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# EFFECT OF DIVIDEND POLICY ON FIRM VALUE: EVIDENCE FROM LISTED MANUNFACTURING COMPANIES IN NIGERIA

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## ABSTRACT

*This study investigated the effects of dividend policy on the firm value of listed manufacturing companies in Nigeria. The population of the study consisted of 43 manufacturing companies listed on the Nigerian Exchange Group, and a sample of 20 companies was selected using judgmental sampling. The study covered a period of 15 years from 2009 to 2023 and employed the panel generalized method of moments regression to analyze the data. Tobin's Q was used as a proxy for firm value, while dividend payout ratio, dividend yield, dividend per share, and earnings retention ratio were used as proxies for dividend policy. Firm size and liquidity were controlled for in the models. The results showed that dividend payout ratio and earnings retention ratio had a positive and significant effect on Tobin's Q, while dividend yield had a negative and significant effect, and dividend per share had a positive but insignificant effect. Firm size and liquidity had significant and negative effects on firm value. Based on these findings, the study recommended that financial managers in Nigerian manufacturing firms should implement a balanced dividend payout policy, evaluate their dividend yield strategy to avoid compromising growth, identify an optimal dividend policy that aligns with investor preferences, and develop a flexible retention ratio that caters to changing investor demands. By adopting these strategies, managers could enhance firm value, satisfy investor expectations, and promote long-term sustainability. This study provided new evidence on the impact of dividend policy on firm value in the Nigerian manufacturing sector, offering valuable insights for managers, investors, and policymakers.*

***Key words:*** *Dividend, Firm Size, Firm value, Liquidity.*

## INTRODUCTION

Within the field of corporate finance, the impact of dividend policy on a firm's value remains a contentious issue, sparking heated debate among researchers and practitioners. It is believed that the dividend policy, which includes choices of the amount, timing, and form of dividend payments, has a big influence on a company's share price, investor's perception and value. Dividend policy is an integral aspect of corporate finance strategy since it affects a company's relationship with its shareholders and overall firm perception. One of the key areas of

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decision-making for the Board is to decide on dividends that might have an impact on shareholders' wealth (Hansda, Sinha & Bandopadhyay 2020). A dividend policy can be seen as a company's approach of returning profits to its shareholders. A dividend policy is a set of rules, principles and guidelines that a firm follows to determine how much of its earnings should be distributed in the form of dividends to shareholders. Ayunku and Apiri (2020) defined dividend policy as a practice adopted by managers in making dividend payout decisions. It entails detailing the amount of cash to be distributed to shareholders and what is to be retained by the firm.

Determination of an appropriate dividend policy is an important decision for the company, because the flexibility to invest in future projects depends on the amount of dividends the company pays to investors (Usman, Lestari & Sofyan 2020). The primary objective of a company is to maximize its firm value in order to maximize wealth for shareholders. Maximizing the value of the company is a goal for the business and an indication of satisfaction for shareholders since increase in corporate value increases shareholder wealth. This implies that the wealth of the company's shareholders directly relates to the firm's value. Maximizing the firm's value is very important for business continuity because this will be the perception of the success rate of the company for investors, which is often associated with the stock price (Bataha, Ilat & Kalalo 2023). According to Risman (2021), company value is the present value of future cash flows, and future cash flows are influenced by risk factors that can cause possible deviations. Firm value generally, is the worth of the company either in shares or its assets (Daniya, Lawal, Shuaibu & Ibrahim 2024). This implies that the higher the share price and asset worth of the company, the higher the value, and vice versa. A higher share price indicates that the welfare of the company owner is increasing (Pertiwi & Hermanto, 2017).

Firm value is critical for investors because it is a barometer of how investors view the company (Wijaya, Andy, Febrianty & Morgan). It is an investor's assessment of a company's confidence level. To gain investors' trust, companies must maximize their value. Sondakh, (2019) described firm value as an assessment given by investors with regards to the performance of a company and its share prices; it is the firm value of the of outstanding equity and debt securities owned by the company. Furthermore, the share price indicates the company's value and the company's value rises in tandem with its share price (Husna and Satria, 2019). A company's ability to maximize the wealth of its shareholders can be reflected in its firm value. Firm value is regarded as a fundamental and crucial factor because

it represents the wealth of the company's owner. As a result, management takes the responsibility of maximizing the firm's value. A crucial aspect that needs to be taken into consideration is the company's value because it is a measure of investors in assessing whether the company is successful in achieving its business goals (Aksan & Gantyowati, 2020). In addition, a company's prospects may be reflected in its high value (Suryandani, 2018). Companies that have high share prices can increase the firm value since maximizing the affluence of the company and prospering the stockholders is reflected in the high share prices. The value of the firm is also the firm value of equity securities and debt outstanding owned by the company (Jihadi, Vilantika, Hashemi, Arifin, Bachtiar, & Sholichah, 2021).

The puzzle surrounding whether investors consider dividend yield, previous dividend per share, trend of dividend payout, and percentage of retention when investing in a company remains a topic of debate. The contention remains whether paying dividend out of earnings creates value for shareholders or not, given that dividend payments offer cash flow to shareholders while reducing the firm's resources for investment; This question remains unanswered, continuing to be a subject of debate in finance literature. The divergent objectives of shareholders over dividend policy and investment policy cannot be overemphasized (Turakpe, 2020), a rational shareholder will continually demand bigger dividends, irrespective of the firm's investment decisions. Finance managers are faced with a dilemma on how to balance the two decisions (dividend and investment) because both are critical to a company's value, as seen by the growth of shareholder's value (Santoso 2019). Akinlo and Olayiwola (2021) noted that consistent and substantial dividend payout ratio reflects strong financial position, but high dividend payment can hinder new investment decisions, particularly in manufacturing companies with capital-intensive investments The bird-in-the-hand hypothesis suggests that a company's value is maximized by having a high dividend payout ratio, as investors perceive payouts to be less risky than capital gains (Monoarfa, 2018). Das-Mohapatra and Panda, (2022) opined that there is no definitive answer to the perennial question "Whether dividend creates or destroys firm value."

