the range of payout experienced, but that the opposite may be true in growth industries (see Appendix I).

Keane (1974) and Long (1978) support the work of Gordon (1959) and suggest that the payout of dividends helps to resolve uncertainty about the firm's investment. More information must be disclosed when funds are obtained externally. Thus, investors may prefer higher dividends with more external financing of investments and greater exposure of management to the discipline of the market. Keane's argument may be seen as an early version of the view that dividend payments may help reduce agency conflicts between shareholders and managers.

Pettit (1972) considers transaction cost in his model using 914 individual accounts handled by a large retail brokerage house. He concludes that stock with low dividend yields will be preferred by investors with high income, and by those whose portfolio has high systematic risk.

The dividend relevance theorists have been criticized for not taking into account how managers perceive investors' preference and how they rate the importance of such preferences.

In Nigeria, Uzoaga and Alozienwa (1974) try to see the effects of indigenization decree on dividend policy of firms in Nigeria. They conclude that the indigenization drive has a lot of effect on dividend policy, which ultimately affects the value of the firm. It is observed that the high dividend payment ratio is necessitated by the indigenization decree that requires at least 40% ownership to be in the hands of Nigerians. The high payout rates therefore attract Nigerians to these companies and those that purchase the shares are not happy when payment of the rates of dividends does not continue. This brings down the value of the shares.

Inanga (1975,1978) agrees with Uzoaga and Alozienwa that there was a general upward trend in the level of dividend distribution by the affected companies during the years preceding the implementation of the Nigerian enterprises promotion Act (NEPA, 1977). Inanga, however, insists that the reason for the upsurge was the pricing policy of the Capital Issue Commission (CIC). He observes that the problem would have

been minimized if the issuing houses were allowed to carry out, undisturbed, their traditional duties.

Owope (1987), Mainoma [2001], Adelagan (2003) also reveal significant correlation between dividend payout and value of the firm. Mainoma [2001] finds from a study that in addition to dividend, other factors that influence the value of the firm in Nigeria include change in earnings, long term debts, size of the company, cash requirement by companies, past and current year profits, anticipated profits, investment opportunities, and industry influence.

## **2.5 IRRELEVANCE OF DIVIDEND PAYOUT TO THE VALUE OF THE FIRM**

This section reviews the evidence from protagonists of the irrelevance of dividends to the value of the firm. Miller and Modigliani (1961) gave an argument of the irrelevance of dividends payout policy on the value of the firm. They argue that given the investment decision of the firm, the dividend payout ratio is a mere detail. It does not affect the wealth of shareholders. According to them, the value of the firm is determined solely by the earning power of the firm's assets or its



investment policy. The manner in which the earnings stream is split between dividends and retained earnings does not affect the value. Miller and Modigliani's position is that the effect of dividend payments on shareholders' wealth is offset exactly by other means of financing. They maintain that when the firm has made its investment decision, it must decide whether to retain earnings or to pay dividends and sell new stock or borrow in the amount of these dividends in order to finance the investments. They conclude that the consequent loss of value in the existing shares as a result of obtaining outside finance instead of using retained earnings is exactly equal to the amount of the dividend paid. A company should therefore be indifferent between paying a dividend (and obtaining new outside funds) and retaining earnings.

The Miller and Modigliani (MM) proposition is based on some assumptions: A perfect capital market is assumed, where all investors are rational, information is available to all at no cost, transactions are instantaneous and without cost, securities are divisible, no investor is large enough to affect the market price of a security, and a world of no taxes. In addition to the perfect market assumptions, there is the assumption of absence of floatation costs on securities issued by the firm, a fixed

investment policy for the firm, no bankruptcy cost and a perfect certainty by every investor as to future investments and profits hence no risk is envisaged in the future.

Under these assumptions, the discount rate of any security will be the same for all securities and at all times. As a result, the price of each share must adjust so that the rate of return, which is composed of the rate of dividends and capital gains, on every share will be equal to the discount rate and be identical for all shares.

MM conclude that the value of a firm does not depend on the dividend of the firm. The argument is that the value per share of a firm's security after dividends and external financing is equal to the value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings. According to MM, whatever advantages the shareholder could get on receiving dividend and instead, allowing the company to use external funds for investment for growth, is lost on the terminal value of his shares.

In Nigeria and other emerging markets of the world, the MM proposition and assumptions may look good but a lot of questions arise in the real world and emerging market situations.

(i) In a world of uncertainty and volatile political environment, do investors prefer current dividends to resolve uncertainties and take care of current consumption? (ii) Does dividend information have any value in a corporate world of information asymmetry between management and shareholder or investors? (iii) Do dividends have any effect on resolving agency conflict between management and shareholders, where information is not freely available? (iv) Are taxes and transaction cost really absent in emerging markets?

These unanswered questions concerning MM proposition in emerging markets and indeed the real world have made it difficult for the theory to stand the test of time.

However, Brennan (1971) agrees with MM in arguing that Gordon's analysis confuses investment policy with dividend policy. Higgins (1972) argues that even if current dividends are perceived as less risky than future ones, stockholders are able to sell a portion of their shares to obtain the desired cash distribution. In essence, investors are able to manufacture "homemade dividends" in the same way as there are "home made leverages" in the case of a capital structure decision. Since homemade dividends supposedly are perfect substitutes for

corporate dividends, the Gordon argument is said not to hold. The company is said not to be able to do something for investors that they cannot do for themselves: therefore dividend policy is not a thing of value.

Weston and Copeland (1979) argue that it is no accident that dividend does not appear in the valuation equation of Miller and Modigliani. The firm can choose any dividend policy whatsoever affecting the stream of cash flow received by shareholders. It could, for example, elect to pay dividends in excess of cash flows from operations and still be able to undertake any planned investment. The extra funds needed are supplied by issuing new equity. On the other hand, it could decide to pay dividends less than the amount of cash left over from operations after making investments. The excess cash would be used to repurchase shares.

Weston and Copeland (1979) conclude that what affects the value of the firm is the distribution of future cash flows provided by investment decisions. They contend that the firm can pay any level of dividends it wishes without affecting investment decisions. If dividends plus desired investment outlays use more cash flow than it is provided for operation, the firm should issue new equity.

## **2.6 RELEVANCE OF DIVIDENDS TO THE VALUE OF THE FIRM IN MODERN RESEARCH**

The most frequently cited explanations in the current literature for the observed relationship between a dividend announcement and subsequent stock price response are: (i) The cash flow signaling (CFS) hypothesis. (ii) The free cash flow (FCF) hypothesis or agency cost problem. (iii) The dividend clientele (DC) hypothesis, (Kaestner and Feng-Ying, 1998).

### **2.6.1 THE CASH FLOW SIGNALING (CFS) HYPOTHESIS**

A significant stream of prior researches in the developed stock market has empirically documented that unexpected increases/decreases in regular cash dividends generally elicit a significantly positive or negative stock market reaction, Fama *et al* (1969) and Pettit (1972). The findings persist even after controlling for contemporaneous earnings announcements, Aharony and Swary (1980). In the same vein, Asquith and Mullins (1983) find that like dividend increases; dividend initiations have a significant positive impact on shareholders' wealth. This stems from information asymmetry that is said to explain information signaling and agency cost problems between

agents (Managers) and principals (outside shareholders). According to Myer and Majluf (1984), in the presence of information asymmetry and floatation costs, investment decisions made by managers are subject to the pecking order of financing choices available. They explain further that, managers prefer retained earnings to debt and debt to equity floatation, to finance the available projects.

Since managers have information that outside investors do not have, dividend policy is regarded as a medium for conveying positive private information to market participants. In line with these arguments, signaling models by Bhattacharya (1979) and Miller and Rock (1985), among others, find that dividend increases convey information about the firm's current and future cash flows. In addition to supportive event study result, empirical studies by Ofer and Siegel (1987) and Healy and Palepu (1988) examine changes in dividends policy in relation to future earnings and related analysis forecasts, which is also consistent with the information-signaling hypothesis. Bernartzi *et al* (1997) find that earnings are less likely to drop after a dividend increase. However, they do not find that dividend increases are followed by unexpected earnings increases. Their evidence is only weakly consistent with an information-signaling hypothesis.

DeAngelo *et al* (1992) find that a loss is a necessary but not a sufficient condition for a dividend cut, and that dividend cuts improve the ability of current earnings to predict future earnings. Jensen and Johnson (1995) document that dividend cuts are followed by earnings increases, which are consistent with dividend cuts marking the end of a firm's financial decline and the beginning of its restructuring. Graffin (1976) and Charest {1978} investigate the share price effect of dividend announcements and suggest that dividend payments do indeed convey information, and that the adverse effect of a dividend cut is relatively larger than the positive effect of a dividend increase. Kalay and Lowenstein (1985) and Michaely *et al* (1995) document abnormal returns after the announcement of unexpected dividend changes. The signaling interpretation has been insightful, bringing out the importance of financial policy choice as an information transmission device in a world of asymmetric information. However, models in which dividends completely resolve the informational asymmetry regarding a firm's prospects appear to be undermined by the stylized fact that firms "smooth out" dividend payouts, Lintner (1956), Fama and Babiak (1968), and Laub (1972), in a world in which firms earnings are clearly serially correlated, Foster (1977). Penman (1983) provides

complementary evidence that dividends do not appear to be very good predictors of earnings. It then appears that while dividend changes do have some information content, they are a “coarse signal” of the firm’s future earning prospects. Nissim and Ziv (2001) find a strong link between dividend increases and future profitability.

It, therefore, seems reasonable to presume that managers will be concerned about the share price effect of dividend policy, and in particular will attempt to avoid dividend cuts unless a sustained decline in profitability makes such cuts inevitable.

Stock dividend (referred to as bonus issues in Nigeria) effectively awards existing shareholders a free share of common stock for every x shares currently owned. Strictly speaking, bonus issues constitute finer slicing of a given firm value and should have no direct wealth effects to shareholders if they have no cash flow implications. Yet, much academic research in developed markets documents positive stock price responses to stock dividend (and stock split) announcements. Grinblastt *et al* (1984), McNichols and Dravid (1990) find a positive relationship between the stock dividend factor and the announcement related abnormal return.



Two predominant explanations for stock dividends are based on the information signaling hypothesis and the optimal trading price-range hypothesis. Both hypotheses predict positive impact of stock dividends on firm transactions given non-zero transaction costs. First, given information asymmetry between managers and investors, stock dividends are costly signals that convey management's positive information about the future prospects of the firm. Therefore, companies would transfer retained earnings to common stock (and issue free shares) only if they expect future earnings to increase and thus future retained earnings to replace capitalized retained earnings. Investors, therefore, may interpret the stock dividend as good news. McNichols and Dravid (1990) provide evidence that is consistent with a signaling explanation for stock dividends. Second, it argues that high trading prices are unacceptable to small investors who may be unable to buy shares in round lots. Therefore, to achieve higher liquidity, many firms aim to get lower trading prices. Conversely, larger institutional investors prefer trading shares of higher prices because of the fixed transaction cost component. Together, these influences suggest the existence of an optimal trading price range for firms to improve the marketability of their stock. Stock dividends, like

stock split, can therefore be a tool towards attaining such an optimal trading price for firm shares. Lakonishok and Lev (1987) provide empirical evidence that is consistent with firms employing stock dividends and stock split in order to shift share prices to an optimal trading level.

## **2.6.2 FREE CASH FLOW (FCF) OR AGENCY COST**

### **HYPOTHESIS**

Agency Cost or Cash Flow Hypothesis: some researchers believe that the dividend increase by managers (Agents) is not solely to signal future profitability and attract certain clientele. Jensen (1986) suggests that managers, motivated by compensation and human capital considerations, have incentives to over-invest free cash flows even in the absence of profitable growth opportunities (the free cash flow hypothesis). Dividend payout policy in this case becomes a vehicle for monitoring the managers' potential to misuse excess funds. Thus, the observed positive stock market reaction following dividend increases is consistent, in addition to information signaling, with the free cash flow hypothesis. DeAngelo and DeAngelo (2000) find evidence that the market penalized Times

Mirror Company for intending to poorly reinvest free cash flow and applaud later, dividend redistributions of that cash flow. Finally, in a major international study, La Porta *et al* (2000) find that dividends are paid because minority shareholders pressurize corporate insiders to disgorge cash. An additional study on the relevance of the free cash flow hypothesis for alternative payout methods such as share repurchases and special dividends have provided mixed results, Howe *et al* (1992).

Lang and Litzenberger (1989) attempt to disentangle between signaling and agency explanations by separating firms that are presumably over-investing from all other value maximizing firms. They find higher abnormal returns for over investing firms for which the agency – related benefits of a dividend payment increase, are higher compared to value – maximizing firms.

