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Dividend Policy, Investment Decision and Firm's Value among Listed Conglomerate Firms in Nigeria

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Abstract: The study did an empirical analysis of how investment moderates the influence of dividend policy on firm's value among listed firms in the conglomerate sector in Nigeria. The researcher utilized an ex-post facto research design, considering the time series nature of the data. The study population comprised all listed companies within Nigeria's conglomerate as of December 31, 2022, totaling six companies on the Nigerian Exchange. Subsequently, five companies were selected as the sample size using purposive sampling technique. Data were obtained from the audited financial statements of the sampled firms and analyzed using regression analysis. Findings revealed that dividend payment positively and significantly influences firm's value, while the influence of investment is insignificant. However, there is no evidence of any influence of investment moderating the relationship between dividend and firm's value among the studied firms. It is on this basis, that the study concludes that dividend payments among the sampled firms will positively influence firms' value to a greater extent. It is also concluded that investment will possibly influence firms' value, although the influence may not be much. Meanwhile, the study concludes that interaction of dividend payment and investment may not in any way significantly affect firms' value. The study recommends that firms in the studied sector should invest more in capital projects that will increase their profit generating capacity which is capable of leading to increased firm's value in the future.

Keywords: Dividend, Investment, Firm's Value

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1. INTRODUCTION

In the corporate world, dividend policy and investment decision are critical factors that determine firm's value. Firm's value can be determined with different approaches, but the most commonly used valuation method, specifically for listed companies, is by multiplying the number of outstanding shares by market price per share. This valuation method is very straight forward, easy to calculate and understand, because market prices of listed companies' shares are usually and readily available in the capital market on daily basis. Dividend policy is a decision about the proportion of firm's earnings that that will be distributed as dividend to shareholders. There are two major views about whether dividend payment influences firm's value or not, which include Modigliani and Miller's view, as well as Traditional view.

Modigliani and Miller (1966) initially postulated that dividend payment to shareholders by companies is irrelevant in firm's valuation, based on certain assumptions including perfect knowledge of the market by individual shareholders, absence of taxation, absence of transaction costs, all shareholders are rational and have similar perception about securities in the market. The proponents of this view argued that it is the quality of earnings or profitability of a firm that determines its value irrespective of whether dividend is paid or not. They claimed that if cash dividend is paid to shareholders when they do not need cash, they would likely use the money to buy more shares in the company, and if the company fails to pay them cash dividend when they need cash, it is more probable that the shareholders would dispose of their shareholdings to get the money. According to the duo theorists, this situation will have no impact on firm's value because the value that will be lost as a result of dividend payment will be recovered in equal amount from the expected increase in equity (Munaza & Shahid, 2017).

However, due to criticism, MM developed second version of their initial model to incorporate the effect of taxes, transaction costs, information asymmetry and dissimilarity of shareholders' perception, and based on this, they agreed that dividend policy may influence firm's value. Meanwhile, traditional view of dividend policy is that there is an optimal dividend policy where firm's value is maximized. This view suggested that firms should strike a balance between dividend and retention policy in order to optimize their firms' value. Moreover, payment of dividends by companies can easily send a powerful and positive message to the shareholders about the management capability to efficiently utilize the economic resources entrusted to them to maximize owners' wealth. It thus means that if a company has a sustainable good dividend policy, it may push the potential investors to buy more shares in the company, and this, in turn, will possibly impact positively on the firm's value (Frankfurter, Wood, & Wansley, 2003).

In addition, dividend payment without business expansion through capital investment may not improve firm's value. Capital investment is long range financial commitment that can either make or destroy a company. Investing in profitable capital projects or projects with positive net present value is expected to increase firm's value and shareholders' wealth, whereas investment in unprofitable ventures will erode firm's value and destroy shareholders' wealth. Capital investment can range from building of new factory, purchase of plant and machines, development and launching of new products to acquisition of existing business. A firm that has good dividend policy will only need to pay a fair portion of its profit as dividend to shareholders and use its retained earnings to invest in any available viable projects that will add more value to the company (Hadi, 2019).

