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STABLE DIVIDEND POLICY AND VALUE OF LISTED HEALTHCARE FIRMS IN NIGERIA

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Abstract

This paper examines the effect of stable dividend policy on the value of listed healthcare firms in Nigeria. The study used correlation research design and utilized secondary data collected from the annual reports and accounts of the sampled companies for a period of 13 years (2008-2020). The population of the study constitutes all the ten (10) listed healthcare firms in Nigeria out of which a sample of eight (8) healthcare firms was drawn. The data were analyzed using descriptive statistics, correlation and regression analysis. Robustness tests were conducted to validate the result. The finding of the study reveals that stable dividend policy has significant positive effect on firm value. Therefore, the study concludes that, accordance with the dividend relevance theory, stable dividend policy of listed Nigerian healthcare firms influences their value. The study recommends that for an increased in firm value, listed healthcare firms in Nigeria should stabilize their dividend policy.

Keywords: Stable Dividend Policy, Return on Equity, Size and Firm Value.

1. Introduction

All investors, either institutional or individual regard stock value or capital appreciation and dividend as the fundamental reason for investing in a particular firm. Stock prices are important measures of measuring firm values. Therefore, the value attached to them matters a lot to both existing and prospective investors in the stock market (Mohammed, 2017). Firm value is a financial measure indicating the valuation by the market for the entire firm (Amollo, 2016).

Dividend policy is how the company decides to manage its dividend. The dividend policy determines the portion of earnings to be distributed to shareholders as dividend and the portion of profit to be ploughed to business as retained earnings (Arumba, 2014). Dividend policy is important for both board of directors and stockholders; because board of directors has to decide and make arrangement for the payment of dividend while the shareholders have to receive it as a reward for their investment.

The stability of dividend reduces risk of uncertainty and company that adopt such policy have a tendency to increase the dividend rate when the company feel that increase in profit is steady and sustainable (Salih, 2010). Stable dividend creates certainty and is therefore preferred by shareholders who have a high reliance on dividend income. It protects the firm from periods of low earnings by fixing dividend per share at a low level. For investors, the stability factor of dividend distribution will be more attractive than just a high dividend payout ratio. A stable dividend policy shows that the company's prospects are in steady condition and the company's risk is also relatively lower compared to companies that regularly change dividend distribution policy (Zarah, 2010).

The motivating factor for conducting this research is the fact that numerous researches (Omet 2004, Ogollo 2012, Sarwar 2013, Almasum 2014, Kiprop et al 2017) were conducted on dividend policy but most of them concentrated on dividend policy measures such as dividend payout ratio, earnings per share, dividend yield, dividend per share etc. which are measures of dividend payout not policy. This study differs from those studies by focusing on stable dividend policy. Further, most of the studies Adaoglu, (2000); Oliver et al, (2016); Babiarez, (2020) and Goergen et al, (2009) in this regard were done in developed countries. Additionally, most of the related studies used multiple regression analysis to analyzed the data. Therefore, this study takes a step ahead and makes use of Feasible Generalize Least Square (FGLS) regression in order to overcome problems of abnormality and heteroskedasticity in the model. This technique is not used by previous studies and therefore, regarded as methodological gap filled by this study. In addition, this study covers a relatively long period (13 years) from 2008 to 2020. Thus, based on the above issues, this paper examines the effect of stable dividend policy on the value of listed healthcare firms in Nigeria.

The paper is divided into five sections. First section introduced the paper. Second section brief literature from previous studies. Section three of the study describes methodology used for examining the effect of stable dividend policy on the value

of listed healthcare firms in Nigeria. Section four contains the empirical results and discussion. Section five, the last section is conclusions and recommendations.

2. Review of related studies

Firm value is considered as fundamental and critical thing since it describes the wealth of the company's owner. Therefore, the management is saddle with the responsibility of achieving the firm value optimally. Firm value is the estimated purchase and the trade value of the company with comprehensive information about the company (Guleryuz 2009; Mohammad, 2017). Firm value is very important because the high value of the company will be followed by a high prosperity shareholder. The higher the shareholders the high the stock price and the higher the value of the company (Tue et al, 2017). Company value can be seen through the market value or the book value of the company from its equity (Hirdinis, 2019). According to Sabrin, et al, (2016) firm value can be measured through Tobin's Q, price to book value and market to book ratio. Adelagan, (2009), Almasum, (2014), Mattew et al, (2014) and Alhassan et al, (2016) used market prices of shares to measure firm value. Lastly, Chidinmma et al (2017) used Market price per share (MPS) which mean the closing stock price as reported by the exchange.