### **2.6.3 THE DIVIDEND CLIENTELE (DC) HYPOTHESIS**

The school of thought of dividend clientele hypothesis favours lower dividends, Brennan (1970), Litzenberger and Ramaswamy (1980). This school of thought is of the view that dividends are less desirable than capital gains because they are more heavily taxed.

Elton and Gruber (1970) attempt the measurement of clientele effect by observing the average price decline when a stock goes ex-dividend. If a current shareholder was to sell his stock before it went ex-dividend, he would receive its price,  $P_B$  and pay the capital gains rate on the difference between selling price and the price at which it can purchase,  $P_0$ . Alternatively, he could sell the stock after it goes ex-dividend. In this case, he would receive the dividend  $D$ , and pay the ordinary tax rate  $t_0$  on it. In addition, he would pay a capital gains tax on the difference between its ex-dividend price  $P_A$  and the original purchase price  $P_C$ . To prevent arbitrage profit, his gain from either course of action must be the same.

However, empirical evidence has failed to convincingly support the existence of a tax-induced preference for lower dividends, Miller and Scholes (1982).

For firms with disperse shareholdings, it is not clear whether management takes account of or is even cognizant of the shareholder's tax position when formulating dividend policy. Equally unclear is the direction of any adjustment of dividends that may be made.

In Nigeria, capital gains are taxed more favourably than dividends income (beyond an exempt amount). Therefore, capital gains would be preferable to most individual investors in high tax bracket and dividend increases should elicit a negative stock price reaction.

High dividend payout clientele insist that, dividends help to resolve uncertainties and also assist in current consumption, Gordon (1959), Keane (1974) and Long (1979).

#### **2.6.4 MITIGATION OF EXPLOITATIVE TENDENCIES IN EMERGING STOCK MARKETS**

An emerging stock market, according to the international finance corporation (IFC), is: a market which resides in a low or middle income economy or the ratio of investable market capitalization to gross national product (GNP) is low, Levich (2001). In 1998, high income was defined by the World Bank as \$9361 per capita GNP.

The value relevance of dividend policy has been in the fore front of financial research since Krishman's (1933) pioneering work. Past empirical research generally focused on firms listed in developed stock markets, suggests that the announcement of dividend increase either in cash or stock is associated with

significantly positive stock market excess returns, Travlos *et al* (2001). The investor's preference for dividend, low payout preference due to tax effect, the managers' dividend smoothing practices are all conducted in developed capital markets. The focal point in studies performed in developed markets has shifted to explaining the positive wealth effects of dividend increases. The wealth impact of dividend policy changes in emerging markets is currently not well established. Given alternative market microstructure and different information, tax and control environments, the impact of dividend changes is likely to vary across economic environments in different countries. Based on the above, the emerging stock market differs from the developed stock market in several ways:

First, firms listed in the market have, for the most part, highly concentrated ownership structures that will render a standard free-cash flow explanation for dividend policy changes less likely, Holderness and Sheehan, (1988). Secondly, the period under study, the emerging stock market generally lack transparency, potentially allowing for exploitation of smaller shareholders by larger ones. Such exploitation may be mitigated by dividend increases. Finally, the lack of fixed transaction cost

suggests that there is limited use for an optimal trading range for share prices.

Examination of the market reaction to dividend changes in an emerging market such as Nigeria can be a fruitful empirical exercise in that the relative import of alternative explanations of dividend policy may likely differ compared to a developed market. First, a clear implication of the standard free cash flow hypothesis as advanced by Jensen (1986) is the separation of ownership and control since wider ownership dispersion intensify the conflict of interest between managers and shareholders. This conflict of interest generally motivates higher payout to limit the managerial tendencies to misuse shareholders' funds. In emerging stock markets, firms are, for the most part, closely held with ownership concentrated in the form of large equity blocks in the hand of management and family members. This may suggest that managers in emerging stock markets have a disincentive to misuse funds through over-investing since the relative benefit of managing a larger firm is likely to be outweighed by the direct cost of over-investing on the manager's substantial personal holding in the firm. The point here is that as ownership becomes more concentrated, the likelihood of over-investment is reduced.

Holderness and Sheehan (1988) argue that in many of these concentrated ownerships of business, there may be conflict of interests between the larger and the smaller shareholders. The problem may be more pronounced in many emerging markets when lack of transparency, both at the company level and in the stock markets, allows alternative forms of exploitation of the smaller shareholders by the larger shareholders and management. Since monitoring is difficult in such cases, it may be substituted by higher dividends that may serve to mitigate this form of exploitation. Thus, although over-investing free cash flow in the emerging market is likely to be limited due to concentrated ownership structures, other forms of exploitation of smaller shareholders by larger shareholders and management may partly justify dividend increases in addition to information signaling reasons. That is, small shareholders purchasing equity against large block holders expect to suffer a certain degree of exploitation. Unexpected increase in cash dividends reduces the market assessment of future exploitation by large block holders, causing an upward revision in stock price. Sometimes, these increased dividends are deliberately not paid and they therefore remain unclaimed, Unegbu (2002).



Ownership of public companies is more highly concentrated in emerging markets than in most developed economies. According to the concentration measures reported in La Porta *et al* (2000), the three largest U.S shareholders of a given company own an average of 20% of the ten largest U.S. publicly held firms. The corresponding numbers for the emerging market sample are India 40%, Malaysia, 54%, Thailand, 47%, Zimbabwe, 55%, Pakistan 37% and Turkey, 59%.

Most signaling models and agency cost models assume that there is a separation of ownership and control and that financing is raised externally through capital market. However, the financial systems in emerging markets are usually characterized by closely held bank-financed firms. In this case, direct communication with shareholders and regular site visits from corporate lenders who have access to confidential information reduce the need to use dividends as a signal. Similarly, the agency cost argument assumes that there is imperfect monitoring of management, so that high dividend payments substitute for direct communication between shareholders and managers, forcing them to interact with investors. Again, this argument is weaker for closely bank-financed firms.

In essence, environmental factors play a role in creating dividend policy at the firm level. In the same way, firm level factors have consistent effect across operating environments. Environmental factor like gross-national product are important. This is because aggregate growths are important in economic growth. Assuming firms are representative of economic activity in each country, companies in higher growth economies are faced with high sales growth rates and the financial constraint discussed by Higgins (1981), Gordon (1962) shows that each firm's sustainable growth rate can be approximated as the product of the firm's return on equity (ROE) and its retention rate (1-the dividend payout). If firms grow faster than this sustainable growth rate, their financial policies have to change, or they have to raise external equity. Aivazian and Booth (2003), Glen *et al* (1994) document that sustainable growth rate is less than the nominal gross domestic product (GDP), growth rate for the median firm in every emerging market country. This means, there is a growing pressure on the median firms and then the probability of having greater external financing needs than developed market firms. The environmental factors that may affect dividend policy in emerging markets include: GDP stock market development, banking system development, corporate

governance, investor and creditor protection, accounting standards, legal system and level of corruption.

Fazzari, Hubbard and Peterson (1988) argue that financially constrained firms are less likely to maintain high dividends. In general, it seems that the emerging market firms are financially more constrained than firms in the developed economies and are less likely to pay dividends.

## **2.7 EX-DIVIDEND INFORMATION**

Ex-dividend date is the date in which new buyers of stock are disallowed from collecting dividends accruable on such stocks. In a world of neither taxes nor transaction costs, the stock price is expected to fall by the amount of the dividend. Elton and Gruber (1979), Boyd and Jagannathan (1994) argue that due to personal tax, the stock price should fall by less than the dividend.

Michaely (1991) analyses the behaviour of stock prices around ex-dividend days after the implementation of the 1986

tax reforms act in U.S.A. that dramatically reduced the difference between the tax treatment of realized long term capital gains and dividend income in 1987 and completely eliminated the differential in 1988. He shows that this tax change had no effect on the ex-dividend stock price behaviour, which is consistent with the hypothesis that long-term individual investors have no significant effect on ex-day stock prices during this time period. The results indicate that the activity of short-term traders and corporate traders dominates the price determination on the ex-day.

It has been suggested that the positive abnormal return on ex-dividend days may be due in part to the existence of a risk premium. Fedenia (1993) finds evidence consistent with the hypothesis that ex-dividend days trading in low dividend yield stocks are dominated by ordinary investors who demand a tax premium for their higher tax liability on ordinary dividends relative to capital gains. Trading in high dividend yield stocks appears to be dominated by short-term traders who obtain a positive unsystematic risk premium.

Michaely and Murgia (1995) investigate the effect of taxation on stock price and trading volume around the ex-

dividend day using the Italian stock market where dividends on two classes of stock are taxed differently. It is found that the weighted average of investors' tax rates is reflected in the ex-day prices and the variance of the relative tax rate across investors is reflected in the volume of trade. They also show that higher transaction costs result in higher ex-dividend day returns and lower abnormal volume. Their finding is consistent with "profit elimination" activity by institutions and corporations.

**However, Frank and Jagannathan (1998) conduct a research in Hong-Kong, a country without taxes, and find that the average stock price drop is less than the value of the dividend. This, they argue is due to microstructure indices.**

If a firm has excess cash and insufficient profitable investment opportunities to justify the use of these funds, it may be in the shareholders' interest to distribute the funds. The distribution can be accomplished either by the repurchase of stock or by paying the funds out in increased dividends. In the absence of personal income taxes and transaction costs, it should make no difference theoretically to stockholders which of the two alternatives is chosen. With repurchase, fewer shares remain outstanding, and as earnings per share rise as a result, the market price per share should rise as well.

## **2.8 AUTOMATIC RE-INVESTMENT PLANS**

In recent years, a number of large companies have initiated automatic dividend reinvestment plans (ADR Plans). Under these plans, stockholders can reinvest the dividends that they will receive in the stock of the company. The stock involved can be either existing stock or newly issued stock. In the case of existing stock, a bank acting as trustee accumulates funds from all stockholders wishing to re-invest and then purchases shares in the open market. The stockholder must bear the brokerage costs, but these costs are relatively low because the trustee buys the stock in volumes. When the stock is newly issued, the company merely sells additional shares. There is no fee to the stockholder in this case. From the standpoint of the company, an ADR plan enables it to raise new equity capital on a slow but steady basis. Pettway and Malone (1973) conclude that ADR plans allow corporations to build their equity base without incurring the flotation costs and under-pricing associated with a common-stock offering. However, companies must still absorb the costs of administering the plan. The stockholders still pay tax on such dividends.

## **2.9 CAUSES OF UNCLAIMED DIVIDENDS IN NIGERIA**

Yuguda (2000) and Unegbu (2001) advance the major causes of unclaimed dividends in Nigeria as:-

2.9.1 At the instance of the shareholders-(i) Problem of completing application form – where incomplete or wrong mailing address is given, thus making it difficult to deliver dividend warrants. (ii) When change of address is not communicated early to the registrar, thus making the dividends warrant returned when posted. (iii) Where the shareholder is late and no effort has been made by his family to contact the company and supply such information that will assist the company registrar to withhold all dividends that may accrue to the shareholder pending the settlement of his estate. (iv) Nonchalant attitude when the value of dividend warrant is low. This is more pronounced where distance is a hindrance. (v) Where dividend warrants are rejected on the account of irregular signature. (vi) Where they are rejected on the basis of the shareholders having a dormant account. (vii) Litigation on the estate where a shareholder dies in-testate or when there is delay in obtaining a letter of administration. (viii) Where the account is closed or the bank itself is under

liquidation. (ix) Where the shareholder is unaware of such declaration of dividends. (x) Where the next-of-kin is not provided at all. (xi) Where the level of literacy is low and there is incidence of refusal to use stock market experts when buying shares. (xii) Where the next-of-kin is not aware of the share holding of the deceased shareholder. (xiii) Where the shareholder gives an address in a place that cannot be accessed. (xiv) Where during indigenization era, some people bought shares in fictitious names and died in testate and the shares are unknown to the next-of-kin.

2.9.2 At the instance of the postal system: - The inefficient postal system in Nigeria delays or makes it difficult for dividend warrants in certain situations to reach their destinations.

2.9.3 At the instance of town planners: - Poor street outline and numbering in towns and urban areas.

2.9.4 At the instance of the Company Registrars:- i) The wrong adoption of shareholder's address from the application form due to a mistake in picking of post office number or street number. (ii) Failure to adopt a new address where a shareholder changes his address and does not communicate to the registrar. (iii) Where dividend warrants



are not issued to the right beneficiary. (iv) Where some shareholders' names are omitted while issuing dividend warrants. (v) Where dividend warrants are posted late or not at all due to manipulation by registrars to benefit from the funds before payment.