Observing the audited annual reports of some firms in the conglomerate sector of Nigerian economy, it was observed that value of most of the firms in the sector had continuously slid over few years in the past, and this, however, may not be unconnected with poor dividend policy and lack of adequate investment in the sector. Although many researchers have investigated the impact of dividend policy and investment on firm's value in the past while there is no evidence of any previous study that explored the influence of interaction between dividend policy and investment on firm's value (Obaid's, 2016; Sourav, Abhijit, & Kalpataru, 2020; Bambang, Grahita & Prihat, 2021; Ulfah, Sudarto & Rio, 2022; Sugeng & Yusna, 2019). Moreover, there is no evidence of previous research in the related area that focused mainly on conglomerate sector (Jaja, Ardi, Erik, Audrey Amelya, Alfina, & Anggi, 2023; Abdul, Drahomira, Sarfraz & Tien, 2022; Ayu & Gde, 2022). Also, there is a contradiction among the outcomes of most of the past related researches as some of the studies revealed either positive or negative significant relationship while others revealed positive or negative insignificant relationship (Sorin's, 2016; Sergius & Sri's, 2022; Sugeng & Yusna, 2019; Meutia, Apridar, Mursidah, Mastuti, & Fuad, 2021; Chinnaiah, 2020). It is on this ground that the current research undertook to statistically analyze the moderating role of investment in the relationship between dividend policy and firm's value among firms in the conglomerate sector in Nigeria.

2. LITERATURE REVIEW AND HYOTHESES DEVELOPMENT

2.1.1. Dividend Policy

Dividend policy is a set of rules or guideline on dividend payment in an organization. It determines the percentage of profit to be paid as dividend and how the dividend will be paid to the shareholders. Dividend is investment return for shareholders, and it can be paid either in cash or by way of issuing bonus shares to the existing shareholders. Firms pay dividends out of profit, they cannot pay dividends out of capital or borrow money to pay dividends when there is loss. This means that payment of dividend is not mandatory for any firms. Most of the equity holders in corporate world and other stakeholders measure firm's performance based on its ability to pay dividends. This means that non-payment of dividends by a firm, for consecutive periods, can send a negative perception to the market about the future of the firm (Amidu, 2007). While a group of investors may prefer immediate cash dividends, others may be interested in capital appreciation (Huang, & Chen, 2009). Ordinarily low income earners are presumed to be more interested in regular dividend payment than high income earners, because they need more money to augment their basic earnings. For the fact that high income earners already have surplus money than what they actually need for their normal daily activities, it is expected that they would prefer capital appreciation to immediate cash dividends (Salih, 2010; Munaza & Shahid, 2017). According to Khan, Chakir & Khalid (2019), dividend policy determines firm's performance, and invariably it will affect firm's value (Harjito & Martono, 2013).

2.1.2. Investment Decision

Investment decision is the process of allocating available financial resources among the best investment opportunities. It is a question of where to invest the available economic resources. It involves putting money in any cash-generating assets with the primary aim of earning additional returns for the business owners. Investment is mostly long term in corporate setting, and it can range from investment in property, plant and equipments, investment in equity and debt instruments of other firms to business acquisition (Reza & Sumani, 2021). Irrespective of investment types, the primary motive is for growth and expansion capable of increasing shareholders' wealth and firm's value (Harjito & Martono, 2013). In this context, long-term investment can be financed by retained earnings, borrowings and share issues depending on the investment guideline of individual firms. Investment decision is a critical decision making process that requires a lot of care because it usually involves commitment of a large sum of money. A wrong investment decision can negatively affect normal business activities, profitability and firm's value, however, good investment decision will likely improve shareholders' wealth and firm's value (Hadi, 2019; Khan, Chakir & Khalid, 2019).

