

DIVIDEND IRRELEVANCE THEORY WITH REFERENCE TO THE MODIGLIANI AND MILLER (M-M) CONTROVERSY: ANALYSIS OF THE BANKING INDUSTRY (2000-2014)

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Abstract

The study examines the Dividend Irrelevance Theory on the banking industry and its irrelevance to the shareholders' wealth based on data from the Nigerian stock Exchange (2000-2014) with reference to the Modigliani and Miller (M-M) that hypothesised that in a perfect world, dividends are irrelevant. The outcome of the regression shows that lagged Retained Earnings (RE) which is the retention policy of the firms is found to have a positive as well as significant relationship with Market Price of Shares (MPS), indicating that an increase in Retained Earnings undoubtedly resulted in a positive increase in the Market Price of Shares (MPS) thus, having significant impact on Shareholders' wealth. The significant nature of Retained Earnings is affirmed from the probability value of 0.0000 equivalent to 1% significant level. Specifically, the positive nature of the result means that a ₦1 increase in Retained Earnings results in a significant increase of ₦2.90 in shareholders' wealth. Dividend per share (DPS) has positive and significant impact on MPS. This is observed from the probability value of 0.0000 as well as the coefficient of 2.02. It is significant at 1% depicting that a ₦1 change in Dividend per share (DPS) results in an increase of ₦2.02 in MPS, thus, indicating that Dividend per share (DPS) has a strong positive impact on firms' value which ultimately influences shareholders' wealth thus negating the M-M irrelevance paradigm. It is therefore recommended that while growth firms and normal firms can conveniently follow the path of the irrelevance theory of Modigliani and Miller, the declining firms can follow the path of the Dividend preference theory popularly known as the dividend relevance (The bird in the hand) theory.

Keynotes: Modigliani and Miller (M-M), NSE, Dividend Policy, Dividend Irrelevance Policy, Stock Price, Banking Industry.