2.9.5 At the instance of chief executives of companies: Due to cash flow problems, many companies delay the release of cash to registrars to commence payment of these declared dividends.

2.9.6 At the instance of stockbrokers: - Where they fail to inform the Registrar of change of address of the shareholder.

2.9.7 Natural disasters/civil commotions: - These result in mass movement or relocation of many shareholders resulting in change of addressees and return of many dividend warrants.

2.9.8 Increasing volume of capitalization of the capital market: This is due to the privatization activities of government and increasing awareness of investing public and increasing confidence in Nigeria's economy by foreign investors.

2.9.9 Deregulation of dividend policy in 1996: - Where 100 per cent of after tax profit can now be paid out as dividend.

2.9.10 Increasing distress in the banking industry:- Some banks that acted as registrars went underground with billions of investor's dividend funds.

## **2.10 DIVIDEND INFORMATION REGULATIONS IN NIGERIA**

Major pronouncements on the issue of dividends and unclaimed dividends are found in Companies and Allied Matters Act (CAMA), 1990.

S. 379 (1) a company may in a general meeting, declare dividends in respect of any year or other period only on the recommendation of the Directors. S. (2) The company may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profit of the company. Is this really being followed? S. (3) The general meeting shall have power to decrease the amount of dividends recommended by the Directors, but shall have no powers to increase the recommended amount. S. (4) Where the recommendation of the Directors of a company, with respect to the declaration of a dividend is varied in accordance with subsection (3) of this section by the company in general meeting, a statement to that effect shall be included in the relevant annual return. S. (5) Subject to the provisions of this Act, dividends shall

be payable to the shareholders only out of the distributable profits of the company.

S. 380 Defines distributable profit as:-(a) Profit arising from the use of the company's property although they are wasting assets. (b) Revenue reserves (c) Realized profit on a fixed asset sold, but where more than one asset is sold, the net realized profit on the assets sold.

S. 381- A company shall not declare or pay dividend if there are reasonable grounds for believing that the company is or would be, after the payment, unable to pay its liabilities as they become due.

The question is – are the companies complying with this provision despite sanctions in S. 386?

S.382 (1) – Where dividends are returned to the company unclaimed, the company shall send a list of the names of the persons entitled with the notice of the next annual general meeting to the members.

Most public quoted companies comply with this provision without giving amount per shareholder involved. Also the

majority of non-public quoted companies do not and there is nowhere in the Act for sanction to compel enforcement.

Subsection (2) - After the expiration of three months of the notice mentioned in subsection (1) of this section, the company may invest the unclaimed of this section dividend for its own benefit in an investment outside the company and no interest shall accrue on the dividends against the company.

Subsection (3) where the dividends have been sent to members and there is an omission to send to some members due to the fault of the company, the dividend shall earn interest at the current bank rate from three months after the date on which they ought to have been posted.

Subsection (4) for the purpose of liability, the date of posting the dividend warrants shall be deemed to be the date of payment and proof of whether it has been sent is a question of fact. This leaves a loophole for directors to exploit shareholders by delaying their dividends.

S. 385 give the shareholders right to sue for dividends within 12 years. Dividends shall be a special debt due to and recoverable by shareholders within 12 years and actionable only when declared.

S.386 (1) – All directors who knowingly pay or are party to the payment of dividend out of capital or otherwise in contravention of this part of the Act Shall personally be liable jointly and severally to refund to the company any amount so paid. The implementation of this section is yet to be seen.

Subsection (2) – such directors shall have the right to recover the dividend from shareholders who receive it with knowledge that the company has no power to pay it.

## **2.11 DETERMINANTS OF STOCK PRICE**

Gordon (1959), in his model of equity valuation, identifies the following as determinants of stock price: Dividends of the firm, the expected growth rate in dividends, a measure of earnings instability, a measure of the firms' leverage, an index of the operating asset liquidity and a measure of firm size. Oyama (1997) examines the general relationship between stock prices and macroeconomic variable in Zimbabwe, using revised dividend discount model. He finds that sharp increases in stock price during 1993-94 are mainly due to the shift of risk premium that is caused by the partial capital account liberalization. The

recent rapid increase in stock prices can be explained by the movements of monetary aggregates and market interest rates.

Generally, other factors affecting stock price movement are outsider and insider information. The outsider information include: demand and supply indices; new product/market share; new technology or machinery or investment in products. Others include new information on industrial disputes; mergers and acquisition; economic and political indices like interest rate, inflation, gross national product, government policies and forceful change in governments. The insider information is information possessed by people in special or privileged positions inside the company or government.

## **2.12 THEORETICAL FRAMEWORK**

This section tries to link the theoretical presentations and models in the relevant literature to the present research. Here, impact of dividends payout and unclaimed dividends on stock price is chosen based on the belief that there is a missing link or gap created by a wholesale application of dividend policy and other dividend-related information from developed capital markets. Even in the developed markets, opinion has not been

uniform as to the impact of dividend on the value of the firm or stock price.

Previous studies have argued that dividend policy is irrelevant to the value of the firm, Miller and Modigliani (1961), Brennan (1971), Higgins (1972). Their contributions are based on perfect market situation. Others have disagreed and documented empirical evidence to show that dividend is relevant and that the multiplier contribution of dividend to the value of the firm is several times higher than that of retained earnings, Benishay (1961), Fisher (1961), Graham and Dodd (1934, 1961). Since then various writers have advanced reasons for companies wanting to pay dividend and why shareholders would want to collect dividend, Lintner (1962), Friend and pucket (1964).

Gordon (1959) and Keane (1974), suggest that the payment of dividends helps to resolve uncertainty about the future. Long (1978) is even more specific by saying that stockholders indeed prefer cash dividends.

Recently, the most frequently cited reasons for paying dividends include: (i) Cash Flow Signaling (CFS) hypothesis. (ii) The Free Cash Flow (FCF) hypothesis. (iii) Dividend Clientele (DC) hypothesis.

Even here empirical research has not produced a definite set of results. Studies on single-signal cash flow hypothesis by Asquith and Mullins (1985), Aharony and Swary (1980), Brickley (1982) Kalay and Lowenstein (1985), Michaely, Thaler and Womack (1995), among others, find positive and significant relationship between the stock price response and a dividend change. Watts (1973), Healey and Palepu (1988), and Kao and Wu (1994) examine the relationship between dividend changes and the firm's future earnings. Watts (1973) finds no relationship, while Kao and Wu (1994), Healey and Palepu (1988) find a significant and positive relationship. The reason advanced by these writers is that there is information asymmetry. In their opinion, management has information which outside investors do not have. Thus, dividend policy is regarded as a medium for conveying positive private information to market participants about changes in the earning prospects of the firm.

The single-signal models, however, are not consistent with the observed non-uniformity of stock price responses to a given dividend change. The single-signal models exemplified by the work of Bhattacharya (1979) and Millar and Rock (1985) predict a uniform stock price response. These models can be



characterized as 'action specific" models, since they predict a common stock price response to any particular management action, such as dividend increase, Bagnoli and Khanna (1992).

More recently, several authors have developed multiple-signal models that lead to prediction about stock price response that are firm specific, Ambarish, John and Williams (1987). In these models, the change in the firm's dividend policy cannot be evaluated independently of other management actions e.g. insider trading. The free cash flow hypothesis is similar to single-signal model in that changes in dividends convey information to the market, in this case, the information about changes in management behaviour. By announcing a change in dividend payments, management in firms with inferior investment opportunities are signaling to the public that they will distribute cash instead of investing in projects with negative net present value, Jensen (1986), Lang and Lizenberger, (1989). The stock price response here should be more positive as compared to firms with superior investment opportunities.

The dividend clientele (DC) hypothesis is similar to what Gordon (1959) and Keane (1974) earlier indicated as preference for cash dividend due to uncertainties. This suggests that investors have different preferences regarding the desirability of

receiving dividend payments, and firms respond to these preferences by paying the necessary dividend that will maintain investor interest, Lizenberger and Ramaswamy (1980, 1982), Bajaj and Vijh (1990).

Having reviewed most of the contributions of previous writers in the field of dividend policy, the researcher is of the opinion that dividend information is relevant to the current stock price. The relevance of previous research to the present research is that which pertains to cash flow signaling hypothesis and dividend clientele hypothesis.

The contention of the researcher is that Nigerian firms, in an effort to shore up current stock prices to satisfy certain clientele of shareholders, declare various types of dividends with or without cash backing. These declared dividends are paid mostly to institutional investors at the expense of minority shareholders. Therefore dividends accruable to such minority shareholders remain unclaimed.

This research conducts empirical studies to find out the impact of these unclaimed dividends on the value of the firm using a theoretical model developed by Lintner, (1962) and modified by Friend and Puckett (1964), to suit situations where

omitted variations give a biased result in favour of declared dividend as against retained earnings. The Lintner (1962) model looks thus:

$$P_{it} = b_0 + b_1D_{it} + b_2R_{it} + e_{it}$$

Where  $P_{it}$  = Per-share price at time t

$D_{it}$  = per-share Dividends at time t.

$R_{it}$  = Retained earnings at time t.

$e_{it}$  = Random variable

$i$  = Denotes the  $i^{\text{th}}$  company in a sample of n

Companies selected from a particular industry.

$b_0, b_1, b_2$  = Coefficients

The Friend and Puckett model looks thus:

$$P_{it} = b_0 + b_1D_{it} + b_2R_{it} + F_{it} + e_{it}$$

Where  $F_{it}$  = omitted variable which in his model he recognizes as firm effect. (i.e  $E/P_{t-1}$ ).

$$P_{it} = b_0 + b_1D_{it} + b_2R_{it} + b_4E/P_{t-1} + e_{it}$$

Where  $E/P_{t-1}$  = the lag of earnings/price as proxy for firm effect.

The omitted variables in this research include paid dividends per share ( $S_{it}$ ) and unclaimed dividend per share ( $U_{it}$ ), which is referred to as unclaimed factor.

This is calculated thus: unclaimed factor ( $U_{it}$ )

$$= \frac{\text{Total unclaimed dividends in time } t}{\text{Total number of shares in time } t}$$

The unclaimed factor is expected to have impact on declared dividends ( $D_{it}$ ), by increasing its magnitude on current stock price. It also has impact on the financial statement of the company {CAMA, sec. 382(1and2); sec. (385)}

From the foregoing it can be assumed that a rational manager would invest the unclaimed dividend outside the company at a rate equal or higher than its existing cost of capital or shareholders' expected returns. Since no interest shall accrue against the company, it becomes part of income net of expenses. This unclaimed dividend invested outside will still appear in company balance sheet as short-term investment, which is part of working capital. The interest or dividend realized appears in profit and loss account as extraordinary income which is distributable to other shareholders again.

The unclaimed dividend has the potential of augmenting the impact of paper dividend on Stock price. The real impact would have been  $(D_{it}-U_{it}) = S_{it}$  where  $S_{it}$  is the real paid out dividends.

$$\text{The new model becomes } P_{it} = b_0 + b_1(D_{it}-U_{it}) + b_2U_{it} + b_3R_{it} + b_4E/P_{t-1} + e_{it}$$

**The model for this research** becomes:

$$P_{it} = b_0 + b_1(D_{it} - U_{it}) + b_2 R_{it} + b_3 U_{it} + b_4 E/P_{t-1} + e_{it}$$

or

$$P_{it} = b_0 + b_1 S_{it} + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$$

Where  $P_{it}$  = market price per share

$S_{it}$  = paid dividends

$U_{it}$  = Unclaimed dividends per  
Share (unclaimed factor)

$E/P_{t-1}$  = lag firm effect

$b_0, b_1, b_2, b_3$  and  $b_4$  = Coefficients

The coefficients  $b_0, b_1, b_2$  and  $b_4$  are estimated by multiple regression using Statistical Package for Social Science (SPSS). This is to confirm or reject our hypotheses.

A cross-sectional data using ordinary least squares (OLS) multiple regression is used on sampled companies having an incidence of these unclaimed dividends to find out the impact of dividends on current stock price where the unclaimed factor is not used and where it is incorporated.

**CHAPTER THREE**  
**RESEARCH METHODOLOGY**

**3.1 INTRODUCTION**

The main objective of this study is to determine the impact of dividend payout and unclaimed dividends on stock price in the Nigerian capital market. The variables of interest here are declared cash dividends (paid dividends and unclaimed dividends), retained earnings and firm effects as explanatory or independent variables. The current stock price of a firm is treated as a dependent variable.

In this chapter, explanations are made in respect of research design, study population, sampling design and sample size. The data collection method and instrument are also explained. Finally, the procedure for processing and analyzing the collected data is enumerated.