2.1.3. Firm's Value

Firm's value is the economic worth of a business. It is the worth of a business expressed in monetary terms. Value of a business also represents price at which it can be traded in any active transaction. Firm's valuation is usually required for merger, acquisition and liquidation purposes. Firm's value can be determined through different methods which include book value method, market value method, present value method, dividend capitalization method, earnings capitalization method and other methods (Alkan & Demireli, 2007). Book value method is net asset based approach where firm's value is calculated as total assets minus total liabilities (Reza & Sumani, 2021). Although this method looks simple, it may not represent the true value of a firm due to certain accounting principles like historical cost concept and prudency concept which underpin financial statements preparation. Under market value method, firm's value is determined as share price multiplied by the number of outstanding shares. This method is also simple to apply, but its applicability is limited to listed firms whose official share prices are always readily available at stock exchange (Ata & Ağ, 2010; Hermuningsih, 2012). However, present value method, dividend capitalization method and earnings capitalization method are rarely used in firm's valuation in real life situations because they require a lot of personal assumptions in their application, and are also fraught with many uncertainties. For instance, the use of present value method requires accurate forecast of future cash flows and selection of appropriate discount factor, dividend capitalization method requires accurate forecast of annual dividends and selection of appropriate capitalization rate while earnings capitalization method requires accurate forecast of annual earnings and appropriate capitalization rate. In reality, all these forecasts are difficult to make because they rely heavily on assumptions.

2.2. Empirical Review

In Sorin's (2016) study, the investigation centered on the influence of dividend policy on the valuation of non-financial firms listed on the Bucharest Stock

Exchange. The results disclosed that the positive impact of the dividend pay-out ratio on firm value persists even after considering other firm-specific variables. Sergius and Sri's (2022) empirical evidence encompassed an examination of the effects of dividend policy, investment decisions, leverage, profitability, and firm size on firm value. The outcomes indicated that dividend policy does not exert a significant impact on firm value, investment decisions lack influence on firm value, leverage positively affects firm value, profitability positively contributes to firm value, and firm size does not affect firm value. In the study by Sugeng and Yusna (2019), an analysis was conducted on the direct and indirect effects of financial decisions and dividend policy on firm value, with investment decisions serving as a mediation variable. The research findings underscored the significant indirect effect of funding decisions and dividend policy, with investment decisions as mediation, on firm value. In their 2017 study, Lihard and Ramon investigated the effects of dividend policy, firm size, and productivity on firm value. The results of the analysis indicated a significant negative impact of dividend policy on firm value. Furthermore, firm size exhibited a positive and significant influence on firm value, while the productivity of the company positively and significantly contributed to firm value.

Martin, Peter, Robert, and Rafael's 2023 study uncovered evidence suggesting that investors assess dividends differently based on their level of trust. The research indicated that dividend-paying companies enjoy a market value premium compared to non-payers, particularly when their investor base displays lower levels of trust. Obaid's 2016 research delved into the repercussions of capital structure and dividend policy on the firm value of non-financial firms listed on the Karachi Stock Exchange in Pakistan. The study's outcomes highlighted that various variables related to capital structure and dividend policy have a significant impact on the firm's value. In a 2017 investigation, Akram explored the influence of dividend payments on the value of firms listed on the Istanbul Stock Exchange. The findings demonstrated a positive and significant relationship between dividend payments and the value of firms. In their 2020 study, Sourav, Abhijit, and Kalpataru explored the relationship between dividend policy and firm value within the context of financial crises. The findings suggested that dividend policy does not conclusively determine firm value. However, the study noted that the association between dividend behavior and firm value was influenced by financial crises.

In their 2021 study, Meutia, Apridar, Mursidah, Mastuti, and Fuad explored the direct associations between firm value and investment decisions, financing, dividends, and agency costs. The findings strongly endorsed the model, highlighting that investment decisions, financing decisions, dividend decisions, and agency costs all contribute positively to firm value. Moreover, the study uncovered an indirect influence, indicating that agency costs play a significant mediating role in the relationship between investment decisions, financing decisions, and dividends on firm value. Chinnaiah (2020) demonstrated that while there is a positive association between dividend payout and a firm's value, this correlation lacks statistical significance. In their 2021 research, Bambang, Grahita, and Prihat explored how profitability impacts the firm value through the dividend policy of listed manufacturing companies. The results of the analysis demonstrated a significant and positive influence of profitability on dividend policy. Moreover, the study indicated that dividend policy, in turn, has an effect on firm value. However, the investigation did not identify a mediating role of dividend policy in the relationship between profitability and firm value. In their 2022 study, Ulfah, Sudarto, and Rio explored the relationship between dividend payouts and firm value. The results revealed a favorable influence of the dividend payout ratio on firm value. Additionally, the research underscored that institutional investors enhance the positive impact of dividend payouts on firm value.