The dividend policy-firm value nexus remains an enduring puzzle in corporate finance, with extant research yielding inconclusive and contradictory findings. This lack of consensus creates significant challenges for corporate managers seeking to optimize shareholder value, as it leaves them without clear guidance on the optimal dividend payout strategy. Specifically, the changing investor preferences, shifting firm conditions, and increasing complexity have introduced new variables affecting the dividend policy-firm value relationship. Existing

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literature overlooks non-linear effects and inter-temporal dynamics. Consequently, there's a pressing need for a comprehensive examination. This research addresses the gap by investigating the interplay between dividend policy, firm value, and firm size and liquidity in Nigerian manufacturing companies, providing valuable insights for managers and investors to better understand complex dynamics and inform dividend policy design.

**Objectives**

The main objective of this study is to analyze the effect of dividend policies on the firm value of listed manufacturing companies in Nigeria. The specific objectives of the study include:

1. to evaluate the effect of dividend payout ratio on firm value of listed manufacturing companies in Nigeria.
2. to assess the effect of dividend yield on the firm value of listed manufacturing companies in Nigeria.
3. to examine the effect of the dividend per share on the firm value of listed manufacturing companies in Nigeria.
4. to appraise the effect of earning retention ratio on the firm value of listed manufacturing companies in Nigeria.

## LITERATURE REVIEW

### The Concept of Dividend

A dividend is generally the portion of a company's profit that is distributed to its shareholders. From the simple to complicated definitions presented by different authors, the dividend has remained one notion with a unifying meaning. Sinha, Hansda and Bandopadhyay (2021) defined dividends as "a return on investment to shareholders, usually in the form of cash or additional shares." Similarly, Abu Khalaf, Awad and Sarfraz (2023) describe dividends as "a distribution of a company's earnings to its shareholders, usually in the form of cash or stock". These definitions indicate that dividends are part of the firm's profit. It is shared among the shareholders of a firm. The concept of dividend payout comes from the early development of joint-stock companies, where the primary means of providing returns to shareholders is dividend (Bibi, Butt, and Awais, 2024). The practice of paying dividends gained popularity in the 18th and 19th centuries, as companies began to recognize the importance of rewarding their shareholders (Abu Khalaf et al., 2023). Over time, the term has evolved to encompass various types of distributions, including cash dividends, stock dividends, and property dividends.

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**Dividend Policy**

A policy is a statement of intent or a guiding principle that influences decision-making within an organization, (Hill, Jones & Schilling, 2023). The ultimate goal of the firm is to increase shareholders' wealth. Shareholders' wealth in turn can be evaluated by share price increases and high dividend payouts (Emeh, Nwosu, Okonkwo, Idika, & Ikechukwu, 2024). Therefore, an effective dividend policy is extremely important for a company in its quest to maximize the wealth of its shareholders (Eryomin, Likhacheva, & Chernikova 2021). Brealey, Myers and Allen (2022) posited that dividend policies are the set of guidelines or rules that a company uses to decide how much of its profits to distribute to shareholders in the form of dividends, dividend policy is the payout policy that management employ when determining the size and pattern of cash distribution to shareholders over time. Dividend policy is the internal yardstick a company uses to decide how much of the company income it will distribute to the shareholders (Das Mohapatra & Panda, 2022). The scope of dividend policy has expanded significantly, now encompassing a wide range of considerations. These include deciding whether to distribute earnings as cash dividends or retain them, as well as determining the frequency of dividend payments, such as annually, semi-annually, or quarterly (Brealey, Myers, & Allen, 2020).

**Types of Dividend Policies**

**a. Constant Dividend Policy**

A constant dividend payout ratio policy is a dividend policy in which the percentage of earnings paid in the form of dividends is held constant. In other words, a constant dividend payout ratio policy maintains the same proportion of earnings paid out as dividends to shareholders (Chartered Finance Institute 2024).

**b. Stable Dividend policy**

A stable dividend policy involves paying out a fixed amount of dividends per share each period, regardless of changes in earnings. The objective of a stable dividend policy is to maintain the continuity of payments. This approach provides shareholders with a predictable and stable dividend income stream. A company with a stable dividend policy pays out a steady dividend every given period, regardless of the volatility in the firm.

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**c. Progressive Dividend Policy**

A progressive dividend policy involves a company's commitment to incrementally raise dividend payouts to shareholders over time, demonstrating financial stability and fostering long-term investor confidence through predictable and growing returns (Kanakriyah, 2020). This approach contrasts with stable, constant or residual dividend policies, offering shareholders predictable and steadily growing returns while aligning with long-term shareholder expectations (Madireddi, 2022). Kanakriyah (2020) posited that progressive dividend policy represents the process of distributing dividends in line with the realized profits and increasing the earnings per share. The core principle is a steady upward trajectory of dividend payments.

**d. Residual Dividend Policy**

The residual dividend policy prioritizes funding internal projects over dividend payouts; optimizing capital allocation to maximize long-term shareholder value by strategically allocating resources to high-return investments (Mehta, 2023). Unlike fixed dividend policies, which commit to a predetermined distribution to shareholders, the residual dividend policy enables a company to prioritize its growth and expansion investments before contemplating dividend disbursements (Thakur 2024). Companies that pay residual dividends use cash flow to cover expenses first, and then pay dividends to shareholders from the amount that's left over (Lake 2022).