**3.2 THE RESEARCH DESIGN**

The present investigation employed a survey design using cross-sectional data from quoted companies on the Nigerian Stock Exchange to test the formulated research hypotheses. The researcher was interested in what was happening to the variables without any power to manipulate or control them. If these variables were gathered at one point in time, then we were

involved in cross-sectional research design. The cross-sectional design in this research was an explanatory and exploratory design. Exploratory design is used to collect data to test the hypotheses while explanatory design allows the researcher to collect data to answer the research questions and test the hypotheses.

### **3.3 SOURCES OF DATA**

The research data gathered in this study were from both secondary and primary sources.

The secondary sources: The research used data originally meant for different purposes. This source was divided into two; published data and unpublished data. Use was made of published and unpublished data from journals, textbooks, internet articles, statistics from Securities and Exchange Commission, Nigerian Stock Exchange fact book and daily official lists and other publications including newspapers. The data included market price per share, declared dividend per share, unclaimed dividends and share capital for the selected quoted companies for the period under study.

The primary source – This is from opinion of capital market participants like corporate executives, shareholders/investing public, capital market operators, regulators and academia. Here the data were collected using the instruments of questionnaire (personal, mail and e-questionnaire), interviews (face to face, oral and telephone) and group discussions (conferences, seminars, annual general meetings (AGMs), Extra ordinary general meetings (EGMs) and National Assembly Public hearing on unclaimed dividends).

QUESTIONNAIRE: This is a survey method of collecting primary data. It is a situation where questions are drawn up and alternative solutions provided or gaps are to be filled and the questions served personally or dispatched by post or electronically to respondents who are expected to choose one of the alternative solutions or fill in the gaps.

In this research, mail and personal service questionnaire were used. The questions were structured as closed ended and opened ended. The closed ended questions had alternative solutions which respondents were expected to choose only one, while the open-ended questions, were expected to be completed by respondents. Question one captured the respondent characteristics, while question two to twenty one captured



respondent attitudes and opinion on the subject matter under study(Appendix II).

ORAL INTERVIEW: In this research, unstructured oral interview was used to elicit responses from the stakeholders of the Nigerian capital market. The researcher here determined the direction of the interview and responses recorded. Questions were asked on ways of preventing the incidence of unclaimed dividends and if it becomes inevitable, desirability of setting up Abandoned Financial Assets Trust Fund.

**3.4 STUDY POPULATION:** The population of interest in this research is made up of two. The primary data were collected from people involved in capital market such as corporate executives, shareholders/investing public, capital market operators, regulators and academia. The secondary data was obtained from a population of 200 companies quoted on the Nigerian Stock Exchange as at December, 2003.

### **3.5 SAMPLING DESIGN**

Sampling was employed in this research since studying the whole population would be time consuming, expensive and

unfeasible in this study. In this research, multistage sampling and stratified sampling were employed.

Sampling frame – The list of all quoted companies with a history of dividend declaration was made. The capital market participants were considered finite but large. In practice, it is tedious and unnecessary to consider all, hence only the sample size was considered, using multi-stage and stratified random sampling as a method of selecting respondents.

Multi-stage sampling – Here 200 quoted companies as at December, 2003 were reduced to 119 companies with a history of dividends declaration and then 99 companies with problem of unclaimed dividends were selected.

Stratified sampling – The population of 99 companies with an incidence of unclaimed dividends was divided into strata or groups. In this research, the strata were three sectors of manufacturing, banks and extractive industries with companies quoted on the Nigerian Stock Exchange. The capital market participants are stratified into - regulators, shareholders, corporate executives, capital market operators and the academia. In doing the sampling, care was taken to avoid bias, or subjectivity.

### 3.6 SAMPLE SIZE

This is the number of units of study or subjects of a population that are selected for study in order to generalize about the population parameters. In doing this we consider the factors that affect the choice of sample size.

In estimating the sample size for the primary data, infinite population formula was used. The capital market participants to be sampled included corporate executives from 200 listed companies, capital market operators of 288 made up of stockbrokers and registrars as at 2003 (2004 Fact book), shareholders and business related academia. The sample size (n) was estimated from estimated population proportion of 50% (Keller and Warrack, 1997). They document that where there is no knowledge of the approximate value of the population proportion (p) for a public opinion pool, use should be made of p=50% (i.e p=0.5 and q=0.5). This research made use of the formula with 95% confidence and allowing 5% sampling error.

$$n = \frac{(Z_{\alpha/2} \cdot \sqrt{pq})^2}{[B]^2}$$

where      n      =      sample size  
                 B      =      error bound or standard error  
                 p      =      sample proportion that contains the attributes.

q = sample proportion that does not contain the attributes.

q = 1-p,

Z = Z score at 95% confidence at two tails

$$n = \frac{(1.96 \times \sqrt{0.5 \times 0.5})^2}{(0.05)^2}$$

= 384 persons

A sample size of 400 was chosen which was well above the minimum sample size of 384. Stratified sampling was employed in selecting persons involved in capital market activities. This was chosen from five strata of the capital market relevant to the study using judgemental sampling. This assisted in determining how many should be selected in each stratum to make up the 400-sample size.

The 400-sample size was made up of 50 Corporate Executives, 50 Market Operators, 100 Shareholders/Investing public, 100 Regulatory Officers and 100 Academics. The above figures were chosen to allow for objective, unbiased and equitable responses from parties involved in dividend declaration, and capital market management and regulation. This assisted in

answering research questions and reporting on other findings from the study.

The sample selection for secondary data was based on data filtering of 200 companies quoted on the Nigerian stock market. Of these, 119 (60%) companies had a history of dividend declaration with 99 (83%) of the 119 having incidence of unclaimed dividends. A sample size of 55 (56%) of the companies was chosen out of the 99 companies that met the following criteria. (i) A company must have a yearly history of cash dividend declaration in at least three out of the five years under study. (ii) A company must have incidence of unclaimed dividends in at least three out of the five years under study. (iii) A company must have evidence of continuous trading in its stocks in the five years under study. This assisted the researcher in studying companies with perpetual history of unclaimed dividends. The minimum three-year criteria qualification for inclusion in the study is to reduce the problem of validity associated with missing data and invalid cases in regression analysis. The companies included:

|                                   |  |
|-----------------------------------|--|
| 1. ACCESS BANK PLC                | 29. FLOUR MILLS NIG.PLC                  |
| 2. AFRIBANK NIGERIA PLC           | 30. NORTHERN NIG. FLOUR MILLS PLC        |
| 3. R.T BRISCOE PLC                | 31. NESTLE NIGERIA PLC                   |
| 4. OKOMU OIL PALM PLC             | 32. PS MANRIDES & CO.PLC                 |
| 5. CHARTERED BANK PLC             | 33. EKO CORP PLC                         |
| 6. EIB INT'L BANK PLC             | 34. EVANS MEDICAL NIG.PLC                |
| 7. FIRST BANK OF NIG. PLC         | 35. FIRST ALUMINIUM NIG PLC              |
| 8. GUARANTY TRUST BANK PLC        | 36. NIGERIA ENAMELWARE COMPANY PLC       |
| 9. MANNY BANK PLC                 | 37. VITA FOAM NIG. PLC                   |
| 10. OMEGA BANK PLC                | 38. LASACO ASSURANCE PLC                 |
| 11. TRADE BANK PLC                | 39. LAW-UNIOIN-& ROCK INSURANCE PLC      |
| 12. UNITED BANK FOR AFRICA PLC    | 40. PRESTIGE ASSURANCE PLC               |
| 13. UNION BANK OF NIGERIA PLC     | 41. ROYAL EXCHANGE ASSURANCE PLC         |
| 14. UNIVERSAL TRUST BANK PLC      | 42.WEST-AFRICAN PROVINCIAL INSURANCE PLC |
| 15. WEMA BANK PLC                 | 43. C. I LEASING PLC                     |
| 16. GUINNESS NIGERIA PLC          | 44. AVON CROWNCAPS & CONTAINERS PLC      |
| 17. NIGERIAN BREWERIES PLC        | 45. BETA GLASS CO. PLC                   |
| 18. ASHAKA CEMENT PLC             | 46. MOBIL OIL NIG. PLC                   |
| 19. CFAO NIGERIA PLC              | 47. OANDO NIG PLC                        |
| 20. CHARARAMS NIG PLC             | 48. TOTAL NIGERIA PLC                    |
| 21. PZ INDUSTRIES PLC             | 49. LONGMAN NIGERIA PLC                  |
| 22. SCOA NIGERIA PLC              | 50. UNIVERSITY PRESS PLC                 |
| 23. UNILEVER NIG PLC              | 51. U.A.C.N. PROPERTIES PLC              |
| 24. U.A.C.N. PLC                  | 52. ENPEE INDUSTRIES PLC                 |
| 25. CAPP & D'ALBERTO PLC          | 53. UNITED NIG TEXTILES PLC              |
| 26. JULIUS BERGER NIG.PLC         | 54. ADWITCH NIG PLC                      |
| 27. NIG WIRE AND CABLE PLC        | 55. CUTIX PLC                            |
| 28. SEVEN-UP BOTTLING COMPANY PLC |  |

### **3.7 METHODS OF DATA ANALYSIS**

The analysis was by use of percentages and multiple regressions.

**3.7.1 PERCENTAGES:** This was employed in the analysis of primary data.

**3.7.2 MULTIPLE REGRESSIONS.** The market price per share ( $P_{it}$ ) was regressed against declared cash dividends per share ( $D_{it}$ ), retained earnings per share ( $R_{it}$ ), and firm effects per share ( $E/P_{it}$ ) (risk and size) using Friend and Puckett model. The market price per share was also regressed against paid dividends per share ( $S_{it}$ ), unclaimed dividend per share ( $U_{it}$ ), retained earnings per share ( $R_{it}$ ), and firm effects per share ( $E/P_{t-1}$ ) using the researcher's model (see Appendix III). This assisted in the estimation of the coefficients of the model. The estimates of the coefficients were evaluated for reliability using (i) coefficient of multiple determination (R square), (ii) Standard error tests (iii) ANOVA test (iv) t-test (v) Non-autocorrelation using Durbin Watson (DW) statistics (vi) Non perfect multi-collinearity test using Variance inflation factor (VIF) from the Statistical

Package for Social Sciences (SPSS) to ensure that the assumptions of the model were complied with.

#### Assumptions of Multiple Regressions.

i) A linear relationship is assumed to exist. ii) The variable  $e_{it}$  is a real random variable. iii) There is serial independence of the random variable ( $e_{it}$ ) i.e. non-autocorrelation of random variables. If this assumption is violated the standard errors of the parameters are not a reliable criterion for the evaluation of the statistical significance of the coefficients. iv) There is independence of  $e_{it}$  with all values of independent variables. v) There is no perfect multi colinearity i.e. the explanatory variables are not perfectly linearly correlated. If this assumption is violated, the parameters become indeterminate. i.e. It is impossible to obtain numerical values for each parameter separately and the method of least squares breaks down. vi) The relationship being studied is identified. vii) There is correct specification of the model.

In our theoretical framework, we adopted and modified the model from Friend and Puckett (1964).

Friend and Puckett model:

$$P_{it} = b_0 + b_1D_{it} + b_2R_{it} + b_3E/P_{t-1} + e_{it}$$

The modified model for this research is:



$$P_{it} = b_0 + b_1 (D_{it} - \mu_{it}) + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$$

Alternatively

$$P_{it} = b_0 + b_1 S_{it} + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$$

**Application of Regression-** The research made use of cross-sectional secondary data to test hypotheses one, two, three, four and five.

The omitted variable in this research is unclaimed dividend per share ( $U_{it}$ ), which is referred to as unclaimed factor.

This is calculated thus: unclaimed factor ( $U_{it}$ )

$$= \frac{\text{Total unclaimed dividends in time } t}{\text{Total number of shares in time } t}$$

The unclaimed factor has direct impact on declared Dividends ( $D_{it}$ ), by augmenting its real magnitude on stock price ( $D_{it} - U_{it}$ ).