In their 2023 investigation, Jaja, Ardi, Erik, Audrey Amelya, Alfina, and Anggi focused on elevating firm value through investment decisions, moderated by corporate social responsibility and profitability in emerging markets. The findings revealed a detrimental impact of investment decisions on firm value, and this effect was accentuated by the involvement of CSR and profitability. Abdullah, Masdar, Budiandriani, and Nurwanah (2022) explored the repercussions of investment decisions on firm value, uncovering a positive and substantial influence of investment decisions on firm value. In their 2019 study, Nurlela, Sulastri, Umar, and Agustina explored the interplay of investment decisions and financing decisions on firm value, introducing profitability as an intervening variable. The findings indicated a negative impact of investment decisions on firm value. In their 2022 study, Abdul, Drahomira, Sarfraz, and Tien delved into the connection between firm-level investment and firm performance, taking into account the moderating role of economic policy uncertainty in the manufacturing sector of Pakistan. The findings revealed that the moderating impact of economic policy uncertainty has a negative and significant effect on both investment and firm performance. In their 2022 study, Ayu and Gde delved into the impact of profitability, investment opportunity set, liquidity, and dividend policy on the firm value of property, real estate, and construction companies in Indonesia. The analysis results revealed that profitability negatively and significantly affects firm value, the investment opportunity set (IOS) has a positive and significant influence on firm value, and liquidity does not wield a substantial effect on firm value. Following the above, it is hypothesized that:

H_{01}: Dividend policy does not significantly influence firm's value among listed financial service firms in Nigeria.

H_{02}: Investment decision has no significant influence on firm's value among listed financial service firms in Nigeria.

H_{03}: Investment decision has no significant moderating role in the relationship between dividend policy and firm's value among listed financial service firms in Nigeria.

2.2. Conceptual Framework

Figure 1 below is a diagrammatic representation of how investment decision moderates the relationship between dividend policy and firm's value among listed financial service firms in Nigeria.

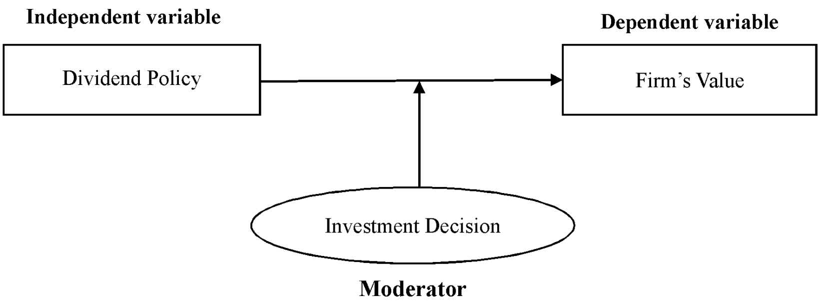

Figure 1

3. METHODOLOGY

The researcher utilized an ex-post facto research design, considering the time series nature of the data, for the study. The study population comprised all listed companies within Nigeria's conglomerate as of December 31, 2022, totaling six companies on the Nigerian Exchange. Subsequently, five companies were selected as the sample size using purposive sampling technique. The sampled companies for the study comprise Chellarams Plc, Custodian Plc, John Holt Plc, Scoa Nig. Plc, and Transnational Corporation Plc.

Secondary data sourced from the audited annual reports of these companies were analyzed, covering a five-year period from 2018 to 2022, using descriptive statistics, correlation, and regression techniques. Descriptive statistics were employed to provide a summary of the data, including measures such as minimum, maximum, mean, and standard deviation. Correlation analysis was conducted to examine the degree of relationships between the variables studied. Regression analysis was utilized to ascertain both the magnitude and direction of the impact of profitability on dividends, as well as to assess how liquidity moderates this influence within the sampled companies.

