DIVIDEND POLICY AS DETERMINANT FOR INVESTMENT DECISION

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Abstract: A company's dividend policy is the choices the company makes about whether to pay shareholders cash dividend, about how large the cash dividend should be and about how frequently it should be distributed. Dividend policy still remains one of the most vital financial decisions faced by management of corporate organization such insurance firms. Allen, Bernardo and Welch (2000) summarized the current consensus view when they concluded that "Although a number of theories have been put forward in the literature to explain their persistent presence, dividends remain one of the thorniest puzzles in corporate finance". Organizations is always confronted with the decision on how much of the net earnings are to be distributed and how much of the dividend should be reinvested. Dividend payment directly affects shareholders wealth maximization therefore it is extremely an important issue for every company in a vital decision making. It encompasses decision such as whether to distribute cash to investors in form of share repurchases or specially designated dividends rather than regular dividends, and whether to rely on stock or cash distribution. Dividend policy is the guiding principle that a company uses to decide to make dividend payment to shareholders. The decision to increase the company's regular dividend still lies on the management.

Keywords: payment directly, Management, taxes, investors, stock market's.

INTRODUCTION

Management tends to increase regular dividends only when they expect that future cash flow is sufficient to pay dividend and to meet their firm's other future financial obligation. On the other hand, to make investment decision, investors must weigh the stock market's reactions to changes in dividend policy. The significant problem is dependent on the level of the company dividends, the volatility of the dividend stream over time and the income taxes investors must pay when they receive the dividend. The dividend policy of a company also offers information relating to company's current state. The above issues happen to make dividend policy a determinant factor for investment decision. Therefore, this research target is to explore how all these determinants can affect investment decision in some of quoted insurance institutions in Nigeria.

STATEMENT OF THE PROBLEM

The issue of dividend policy has left many unanswered questions regarding its impact on investment decision of quoted firms. Management are always faced with whether to pay a large, small or zero percentage of their earnings as dividends or to retain them for future investments as a result of the need to satisfy the various desires or competing interests of shareholders. One of these policy problems is related to how the firms earnings should be divided between payment to

shareholders and reinvestment in new opportunities Another problem management of these firms is encountering involves the determination of the payout policy that management follows in determining the size and pattern of cash distributions to shareholders overtime without hindering the investment decisions as they come by. Unsteady dividend distribution policy and which may seriously affect the interest of existing as well as potential shareholders. Also the information value of company statements about its expected earnings growth to the shareholders in other to create a favorite impression on them must be followed with dividend action which has to deplete the retained earnings as the policy impact management investment decisions

THE PURPOSE OF THE STUDY

The major objective of this study is to evaluate the effect of dividend policy as determinant for investment decision on selected insurance companies. The other specific objectives include to:

- Ascertain the effect of dividend policy as a determinant for investment decision.
- Investigate the impact of retained earnings on investment decision of quoted insurance companies in Nigeria.
- Assess the relationship between dividend payments out stream on investment decision in these selected insurance companies in Nigeria.

RESEARCH HYPOTHESIS

Ho_1: There is no significant relationship between dividend policy and investment decision.

Ho_2: There is no significant relationship between retained earnings and investment decision on quoted insurance companies in Nigerian.

Ho_3: There is no significant relationship between dividend payout streams and investment decision in Nigerian insurance companies.

LITERATURE REVIEW

CONCEPTUAL FRAMEWORK

Dividend is the amount of firm's profits paid to the proprietors out of the firm. Dividend is the source of cash flow to shareholders as well as provides information about the firm's performance. Aharony and Swary (2003) opt those dividend policies are relevant because they have informational value.

A company can make statements about its expected earnings growth just to inform shareholders in order to create a favorite impression on them. And these informational must be followed with dividend action in other to broadcast a message regarding the soundness and profitability of the company. Dividend may be defined as the return that a shareholder gets from the company, out of its profits, on his shareholdings. However some shareholders expect to receive dividend whereas others are content to see increase in investment and no dividend.