**Dividend Payout Ratio**

The dividend payout ratio is a financial metric that shows the proportion of a company's earnings distributed to its shareholders in the form of dividends (Oniyide and Mojekwu 2023). Dividend payout ratio reflects the company progress as dividend itself reveals its strength and long-term business direction of the company (Mosiria, 2022). The payout ratio is a valuable metric for evaluating a company's dividend sustainability. Companies are often reluctant to cut dividends, as this can negatively impact their stock price and damage management's reputation. Investors tend to view dividend cuts as a sign of financial distress or declining prospects. As a result, companies may feel pressure to maintain dividend payments even during periods of financial stress.

*$H_{O1}$:There is no significant relationship between dividend payout ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.*

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**Dividend Yield**

Dividend yield is the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the firm value per share. It is computed by dividing the dividend per share by the firm price per share and express in percentage (Economic Times, 2024.). The dividend yield serves as a critical indicator for investors seeking income-generating investments. Dividend yield provides insight on the return on investment for shareholders by measuring the cash dividends paid per share relative to the firm value per share, (Kemboi et al., 2023). Understanding how dividend yields functions provides an opportunity for investors to gauge the profitability of their investments beyond mere capital appreciation; dividend yield tells an investor the amount of cash flow he is getting back for each naira he invested in an equity position. The dividend yield is essentially the return on investment for a stock without any capital gains (Cooper, 2024).

*$H_{O2}$: There is no significant relationship between dividend yield and the Tobin Q ratio of listed manufacturing companies in Nigeria.*

**Dividend per Share**

Dividend per share (DPS) is a crucial metric in corporate finance; Dividend per Share represents the amount of money a company pays out to its shareholders for each share they own (5paisa Research Team, 2024). Dividend per Share (DPS) represents the total dividends attributed to each outstanding share of a company, providing a measure of the income generated by each individual share. DPS has long been a cornerstone of value investing, offering a tangible measure of a company's financial health and commitment to shareholders (Chen, 2024). Calculating the dividend per share allows an investor to determine how much income from the company he or she will receive on a per-share basis (Corporate Finance Institute, 2024.).

*$H_{O3}$: There is no significant relationship between dividend per share and the Tobin Q ratio of listed manufacturing companies in Nigeria.*

**Earning Retention Ratio**

The earning retention ratio is a crucial metric that indicates the percentage of a company's earnings retained within the business rather than being distributed as dividends (Tran, 2024). The retention ratio, also known as the plowback ratio, is a financial term that refers to how much of a company's earnings are kept back and reinvested in the business rather than distributed to shareholders as dividends. Earning retention ratio reflects the amount of

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earnings the firm chose to maintain supporting operations and the portion of profits that is paid to shareholders (Onyeka, 2022).

*$H_{O4}$: There is no significant relationship between earning retention ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.*

**Firm Size**

The concept of firm size is multifaceted, covering various dimensions such as total assets, sales volume, and average total assets. Reschiwati, Syahdina, and Handaya (2020) asserted that firm size is a total reflection of the assets owned by a company. A company's total assets can include tangible assets such as property, plant, and equipment, as well as intangible assets like intellectual property and brand recognition. The total asset base of a company serves as a fundamental indicator of its size and financial stability. Firm Size depicts how large the total assets owned by a company, the greater the company's assets, the greater the size of the company (Azaro, Djajanto, & Sari 2020). According to theoretical perspective, small firms focus more on growth and this factor causes them to pay fewer dividends and retains their earnings for future expansion of business. Conversely, large firms are more stable and give dividend to the investor to gain trust of them (Hashmi, Gulzar, Ghafoor, & Naz, 2020).

**Liquidity**

Liquidity is a measure of a company's ability to pay off its short-term liabilities (Beaver, 2020). A company's liquidity is its capacity to meet its financial obligations that must be met immediately, A company's liquidity is determined by its cash position, liquid assets, financial performance, short-term liabilities, and capacity to secure additional funding (Zuhroh 2019). Akolor and Gujral, (2024) asserted that a firm liquidity is the cash and cash equivalent available to the firm. A company's liquidity plays a crucial role in determining its dividend payments. Strong liquidity, indicated by sufficient cash reserves, enables companies to pay larger dividends. However, companies may choose alternative dividend forms, such as stock dividends, to reward shareholders instead of cash distributions, providing flexibility in their dividend payout strategies. A company may generate high profits, but lack sufficient cash and cash equivalents to distribute dividends to its shareholders (Martami Sari & Sedana, 2020). A company with strong liquidity is better positioned to maintain a consistent dividend payout, as it can reliably meet its financial obligations (Oniyide & Mojekwu, 2023)

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**Firm Value**

The concept of firm value is of paramount importance to a firm as it tells a lot about the prosperity of a company (Omidiiji, Adedgbie, & Ajayi-Owoeye, 2020). Firm value, also known as enterprise value, encompasses a company's overall worth, including its operations, assets, and cash flows, providing a comprehensive perspective from the viewpoint of investors or potential acquirers, and serving as a key metric in mergers, acquisitions, and investment decisions regarding the company's total value. It's a comprehensive measure of a company's worth and takes into account not only its equity value (market capitalization) but also its debt, cash, and other financial obligations. Firm value is an important concept for investors; because it is considered an indicator for the firm to assess the company as a whole (Permata & Alkaf, 2020). Reschiwati, Syahdina, and Handaya (2020) defined the value of the company as investors' perceptions of the level of success of a company which is reflected in the company's stock price. (Agarwal, 2023) argued Firm value is essential for determining the price an investor would pay to acquire the entire business, as it reflects both equity and debt holders' interests.