Dividend policy is one of the most important decisions in finance. Actually, dividend policy is more usually an instrument of wealth distribution than it is an instrument of wealth creation (Nimalathasan et al, 2013). Dividend policy refers to the policy or guidelines used by the company to decide on how much portion of profit to distribute to stockholders as dividend and how much to be kept in the company as retain earnings (Hashemijoo et al, 2012). Dividend policy is basically the determination of the percentage of profits to be given to shareholders. Stable dividend is where a certain constant sum of money is regularly distributing to shareholders (Anyim 2017). It is of three types: Constant dividend per share - the DPS is fixed in amount irrespective of the earnings level. Constant payout ratio - it means the payment of fixed percentage of earning as dividend every year. Thirdly, a constant DPS plus extra- means the payment of low dividend per share constantly plus extra dividend in the year when the company earns high profit (Migwi 2015). Hence, when the firm regularly keep pays a fixed amount of dividend over a long period of time regardless of fluctuations in the level of its earnings, it is called a stable dividend policy. With a stable profit, the possibility of dividends distributed by the company will also be stable, because the dividends distributed are part of the profits generated by the company.

Adaoglu (2000) observed that the dividend policy behaviour of companies in developing countries is significantly different from the dividend policy behaviour of companies in developed countries. The study use data from the sample industrial and commercial firms in Istanbul stock exchange over a period of 12 years (1985 to 1997). Data analysis of the study revealed that dividend per share is statistically insignificant. The statistical insignificance of DPS signifies dividend instability, since in order to follow a stable dividend policy, management has to consider the previous dividends per share trend.

Similarly, Tirongo (2004) investigated dividends policy and performance and value of the listed firms at Nairobi stock exchange and discovered that there is a positive relationship between dividend payout and firm performance as well as the value of the firm. He also disclosed that stable dividend policy is attributed to numbers of reasons, such as, declining company profits and economic performance.

In the same vein, Ali and Sharif (2015) examined the effect of dividend policy on stock prices. The study investigated a sample of 45 non-financial firms listed on Karachi Exchange that have made profits and paid dividend for a period of twelve years with effect from 2001. Regression results reveal that dividend per Share and retention ratio had an insignificant relationship with share market prices. As supported by the Bird in hand theory, dividend pay-out ratio had a significant positive relationship with share prices.

Also, Oliver et al (2016) studied the effect of dividend policy on the value of firms listed at Nairobi stock exchange. The study used a weighted average of five-year data extracted from the financial report of the selected companies. The result discovered a negative and significant relationship between dividend policy and share value. Similarly, Anyim (2017) assessed the effect of dividend policy on the value of firms listed at Nairobi stock exchange. The study covers the period of five years (2012 to 2016). Quantitative research design was used. Data was collected from the financial report of the sample of sixty firms out of sixty-five listed firms in Nairobi security exchange. Data was analyses was conducted using correlation and regression analysis. The research established that stable dividend policy, regular dividend policy, residual dividend policy and firm size have significant positive effect on firm value.

Wambua (2019) investigated the influence of stable dividend policy on market value of firms listed at the Nairobi Securities Exchange. A total number of 38 firms were purposively selected and form the study sample size. The study period covers

the period of ten years from the year 2006 to 2015. Data was analyzed using descriptive and inferential statistics. The study found that stable dividend policy has a positive significant effect on market value of firms listed at Nairobi security exchange.

There are three theoretical explanations -Dividend Irrelevance and Dividend Signaling theories that underpins the findings of this study. The dividend irrelevance theory assumed the absent of the connection between the firm value and dividend policy. It argues that increases in firm value is the function of earnings which comes from company's investment policy not dividend policy. Miller and Modigliani irrelevance hypothesis suggested that firm value is not affected by the firm's dividend policy. The theory shows the direct relationship between dividend policy and the firm value. It assumes that the dividend policy of firms influences the market value of their stocks. This theory reveals that shareholders prefer cash dividends now than future capital gains which are unpredictable (bird in hand). In addition, the dividend signaling theory state that dividend payment levels send information to investors. When firms believe that the current market value of their shares is below its intrinsic level it adjusts its dividend payment level. The increased dividend payment serves as a credible signal. The dividend signaling hypothesis signifies that increased / decreased cash dividends should experience positive / negative price reactions. Therefore, these theories of dividend relevance and dividend signaling anchored the direct relationship between independent variable (Dividend Policy) and the dependent variable (Firm Value).

3. Methods and data

The study was conducted using correlation research design because it has a quantitative research approach to examine the effect of dividend policy on firm value of listed Nigerian healthcare companies, covering the period of 2008 to 2020. The population of the study is all the ten (10) healthcare firms listed in Nigerian stock exchange as at 31st December, 2020. The sample size of the study is eight (8) firms after dropping Evans Medical PLC (2017 - 2020) and Nigeria German Chemicals PLC (2014 - 2020) because of the non-availability of annual reports and accounts.