After the specification of the model as above, data was collected to enable us to estimate the parameters from the model and evaluate them. It aims at the evaluation of the statistical reliability of the estimates of the parameters of the model. a) Economic criteria- It refers to the sign and size of the parameters of economic relationships.(b) Statistical or Test of statistical significance. These include i.) Coefficient of multiple determination (R square)- It is a measure of the extent to which

the explanatory variable or predictor or independent variables are responsible for the changes in the dependent or explained variable of the relationship. (ii). Standard error tests-Here standard errors are compared with numerical values of the estimates. If standard error is more than half of the value of the estimate, we accept the null hypothesis ( $b_0, b_1, b_2 \dots b_p = 0$ ) i.e we accept that the estimate is not significantly different at a given level of significance. If, however, the standard error is less than half of the value of the estimate, we accept that our parameter estimate is statistically significant at a given level of significance. The larger the standard error, in relation to a parameter estimate, the less reliable the estimate. (iii). The analysis of variance (ANOVA). This was used to test the hypothesis that the slope ( $b_0, b_1 \dots b_p$ ) = 0. F for the model is significant or large when the independent variable(s) helps to explain the variation in the dependent variable. This helps to reject the Null hypothesis that the coefficients are equal to zero. If they are the whole regression model will break down. (iv) t- statistics - This also tries to identify useful predictors among the independent variables. Usually t- values should be significant (below -2 or above +2) for rejection of null hypothesis at appropriate level of significance. Values well below or well above are strong predictors of dependent variable. (c) Econometric or 2<sup>nd</sup> order test: This helps us to establish whether the estimates have the desirable

properties of unbiasedness, consistency and the validity of the assumption of non- auto correlated disturbances and non perfect multicollinearity. (i) The Test for the validity of the assumption of non- auto correlated disturbance or serial correlation of the random variable is achieved by using DW statistics (Durbin Watson Statistics). It refers to the relationship not between variables but between successive values of the same variable ( $e_{it}$ ). DW statistics test hypothesis that the residuals ( $e_{it}$ ) from an ordinary least squares regression are not auto correlated. The DW statistics range in value from 0 to 4. A value near 2 indicates non auto correlation, a value = 0 indicates perfect positive auto correlation and a value = 4 indicates perfect negative auto correlation.  $0 < DW < 2$  means there is some degree of positive auto correlation, which is stronger the closer DW is to zero. Sources of auto correlation could be from omitted variables or misspecification of the mathematical form of the model. This is corrected, by including the omitted variables or specifying the true mathematical models (ii). Test for non-perfect colinearity (Intercorrelation) among independent variables. This is achieved by computing tolerance statistics like variance inflation factor (VIF). The values of tolerance statistics ranges from 0 to 1. When its value is small (Close to 0), the variable is almost a linear combination of the other independent variables. Where collinearity exists, the estimates of the coefficients are

indeterminate and the standard errors of these estimates become infinitely large. The causes could be due to small sample size or use of a lagged variable. This is corrected by increasing the sample size or removing the lag.

### **3.8 VALIDITY AND RELIABILITY TESTS**

**Validity Test:** This could be the test for validity of findings [research design] or validity of measurement instruments. The validity of findings tests the adequacy of research designs in producing the type of responses that it is designed to generate. It could be internal validity or external validity. While validity of measurement instrument concerns itself with the question of “is one measuring what one thinks one is measuring?”

In this research, internal validity was ensured by avoiding selection bias in both primary and secondary data by utilizing randomization process in data selection. External validity was ensured by avoiding differential selection. This was achieved by serving our questionnaires direct to respondents like shareholders instead of their executive officers who were volunteers and might give responses unrepresentative of the group.

The validity of measurement instrument was achieved by (i) ensuring that all the questions asked in our questionnaire

covered all items in the research questions and statement of hypothesis (ii) submitting the questionnaire to a supervisory committee for their comments, corrections and criticisms.

Generally, the use of computer analysis in this research had assisted further in validating our data as against the tedious manual checks enumerated above. The SPSS data validation add-on module enabled us to identify suspicious or invalid cases, variables and data values, view patterns of missing data and summarize variable distributions.

**Reliability Test:** the concept of reliability deals with the issue of consistency, precisions or accuracy of an instrument. Reliability is achieved through statistical procedures.

In this research, the SPSS regression model was used and it tested different relationships to confirm the consistency and accuracy of the data collected using the measurement instrument. Here, the measure of F ratio confirmed the slopping nature of a regression model. Durbin Watson (DW) statistics ensured non-autocorrelation of random variables, while variance inflation factor [VIF] ensured non-collinearity of the independent variables. All these were aimed at achieving reliability of findings generated from the data.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 INTRODUCTION**

In carrying out this empirical research, questionnaire was employed in collecting primary Data and existing documents were used in gathering the secondary data.

For the primary data, 400 copies of the questionnaire were distributed to five major stakeholders of the capital market viz – corporate executives, capital market operators, shareholders/ investing public, capital market regulatory authorities and members of the academic community. In all, a total of 292 copies were completed and returned, representing 73% response rate.

For secondary data, information relating to stock price, declared dividends, retained earnings, paid dividends and unclaimed dividends were gathered from 55 companies quoted on the Nigerian stock market, making use of published and unpublished data from the Security and Exchange Commission, Nigerian Stock Exchange and Company Registrars.

#### **4.2 DESCRIPTIVE ANALYSIS OF THE PRIMARY DATA**

400 copies of the questionnaire were distributed to five major stakeholders of the capital market viz – corporate

executives, capital market operators, shareholders/investing public, capital market regulatory authorities and members of the academic community. In all, a total of 292 copies were completed and returned, representing 73% response rate. The result is presented below.

**Table 4.1** Responses on whether dividend declaration is real or a manipulation by the majority shareholder- directors.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 13          | 4.5  | 21           | 7.2  | 27            | 9.3  | 27                     | 9.3  | 17       | 5.8  | 105   | 36.1  |
| b | 4           | 1.3  | 4            | 1.4  | 6             | 2.0  | 0                      | 0.0  | 0        | 0.0  | 14    | 4.7   |
| c | 13          | 4.4  | 17           | 5.8  | 49            | 16.8 | 43                     | 14.7 | 51       | 17.5 | 173   | 59.2  |
|   | 30          | 10.2 | 42           | 14.4 | 82            | 28.1 | 70                     | 24.0 | 68       | 23.3 | 292   | 100.0 |

*a-real, b-manipulation, c-both real and manipulation.*

**Source:** *Developed from Researcher's Questionnaire.*

From table 4.1, the majority of the respondents (about 59%) were of the opinion that dividend declarations by Nigerian companies were both real and manipulation by majority Shareholder- directors to shore up the share price of the company. About 36% of the respondents were of the opinion that the declaration was real, while only 5% claimed that the declaration was a mere manipulation. The result implies that dividend declaration by Nigerian companies is both real and

manipulation by the majority shareholder-directors to shore up the share price of the company.

**Table: 4.2** Responses on whether investors do receive all of these dividends.

|   | Corp. Exec. |     | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|-----|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %   |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 4           | 1.4 | 10           | 3.4  | 22            | 7.5  | 24                     | 8.2  | 19       | 6.5  | 79    | 27.0  |
| b | 25          | 8.5 | 30           | 10.3 | 53            | 18.2 | 49                     | 16.8 | 56       | 19.2 | 213   | 73.0  |
|   | 29          | 9.9 | 40           | 13.7 | 75            | 25.7 | 73                     | 25.0 | 75       | 25.7 | 292   | 100.0 |

*a=yes, b=no*

**Source:** *Developed from Researcher's Questionnaire*

From table 4.2, 73% of respondents indicated that not all of the declared dividends were received by shareholders. 27% opined that all the declared dividends were received by shareholders. This implies that not all of the declared dividends are received by the shareholders.



**Table 4.3** Responses on the main reasons for unclaimed dividends.

|   | Corp. Exec. |      | Market Oper. |      | Shareholders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|--------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |              | %    |                        | %    |          | %    |       | %     |
| a | 5           | 1.7  | 8            | 2.7  | 7            | 2.4  | 3                      | 1.0  | 20       | 6.9  | 43    | 14.7  |
| b | 24          | 8.2  | 28           | 9.6  | 46           | 15.8 | 34                     | 11.6 | 40       | 13.7 | 172   | 58.9  |
| c | 3           | 1.0  | 4            | 1.4  | 16           | 5.5  | 28                     | 9.6  | 1        | 0.3  | 52    | 17.8  |
| d | 4           | 1.4  | 4            | 1.4  | 2            | 0.7  | 5                      | 1.7  | 10       | 3.4  | 25    | 8.6   |
|   | 36          | 12.3 | 44           | 15.1 | 71           | 24.4 | 70                     | 23.9 | 71       | 24.3 | 292   | 100.0 |

*a-inability of directors to pay due to cash flow problems, b-difficulties in tracing shareholders, c-manipulation by registrars to benefit from the funds before payment, d-other reasons (state)*

**Source:** Developed from Researcher's Questionnaire

From table 4.3, about 59% of the respondents were of the opinion that a difficulty in tracing shareholders was the main reason for not receiving the dividends. While 18% believed that the delay was due to manipulation by registrars to benefit from the funds before payment, 15% felt it was the inability of the company to pay due to cash flow problems and the remaining 9% advanced other reasons like lack of enforcement of CAMA. The result implies that difficulties in tracing shareholders are the main reason for unclaimed dividends.

**Table 4.4** Responses on whether most of the unclaimed dividends belong to minority Shareholders.

|   | Corp. Exec. |      | Market Oper. |      | Shareholders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|--------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |              | %    |                        | %    |          | %    |       | %     |
| a | 20          | 6.9  | 32           | 11.0 | 59           | 20.2 | 53                     | 18.1 | 58       | 19.9 | 222   | 76.1  |
| b | 10          | 3.4  | 11           | 3.8  | 20           | 6.8  | 26                     | 8.9  | 3        | 1.0  | 70    | 23.9  |
|   | 30          | 10.3 | 43           | 14.8 | 79           | 27.0 | 79                     | 27.0 | 61       | 20.9 | 292   | 100.0 |

*a-yes, b-no.*

**Source:** Developed from Researcher's Questionnaire.

From table 4.4, about 76% of the respondents agreed that most of the unclaimed dividends belonged to minority shareholders, while 24% disagreed. The result implies that most of the unclaimed dividends belong to minority shareholders.

**Table 4.5** Impacts of unclaimed dividends on future Stock Price.

|   | Corp. Exec. |      | Market Oper. |      | Shareholders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|--------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |              | %    |                        | %    |          | %    |       | %     |
| a | 6           | 2.1  | 4            | 1.4  | 6            | 2.0  | 15                     | 5.1  | 29       | 9.9  | 60    | 20.5  |
| b | 6           | 2.1  | 5            | 1.7  | 24           | 8.2  | 26                     | 8.9  | 23       | 7.9  | 84    | 28.8  |
| c | 20          | 6.8  | 34           | 11.6 | 42           | 14.4 | 34                     | 11.7 | 18       | 6.2  | 148   | 50.7  |
|   | 32          | 11.0 | 43           | 14.7 | 72           | 24.6 | 75                     | 25.7 | 70       | 24.0 | 292   | 100.0 |

*a-positively, b-negatively, c-no effect*

**Source:** Developed from Researcher's Questionnaire

From table 4.5, about 51% of the respondents were of the opinion that unclaimed dividends had no effect on future stock price. While 29% felt they could have negative effect on future stock price, 21% believed there was positive effect on the future stock price. The result implies that unclaimed dividends have no effect on future stock price. This is inconsistent with common financial thinking that such could be a disincentive to continued investment in such organization and hence its negative impact on stock price.

**Table 4.6** Responses on the major determinant of dividend payout in Nigeria.

|   | Corp. Exec. |     | Market Oper. |      | Shareholders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|-----|--------------|------|--------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %   |              | %    |              | %    |                        | %    |          | %    |       | %     |
| a | 1           | 0.3 | 17           | 5.8  | 23           | 7.9  | 1                      | 0.3  | 29       | 9.9  | 71    | 24.2  |
| b | 4           | 1.4 | 9            | 3.1  | 8            | 2.7  | 20                     | 6.9  | 8        | 2.7  | 49    | 16.8  |
| c | 20          | 6.9 | 14           | 4.8  | 46           | 15.8 | 4                      | 1.4  | 33       | 11.3 | 117   | 40.2  |
| d | 2           | 0.7 | 1            | 0.3  | 3            | 1.0  | 45                     | 15.4 | 4        | 1.4  | 55    | 18.8  |
|   | 27          | 9.3 | 41           | 14.0 | 80           | 27.4 | 70                     | 24.0 | 74       | 25.3 | 292   | 100.0 |

*a-investors desire for dividends, b-availability of excess cash flow and non-positive investment opportunities, c-directors desire to communicate positive private information about future prospects of the company, d-any other reasons (specify).*

**Source:** Developed from Researcher's Questionnaire

From table 4.6, most (40%) of the respondents agreed that the greatest determinant of dividend payout in Nigeria was the directors' desire to communicate positive private information about future prospects of the company. Other determinants included, investors' desire for dividends (24%), the availability of excess cash flow and non-positive investment opportunities (17%).

The result implies that the most important determinant of dividends policy in Nigeria is the directors' desire to communicate positive private information about future prospect of the company.