The dividend policy refers to a company policy which determines the amount of dividend payments and the amounts of retained earnings for reinvesting in new projects (Lease et al 2000). The policy is related to dividing the firms earnings between payment to shareholders and reinvestment in new opportunities. The policy involves the determination of the payout policy that management follows in determining the size and pattern of cash distributions to shareholders overtime. Actually as a business decision, dividend policy addresses more issues such as how firms can attract investors in different tax brackets and how firms can increase the market value of companies including share repurchase instead of cash dividend. According to Megginson and Smith (2008) dividend policy of a company reflects how cautious its financial management is. It is described as a set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders as well as an approach to distributing profits back to its owners.

The primary objective of any company is to maximize shareholders' wealth. And in other to achieve this objective, management are faced with these important areas of decision making such as investment, financing and dividend decisions. Investment decisions determine the total value and types of assets the insurance company will employ. Financing decisions determine the capital

structure of the institution and the forms the source on which investment decisions are made. Dividend decisions on the other hand are the form of dividend policies which outline the focus of this study. It involves the determination of payout policy that management follows in determining the Botha size and pattern of cash distributions to shareholders over time. (2006) explained that the investment, financing and dividend decisions are independent and must be determined all together. However, a combination of these policy decisions should by all accounts maximize shareholders' wealth. The dividend policy of a company reflects how sensible its financial management is. The future prospects, expansion, diversification mergers are effected by dividing policies and for a healthy and buoyant capital market, both dividends and retained earnings are important factors for investment decisions.

Types of Dividend Policies

- Regular Dividend Policy: With this type of policy investors get dividend at usual rate. Because of the type of investors, retirees and elderly, this kind of dividend payment has to be maintained only if the company has regular earnings. The advantages of regular dividend policy is that it helps in creating confidence among the shareholders, stabilizes the market value of shares, maintaining the goodwill of the company and providing regular income to the investors.
- Stable Dividend Policy: Involves the payment of certain sum of money regularly to the shareholders. There are three types - (a) Constant Dividend per share where reserve fund is created to pay fixed amount of dividend in the year when the earnings of the company is not enough. It is suitable for the firms having stable earnings. (b) Constant Payout Ratio policy means the payment of fixed percentage of earnings as dividend every year. (c) Stable Dividend plus Extra Dividend policy involves the payment of low dividend per share constantly to extra dividend in the year when the company earns high profit.
- Irregular Dividend Policy: This means that the company does not pay regular dividend to the shareholders. Company uses this practice due to the following reasons- uncertain earnings of the company, lack of liquid resources, afraid of giving regular dividend, and not so much successful business.
- No Dividend Policy: Here the company may use this type of dividend policy due to requirement of funds for the growth of the company or for the working capital requirement.

Different Ways Company's Can Disburse Dividends

Akinsulire, (2014) affirmed the following as some of the ways companies can pay dividend which include:

Cash Dividend- Dividend is paid in cash mostly by companies. Cash dividend is the product of cash and cash availability. A company should have enough cash in its bank account when cash dividends are declared. And when follows a stable dividend policy it should prepare cash budget for the coming period to indicate the necessary funds which would be needed to meet the regular dividend payment of the company. If it does not have enough bank balance, arrangements are made to borrow funds. The cash account and the reserve account of a company will be reduced when the cash dividend is paid.

Stock / Script Dividend- involves the payment of a dividend in the form of extra shares rather than cash. This is essentially a transfer to the shareholder of a number of additional equity shares without the payment of cash as dividend to the shareholder, thus a preservation of company's liquidity.

Bonus Share / Script / Capitalization Issue- Is the distribution of shares free of cost to the existing shareholders. Akinsulire continued to explain bonus issue as capitalization of the reserves of a company by the issues of additional shares to existing shareholders in proportion to their holdings at no cost. As a matter of facts, issuing bonus shares increases the number of outstanding shares of the company. It is merely an accounting transfer from reserves and surplus to paid up capital. Bonus

share attracts some advantages to shareholder such as - Tax Benefit - beneficial treatment of such dividends to income taxes; Indication to higher future profits: - normally interpreted by shareholders as an indication to higher profit due to increase in number shares; and Psychological value: which declaration of the bonus issue may have a favorite psychological effect on shareholders and control is not diluted.