**Theoretical Review**

**Dividend Irrelevance Theory**

Nobel laureates Merton Miller and Franco Modigliani (1958 Nobel Prize winners in Economics) introduced the dividend irrelevance theory in their seminal 1961 paper, "Dividend Policy, Growth, and the Valuation of Shares. This groundbreaking work sparked a longstanding debate on the influence of dividend payments and broader dividend policies on the valuation of publicly traded companies, specifically the impact on their stock prices (Kowerski & Haniewska, 2022). According to the seminal work of Merton Miller and Franco Modigliani, dividend payments do not affect a company's value, rendering them irrelevant from a valuation perspective (Ebrahim, 2017). Instead, they argue that investments are the primary driver of a company's value appreciation. It suggests that dividend policies do not have any influence on the value of the organization. Ang and Ciccone, (2011), opined that MM (1958) relied on arbitrage arguments and assumes a perfect capital market, which includes zero taxes, one firm-wide constant interest rate, and unlimited borrowing. Their use of arbitrage arguments for prices would later prove to be as important to financial theory as their irrelevancy result.

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According to the Miller-Modigliani (MM) theory, shareholders can benefit from a company's profits in two primary ways: through dividend payments and capital gains. When a firm distributes its profits as dividends to shareholders, the stock price automatically decreases by the dividend amount per share on the ex-dividend date (Lashgari & Ahmadi, 2014).

**Bird in Hand Theory**

The dividend relevance theory was first introduced by Gordon and Lintner (1962). They asserted a positive correlation between firm value and dividend payout, suggesting that dividend payments significantly impact a company's overall value. This theory challenges the dividend irrelevance proposition of Miller and Modigliani (1961) by suggesting that a firm's dividend policy has a significant impact on its stock firm value, even in a perfect capital firm (Lashgari & Ahmadi, 2014). Gordon and Lintner (1962) argued that a higher dividend policy is always preferred by the outside shareholders. They emphasize that most investor believe that current dividend are more certain if compared to the future dividends and capital gains. This theory also claims that dividends are less risky as compared to capital gains. Investors are risk averse and prefer to receive their incomes from dividend in present rather than incomes from future capital gains which have higher risk and uncertainty factors.

Under the bird-in-hand hypothesis, shares with high dividend payouts are subscribed by investors and, invariably, command a higher firm price (Adedokun, Obademi, & Shiro, 2023). According to this theory, shareholders favor higher dividend payouts, leading investors to place greater value on firms with high payout policies, as it signals financial stability and attractiveness. The proponents argue that investors exhibit a preference for current dividend payments, adhering to the "bird-in-the-hand" principle, whereby they prioritize certain and immediate returns (a bird in hand) over potential future capital gains, (two birds in the bush) which are perceived as uncertain and risky.

**Signaling Theory**

The signaling theory is one of the most well-known theory for explaining the rationale behind dividend decisions. According to this theory, companies use dividend payments to communicate with investors about their future prospects and financial health. The signaling theory was first proposed by Michael Spence in 1973, since then Bhattacharya (1979) and Miller and Rock (1985) have updated it. Michael Spence (1973) used the signaling theory to explain how people or businesses interact with one another. The core postulation of signaling

theory is that parties with more information (the insiders) send signals to less informed parties (the outsiders) to convey important information (Tanushev 2020),

Bhattacharaya's (1979) dividend signaling model proposes that in the contexts of asymmetric information, dividends can be an effective signal of a firm's actual value for firm investors. He further suggested that companies are willing to pay dividends despite their higher tax liability relative to capital gain he shows that when higher dividends are paid out the signal is sent to the firm as a result the stock price of the company rises this of sets the tax boarding of the dividend as the share of shoulders in equity remains unchanged. Miller and Rock's (1985) net dividend model defined net dividend as the difference between dividend payments and external funding. They found that dividends and external funding have opposing effects on stock prices. An increase in dividend payments can boost stock prices, while announcing external funding can have a negative effect.

**Empirical Review**

Okoh et al., (2025) in their study, "Dividend policy and value of the firm" examined the impact of dividend policy on value of manufacturing firms in Nigeria. The study used statistical records for 10 years 2014-2023 as secondary data. Panel data with the use of regression analysis was used to estimate the data collected during the period of this study. The variables used include enterprise value, dividend cover, and dividend yield and dividend payout ratio. From the analysis of the study, it is observed that dividend cover had insignificant effect on enterprise value since the p-value of 0.4151 was greater than 0.05, dividend yield had insignificant effect (p-value = 0.2112) on enterprise value and dividend payout had insignificant effect (p-value=0.9412) on enterprise value. Based on the above findings, the study recommended that Companies have to adopt the form of dividend payment that is favourable to the growth of the organization since the form of the dividend payment is directly proportional to the growth of firms in Nigeria.

Amah, Onyeiwu, and Charles, (2025) investigated the effect of dividend policy on market price of ordinary shares of quoted manufacturing companies in Nigeria. The research focused on three specific policy variables namely: dividend payout ratio, dividend yield, and retained earnings. Ex-post facto research design and panel regression analysis were utilized to explore the relationships. Consistent with traditional right views, the study found significant relationship between the dividend variables and market price, indicating that higher payouts positively influence share prices. However, the analysis did not find evidence that retained

earnings have a significant effect on share prices. This is a surprising result. The study recommends that manufacturing companies consider active use of dividend policy variables in maximizing shareholders wealth. Equally, companies should reassess the strategy of using retained earnings to finance operations.