**Table 4.7** Responses on whether unclaimed dividends could affect Nigeria's drive towards attracting foreign portfolio investment.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 13          | 4.5  | 15           | 5.1  | 42            | 14.4 | 48                     | 16.4 | 39       | 13.4 | 157   | 53.8  |
| b | 19          | 6.5  | 31           | 10.6 | 27            | 9.3  | 19                     | 6.5  | 39       | 13.3 | 135   | 46.2  |
|   | 32          | 11.0 | 46           | 15.7 | 69            | 23.7 | 67                     | 22.9 | 78       | 26.7 | 292   | 100.0 |

*a*-yes, *b*-no

**Source:** Developed from Researcher's Questionnaire

From 4.7, about 54% of respondents agreed that unclaimed dividends could affect Nigeria's drive towards attracting foreign

portfolio investments. But 46% did not believe so. The result implies that unclaimed dividends could affect Nigeria's drive towards attracting foreign portfolio investments.

**Table 4.8** Amendment of the Company and Allied Matters Act 1990.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 27          | 9.3  | 28           | 9.6  | 60            | 20.6 | 57                     | 19.5 | 64       | 21.9 | 236   | 80.9  |
| b | 6           | 2.1  | 20           | 6.8  | 8             | 2.7  | 12                     | 4.1  | 10       | 3.4  | 56    | 19.1  |
|   | 33          | 11.4 | 48           | 16.4 | 68            | 23.3 | 69                     | 23.6 | 74       | 25.3 | 292   | 100.0 |

*a=yes,b-no*

**Source:** *Developed from Researcher's Questionnaire*

From table 4.8, the majority of the respondents (about 81%) agreed that the Companies and Allied Matters Act should be amended to make it mandatory for all companies to include the amount, names and addresses of all persons entitled to unclaimed dividends of previous years in notes to the accounts. But about 19% felt that it was not necessary. The result implies that the Companies and Allied Matters Act should be amended to make it mandatory for all companies to include the amount, names and addresses of all persons entitled to unclaimed dividends of previous years in notes to the accounts.

**Table 4.9** Responses on the issuance of accounting standard on unclaimed dividends.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 20          | 6.9  | 40           | 13.7 | 48            | 16.4 | 58                     | 19.9 | 45       | 15.4 | 211   | 72.3  |
| b | 15          | 5.1  | 9            | 3.1  | 25            | 8.5  | 11                     | 3.8  | 21       | 7.2  | 81    | 27.7  |
|   | 35          | 12.0 | 49           | 16.8 | 73            | 24.9 | 69                     | 23.7 | 66       | 22.6 | 292   | 100.0 |

*a=yes,b-no*

**Source:** Developed from Researcher's Questionnaire

From table 4.9, about 72% of the respondents were of the opinion that the Nigerian Accounting Standards Board should issue a standard on dividends including unclaimed dividends, for which non-compliance should attract punitive action as required by the Act. But 28% said it was not necessary. The result implies that there is a need for the Nigerian Accounting Standard Board to issue a standard on dividends including unclaimed dividends, for which non-compliance should attract punitive action as required by the standard.

**Table 4.10** Responses on the sending of list of unclaimed dividends to SEC as part of notice to attend AGM.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 20          | 6.9  | 34           | 11.6 | 65            | 22.3 | 62                     | 21.2 | 65       | 22.3 | 246   | 84.3  |
| b | 10          | 3.4  | 13           | 4.5  | 10            | 3.4  | 8                      | 2.7  | 5        | 1.7  | 46    | 15.7  |
|   | 30          | 10.3 | 47           | 16.1 | 75            | 25.7 | 70                     | 23.9 | 70       | 24.0 | 292   | 100.0 |

a-yes,b-no **Source:** Developed from Researcher's Questionnaire

From table 4.10, 84% of respondents agreed that every company should send the name, amount and address of every person entitled to unclaimed dividends of previous years three weeks before the AGM to Securities and Exchange Commission (SEC) as part of invitation to attend such meetings, but 16% believed that there was no need. The result implies that there is need for every company to send the name, amount and address of every person entitled to unclaimed dividends of previous years three weeks before the AGM to Securities and Exchange Commission (SEC) as part of invitation to attend such meetings.

**Table 4.11** Responses on the utilization of inevitable unclaimed dividends after 12 years.

|   | Corp. Exec. |      | Market Oper. |      | Share-holders |      | Regulatory Authorities |      | Academia |      | Total |       |
|---|-------------|------|--------------|------|---------------|------|------------------------|------|----------|------|-------|-------|
|   |             | %    |              | %    |               | %    |                        | %    |          | %    |       | %     |
| a | 3           | 1.0  | 12           | 4.1  | 16            | 5.5  | 22                     | 7.5  | 50       | 17.1 | 103   | 35.2  |
| b | 26          | 8.9  | 28           | 9.6  | 20            | 6.9  | 44                     | 15.1 | 6        | 2.1  | 124   | 42.6  |
| c | 1           | 0.3  | 3            | 1.0  | 3             | 1.0  | 5                      | 1.7  | 10       | 3.5  | 22    | 7.5   |
| d | 3           | 1.0  | 3            | 1.0  | 28            | 9.6  | 3                      | 1.0  | 6        | 2.1  | 43    | 14.7  |
|   | 33          | 11.2 | 46           | 15.7 | 67            | 23.0 | 74                     | 25.3 | 72       | 24.8 | 292   | 100.0 |

**Source:** Developed from Researcher's Questionnaire

From table 4.11, most (43%) of the respondents were of the opinion that to solve the problem of inevitable unclaimed dividends, the Federal government should establish an abandoned financial assets Trust Fund where all dividends not paid after 15 months of declaration would be lodged for the owner and any unclaimed money from the fund after 12 years should be used to re-purchase shares in such companies and donated to approved Educational Trust Funds. 35% preferred that such monies should be donated to approved charity organizations, while 8% felt that such monies should be part of Federal Government's budget. 15% were of the opinion that there was no need for abandoned assets Trust Funds and that other methods be thought out.

The result implies that to solve the problem of inevitable unclaimed dividends, an abandoned assets trust fund should be established.

### **4.3 TEST OF HYPOTHESES**

In this section, secondary data was used in testing our hypotheses. Information relating to stock price, declared dividends, retained earnings, paid dividends and unclaimed dividends were gathered from 55 companies quoted on the



Nigerian stock market, making use of published and unpublished data from the Security and Exchange Commission, Nigerian Stock Exchange and Company Registrars.

#### **4.3.1 TEST OF HYPOTHESES ONE, TWO AND THREE.**

Test of hypotheses one, two and three was done by employing Friend and Puckett model using regression analysis.

The model is as follows.

The Model:  $P_{it} = b_0 + b_1D_{it} + b_2R_{it} + b_3E/P_{t-1} + e_{it}$

H<sub>01</sub>: Declared cash Dividends ( $D_{it}$ ) have no significant impact on current stock price ( $P_{it}$ ) in Nigeria.

H<sub>02</sub>: Retained earnings ( $R_{it}$ ) have no significant impact on current Stock price in Nigeria.

H<sub>03</sub>: Firm effect ( $E/P_{t-1}$ ) has no significant impact on current stock price in Nigeria

#### **INTERPRETATION OF REGRESSION RESULTS/ESTIMATES.**

- i) Coefficient of multiple determination tests ( $R^2$ ) – The larger the  $R^2$ , the more the independent variables explained the dependent variable.
- ii) Standard error test – The larger the half standard error in relation to a parameter estimate, the less reliable the estimate. i.e.  $\frac{1}{2}$  standard error should be less than parameter estimate.

- iii) Analysis of variance (ANOVA or F value) – The larger the F value the more the independent variables explained the variation in dependent variable. It also helps to reject the null hypothesis that the coefficients are not equal to zero.
- iv) T-statistics – This tries to identify useful predictors among the independent variables. Values well above +2 and well above -2 are strong predictors of dependent variables.
- v) Durbin Watson (DW) statistics – It tests the hypothesis that the residual ( $e_{it}$ ) from an ordinary least squares regression is not auto correlated. Values close to 2 indicates non-auto correlation, value = 0 indicates perfect positive auto correlation and a value = 4 indicates perfect negative auto correlation.
- vi) Variance inflation factor (VIF) – When the value is small or close to zero, the variable is almost a linear combination of the other independent variable. i.e collinearity. Values well above zero indicate non-collinearity.

**Table 4.12** Regression estimates.

|                | P <sub>it</sub>   | Constants       | D <sub>it</sub>  | R <sub>it</sub>  | E/P <sub>t-1</sub> |
|----------------|-------------------|-----------------|------------------|------------------|--------------------|
| Beta coeff.    |                   | 3.072           | 12.618           | -0.367           | -2.119             |
| R <sup>2</sup> | 0.829             | -               | -                | -                | -                  |
| Std error      | -                 | 0.908           | 0.444            | 0.867            | 1.079              |
| F- ratio       | 298.045<br>(.000) | -               | -                | -                | -                  |
| t- statistics  | -                 | 3.382<br>(.001) | 28.428<br>(.000) | -0.423<br>(.673) | -1.965<br>(.051)   |
| DW statistic   | 1.768             | -               | -                | -                | -                  |
| Coll.VIF       | -                 | -               | 1.104            | 1.109            | 1.015              |
| N              | 189               | 189             | 189              | 189              | 189                |

**Source:** *Researcher's regression results.*  
*Figures in parenthesis represent significant level.*

From table 4.12, about 83% of the variation in current stock price in Nigeria can be attributed to declared cash dividends, retained earnings and firm effects. The highly significant F-ratio (298.045) confirms that the co-efficients are not equal to zero. The DW statistic of 1.768 and VIF values which are greater than zero confirm non-auto-correlation of random variables and non perfect collinearity of independent variables respectively.

**For declared cash dividends:** A linear positive relationship exists between declared cash dividends and current stock price as it is confirmed by the regression coefficient (12.618). The highly significant t-value (28.428) indicates the importance of declared cash dividends in predicting the current stock price.

The low standard error (0.444) in relation to half value of the coefficient (6.309) confirms that the coefficients are not equal to zero. The study rejects the null hypothesis and concludes that there is positive relationship between declared cash dividend and current stock price. This is consistent with Lintner (1962), Friend and Puckett (1964), and Mainoma (2001). The multiplier contribution of declared cash dividends ( $S_{it}$ ) to retained earnings ( $R_{it}$ ) in Nigeria is as high as 12:1 (Table 4.1).

**For retained earnings:** A linear negative relationship is confirmed as it is shown in the regression co-efficient (-.367). The t-ratio (-0.423) is not significant and that means that retained earnings are not strong predictors of current stock price in Nigeria. The study rejects the null hypothesis and concludes that retained earnings are negatively related to current stock price in Nigeria. This is consistent with Lintner (1962), Mainoma (2001) but inconsistent with Friend and Puckett (1964).

**For firm effect:** There is a negative relationship as it is confirmed from regression co-efficient (-2.119). The study rejects the null hypothesis and concludes that firm effects are negatively related to current stock price. The regression coefficient is fitted thus:

$$\text{The model: } P_{it} = 3.072 + 12.618D_{it} - 0.367R_{it} - 2.119 \frac{E}{P_{t-1}}$$

### 4.3.2 TEST OF HYPOTHESES FOUR AND FIVE

Test of hypotheses four and five was done by use of the researcher's model.

The Model:  $P_{it} = b_0 + b_1S_{it} + b_2U_{it} + b_3R_{it} + b_4 E/P_{t-1} + e_{it}$

H<sub>04</sub>: Paid dividends ( $S_{it}$ ) have no significant relationship to current stock price.

H<sub>05</sub>: Unclaimed dividends ( $U_{it}$ ) have no significant relationship to current Stock price.

**Table 4.13** Regression estimates.

|                | $P_{it}$ | Const. | $S_{it}$ | $U_{it}$ | $R_{it}$ | $E/P_{t-1}$ |
|----------------|----------|--------|----------|----------|----------|-------------|
| coeff.         |          | 3.265  | 11.033   | 10.298   | 1.363    | 2.545       |
| Std err.       |          | 0.806  | 0.444    | 0.808    | 0.753    | 0.962       |
| R <sup>2</sup> | 0.795    | -      | -        | -        | -        | -           |
| F- ratio       | 189.034  | -      | -        | -        | -        | -           |
|                | (.000)   | -      | -        | -        | -        | -           |
| t- statis      |          | 4.050  | 24.833   | 12.749   | 1.809    | 2.646       |
|                |          | (.000) | (.000)   | (.000)   | (.072)   | (.009)      |
| DW stat        | 1.426    | -      | -        | -        | -        | -           |
| VIF            | -        | -      | 1.224    | 1.162    | 1.123    | 1.015       |
| N              | 200      | 200    | 200      | 200      | 200      | 200         |

**Source:** Researcher's regression results. Figures in parenthesis represent significant level.

From table 4.13, about 80% of the variation in current stock price in Nigeria can be attributed to paid cash dividends, unclaimed dividends, retained earnings and firm

effects. The highly significant F ratio confirms that the coefficients are not equal to zero. The DW statistics of 1.426 and VIF values, which are greater than zero, confirm non-auto correlation of random variables and non perfect collinearity of independent variables respectively.