Special Dividend- In special circumstances company declares exceptional dividends in case of abnormal profits. **Annual Dividend**-When annually companies declares and pay dividends is known as annual dividend. In**terim Dividend** During the year any time company declares a dividend, it is defined as interim dividend. Regular Cash Dividend -**Regular cash dividend** are those the company exacts to maintain every year. They may be paid quarterly monthly, semiannually or annually.

Factors Affecting Dividend Decision

In spite of the extensive research dedicated to solve the dividend problem, a complete understanding of the factors that influence dividend policy must be understand and established. Allen et al (2000) acknowledged that although a number of theories have been put forward in the literature to explain their pervasive presence, dividends remain one of the complicated puzzles in the corporate finance. The dividend decision is taken after due consideration to number of factors like legal as well as financial. Horne and Wachowicz (2005) suggested that dividends depend in part on the firms' current earnings and in part on the earnings for the previous year. They continue to explain that major changes on earnings with existing dividend rate were the most important determinant of the firms' dividend policy. Ramcharran (2001) observed that dividend policy in the equity emerging markets from a corporate finance standpoint has not been empirically examined to date. Continuing financial reforms in rising markets, together with the validity of more published date, will encourage further research on other determinants of dividend policy, including the impact of agency costs, information and taxes as well as the capital structure of firms.

Block and Hert (2005) believed that the dividend decision is influenced by number of factors listed below. **Magnitude of the Earning**: Extent of company's earning is another important aspect of dividend policy. It serves as the introductory point for framing the dividend policy. **Desire of Shareholders:** - Dividends are declared by board of directors but they are also required to consider the desire of the shareholders, which depend on the later economic condition. **Name of Industry: -** The nature of industry in which a company is operating, influences the dividend decision. It is likely that industry with stable demand throughout the year are in a position to have stable earnings, thus, should the stable dividend policy and vice versa. **Age of Company: -** Company's age also determines the quantum of profits to declare as dividends. **Taxation Policy: -** The tax policy of a country also influences the dividend policy of a company. However, the company's board of Directors makes dividend decisions and is faced with the decision to pay out dividends or to reinvest the cash into new projects. The dividend policy decision is a trade-off between retaining earnings versus paying out cash dividends Dividend policies must always consider basic objectives such as providing sufficient financing and maximizing owners' wealth In applying a rational framework for dividend policy a company must consider the following two issues such as how much cash is available for paying dividends to equity investors and after meeting debt payments, and capital expenditure. Secondly, the extent of important projects available to the companies, that is return on equity greater than required return.

According to Akinsulire (2014) a number of constraints affecting dividend payout which includes such as Legal and Statutory Requirement.

Legal- Company law allows the payment of dividend only out of distributable profits such as resulting from the use of the company's property as well as revenue reserves. For instance, it is forbidden the distribution of dividend out of the capital (section 379 382 of CAMA). And government through some guidelines restricted the amount of dividend payable to shareholders to a certain percentage after taxes. **Statutory Requirement-**Some companies are required to transfer a

given percentage of their profit before and after tax to statutory reserves with the Central Bank of Nigeria (CBN). For example Insurance Companies: Life 10% of PBT or 1% of total premium whichever is the highest and Non-Life is 20% of PBT or 1% of the total premium whichever is the highest are some the statutory requirements.

Significance of the Ratios to Investors

The significance of ratios to investors depends on the goal of the investors According to Igben (2009) marginal investors who are more interested in immediate cash dividends will be more interested in dividend per share (DPS) dividend yield (DY) and dividend payout ratios (DPR). The higher the DPS, DY, and DPR ratios the more attractive the shares to them and vice versa Furthermore the Investors who are more interested in capital growth will pay more attention to price earnings ratio (PE); earnings yield (EY) and net Assets per share ratios (NAPS). However, the lower the PE ratios, the higher the EY and NAPS ratios meaning investor are more attracted to the company's' shares when these ratios are of the situations. And these investors would prefer a situation where the company distributes as little as possible out of earnings so as to enhance growth of their investment.