Table 3.1: Measurement of Variables

	Type of variable	*Measurement*
Dividend	Independent variable	Actual annual dividend payment (Sugeng & Yusna, 2019).
Investment	Moderator	Changes in non-current assets (Reza & Sumani, 2021; Abdullah, Masdar, Budiandriani, & Nurwanah, 2022).
Firm's value	Dependent variable	Book value (Alkan & Demireli, 2007).

Model used in the work of Abdullah, Masdar, Budiandriani, and Nurwanah (2022) was adapted in the current study to analyze how interaction of investment and dividend influences firm's value among firms in the conglomerate category listed on Nigerian Exchange. The model is as specified below.

$$FV = \lambda_0 + \lambda_1 DIVD + \lambda_2 INVT + \lambda_3 DIVD{*}INVT + \mu$$

FV = Firm's value

DIVD = Dividend

INVT = Investment

λ_0 = Constant

$\lambda_{1,}\ \lambda_2\ \&\ \lambda_3$ = Coefficients of independent variables

μ = Error term

4. RESULTS

4.1. Descriptive Statistics

The descriptive statistics in table 4.1 below provides summary of data collected for the study. From table 4.1, it can be observed that dividend had a minimum value of 0.00 and maximum value of 3235.03, however, its mean value is

700.09 with a standard deviation of 1117.44. The statistics above indicate a poor performance in the dividend payment among most of the investigated companies. Table 4.1 also reveals that investment had a minimum value of -18655.16 and maximum value of 27792.10, however, its mean value is 1402.19 with a standard deviation of 7147.65. The statistics is an indication of poor investment among most of the investigated companies in the study period. Besides, The table shows that firm's value had a minimum value of -6085.07 and maximum value of 63048.64. Meanwhile, its mean value is 13511.68 with a standard deviation of 18860.31. These statistics imply that majority of the investigated companies had poor firm's value while only few of them had average firm's value.

Table 4.1: Descriptive statistics

	Minimum	*Maximum*	*Mean*	*Std. Deviation*	*Skewness*	*Kurtosis*
DIVD	0.00	3235.03	700.09	1117.44	1.389	0.318
INVT	-18655.16	27792.10	1402.19	7147.65	1.305	1.890
FVL	-6085.07	63048.64	13511.68	18860.31	1.042	0 .144

Furthermore, table 4.1 above reveals that the three variables of the study including dividend, investment and firm's value had Skewness and Kurtosis values that fall within the recommended range of -2 to +2 and -7 to +7 respectively (Bryne, 2010), thereby providing a sufficient statistical evidence that the data used for the study were normally spread around the mean value.

4.2. Correlation Matrix

Table 4.2 below shows degree of association between each pair of the study variables. From the table, it is shown that dividend and investment had correlation coefficient of 0.156. This means that a positive relationship subsists between the variables and the extent of the association is low as it is just 15.6%. Moreover, the table reveals that dividend and firm's value had correlation coefficient of 0.518 which represents 51.8%. This indicates a positive relationship between the variables, and the extent of the relationship is considered to be moderate. Besides, the table reveals a correlation coefficient of 0.234 between investment and firm's value. The relationship between the two variables is positive, and the extent of their correlation is considered to be low considering the size of their coefficient which represents 23.4%.

Table 4.2: Correlation

	DIVD	*INVT*	*FVL*
DIVD	1		
INVT	.156	1	
FVL	.518	.234	1

4.3. Multi-collinearity Test

In a multivariate analysis, it is imperative to ensure absence of any possible multi-collinearity between the independent variables in the study. Going by this, the study carried out a multi-collinearity test and the test results are shown in table 4.3 below. Based on the thresholds suggested by Hair, Anderson, Tatham, and Black (1995), it can be concluded that there is no evidence of multi-collinearity between dividend and investment as their tolerance values are more than 0.1 but not more than 1, while their variance inflation factors are greater than 1 but not more than 10.

Table 4.3: Collinearity Statistics

Model	*Tolerance*	*VIF*
DIVD	.561	1.783
INVT	.453	2.207

4.4. Regression Result

To establish how dividend policy influences firm's value and the moderating role of investment, the study ran a regression analysis and the test results are displayed in table 4.4 below. From the table, it shows that the R^2 of the model used in the study is 0.294 which interprets that 29.4% of variation in firm's value can be linked to dividend and investment, while 70.6% might be due to external variables. Table 4.4 also reveals that the regression model has F-statistics of 2.917, and this confirms that the model is a good model.