**For paid dividends:** There is a positive linear relationship between paid dividends and current stock price. (Regression coefficient 11.033). The highly significant t-Statistic (24.833) indicates the importance of paid dividends in predicting current stock price. The low standard error (0.444) in relation to half value of the coefficient (5.517) confirms that the coefficients are not equal to zero. The study, therefore, rejects the null hypothesis and concludes that there is a positive relationship between paid cash dividend and current stock price.

**For unclaimed dividends:** There is also a linear relationship between unclaimed dividends and current stock price. The relationship is also positive given the regression coefficient 10.298. The highly significant t- statistic value of 12.749 confirms the importance of unclaimed dividends in predicting current stock price. The low standard error (0.808) in relation to half value of the coefficient (5.199) confirms that the

coefficients are not equal to zero. Thus, the study rejects the null hypothesis and concludes that there is a positive relationship between unclaimed dividend and current stock prices. That the multiplier contribution of paid dividends ( $S_{it}$ ) and unclaimed dividends ( $D_{it}$ ) to current stock price in Nigeria is almost 1:1.

**For retained earnings:** There is a linear positive relationship between retained earnings and current stock price as seen from regression co-efficient (1.363) in table 4.2. The t-Value of (1.809) which is not significant at 0.05 level of significance indicates that retained earnings are mild predictor of current stock price in Nigeria. The positive relationship is consistent with Friend and Puckett (1964), but inconsistent with Lintner(1962) and Mainoma(2001).

**For firm effects:** There is also a negative relationship between firm effect ( $E/P_{t-1}$ ) and current stock price( $P_{it}$ ) in Nigeria as confirmed from regression co-efficient (-2.545).The coefficient are fitted thus:

$$\text{The model: } P_{it} = 3.265 + 11.033 S_{it} + 10.298 U_{it} + 1.363 R_{it} - 2.545E/P_{t-1}$$

#### **4.3.3 TEST OF HYPOTHESIS FIVE IN MANUFACTURING INDUSTRY USING RESEARCHER'S MODEL.**

$$\text{The Model: } P_{it} = b_0 + b_1 S_{it} + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$$

H<sub>05</sub>: Unclaimed dividends have no significant relationship to current stock price in Nigerian manufacturing industry.

**Table 4.14** Regression estimates.

|                | P <sub>it</sub>   | Const           | S <sub>it</sub>  | U <sub>it</sub> | R <sub>it</sub> | E/P <sub>t-1</sub> |
|----------------|-------------------|-----------------|------------------|-----------------|-----------------|--------------------|
| coeff.         | -                 | 8.064           | 9.786            | 5.517           | 1.111           | 21.800             |
| Std error      | -                 | 1.871           | 0.749            | 1.392           | 1.568           | 9.595              |
| R <sup>2</sup> | 0.851             | -               | -                | -               | -               | -                  |
| F- ratio       | 62.854<br>(0.000) | -               | -                | -               | -               | -                  |
| t- statist     | -                 | 4.309<br>(.000) | 13.061<br>(.000) | 3.963<br>(.000) | 0.708<br>(.483) | -2.272<br>(.028)   |
| DW stati       | 1.812             | -               | -                | -               | -               | -                  |
| Coll. VIF      | -                 | -               | 1.092            | 1.235           | 1.455           | 1.299              |
| N              | 49                | 49              | 49               | 49              | 49              | 49                 |

**Source:** Researcher's regression results. Figures in parenthesis represent significant level

From table 4.14 the R<sup>2</sup> indicates that about 85% of the changes on stock price are accounted for by independent variables including unclaimed dividends in manufacturing industry. Only 15% of the variation is by chance.

There is a linear relationship between current Stock price and unclaimed dividends (U<sub>it</sub>). The relationship is positive from the regression coefficient obtained (+5.517). The impact of the unclaimed dividends is so strong and significant with t – statistic of +3.963. The F- ratio of 62.854 is high and significant thus



confirming the positive sloping relationship. The regression coefficient of +5.517 confirms a positive relationship of unclaimed dividend with current stock price.

The DW statistics of 1.812 shows a non- auto correlation of the residuals. The inter correlation between independent variables was minimal as shown in collinearity variance inflation factor (VIF) values which are above zero.

The study finds a positive relationship between unclaimed dividends and stock price, so it rejects the null hypothesis and concludes that unclaimed dividends have positive effect on current stock price in manufacturing industry. The multiplier impact of paid dividends ( $S_{it}$ ) to unclaimed dividends ( $U_{it}$ ) on stock price in manufacturing industry is in the ratio of almost 2:1. The regression coefficient is fitted thus:

$$\text{The model: } P_{it} = 8.064 + 9.786S_{it} + 5.517 U_{it} + 1.111 R_{it} - 21.80 E/P_{t-1}$$

#### **4.3.4 TEST OF HYPOTHESIS FIVE IN SERVICE INDUSTRIES**

##### **(BANKS) USING RESEARCHER'S MODEL**

$$\text{The Model: } P_{it} = b_0 + b_1S_{it} + b_2U_{it} + b_3R_{it} + b_4 E/P_{t-1} + e_{it}$$

Ho5: Unclaimed dividends have no relationship to current Stock price in the Nigerian banking industry

**Table 4.15** Regression estimates.

|                | $P_{it}$ | Const  | $S_{it}$ | $U_{it}$ | $R_{it}$ | $E/P_{t-1}$ |
|----------------|----------|--------|----------|----------|----------|-------------|
| Coeff.         |          | 4.058  | 13.205   | 11.862   | 1.732    | 16.386      |
| Std error      | -        | 2.703  | 3.819    | 3.776    | 2.15     | 13.726      |
| R <sup>2</sup> | 0.714    | -      | -        | -        | -        | -           |
| F- ratio       | 11.874   | -      | -        | -        | -        | -           |
|                | (.000)   | -      | -        | -        | -        | -           |
| t- statist     | -        | 1.501  | 3.457    | 3.142    | 0.805    | -1.194      |
|                |          | (.150) | (.003)   | (.005)   | (.430)   | (.247)      |
| DW statist     | 1.718    | -      | -        | -        | -        | -           |
| Coll. VIF      | -        | -      | 1.619    | 2.626    | 0.381    | 1.005       |
| N              | 24       | 24     | 24       | 24       | 24       | 24          |

**Source:** *Researcher's Regression results. Figures in parenthesis represent significant level*

From table 4.15, there is a linear relationship between unclaimed dividends and current stock price in the banking industry. The relationship is confirmed from the regression coefficients (11.862).

The F-ratio (11.874) is significant, confirming the positive sloping relationship between unclaimed dividends and stock price. The t-statistics (3.142) is significant, showing how strong the unclaimed dividends combine with paid dividends to influence stock price.

In fact, about 71% of the variation in stock price in the banking industry is caused by paid dividends, unclaimed

dividends, retained earnings and firm effects. The balance of 29% is caused by other factors.

To ensure that serial correlation between the residuals do not impair the analysis, a DW statistics of 1.718 was obtained. This shows that there is no- auto correlation. The non-collinearity is determined by obtaining a co-linearity variance inflation factor of 2.262. This proves non-collinearity.

Based on the above, the null hypothesis is rejected and the study concludes that unclaimed dividend is positively related to current Stock price in the Nigerian Banking industry. The ratio of the multiplier impact of paid dividend and unclaimed dividends on current stock price in banking industry is almost 1:1. The regression coefficient is fitted thus:

The Model:  $P_{it} = 4.058 + 13.205 S_{it} + 11.862 U_{it} + 1.732 R_{it} - 16.386 E/P_{t-1}$

#### **4.3.5 TEST FOR HYPOTHESIS FIVE ON EXTRACTIVE INDUSTRY (DOWN STREAM PETROLEUM) USING RESEARCHER'S MODEL**

The Model:  $P_{it} = b_0 + b_1 S_{it} + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$

H<sub>05</sub>: Unclaimed Dividends have no relationship to current stock price in the petroleum marketing industry.

**Table 4.16** Regression estimates.

|                | P <sub>it</sub> | Const            | S <sub>it</sub> | U <sub>it</sub> | R <sub>it</sub>  | E/P <sub>t-1</sub> |
|----------------|-----------------|------------------|-----------------|-----------------|------------------|--------------------|
| Coeff.         | 6.924           | -2.285           | 7.772           | 139.985         | -2.714           | 46.273             |
| Std error      | -               | 16.701           | 1.607           | 56.746          | 3.149            | 50.495             |
| R <sup>2</sup> | 0.847           | -                | -               | -               | -                | -                  |
| F- ratio       | 6.924<br>(.029) | -                | -               | -               | -                | -                  |
| t- statist     | -               | -0.137<br>(.897) | 4.835<br>(.005) | 2.467<br>(.057) | -0.862<br>(.428) | 0.916<br>(.402)    |
| DW statis      | 1.894           | -                | -               | -               | -                | -                  |
| Coll. VIF      | -               | -                | 1.075           | 1.159           | 1.142            | 1.181              |
| N              | 10              | 10               | 10              | 10              | 10               | 10                 |

**Source:** *Researcher's regression results.*

From table 4.16, there is a linear relationship between unclaimed dividends and current Stock price in the petroleum marketing industry. The relationship is in fact positive given the regression coefficient of 139.985. There is a gentle positively sloping relationship from the F- ratio (6.924). The t-statistics (2.469) shows weak effect of unclaimed dividends on current Stock price in the petroleum marketing sector. About 85% of variations are caused by independent variables.

To ensure that there is no serial correlation between the residuals, a DW statistics was obtained (1.894). This shows no serial correlation. The collinearity correlation is tested by

obtaining a collinearity VIF which is above zero. These shows no inter correlation. The study accepts the null hypothesis and concludes that unclaimed dividends are not related to current Stock price in the petroleum marketing industry in Nigeria. This is as a result of negligible value of unclaimed dividends per share compared to the market value per share in the sector.

The review of literature reveals, that the relative upsurge in unclaimed dividends within the period under study is attributed principally to: (i) difficulties in tracing Shareholders who are entitled to these dividends. (ii) inability of directors to pay due to cash flow problems and (iii) manipulation by registrars to benefit from the funds before payment. (iv) increasing distress and lack of transparency in banking industry as a result, some banks that acted as Registrars went underground with billions of investors' dividend funds.

In terms of volume, the upsurge in unclaimed dividends is due principally to (i) increasing volume of capitalization of the capital market; as a result of privatization activities of government, increasing awareness of investing public and increasing confidence in the Nigerian economy by foreign

investors. (ii) de-regulation of dividend policy in 1996, where 100% of after tax profit can be paid out as dividend.

Overall, from the findings and evidence collected from the review of literature, it can be affirmed that the problem of unclaimed dividends in Nigeria is real. Records available at the Securities and Exchange Commission (SEC) from 38 Registrars of Companies with high prevalence of unclaimed dividends 1999 - 2003 reveal that 4.74% of declared dividends in 1999, 5.44% in 2000, 11.79% in 2001, 12.67% in 2002 and 24.63% in 2003 remained unclaimed as at the time of this study (APPENDIX IV).

That in developed capital markets, certain threshold values are fixed above which, companies and Registrars are compelled to report on unclaimed dividends annually.

From discussions and oral interviews, many stakeholders have argued that the limitation period of 12 years imposed by CAMA(1990), should be removed to allow a child whose parents had bought shares in his/her name to become of age (18 years) in order to collect the dividends.

#### **4.4 THE SUMMARY OF RESEARCH FINDINGS**

The research findings are based on the five hypotheses, descriptive analysis of primary data and review of literature as below:

- 4.3.1 The analysis rejects the null hypothesis in all cases and concludes that there is a positive relationship between declared cash dividends and current stock price. This is consistent with the earlier works of Lintner (1962), Friend and Puckett (1964) and Mainoma (2001). The multiplier contribution of declared cash dividends to retained earnings in Nigeria is as high as 12:1.
- 4.3.2 The analysis accepts the null hypothesis and concludes that retained earnings are negatively related to current stock price. This is consistent with Lintner (1962).
- 4.3.3 The study rejects null hypothesis and accepts that Firm effect (size and risk) is negatively related to current stock price in Nigeria.
- 4.3.4 The study rejects the null hypothesis and concludes that there is a positive relationship between paid cash dividend and current stock price.
- 4.3.5 The study rejects the null hypothesis and concludes that there is a positive relationship between unclaimed dividend and current stock price.