Njoku, and Lee, (2025). investigated the interdependencies between debt capital and dividend policy as complementary factors influencing firm value among corporations listed on the Korea Composite Stock Price Index (KOSPI). Using Tobin's Q as a firm value metric and employing robust econometric techniques (OLS, 2-SLS, and GMM), the analysis reveals that while debt and dividend policies independently reduce firm value, their interaction produces a synergistic effect that increases value. The findings further indicate the dual role of Chaebol ownership structures, which, despite their association with lower firm value, mitigate the negative effects of financial policies. Additionally, firm size is found to negatively impact value, whereas free cash flow has a significant positive effect. By disentangling the complex dynamics of capital structure, dividend strategies, and ownership configurations, this study offers actionable insights for managers, investors, and policymakers. It emphasizes the importance of balanced financial practices and governance reforms tailored to concentrated ownership environments.

Umar, (2023) empirically examine the impact of dividend policy on firms' value with investment opportunity as moderator. The population of the study consists of 102 listed non-financial companies. Based on the criterion set by the researcher, a judgmental technique of sampling was used in selecting 30 non-financial companies from the year 2011 to 2020. Tobin's' Q (TQ) and Firm Price Per share (MPS) are the proxies for firms' value, while Dividend per share (DPS) dividend payout ratio (DPR) and dividend yield (DY) are the proxies for dividend policy. Investment opportunity (IO) was measured as fixed asset growth. This study also used Firms' size (FSIZE), Leverage (LEV) and Industry dummy (IND) as control variables. Descriptive statistics, correlation, and Feasible Generalized Least Squares (FGLS) analysis were used. It was found that DP, DPR, and DY are statistically significant to influence TQ. While MPS was only influenced by DP and DY. It was also found that IO did not moderate the relationship between dividend policy and firm value. It is recommended that the management of corporations should put measures in place that will increase revenue and decrease expenses so that regular dividend payments could be maintained.

Emeh, Nwosu, Okonkwo, Idika, and Ikechukwu, (2024) investigated the Impact of dividend payment on firms' value in Nigeria. The study focused on the linkage between dividend payments on firm value of selected sample firms listed on the Nigeria Stock Exchange from 2016 to 2020. The research relied entirely on secondary data acquired from annual reports of companies listed on the Nigerian Stock Exchange between 2016 and 2020, The study's population comprises all publicly traded manufacturing enterprises on the Nigerian Stock Exchange, However, a sample of 26 publicly traded manufacturing firms that have consistently published their annual reports were chosen. The result showed that dividend payment is positively related to firm value in our sample. The estimated model showed that a percentage increase in dividend payment causes 95 percent rise in firm value. Similarly, the estimated coefficient of profitability shows that firm value rises by 46 percent for a percentage increase in profit and a percentage increase in firm size will lead to about 7 percent increase in firm value. They therefore recommend that firm managers should select profitable projects in order to sustain dividend payment to stockholders. This will in turn engender favorable investor valuation of the firm.

Oji and Nwosi (2021) examined the effect of dividend policy on the Tobin's Q value of on quoted manufacturing firms in Nigeria. Panel data were collected from annual reports of 22 manufacturing firms from 2011- 2020. Tobin's Q value was modeled as a linear function of dividend payout ratio, retention ratio, dividend yield and dividend per share. Ordinary least square method of multiple regressions was used as data analysis method. After cross examination of the models, the fixed and the random effect model was adopted. It was evidenced that retained earnings and dividend payout ratio has positive effect on Tobin's Q value of the quoted manufacturing firms while dividend per share dividend yield has positive effect on Tobin's Q value. From findings, it concludes that dividend policy has significant relationship with Tobin's Q value of the quoted manufacturing firms. It was recommended that dividend payment affect the firm's Tobin's Q value, therefore, managers of listed firms should develop effective dividend payout policies to ensure that their firms pay out dividends to enhance the value of their companies

## MATERIALS AND METHOD

This study adopted both analytical and ex-post facto research designs. The ex-post facto design was employed because the variables used in this study were readily available and could be obtained in the audited financial statements of the sampled manufacturing companies without being manipulated or controlled. One justification for the use of ex-post facto design

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was that the data used in this study were such that the researcher could not change its state or direction, and the variables could not be studied experimentally, but rather the effect of the relationship between the independent variables and the dependent variables. The population of the study comprised all the 43 manufacturing firms listed on the Nigerian Exchange Group as at December 31st, 2024 ("NGX" 2024). The sample of the study consisted of 20 firms selected from the manufacturing firms listed on the Nigerian Exchange Group, representing about 46.51% of the total population of 43 firms. The data for this study were collected through secondary sources, specifically the Nigerian Exchange Group Fact Book and the annual reports/accounts of the firms under study.The study employed a panel data set from the annual reports and financial statements of firms listed on the Nigerian Stock Exchange, covering a time frame of fifteen (15) years from 2009 to 2023 and a cross-section of 20 firms.

This model, is an adaptation of Oji and Nwosi (2021) framework, modified to incorporate liquidity (LIQ) and firm size (FIS) as control variables, and examines the impact of dividend payout ratio, dividend per share, dividend yield, and earnings retention ratio on Tobin's Q. The Tobin Q Model can be specified as follows:

Y = f (X1, X2, X3, X4, X5, X6) ……. Eqn 1.

This are represented as TQ = F (DPR, DIY, DPS, ERR, FIS, LIQ) ……. Eqn 2.

The econometric model is written as:

$TQ = \beta_0 + \beta_1 DPR_{it} + \beta_2 DIY_{it} + \beta_3 DPS_{it} + \beta_4 ERR_{it} + \beta_5 FIS_{it} + \beta_6 LIQit + \varepsilon$..... Eqn 3.