Some of these investors or shareholders ratios according to Aborode (2006) include:

Earnings per Share: Net Income after Tax to Average Common Shares, showing Investors are interested on the future increase for dividend payments from the earnings.

Dividend per Share to Face Value: - The ratio evaluates the relationship between dividend per share and earnings per share.

Net Assets per Share (NAPS): - The ratio indicates the amount of assets attributable to each ordinary share issue which is the relationship between the net assets minus the preference share capital to number of issued ordinary shares.

Price Earnings Ratio: Market prices per Share to Earnings per 5hare. Investors used this ratio as a general guideline in gauging stock values. A high price earnings ratio means that investors are willing to pay a premium for company's stock, in anticipation of the company's expected higher than average future earnings.

Dividend payout ratio: - Dividend per Share / Earnings per Share. The dividend payout ratio gauges the portion of current earnings being paid out In dividends Investor who seeks dividends prefers it to be large whereas the investors who seek growth in market place would like the dividend to be small.

Dividend Yield Policy: - Dividend per Share / Market Price per Share. This is the rate of return of cash dividend to be earned by an investor who buys the common stock on the current price. Investors are actually interested on the future increase for dividend payments from the earnings.

Implication of Dividend and Retention Policies

Igben (2009) also stressed on the relationship between earnings per share and dividend per share surely explains the relativity of dividend policies. For instance, where dividend per share is relatively low and when compared with earnings per share is an indication that the company has a policy of retaining a relatively high proportion of earnings. The meaning is that the retained earnings constitute the major source of funding for financing corporate growth. However, this policy will enhance the expansion of the company Consequently, when dividend per share is relatively high when compared with earnings per share, this is an indication that the company has a generous dividend policy It then means that the company distributes a relatively high portion of earnings to shareholders. This is the essence of computing dividend payout ratio (DPR) which is indicative to the proportion of earnings distributed to the ordinary shareholders.

THEORITICAL FRAMEWORK

Various theories of dividend policy have emerged over the years such as-

The Residual Theory: According to (Lintner 1956) this theory holds that the firm will only pay dividend from residual earnings, that is dividends should be paid only in funds remain after the optimum level of capital expenditure incurred meaning that all suitable investment opportunities have been financed. With this dividend policy theory, the primary focus of the companies is on investment and hence dividend policy is a passive decision variable. This residual dividend payment police state that the companies should follow these four steps when deciding its payout ratio: (1) determine the optimal budget; (2) determine the amount of equity needed to finance that budget; (3) use retained earnings to supply the equity to the extent possible; and (4) pay dividends only if more earnings are available than are needed to support the optimal capital budget.

Dividend Irrelevancy Theory: Dividend irrelevancy theory asserts that dividend policy has no effect on either the price of the firm or its cost of capital. This theory also argues that dividend policy does not affect share prices because the value of the firms is a function of its assets. If dividends do affect value, it is only due to (Miller and Modigliani, 1961). According to their theory they believe that dividend policy has both Information effect as well as Clientele effect. The Information effect was due to the content of dividends relative to management's earnings expectation. Also, the Clientele Effect which allows companies to attract shareholders whose dividend preferences match the firms historical dividend payout patterns.

Tax Differential Theory: (Graham and Dodd, 1962) on the tax differential theory stated that since dividends are taxed at higher rates than capital gains investors require higher rate of return as dividend yields increases. This theory suggested that a low dividend payout ratio will maximize firm value.

Percent Payout Theory: Rubner (1966) in this theory explained that shareholders prefer dividends and directors and managers requiring additional finance would have to convince the investor that proposed new investments would increase their wealth. However to increase their job security and status in the eye of the shareholders, companies can adopt 100 percent retention. Firms can thus aim on new investment opportunities that would be beneficial to shareholders too.

Agency Cost Theory: Jenson and Meckling (1976), many studies have provided arguments that link agency costs with the other financial activities of a firm. It has been argued that firms payout dividends in order to reduce agency costs. Dividend payout keeps companies in the capital market where monitoring managers is available at lower cost. If a firm has free cash flows, it is better off sharing them with stockholders as dividend payout in order to reduce the possibility of these funds being wasted on unprofitable projects.

