CHALLENGES OF THE IMPLEMENTATION OF IFRS IN LESS DEVELOPED AND DEVELOPING COUNTRIES

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ABSTRACT

International Financial Reporting Standards (IFRS) are set of Accounting Standards developed by the International Accounting Standard Board (IASB) that is the global standards recognized for the preparation of companies financial statements. International financial reporting standard (IFRS) has a lot of challenges as it were, this paper tends to look at these challenges as it affect financial reporting in developing and less developed countries. This paper also looks at network effect of IFRS, the importance of IFRS, and gave appropriate recommendations that will aid effective implementation of the international financial reporting standards (IFRS)

KEY WORDS: Financial Reporting, IFRS adoption and challenges, Accounting Standards and Developing Countries

1.0. INTRODUCTION

Over the years, there have been new introduction and additions to the contents of financial reporting, these new introduction and additions are as a result of the changes in the Scio-political and economic environment, across the globe. According to (Abel 2011) financial accounting information are statutorily required to be prepared in line with universally accepted assumptions, principles and conventions of accounting which aid intra-firm, inter-firm and industry comparisons overtime. This comparison can cut across borders from one country to another when the international financial reporting standard is adopted. Since inception of IFRS, many developed and developing countries like Nigeria, Benin, Burkina Faso, Botswana, The Democratic Republic of Congo, Cote d'Ivoire, Ethiopia, Kenya, Togo, Tanzania, Uganda, Zambia, Korean, Bangladesh, Libya e.t.c. have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. The foremost countries to adopt the IFRS standards were countries around Europe. This was due to the derivatives of the European Union (EU), which mandated all listed companies in the

European Union to start the adoption and implementation of the IFRS in their financial reporting by year 2005. In fact the year 2005 to 2009 was regarded by the IASB to provide a stable platform for EU companies that started implementation in 2005. Presently more 120 countries are reported to have adopted or converged with at least IFRS1. The adoption and implementation of international standards in a country takes place in an environment that is affected by factors unique to that country; for example the economy, politics, laws and regulations and cultures. A reason that seems to cut across countries for not fully incorporating IFRS is the irresistible urge to amend the international standards to rove for national specificities and the various challenges be it financial and otherwise that the convergence will bring.

Thus the objective of this paper is to look at the challenges of Adopting International Financial Reporting Standards in developing and less developed countries.

2.0.   LITERATURE REVIEW
2.1. INTERNATIONAL FINANCIAL REPORTING STANDARDS.

The International Financial Reporting Standards (IFRS) started with the formation of the International Accounting Standards Committee (IASC) in 1973 as a result of an agreement by professional accountancy bodies of major countries (United Kingdom and Ireland, United States, Australia, Canada, France, Germany, Japan, The Netherlands and Mexico) to develop a set of accounting principles across the globe. In its early days, the IASC were aimed at promoting best practices in the preparation of financial statements while permitting different treatments for given transactions and events.

Aghator & Adeyemi (2009) stated that with the dawn of globalization and increasing demand for transparent, comparable financial information in the markets, the IASC was restructured in the year 2001 by creating the International Accounting Standards Board (IASB), among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, comprehensive and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.

Consequently the IASB has since inception issued a number of IFRS and interpretations. In pursuance of its objectives, the IASB cooperates with national accounting standards setters to achieve convergence in accounting standards in the world. IFRS are developed through an international due process that involves accountants, financial analysts and other users of financial statements., the business community, stock exchanges, regulatory and legal authorities, academia and other interested individuals and organizations from around the world.

Aghator & Adeyemi (2009) opined that International Financial Reporting Standards (IFRS) refers to a series of accounting pronouncements published by the International Accounting Standards Board to help preparers of financial statements, throughout the world, produce and present high quality, transparent and comparable financial information. Currently, most financial statements prepared for reporting in Nigeria especially for Public Listed Entities and Significant Public Interest Entities in Nigeria and Other public Interest Entities are drawn up in accordance with requirements of IFRS,

with this Nigeria reporting entities are using the same frame work as their peers worldwide, which would enhance the relevance of their reports in the international arena. In recent times, we have seen many countries in Africa as well as in European Union countries adopting IFRS as the financial reporting framework, though this adoption is subjected to some modifications in alliance to countries GAAP to aid credible and reliable information.

2.2. DEVELOPING COUNTRIES AND LESS DEVELOPED COUNTRIES

Developing countries are also called poor countries or sometimes underdeveloped economies. Using the United Nations classification, countries with less than $400 level of per capita income are called low income countries and countries with less than $750 per capita income are called less developed countries or economies.