## RESULT AND DISCUSSIONS

### Descriptive statistics

Table 1: Descriptive statistics

| | TQ | DPR | DIY | DPS | ERR | FIS | LIQ |
|---|---|---|---|---|---|---|---|
| Mean | 2.102760 | 35.81793 | 3.739567 | 2.481364 | 63.19269 | 17.25765 | 1.282678 |
| Median | 1.462588 | 33.31868 | 2.935739 | 0.467807 | 66.03878 | 17.62255 | 1.189123 |
| Maximum | 11.75675 | 925.4862 | 28.52475 | 61.82165 | 867.0455 | 21.84510 | 7.736757 |
| Minimum | 0.474732 | -767.0455 | 0.000000 | 0.000000 | -825.4862 | 12.85662 | 0.029124 |
| Std. Dev. | 1.776762 | 88.60077 | 3.837606 | 6.791671 | 89.14585 | 2.147780 | 0.772878 |
| Skewness | 2.263844 | 0.585437 | 2.064564 | 5.376199 | -0.563087 | -0.273628 | 2.442522 |
| Kurtosis | 8.931518 | 58.82558 | 10.99477 | 38.57955 | 57.41071 | 2.315341 | 19.36009 |
| | | | | | | | |
| Jarque-Bera | 696.0358 | 38973.33 | 1012.075 | 17268.98 | 37022.42 | 9.603085 | 3643.951 |
| Probability | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.000000 | 0.008217 | 0.000000 |
| | | | | | | | |
| Sum | 630.8281 | 10745.38 | 1121.870 | 744.4091 | 18957.81 | 5177.296 | 384.8035 |
| Sum Sq. Dev. | 943.9078 | 2347179. | 4403.439 | 13791.91 | 2376148. | 1379.275 | 178.6048 |
| | | | | | | | |
| Observations | 300 | 300 | 300 | 300 | 300 | 300 | 300 |

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Table 1 present descriptive data on the effect of dividend policy on firm value in a Nigerian manufacturing sector. The Nigerian manufacturing firms exhibit diverse characteristics, with average values as follows: Dividend Payout Ratio (DPR) of 35.82% (median 33.32%, skewness 0.59), indicating that most firms distribute around a third of their earnings as dividends, with some firms paying out more than others. Dividend Yield (DIY) averages 3.74% (median 2.94%, skewness 2.06), suggesting that some firms offer higher yields to attract investors. Dividend Per Share (DPS) averages 2.48 (median 0.47, skewness 5.38), showing significant variability in dividend payments. Earnings Retention Ratio (ERR) averages 63.19% (median 66.04%, skewness -0.56), indicating that most firms retain a significant portion of their earnings for growth. Firm Size (FIS) averages 17.26 (median 17.62, skewness -0.27), while Liquidity (LIQ) averages 1.28 (median 1.19, skewness 2.44), highlighting the diversity in firm size and liquidity levels. These statistics provide insights into the dividend policy and firm characteristics of Nigerian manufacturing firms.

Table 2 Correlation Matrix

| | TQ | DPR | DIY | DPS | ERR | FIS | LIQ |
|---|---|---|---|---|---|---|---|
| TQ | 1.000000 | | | | | | |
| DPR | 0.190181 | 1.000000 | | | | | |
| DIY | -0.112880 | 0.140492 | 1.000000 | | | | |
| DPS | 0.489504 | 0.175128 | 0.052144 | 1.000000 | | | |
| ERR | -0.204457 | -0.989974 | -0.137448 | -0.172125 | 1.000000 | | |
| FIS | 0.096933 | 0.081782 | 0.082953 | 0.318731 | -0.083175 | 1.000000 | |
| LIQ | -0.094264 | 0.122434 | 0.260612 | -0.031353 | -0.112048 | -0.003174 | 1.000000 |

The correlation matrix reveals interesting relationships between firm value (TQ) and dividend policy variables. Specifically, Tobin's Q (TQ) has a weak positive correlation with Dividend Payout Ratio (DPR) of 0.190181, suggesting that firms with higher dividend payouts tend to have slightly higher firm values. TQ also has a weak negative correlation with Dividend Yield (DIY) of -0.112880, indicating that firms with higher dividend yields tend to have slightly lower firm values. In contrast, TQ has a strong positive correlation with Dividend Per Share (DPS) of 0.489504, suggesting that firms with higher dividend payments per share tend to have significantly higher firm values. Additionally, TQ has a weak negative correlation with Earnings Retention Ratio (ERR) of -0.204457, indicating that firms that retain more earnings tend to have slightly lower firm values. Firm Size (FIS) has a weak positive correlation with TQ of 0.096933, while Liquidity (LIQ) has a weak negative correlation with TQ of -0.094264. These findings provide insights into the relationships between dividend policy and firm value in Nigerian firms.

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**Test for Heteroskedasticity**

The test of panel heteroskedasticity checks whether the residuals from the regression model have constant variance (homoskedasticity) or varying variance (heteroskedasticity) across cross-sectional units. The null hypothesis is that the residuals are homoskedastic, meaning that the variance is constant.