EMPERICAL FRAMEWORK

Many studies have been done on the dividend policy but it still remains an organizations unsettled issue in The various studies carried out on determinants of dividend policy such as that of Howatt (2009), Amidu and Abor (2006) conducted a study on the determinants of dividend policy by using panel of data of 20 companies listed in Ghana Stock Exchange taking dividend payout ratio as dependent variable. The study proved that dividend payout was mostly dependent on the net earnings of the companies, and those firms with higher liquidity pay high dividends.

On some studies carried out in Nigeria to examine the determinant of dividend, by Rufus and Soyoye (2014) in the banking industry revealed a negative relation between dividend policy and last paid dividend as well as shareholder's structure and total debt. Those studies did not include all variables that could affect dividend policy and their findings were also diverse, thus making it difficult to draw policy implication from them.

Research by Brav et al (2005) showed that firms that mitigated their dividend are under more financial pressure and have to provide opportunities for investment. Therefore, it is expected that the distribution of cash dividend has a more negative effect on the firms that reduced their dividend. Brav et al studied great number of firms and found that dividend policy can have a negatives effect on investment decisions. Unlike Lintner (1961), who found out that managers are reluctant to cut

dividend and consider reaching to dividend as an unreachable goal. Managers made known that they tend to provide investment opportunities in order to react to dividend. Daniel et al (2010), found evidence on Brav et al (2005) research and concluded that whether dividend drop, reduce investment or increased external investment it could still provide the expected level of dividend and investment. They established that a small number of firms cut their dividend while the majority of firms moderate investment with the expected level.

Miller and Modigliani (1961), studies showed that in a capital market, dividend policy is not relevant to firm's value. Based on this hypothesis, dividend changes play an important role in information collection and affect cash flows. Dividend changes lead to changes in prices and provide information about future income and investment but dividend changes have no effect on company value. This description only uses investment policy counts principle and explains market reaction in reflecting information on investment policy. The basic explanation of the other theory is free cash flows based on interaction between managers and investors. This hypothesis suggests that dividend moderate manager's investment problem by reducing free cash flows available to managers. Therefore, the free cash flows hypothesis suggests that dividend policy has a real effect on the firm's investment and cash flows, which would be inconsistent with the dividend irrelevance theorem. Unfortunately, as dividend changes investors react to underlying operations affecting company value. Miller and Rock (1985), research tends to provide evidence on the dividend irrelevance theorem by examining the stock price reaction to dividend announcements.

Santhesh et el (2013), in their own study investigated the role of financial reporting quality on mitigating the effect of dividend policy on investment decisions and found that high quality financial reporting significantly moderates the effect of dividend on investment.

METHODOLOGY

This study is ex-facto designed to determine the effect of dividend policy as a determinant on investment decision of Nigeria Insurance companies. The researcher made use of the regression technique to analyze the secondary data. The data consists of annual financial reports of five (3) selected quoted insurance firms listed Nigerian Stock Exchange from 2005 to 2015 Dependent Variable is the Investment Decision. The proxy used for the investment decision includes investment intensiveness which is total equity to sales, Independent Variables used for the study is dividend policy. Dividend policy is measured by retain earnings Profit after tax is used as a proxy to represent dividend policy. The statistical tools used are descriptive statistics to answer the research questions while regression analysis was used for testing of the hypotheses. The findings and consequently the conclusions on the decision rule. The rejection of the null hypothesis were dependent shall be based on the p-value as the null hypothesis is rejected if p-value <0.05.

TEST OF HYPOTHESES

Research Hypothesis 1

$H_{0:1}$: There is no significant relationship between dividend policy and investment decision.