Their characteristics include

- Average income per capita of the population is generally low
- Low education level
- Life expectancy is low
- High dependency on a particular sector of the economy e.g agriculture, oil.
- Underutilized natural resources
- Lack of capital and advance technology
- Lack of basic infrastructure
- Population growth per year is high
- Mortality rate is relatively high
- High unemployment figures
- Commodity exports of raw materials rather than processed food
- Low industrial network
- Less foreign direct investments
- Weak/ semi- strong stock exchange markets
- Currency depreciation

2.3.THE NETWORK EFFECT OF IFS

Iyoha & Jafaru (2011) posit that the decision to adopt IFRS by many countries is deeply rooted in the understanding that IFRS has a positive "Network" or "Sociability" effect. The Network effect is said to exist where the value of a product or service is expected to increase typically exponentially when more people use the product or service. Therefore, as more and more countries adopt IFRS, it becomes more appealing to others that are yet to consider the adoption. Notwithstanding that a number of challenges have been observed and experienced by countries in their decision to adopt IFRS; its worldwide adoption has been promoted on the premise of its perceived benefits which are considered to outweigh the costs. Proponents of the adoption of IFRS argue that there are a number of benefits which can be gained from greater cross-country comparability of firms' financial reports. Barth (2007), for instance, argues that by adopting a common body of international standards, countries can expect to lower the cost of information processing and auditors of financial reports can be expected to become familiar with one common

set of international accounting standards than with various local accounting standards. The argument here is that countries choose to adopt IFRS when they expect to increase the share of foreign capital and trade in the economy. In this sense, even countries with low levels of foreign capital and trade can choose to adopt IFRS if they are expecting growth in those sectors.

On the contrary, opponents argue that one single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures (Armstrong, Barth, Jagolinzer, and Riedk, 2007). In countries where the quality of governance institutions is relatively high, IFRS adoption is likely to be less attractive as high quality institutions represent high opportunity and switching costs to adopting international accounting standards. However, in many developing countries, the quality of local governance institutions is low and thus these makes adoption of IFRS attractive to them (Ball, Kothari & Robin, 2000 and Leuz, Nanda &Wysocki,2003). Such countries are likely to suffer from corrupt, slow-moving, or ineffectual governments that are resistant to or incapable of change (La Porta, Lopez-de-Silanes, Shleifer, & Vishny., 1999). In these countries, the opportunity and switching costs are lower and thus, the chance to adopt an externally developed body of accounting standards presents an advantage. Thus, among countries with less developed institutions like Nigeria, Kenya, Togo, Bangladesh, Libya, South Africa e.t.c. the decision to adopt IFRS is likely to be driven by lower opportunity and switching costs.

2.4. CHALLENGES OF IFRS ADOPTION PROCESS IN DEVELOPING COUNTRIES

Obazee, (2007) opined that the principal factors affecting the implementation of IFRS in Europe, America and the rest of the world are cultural issues, mental models, legal impediments, educational needs and political influences in those countries rather than the most widely perceived technical issues. This goes a long way to explain Siaga's (2012) statistics which shows that despite 40% of African country have access to IFAC only 28% of IFAC members in Africa have adopted IFRS. This then shows that it's not about the technical problem but the other factors as opined by Obazee, 2007. Cairns, (2001) in his research said that there have been varying levels of compliance with IFRS despite claims by companies that their financial statements are IFRS compliant. This is in consonance with Daske, Hail, Leuz & Verdi, (2008) and ball (2006) who opined that presently most IFRS adoptions are in labels and with various versions which are inconsistent with IASB's prescription. Cairns, (2001) went further to say that failure of auditors to express opinion on IFRS compliance or non-compliance is equally disturbing. He concluded by saying the major challenge for implementation of IFRS will be the enforcement mechanisms of IFRS especially in jurisdictions with weak institutions and enforcement agencies. Besides there are lots of uneven applications, breeding different IFRS versions (Tsakumis, Campbell & Douphik, 2009). Nobes (2006) has indicated the motivations and opportunities for different IFRS to continue, there must a coordinated regulatory review and enforcement mechanism to facilitate consistent application. The complexity of certain IFRSs and tax orientation of most nations have been identified as the two most significant impediments to convergence (Larson & Street, 2004).

Ball (2006) stressed the challenges that most countries will face in adopting and implementing IFRS is that of changing culture and developing systems of regulation and

accountability. He opined that there are cultural, language, regulatory and accounting profession challenges as well as demands for greater accountability and wider political participation and embracing of necessary political reforms faced by countries in adopting IFRS. In fact embracing globalization and adopting IFRS has challenges as it makes necessary reforms to a country's regulatory, legal and economic structures and adaption of its culture to the West. Ball went further to explain that there will be need for training and education for investors, accountants, auditors, preparers and users of financial reports etc, development of IFRS curricula at the university and other level, adjustment of the accounting training and education to incorporate IFRS, the legal system must be conversant with the new IFRS standards as it applies to tax issues and other applications of laws all these recommendations involves cost which is also a challenge.