The study consists of three (3) set of variables, independents, dependent and control variables. The dependent variable is Firm value measured using price book value which is computed as the ratio of market value of equity to it book value known as Price-to-Book Value as used by Tu et al, (2017), Manoarfa, (2018) and Hirdinis, (2019). On the other hand, the independent variables are the stable dividend policy,

which requires the payout of the unchanged amount of dividends per share in a series of consecutive years (Omerhodžić, 2014). It is measured using dummy variable where a score of one (1) for applying stable dividend policy and zero (0) for not applying stable dividend policy as used by Anyim, (2017). While the control variables Profitability and size measured as Net Income / Total Equity as used by Ndeto, (2014) and Bibiana et al, (2018) and Natural Log of Total Asset respectively. The techniques of data analysis used in this study is multiple regression where the model that test the hypothesis of the study is specified as follows:

$$PBV = \beta_0 + \beta_1SDP + r_1ROE + r_2Size + \mu$$

Whereas:

PBV = Price Book Value

SDP= Stable Dividend payout Policy

ROE= Return on equity

Size = Size of the firms

β is the coefficient to estimates

β_0 = Constant

r_1 and r_2 = Parameter of the control variables

μ = Error term

4. Results and Discussion

This section presents the results of the analysis of the collected data from the annual reports and accounts of the sampled companies. The descriptive statistics, correlation and regression were conducted, presented and discussed.

Descriptive Statistics

Table 2: Descriptive Statistics Result

Variable	Obs	Mean	Min	Max	P50	Std. Dev.
pbv	104	11.46923	0.44	136	4.9	20.72039
sdp	104	0.0961538	0	1	0	0.2962297
profit	104	260,336	-1,212,036	2,823,526	70,563	612,916
size	104	7,446,764	388,689	3.13e+07	3,563,819	7,733,542

Source: STATA Output, 2023

Table 2 reveals that the firm value of listed sampled healthcare firms has a mean of N11.5%. This means that the sampled firms have average firm value of N11.5% with the minimum of N0.44, maximum of N136% and the mode is N4.9%. The standard deviation of N20.8% which is higher than the mean value suggested that there is wider variation of firm value among the firms. The stable dividend policy is 0.09 (9%) on average, with minimum being 0 for not applying stable dividend

policy, maximum being 1 for applying stable dividend policy and the mode is 0. This implies that majority of the sampled healthcare firms do not stabilize their dividend policy since the mode is 0 and the mean value is 9%. Furthermore, the standard deviation of 0.29 (29%) suggests that there is a high variation among the sampled healthcare firms that apply the stable dividend policy.

The sampled firms have a mean profit of N260.3 million, with the minimum of N-1.2 billion, maximum of N2.8 billion and the mode of N70.5 million. This implies that the sample firms made a loss of N-1.2 billion and maximum profit of N2.8 billion during the period. The standard deviation of N612.9 million signifies a significance variation among the profits of listed healthcare firms in Nigeria during the study period. The average total asset of listed healthcare firms is N7.446 billion, having minimum, maximum and mode values of N338.7 million, N31.329 billion and N3.563 billion respectively. The standard deviation of N7.733 billion which is closer to the mean indicates a moderate dispersion among the total asset of the sample healthcare firms.

Correlation Matrix

The correlation matrix measures numerically the association between all the pairs of variables. The Pearson result is presented on Table 3 and reveals the association of the dependent variable Firm Value represented by PBV and Explanatory variables (stable dividend payout policy (sdp), return on equity (roe), and size).

Table 3: Pearson Correlation

	Pbv	sdp	roe	size
pbv	1.0000			
sdp	0.3694	1.0000		
roe	0.6172	0.3228	1.0000	
size	0.3728	0.3835	0.4042	1.0000

Source: STATA Output, 2023

The correlation matrix as per table 3 above shows the relationship between all pairs of explanatory variables used in the regression model. It reveals that the Stable Dividend Policy (SDP), Return on Equity (ROE) and Size have positive correlation with the firm value. The positive correlation implies that as SDP, ROE and Size increase the firm value. The values on the diagonal are all 1.0000 which shows that each variable is perfectly correlated with itself.