Table 3 Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey
Null hypothesis: Homoskedasticity

| | | | |
|---|---|---|---|
| F-statistic | 0.135977 | Prob. F(6,293) | 0.9915 |
| Obs*R-squared | 0.833031 | Prob. Chi-Square(6) | 0.9912 |
| Scaled explained SS | 72.16195 | Prob. Chi-Square(6) | 0.0000 |

Source: E-VIEW Version 12.0 Output 2025

The Breusch-Pagan-Godfrey test results for model 1, with an F-statistic of 0.135977 (p-value = 0.9915) and an Obs*R-squared of 0.8333031 (p-value = 0.9912), indicate that we fail to reject the null hypothesis of homoskedasticity, suggesting that the variance of residuals in the regression model is likely constant, and there's no significant evidence of heteroskedasticity. This implies that the regression estimates are reliable, and the model's assumptions regarding constant variance are met.

**Test of Multicollinearity**

Multicollinearity testing is typically conducted on independent variables (predictors or explanatory variables) in a regression model. The goal is to detect high correlations between independent variables, which can lead to unstable estimates and incorrect inferences. The dependent variable (outcome variable) is not included in multicollinearity testing.

Table 5 Result for Variance Inflation Factor (VIF) Test

Variance Inflation Factors
Date: 05/02/25 Time: 09:12
Sample: 2009 2023
Included observations: 300

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|---|---|---|---|
| C | 1.036847 | 136.7874 | NA |
| DPR | 4.90E-05 | 58.84465 | 5.055498 |
| DIY | 0.000565 | 2.136200 | 1.093953 |
| DPS | 0.000189 | 1.298892 | 1.145478 |
| ERR | 4.82E-05 | 75.75888 | 5.036575 |
| FIS | 0.001846 | 73.64540 | 1.119589 |
| LIQ | 0.013887 | 4.104828 | 1.090687 |

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Source: E-VIEW Version 12.0 Output 2025

The VIF test assesses multicollinearity by measuring the degree to which a predictor (independent) variable is explained by other predictors in the model. A high VIF value indicates potential multicollinearity issues. The VIF results reveal that DPR (5.055498) and ERR (5.036578) exhibit moderate to high multicollinearity, which is expected given their inherent inverse relationship, as DPR (Dividend Payout Ratio) and ERR (Earning Retention Ratio) are complementary variables where DPR = 1 - ERR or ERR = 1 - DPR. This strong linear dependence is likely driving the high VIF values. In contrast, DIY (1.093953), DPS (1.145478), FIS (1.119589), and LIQ (1.090687) show low multicollinearity. Given the natural relationship between DPR and ERR, the multicollinearity may not be a significant issue, but it's essential to consider this relationship when interpreting the model's findings.

Table 6: Panel Generalized Method of Moments Results

Dependent Variable: TQ
Method: Panel Generalized Method of Moments
Transformation: First Differences
Date: 05/05/25 Time: 14:12
Sample (adjusted): 2011 2023
Periods included: 13
Cross-sections included: 20
Total panel (balanced) observations: 260
White period (period correlation) instrument weighting matrix
White period (cross-section cluster) standard errors & covariance (d.f. corrected)
Standard error and t-statistic probabilities adjusted for clustering
Instrument specification: @DYN(TQ,-2) DPR(-1) DPS(-1)
Constant added to instrument list

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| TQ(-1) | 0.596328 | 0.016033 | 37.19437 | 0.0000 |
| DPR | 0.004120 | 0.000609 | 6.768743 | 0.0000 |
| DIY | -0.076816 | 0.016514 | -4.651670 | 0.0002 |
| DPS | 0.003832 | 0.008457 | 0.453129 | 0.6556 |
| ERR | 0.003574 | 0.000857 | 4.168445 | 0.0005 |
| FIS | -0.576904 | 0.067505 | -8.546082 | 0.0000 |
| LIQ | -0.492237 | 0.081338 | -6.051730 | 0.0000 |

Effects Specification

Cross-section fixed (first differences)

| | | | |
|---|---|---|---|
| Mean dependent var | -0.086584 | S.D. dependent var | 0.860522 |
| S.E. of regression | 1.057961 | Sum squared resid | 283.1781 |
| J-statistic | 13.24348 | Instrument rank | 20 |
| Prob(J-statistic) | 0.429185 | | |

Source: E-VIEW Version 12.0 Output 2025

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The mean value of the dependent variable is -0.086584, indicating a slightly negative average outcome. The standard deviation of 0.860522 suggests a moderate level of variability in the dependent variable, with most observations likely to be within ±0.86 units of the mean. The standard error of regression (1.057961) measures the average distance between observed and predicted values. This value is slightly larger than the standard deviation, indicating that the model explains some but not all of the variation in the dependent variable. This suggests that while the model provides a reasonable fit, there may be other factors influencing the dependent variable that are not captured by the model.

**Testing of Hypotheses**

**Hypothesis One**

$H_{O1}$: There is no significant relationship between dividend payout ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.

$H_{i1}$: There is significant relationship between dividend payout ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.

The panel GMM results show a statistically significant positive relationship between Dividend Payout Ratio (DPR) and Tobin's Q in Nigerian listed manufacturing companies. A 1-unit increase in DPR is associated with a 0.004120 unit increase in Tobin's Q (coef = 0.004120, t-stat = 6.768743, p-value = 0.0000). This positive relationship between firm value and dividend payout ratio can be attributed to several key factors, including the signaling effect of dividend payouts on investor confidence, where consistent and sustainable dividend payments convey a firm's financial health and stability, attracting more investors and driving up stock prices. these findings are also in line with the findings of Widiatmoko, Badjuri, Irsad, & Adhipratama, (2023) and Umar, (2023) who concluded that dividend payout ratio positively and significantly affects firm value (proxied by TQ) but are in contrast with the findings of Anandita, & Septiani, (2023).

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**Hypothesis Two**

$H_{O2}$: There is no significant relationship between dividend yield and the Tobin Q ratio of listed manufacturing companies in Nigeria.