Rong-Ruey (2006) in his research explained that the implementation challenges of IFRS include: timely interpretation of standards, continuous amendment to IFRS, accounting knowledge and expertise possessed by financial statement users, preparers, auditors and regulators, while the research by Ball, Robin & Wu (2003) included managerial incentive. These cultural issues, mental models, legal impediments, educational needs and political influences make harmonization and moving from one tradition to another difficulty. This is in agreement with the views of Armstrong et al.,(2007) and Soderstrom & Sun (2007) both of whom concluded that cultural, political and business differences may continue to impose significant obstacles in the progress towards a single global financial communication system because a single set of accounting standards cannot reflect the differences in national business practices arising from differences in institutions and cultures. Although IFRS has a lot potentials as exclaim by Ball (2006) and Choi & Meek (2005) to include cross-border comparability, increase reporting transparency, less information costs, increase the liquidity, increase competitive advantage etc. all this benefits cannot be realized if individual and countries cannot overcome their perception about IFRS, this is because negative perception at most times brings about negative out come. To buttress this fact Winney, Marshall, Bender & Swiger, (201I) found that small businesses in the US were not prepared for IFRS because they do not see benefits in switching from GAAP to IFRS.

Schachler, Al-Abiyad, & Al-Hadad, 2012; Laga, 2012; Masoud, 2014 they all in their researches stressed that implementation of IFRS in Libya will be difficult due to the various challenges such implementation will face such as lack of technical skills and inadequate knowledge of Libyan professional accountants, the difficulty to develop its existing accounting systems, and a regulatory framework to cope with economic and social development, recent evolution in accounting profession including international financial reporting standards application, and inadequate education and training of accountants. In expanding the views of Schachler et al., 2012; Laga, 2012; Masoud, 2014, Mohamed (2014) in his research on the challenges of international financial reporting standards(IFRS) Adoption in Libya concluded that that weakness of professional accountancy body, lacks of an independent oversight body, inconsistency of existing laws and regulatory frameworks of accounting in Libya with recent development of accounting profession, economic growth in Libya, lacks technical skills and inadequate knowledge of Libyan professional accountants and weak accounting education all poses a challenge to the implementation of IFRS in Libya. The challenges of adopting IFRS in Kenya as discussed in the United Nations Conference were:

gap between education in Kenya and the requirements of IFRS, the lack of training and inability of accountants and professional bodies in Kenya to remain abreast of the standards issued by IASB and lastly, lack of Kenya representative in the standard setting process (UNCTAD, 2008), this is consistent with Katto (2010)   who presented the challenges African will encounter during implementation include the lack of professional accountants, lack of awareness of the value of audit and professional accounting bodies and stock exchanges do not exist in all African countries to promote financial reporting. South African is not left out as some of the challenges they will face relates to high cost of convergence and implementation, the realization that the complexity around the standards was greater than anticipated. All this view is also in consonance with the view of Irvine & Lucas (2006), who suggested that the UAE, in embracing globalization and adopting IFRS, will need to develop appropriate regulatory systems to overcome cultural issues relating to secrecy and fraud, Gyasi, (2010) who found that external environments such as legal affects the adoption of International Financial Reporting Standards in developing countries in general and in Ghana in particular, Judge & Pinsker, (2010) who found that foreign aid, import penetration, and level of education achieved within a national economy are all predictive of the degree to which IFRS standards are adopted across 132 developing, transitional and developed economies. Also in Bangladesh, Hossen (2014) opined that for IFRS to be fully operational in the country, a strong accounting, institutional framework must be placed to manage the changes of IFRS, legal systems should be well developed to aid swift implementation the IFRS, Government need to establish an independent oversight body like the Financial Reporting Council (FRC) that will be responsible for setting accounting and auditing standards, monitoring compliance with accounting standards, reviewing auditors' practice and reviewing reporting practices and enforcing sanctions for violations and also better educational training for students and regular training for practionars.

In Nigeria some of the challenges of the implementation of IFRS as posited by Abdulkadir (2012) includes – poor enlightenment campaign, shortage of manpower for IFRS implementation, associated problems in higher institutions, lack of training resources, the tax implication, Another problem inherent with the adoption of IFRS is the universal tendency to resist change (NASB 2010). Gambari (2010) opined that the successful adoption of IFRS entails assessing technical accounting, tax implications, internal processes, and statutory reporting, technology infrastructure, and organizational issues. Adejoh & Hasnah (2014) also is of the opinion that IFRS implementation posse's major challenges for tax practice in Nigeria. For example, capital expenditure incurred is not tax deductible under Company Income Tax Act (CITA) in lieu of this CITA grant capital allowances to deserving tax payers which in some cases may be higher than depreciation expenses instead, IFRS decide to prescribe a tax depreciation rate for repair of plant and machineries. This will significantly affect the income statement and statement of financial position as there will be increase in net worth and increase in profit which may not be the true state of the financial statement. Another major challenge of IFRS implementation in developing countries is the ideal of developed countries wanting to dominant the IASB structure and standards setting process to the detriments of the developing countries through strong lobbying and opposition (Ball, 1995,Nobes & Zeff,2008), to further buttress this point, Rahaman, & Mir, (2004) opined that International Financial Reporting Standards are "carbon copies" of standards originating from the UK and the USA with strong