- 4.3.6 That the majority of Nigerians agree that dividend declaration by Nigerian firms is sometimes a manipulation by directors to shore up share price.
- 4.3.7 That most of the investors do not receive the declared dividends and that difficulty in tracing the Shareholders is the main reason for not receiving such dividends. This is consistent with Unegbu, (2002).
- 4.3.8 Most of the unclaimed dividends belong to minority shareholders.
- 4.3.9 The major determinant of dividend payout in Nigeria is directors' desire to communicate positive private information about future prospects of the company.
- 4.3.10 The unclaimed dividends could affect Nigeria's drive towards attracting foreign portfolio investment.
- 4.3.11 That in developed capital markets, certain threshold values are fixed above which, companies and Registrars are compelled to report on unclaimed dividends annually.



## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **5.1 SUMMARY:**

The need to investigate the impact of dividend payout and unclaimed dividends on stock price was borne out of the desire to bring succour to some investors who find it difficult to access their annual income from declared cash dividends by Nigerian firms.

This was by determining whether the information available to the Nigerian capital market about declared dividends by a firm had any impact on its current stock price; finding out if retained earnings; paid dividends; and unclaimed dividends had any impact on current stock price at national and sectoral levels. The study was also designed to identify the variables that were responsible for high incidence of unclaimed dividends in Nigeria; and whether dividend declaration by Nigerian firms was real or manipulations by majority shareholder-directors to satisfy

certain objectives. This was achieved by testing five hypotheses and other findings from the analysis of primary data.

From the outcome of the study, capital market regulatory authorities would be able to know the causes of the problems relating to unclaimed dividends and address them by instilling transparency in the operators.

It seems there is a consensus among researchers concerning the relevance of dividend information to the value of the firm. This is because subsequent research has focused on explaining the dividend increase- induced positive stock market response.

The most frequently cited hypotheses for the observed relationship between a dividend announcement and subsequent stock price response are: (i) The Cash Flow Signaling (CFS) hypothesis. (ii) The Free Cash Flow (FCF) hypothesis. (iii) The Dividend Clientele (DC) hypothesis explained earlier.

Based on the above, the researcher's theoretical framework favors the relevance of dividend policy to the value of the firm and has developed a theoretical model based on Friend and Puckett (1964).

The theoretical model as stated in chapter two is:

$$P_{it} = b_0 + b_1 S_{it} + b_2 U_{it} + b_3 R_{it} + b_4 E/P_{t-1} + e_{it}$$

The coefficients  $b_0$ ,  $b_1$ ,  $b_2$ ,  $b_3$  and  $b_4$  are estimated by Multiple regression using statistical package for social Sciences (SPSS).

In this research, the methodology adopted was survey research. It involved the gathering of both secondary and primary data. The secondary data from 55 sampled companies were used in testing the five hypotheses while the primary data was used to answer the research questions and provide insight into other findings. 400 copies of structured questionnaires were distributed to capital market participants viz: corporate executives, regulatory authorities, shareholders/investing public, capital market operators and members of the academia. The data were analyzed using multiple regression technique.

## **5.2 CONCLUSIONS**

The impact of dividend payout and unclaimed dividends on stock price was undertaken with the desire to proffer solutions to the problems militating against the smooth operation of the Nigerian capital market in terms of dividend administration.

The study concludes that:

- 5.2.1 declared cash dividends by Nigerian firms are positively related to current stock price. This means current stock prices respond favourably to dividends declarations by Nigerian firms.
- 5.2.2 retained earnings of Nigerian firms are negatively related to current stock price.
- 5.2.3 there is a negative relationship between firm effect and current stock price in Nigeria.
- 5.2.4 there is a positive relationship between paid cash dividend and current stock price in Nigeria.
- 5.2.5 there is a positive relationship between unclaimed dividends and current stock price. The study finds that the multiplier contribution of paid dividends and unclaimed dividends to current stock price in Nigeria is almost 1:1. This means the unclaimed dividends augment the stock price rise.

Manufacturing industry shows a positive relationship between unclaimed dividends and current stock price. The multiplier impact of paid dividends to unclaimed dividends on current stock price in the industry is in the ratio of almost 2:1.

In the Banking industry, the study concludes that unclaimed dividend is positively related to current Stock price. The ratio of the multiplier impact of paid dividend and unclaimed dividends on current stock price in the industry is almost 1:1.

In the downstream of the petroleum industry, the study concludes that unclaimed dividends are not related to current stock price in the industry in Nigeria. This is as a result of negligible value of unclaimed dividends per share in the industry compared to the market value per share.

5.2.6 dividend declaration by Nigerian companies is real but sometimes there is evidence of manipulation of the majority shareholder-directors to shore up the share price of their companies.

5.2.7 not all of the declared dividends are received by the shareholders and difficulties in tracing shareholders are the main reasons for not receiving the dividends.

5.2.8 most of the unclaimed dividends belong to minority shareholders

5.2.9 the major determinant of dividend payout in Nigeria is directors' desire to communicate positive private information about future prospects of the company.

5.2.10 the unclaimed dividends could affect Nigeria's drive towards attracting foreign portfolio investments.

### **5.3 RECOMMENDATIONS**

The problem of unclaimed dividends in Nigeria is hinged on the problem of dividend administration, lack of enforcement of existing provisions of CAMA and non provision for certain behaviours in the Act.

The following recommendations are made for consideration by regulatory authorities:

To resolve the problem of preventable unclaimed dividends:

5.3.1 CAMA (1990) and Investment and Securities Act (1999) should be amended to make it mandatory that above a certain threshold value, all companies must include amount, names and addresses of all persons entitled to unclaimed dividends of previous years in notes to the accounts. This is to enable shareholders and investing

public have access to information and the extent of the problem of unclaimed dividends in such a company.

5.3.2 The Investment and Securities Act (1999), Should be amended to compel every company to send the name, amount and address of every person entitled to unclaimed dividends of previous years irrespective of the amount, three weeks before the Annual General Meeting (AGM), to the Securities and Exchange Commission (SEC) as part of invitation to attend such meetings. This is to assist SEC maintain a database for unclaimed dividends in Nigeria. It is also to re-enforce S.382 (1) of CAMA (1990).

5.3.3 CAMA S.382 (4) Investment and Securities Act (1999) should be amended in such a way that the date of payment of dividends should be a maximum of 30 days from the date of declaration. This is to ensure that the dividends are paid within the time its impact on stock price is felt most. It is also to discourage declaration of 'paper dividends' (i.e. without cash backing), which some companies sometimes do. This would further re-enforce S.381 and 382(4) of CAMA (1990).

5.3.4 The CAMA (1990) and Investment and Securities Act(1999) should be amended in such a way that dividends shall be deemed unclaimed after seven (7) months of declaration i.e One month's allowance from the date of payment and 6 months' allowance for the expiration of dividend warrant. This is also to re-enforce S.382 (4) of CAMA (1990).

5.3.5 The Nigerian Accounting Standards Board should issue a standard on dividends including unclaimed dividends for which non- compliance should attract punitive action as required by the standard. This is to assist regulatory authorities and preparers of accounting statements have a reference point when carrying out their mandate.

5.3.6 SEC should create a special division known as Unclaimed Dividends Division to be responsible for unclaimed dividend administration. This is for ease of administration.

5.3.7 There should be a threshold value above which unclaimed dividends must be reported to SEC. This should be from ₦1000.00 for individual or institutional shareholders.

5.3.8 To resolve the problem of inevitable unclaimed dividends, the Federal Government should set up an Abandoned



Financial Assets Trust Fund as it is done elsewhere. By so doing, all dividends unclaimed (i.e after seven months of declaration) will be lodged for the owner and any unclaimed money from the Fund after 12 years should be used to re-purchase shares in such existing companies or others where they do not exist and donated to approve Educational Trust Funds. The argument here is that 12 years is a long time for a shareholder to trace his/her dividends or a child of primary school age (6years) whose parents bought shares in his/her name to be of age (18years). A child below primary school age requires a trust deed in his/her name to purchase shares. This means the administrator of the trust should be collecting the dividends before the child becomes of age and then the shares transferred.

5.3.9 Investors and stockbrokers should always adjust for impact of unclaimed dividends when evaluating stock prices from firms/countries where unclaimed dividends are prevalent. This is because our research reveals that 50 %(1:1) of impact of declared dividends on stock price in banking industry and 33.3% (2:1) in manufacturing industry and

50%(1:1) in Nigeria as a whole are as a result of in-built slack of unclaimed dividends.

#### **5.4. RECOMMENDATIONS FOR FURTHER RESEARCH**

Given the limitations of this study as stated in chapter one, further research would be useful in the following related areas in order to establish:

- The relationship between ownership structure and unclaimed dividends in Nigeria.
- The range at which unclaimed dividends will start making impact positively or negatively on share price.
- The relationship between Stock dividend (Bonus issue) and liquidity position of firms, which declared both cash, and Stock Dividends.
- The volume of unclaimed common stock certificates in Nigerian capital market.



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## APPENDIX I: FRIEND AND PUCKETT MODEL

The statistical model commonly employed is thus:

$$P_{it} = a + bD_{it} + cR_{it} + e_{it}$$

Where  $P_{it}$  = per-share price at time t.

$D_{it}$  = dividends at time t.

$R_{it}$  = Retained earnings at time t

$e_{it}$  = Random variable

$i$  = Denotes the  $i^{\text{th}}$  company a sample of  $n$  companies-selected from a particular industry

The omitted Variable in friend and Puckett model is firm effect (i.e. firm size, risk and past trends) which is represented by a lagged proxy known as earnings/price ratio  $E/P_{(t-1)}$

$$P_{it} = a_i + bD_{it} + cR_{it} + dE/p_{(t-1)} + e_{it}.$$

Friend and Puckett conclude that the purported higher multiplier contribution of dividends to stock price as against that of retained earnings is due to omission of firm effects of size, risk and past trends.

They also identified some bias in the application of the above model, which might have created these biases. These include:



1. Omitted variables: - That the above equation assume among others that either
  - i. risk is held constant by restricting the sample to a particular industry or else that dividend payout is uncorrelated with risk
  - ii. that expectations of growth are determined solely by the relative amount of current earnings retention or alternatively that growth from other sources is uncorrelated with relative amount of retention. That the above-omitted variables are capable of biasing up the dividend coefficient.
2. Regression weights: - That the association between regression weights and investment quality may exaggerate whatever regression bias which exists due to an association between investment quality and dividend payout. This problem is reduced when regression variables are converted to logarithms.
3. Random variations in income: - This happens to companies with above-normal earnings at a point in time, which is characterized by both low-price-earnings and dividend payout ratios. Companies reported below normal earnings

will be characterized by both high price earnings and high payout ratios.

4. Income measurement error: - Generally retained earnings are measured imprecisely and since they are of the order of one-third total earnings, measurement error will affect them more.
5. Least squares Bias: - in these markets, relationships are reflected in cross-sectional data, the standard regression equation will yield results biased in favour of dividend payout because it assumes one way causality between dividends and prices. Resolution of this problem of dual causality required the use of a complete model employing both demand and supply schedules for dividends.

Friend and Puckett (1964), conducted their study using two years (1956 and 1958), using 5 companies one in each industry and taking corrective measures to address the biases and concluded that there is little basis for the customary view that in the stock market generally, except for unusual growth stocks, a valuation may be placed on dividends then on retained earnings within the range of payout experienced, but that the opposite may be true in growth industries.

## APPENDIX IV

### SUMMARY OF FIVE YEAR SCHEDULE OF UNCLAIMED DIVIDENDS

#### IN NIGERIA.

| Year | Dividend<br>Declared (N) M | Dividend Paid<br>(N) M | Dividend<br>Unpaid (N) M |
|------|----------------------------|------------------------|--------------------------|
| 1999 | 10,676.28                  | 10,062 (94.3%)         | 613.72 (5.7%)            |
| 2000 | 16,040.44                  | 15,167.88<br>(94.6%)   | 872.56 (5.4%)            |
| 2001 | 20,492.81                  | 18,077.51<br>(88.2%)   | 2,415.3 (11.8%)          |
| 2002 | 25,797.04                  | 22,527.77<br>(87.3%)   | 3,269.2 (12.7%)          |
| 2003 | 32,208.70                  | 24,274.20<br>(75.4%)   | 7,934.5 (24.6%)          |

**Source:** Securities and Exchange Commission