$H_{i2}$: There is significant relationship between dividend yield and the Tobin Q ratio of listed manufacturing companies in Nigeria.

The panel GMM results show a statistically significant negative relationship between Dividend Yield (DIY) and Tobin's Q in Nigerian listed manufacturing companies. A 1-unit increase in DIY is associated with a 0.076816 unit decrease in Tobin's Q (coef = -0.076816, t-stat = -4.651670, p-value = 0.0002), suggesting dividend yield negatively impacts firm value. This negative and significant relationship indicates that investors might perceived high dividend yields as a signal of a fall in market price, especially for companies that maintain a stable dividend policy, implying that the increase in dividend yield is driven by a decline in stock price rather than an increase in dividend payments. Additionally, if a company is paying out a large portion of its earnings as dividends, it may not be sustainable in the long term. This could lead to a dividend cut, which would negatively impact the share price. Investors might be wary of companies with unsustainable payout ratios, as they may not be able to maintain their dividend payments. Investors are also cautious when investing in high-yielding stocks, especially if they are risk-averse or seeking stable returns. These findings are in agreement with the findings of Omoregie, & Ige, (2022) but contradict the findings of (Nympha, Egolum, & Chukwuani, 2021), (Safitri, Lidyah, & Rachmania. 2022) and Bon & Hartoko (2022).

**Hypothesis Three**

$H_{O3}$: There is no significant relationship between dividend per share and the Tobin Q ratio of listed manufacturing companies in Nigeria.

$H_{i3}$: There is significant relationship between dividend per share and the Tobin Q ratio of listed manufacturing companies in Nigeria.

The panel Generalized Method of Moments (GMM) result in Table 4.4.1 reveals an insignificant relationship between Dividend Per Share (DPS) and Tobin's Q ratio (TQ). Specifically, the coefficient of 0.003832 suggests a positive relationship, but the t-statistic of 0.453129 and corresponding p-value of 0.6556 indicate that the relationship is not statistically significant at the 5% level. This finding may support the dividends irrelevant theory which argue that dividend policy does not affect firm value. It suggests that investors might be

indifferent to dividend payments, focusing instead on long-term growth prospects and strategic initiatives that drive firm value rather than its dividend payout when assessing its value through Tobin Q. This finding aligns with the finding of but contradicts the results of Umar, (2023) and (Dahmash, Alshurafat, Hendawi, Alzoubi, & Al Amosh, 2023) who concluded that DPS positively and significantly influence TQ.

**Hypothesis Four**

$H_{O4}$: There is no significant relationship between earning retention ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.

$H_{i4}$: There is significant relationship between earning retention ratio and the Tobin Q ratio of listed manufacturing companies in Nigeria.

The panel GMM results show a statistically significant positive relationship between Earnings retention ratio (ERR) and Tobin's Q in Nigerian listed manufacturing companies. A 1-unit increase in ERR is associated with a 0.003574 unit increase in Tobin's Q (coef = 0.003574, t-stat = 4.168445, p-value = 0.0005), suggesting earnings positively impact firm value. A higher ERR indicates that the company is focusing on long-term value creation, which can enhance its competitive position and, subsequently, its market value. Investors often view firms that reinvest retained earnings favorably, leading to a higher Tobin's Q. A higher ERR can reflect a firm's financial health, demonstrating its ability to generate cash flows and sustain operations without relying on external financing. This finding supports the conclusion of Akinkoye and Akinadewo (2018) but contradicts the result of Oji and Nwosi (2021) who concluded that earning retention ratio has an insignificant effect of firm value (measured through Tobin's Q)

The control variables firm size and liquidity both exhibit statistically significant negative relationships with firm value, indicating that larger firms tend to have lower firm values and firms with higher liquidity tend to have lower firm values, potentially due to factors such as diminishing returns, limited growth opportunities, or inefficient asset utilization.

## CONCLUSION AND RECOMMENDATIONS

This study provides valuable insights into the complex and multifaceted relationship between dividend policy and firm value among Nigerian manufacturing firms. The findings reveal that dividend policy significantly impacts firm value, but its effects vary depending on the specific component of dividend policy and the metric used to measure firm value. This study confirms

that dividend policy has a significant effect on firm value, lending support to the Dividends-Relevance Theory of Gordon and the Signaling Theory. The findings indicate that dividend payments convey valuable information to investors, influencing firm value. The significant and negative effect of dividend yield on firm value suggests that investors prioritize stable dividend payments, consistent with these theories. Overall, this study contributes to the understanding of dividend policy's impact on firm value in emerging markets, providing practical implications for firms and investors in Nigeria's manufacturing sector.

Given the findings made, the following recommendations were made:

1. Financial managers in Nigerian manufacturing firms should implement a dividend payout policy that strikes a balance between rewarding shareholders and retaining sufficient earnings to fuel growth, innovation, and strategic investments, thereby ensuring sustainable firm value creation.
2. Managers in Nigerian manufacturing firms should evaluate their dividend yield strategy considering the potential negative impact on firm value, and establish a competitive yield that neither compromises growth initiatives nor undermines investor confidence, striking a balance that supports long-term sustainability and shareholder returns.
3. Managers in Nigerian manufacturing firms should identify the optimal dividend policy that aligns with investor preferences, whether residual, stable, constant, or progressive, and tailor their approach to meet the unique needs and expectations of their shareholders, thereby enhancing investor satisfaction and loyalty.
4. Managers in Nigerian manufacturing firms should develop and adopt a flexible retention ratio that caters to changing investor preferences, recognizing when investors prioritize high dividend payouts versus retained earnings for growth, and adjusting their strategy accordingly to meet investor demands and maximize firm value.

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