The regression analysis result shows the relationship between the dependent variable and all the explanatory variables. The presence of heteroskedasticity and abnormality of the model gave rise to the use of Feasible Generalized Least Square (FGLS) regression as against the OLS and normal traditional panel regression (FE and RE). If either of the models (FE and RE) is used, the conclusion drawn as well as inferences made could be misleading (Gujarati et al 2012; Adamu 2018). However, the use of FGLS can overcome the problem of heteroskedasticity and abnormality of the model. The robustness test is conducted in order to improve the validity of all statistical inferences for the study. The robustness test gives concrete evidence that the regression results were free of regression errors capable of invalidating the research's regression assumptions.

From the Table 4 below, the VIF and tolerance estimates 1/VIF were found to be consistently smaller than ten (10) and greater than (1%) respectively; this indicates the absence of multi-collinearity.

Table 4: Multicollinearity Result

Variable	VIF	1/VIF
size	1.31	0.765150
roe	1.24	0.803629
sdp	1.22	0.819258
Mean VIF	1.26	

Source: STATA Output, 2023

The Normality Test

The result of Skewness and Kurtosis normality test in Table 5 below revealed that the Prob>chi2 is significant. This implies that the data of the model were not normally distributed. This implies that, one of the assumptions of OLS is not fulfilled, since the residual of the model is abnormal. Thus, there is need to seek for another model that can overcome the abnormality problem and allow the parameters to become the best linear unbiased estimate.

Table 5: Skewness and Kurtosis Tests for Normality Result

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
pbv	104	0.0000	0.0000	.	0.0000
sdp	104	0.0000	0.0089	31.67	0.0000
roe	104	0.0000	0.0000	43.40	0.0000
size	104	0.3396	0.0135	6.55	0.0378

Source: STATA Output, 2023

The Hausman Test

Table 6 shows that the result of the Hausman test is significant (Prob>chi2= 0.0011) and such the fixed effect model should be selected. But because of the abnormality of the model the traditional panel regression (FE and RE) may not be suitable.

Table 6: Hausman Test Result

Coefficients				
Variables	(b) re	(B) fe	(b-B) Difference	sqrt (diag(V_b-V_B)) S.E
Sdp	7.856181	7.425039	.4311415	1.154283
Roe	4.285517	3.621416	.6641015	.0072694
Size	8.415216	12.65716	-4.241946	.

Test: Ho: difference in coefficients not systematic
 chi2(8) = 16.11
 Prob>chi2 = 0.0011

Source: STATA Output, 2023

The Heteroskedasticity Test

Table 7 below shows that the probability of the chi-square is significant at 1% level of significant (0.0000). This implies that the errors have a non-constant variance and therefore, there is need to conduct Feasible Generalize Least Square (FGLS) regression because the traditional OLS and panel regression (FE and RE) may not be suitable.

Table 7: Heteroskedasticity Test Result

Modified Wald test for groupwise heteroskedasticity in fixed effect regression model	
H0: $\sigma^2(i) = \sigma^2$ for all i	
chi2 (8) =	8504.53
Prob>chi2 =	0.0000

Source: STATA Output, 2023

Table 8: FGLS Regression Result

Pbv	Coef.	z	P> z
Sdp	5.555825***	2.5	0.003
roe	5.504651***	13.87	0.000
size	5.225992 ***	5.16	0.000
cons	-42.96671 ***	-4.48	0.000

Number of obs = 104

Wald chi2(8) = 417.67

Prob> chi2 = 0.0000

*** Significance at 1% significance level.

Source: STATA Output, 2023

Table 8 above show the FGLS result of the explanatory variables. It is worthy of note that the Wald χ^2 for FGLS is similar to the F- statistics of GLS. Therefore, the model is fit to estimate the relationship between the dependent variable and the explanatory variables as Wald χ^2 of 417.7 shown in the Table 8 is greater than 2 and the probability of Wald χ^2 is significant at 1% significance level.

From Table 8 above the result shows that the relationship between SDP and PBV is positive and significant, this can be justified with a positive 'z' of 2.5 and $p > |z|$ 0.003. Also, the positive coefficients of 5.555825 is evidencing that, with an increase in SDP there will be an increase in the firm value. This result is similar to the findings of Wambua (2019) and Adelagan (2009) and contrary to Sharif et al (2015). Also ROE and Size are positive and significant with firm value. This can be justified with a positive 'z' of 13.8 and 5.16; $p > |z|$ 0.000 and 0.000 respectively. Also, the positive coefficients of 5.504651 and 5.225992 are evidencing that, with an increase in ROE and Size, firm value will also increase.

5. Conclusions and Recommendations

On the basis of the findings of the study, the paper concludes that stable dividend policy is increasing the value of listed Nigerian healthcare firms. Therefore, accordance with the dividend relevance theory, dividend policy of listed Nigerian healthcare firms influences their value. Hence, the study recommends among others that listed Nigerian healthcare firms should employ smooth and stable dividend payment which improve the value of their firms.

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