Table 1: Regression and Correlation analysis result on dividend policy and investment decision

Items	Mean	Standard Dev.	Cor. Coeff	R-Square	P-value	Decision
Investment Decision	0.94	0.365	0.813	0.618	0.004	Reject the null hypothesis
Dividend Policy	2.52	0.501				

Source: SPSS 25 Output

Table 1 discloses the regression and correlation analysis disclosing the relationship between

dividend policy and investment decision. The result reports a correlation coefficient (r) of 0.813 and regression value of 0.618 which indicates about 81.3% level of relationship which is strong and positive correlation, with a p-value of 0.004 and a less than 0.05 significance level. The decision rule shall be to reject the null hypothesis if p-values0.05. For the study, we shall therefore, reject Ho and accept the alternative, concluding that there is a significant relationship between dividend policy and investment decision (P <0.05)

Regression Model: $y = \alpha + \beta x$

Investment Decision = $0.592 - 0.551$ Dividend Policy

Research Hypothesis 2

$H_{0:2}$: There is no significant relationship between retained earnings and investment decision

TABLE 2: Regression and correlation analysis result on retained earnings and investment decision

Items	Mean	Standard Dev.	Cor. Coeff	R-Square	P-value	Decision
Investment Decision	0.94	0.365	0.806	0.649	0.002	Reject the null hypothesis
Retained Earnings	41.80	10.789				

Source: SPSS 25 Output

Table 2 discloses the regression and correlation analysis disclosing the relationship between retained earnings and investment decision. The result reports a correlation coefficient of 0.806 and regression value of 0.649 which indicates about 80.6% level of relationship which is strong and positive correlation with a p-value of 0.004 and a less than 0.05 significance level. The decision rule shall be to reject the null hypothesis if p-values 0.05. For the study, we shall therefore, reject Ho and accept the alternative, concluding that there is a significant relationship between retained earnings and investment decision (P <0.05).

Regression Model: $y = \alpha + \beta x$

Investment Decision = $2.081 - 0.027$ Retained Earning Research

Hypothesis 3

$H_{0:3}$: There is no significant relationship between retained earnings and investment decision.

TABLE 3: Regression and Correlation analysis result on retained earnings and investment decision

Items	Mean	Standard Dev.	Cor. Coeff	R-Square	P-value	Decision
Investment Decision	0.94	0.365	0.720	0.518	0.019	Reject the null hypothesis
Retained Earnings	0.44	0.168				

Source: SPSS 25 Output

Table 3 reports the regression and correlation analysis disclosing the relationship between dividend payout ratio and investment decision. The result reports a correlation coefficient of 0.720 and regression value of 0.518 which indicates about 72% level of relationship which is strong and positive correlation, with a p-value of 0 019 and a less than 0.05 significance level. The decision rule shall be to reject the null hypothesis if p-values0.05. For the study, we shall therefore, reject Ho and accept the alternative, concluding that LAIN there is a significant relationship between dividend payout ratio and investment decision (P <0.05).

Regression Model: $y = \alpha + \beta x$

Investment Decision $= 1.636 - 1.564$ Payout Ratio.

CONCLUSION

From the hypothesis tested, the result clearly reveals a positive relationship between the investment decision dependent variable and dividend policy Also, the type of dividend policy adopted by the independent variable. Management determines what the shareholders receive as dividend as well as the amount to be retained which would be plow back into the business for further investment purpose.

Furthermore, the type of dividend policy a firm chooses to operate the more it can affect its growth and development. For instance a firm that maintains a stable dividend payout pattern is better than one that operates on a fluctuating dividend payout policy

RECOMMENDATIONS

Based on the findings of the study, the researcher made the following recommendations that:

1. The board of directors of the Insurance companies should not in attempt to impress shareholders by pay cash dividend it could have been used to satisfy profitable investment opportunities. In as much as high dividend payment attracts investment. The decision should be to use other means such as the combination of cash and stock dividends so as not endanger the liquidity position of the company

2. In other to achieve effective dividend policy, Insurance companies should consider many factors as possible prior to making such decision. Because the fewer the number of factors considered, the simpler but unrealistic the decision.

3. And since investors react favored to a consistent and stable level of earnings may vary from year to year. This means that if the earnings decline, the existing dividend should generally be maintained until it is clear that an distribution, there should be no fluctuation in dividend payments even though earnings recovery take place

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