Table 4.4: Regression Result

Model	*Coefficients*	*T*	*Probability*
(Constant)	7042.95	1.742	0.096
DIVD	0.527	2.154	0.043
INVT	0.199	0.729	0.474
DIVD_INVT	-0.069	-0.210	0.836
R	0.542		
R-Square	0.294		
F-Statistics	2.917		
Probability of F-Stat.	0.058		

a. Dependent Variable: FVL

b. Predictors: (Constant), DIVINVT, DIVD, INVT

Furthermore, table 4.4 shows that dividend has coefficient of 0.527 with probability of 0.043. This indicates that one unit change in dividend will likely directly result in 52.7% change in firm's value. Considering its probability value which is less than 0.05, it suggests that the expected change in the firm's value as a result of change in dividend is significant. The implication of this result is that a firm can improve its value by implementing a good dividend policy. This result is supported by signaling theory of dividend which proposes a positive relationship between dividend payment and firm's value. It is believed that regular payment of dividend by firms can easily send a positive signal to the market about the future prospects of the firms, and this, in turn, is expected to positively influence firm's value in the market. While these findings are in line with the outcomes of the research conducted by Sorin's (2016); Obaid (2016), they are inconsistent with the findings in the study of Sergius and Sri's (2022); Lihard and Ramon (2017).

Moreover, table 4.4 above shows that investment has a coefficient of 0.199 with probability of 0.474. The result means that one unit change in investment is expected to change firm's value by 19.9% in the same way, although the expected change is insignificant considering its probability value. The implication of this result is that firms can also improve their value, to a little extent, by increasing their investment in capital projects. Investment in capital projects means business expansion, and if strategically executed, it will possibly generate more income for the firm and thereby increasing its value. To the extent of literature reviewed, results of the current study represent inconsistence with the findings of most of the previous studies such as Jaja, Ardi, Erik, Audrey Amelya, Alfina, and Anggi (2023), Abdullah, Masdar, Budiandriani, and Nurwanah (2022), and Nurlela, Sulastri, Umar, and Agustina (2019).

However, the table above shows that interaction of dividend with investment has a coefficient of -0.069 with probability of 0.836. The result indicates that interaction of the above two variables may not have any moderate effect on how dividend influences firm's value among the sampled firms due to the negligibility of the coefficient of interaction term, and insignificance of the probability value which is far more than 0.05. The implication of this result is that inability of a firm to properly manage and maintain balance between its dividend policy and investment decision may negatively influence its profitability and thereby impair its value.

5. CONCLUSION AND RECOMMENDATIONS

This study explored the moderating role of investment in the relationship between dividend policy and firms' value among firms in the conglomerate sector in Nigeria. The study is empirical, and data were obtained from the audited financial statements of the sampled firms. These data were, however, analyzed using regression analysis and findings are discussed in the section above. It is on this basis, that the study concludes that dividend payments among the sampled firms will positively influence firms' value to a greater extent. It is also concluded that investment will possibly influence firms' value, although the influence may not be much. Meanwhile, the study concludes that interaction of dividend payment and investment may not in any way significantly affect firms' value. This, however, may be due to trade-off between dividend and investment, because it will be difficult, if not impossible, to optimize dividend payment and investment at the same time. This means that one has to be sacrificed for the other as the two cannot be successfully pursued together. Following this, the study recommends that firms in the studied sector should take necessary actions to put them back on the path of regular dividend payment in order to improve their market value as well as shareholders' fund. This is actually expected because regular payment of dividend by a firm creates positive perception about the prospects of the firm among the investors in the market, thereby increasing the firm's value. It is also possible that payment of dividends regularly by a firm will attract new investors and encourage existing shareholders to retain their investments. This, however, can easily provide more funds for the firms that can be used for business expansion capable of generating more profit for the firms and creating more wealth for the owners. In addition, the study recommends that firms in the studied sector should invest more in capital projects that will increase their profit generating capacity which is capable of leading to increased firm's value in the future.

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