orientations towards maximizing shareholders wealth rather than the social functions of accounting. Most developing countries have weak or even no structures to develop good accounting system and for that reason Ayuba, (2012) said that the first point of call when it comes to accounting issues is crafting and developing meaningful accounting system rather than adopting already structured standards from the developed countries..This ideal of Dominance will continue to pose challenges until it's squashed because Adopters need assurance of IASB true independence with stable funding, expert staffing, appropriate governance to ensure standards setting process is free from undue influence and politicization maneuvers. This will ensure IASB legitimacy and assure the confidence of market participants and adopting nations around the world (Saudagaran, 2006).

It should be noted that the importance and benefit accrues to adopting IFRS should be weighed with the cost or challenges before taking any decisions. The adoption and implementation of IFRS standards should not be a rushed decision because of the daunting effects it could have on the economy. Many developing countries reasons for adopting IASs in full or part is for them to be accepted in the international community and to prevent the problems that arise where there is a limited resource in terms of human, technical, logistics or otherwise to prepare national standards (Assenso-Okofo, Ali, & Ahmed, 2011; Ashraf & Ghani, 2005; Ball, Robin & Wu, 2003) and also with network effects of adopting IFRS (Odia & Ogeido, 2013). These reasons however should not form basis for major decisions because what good will a financial statement be if being reported under the IFRS standard becomes irrelevant, untimely, costly, incomprehensive, unreliable, does not give faithful representation to the stakeholders. So therefore, developing countries should pursue international harmonization of these accounting standards as far it does not hamper on the local accounting needs, laws and regulations. Also one of the main objectives for proposing the IFRS is to achieve a globalized capital market whereas most developing countries, Nigeria inclusive possesses weaker or no capital, then surely adopting these standards can be disastrous to some degree (Ayuba, 2012).

Despite all the aforementioned challenges of adopting IFRS in developing and less developing countries, IFRS has some benefits and they are:

2.4.1. Attraction of investment and financial support

Credible financial information which make investment decisions efficient, crucially depend on the qualitative and quantitative characteristics of information including relevance, reliability, comparability, understandability, full disclosure of underlying accounting policies, etc. As companies, seek investment opportunities in other countries or within the country, their figures must tell the real comparative story through time, across industries and jurisdictions to attract the right investment and financial support. Thus, except the goal of credible financial reporting is pursued conscientiously such that no doubts exist about the quality of the financial statements produced by companies in Nigeria, a price will inevitably be paid. As Harteneck (1997) observed, in countries where "doubt exist as to the quality, consistency or transparency of their rules, a price must be paid for the shortcomings namely lower market values for their shares and/or higher interest rates for their financing. Also The cost of raising funds depend significantly on the quality of information available to potential and existing investors as well as the basis of accounting policies applied.

Indeed, lack of knowledge of the basis of accounting implies higher risks and higher costs of raising funds. Accordingly, the cost of raising funds will be much lower with IFRS statements. Indeed, the use of IFRS will facilitate greater acceptability of financial reports by regulators and this can enhance secondary listings of companies in global stock markets. Inevitably, local stock exchange will become busier and more active as entities with IFRS-based financial reports continue to attract FDIs.

2.4.2. Bridge Communication gap with Stakeholders

Accounting and financial information users are numerous so also are their needs different. Therefore, financial information must be presented in a language that communicates effectively with the various users. IFRS, given its global appeal, enhances this communication with greater stakeholders. No conversion is required as the language of preparation is internationally understood by current and potential investors. Okpala, 2012 in his research concluded that the adoption of IFRS will increased the level of confidence of global investors and investment analysts in the financial statements of companies in Nigeria. For the multinational companies, it will help them to fulfill the disclosure requirement for stock exchanges around the world (Armstrong et al 2007., Covrig, Defond & Hung 2007).

2.4.3. Attraction of More Foreign Direct Investments (FDIs)

With more reliable and credible financial statements, the propensity to attract foreign direct investments will increase as the nation's risk profile would be known and predictable. In other words, investors are attracted to environments where the rewards are high relatively to risks. Availability of reliable information contributes to the lowering of this risk (Abel, 2011). This view is in consonance with Okpala (2012) who found out that there is a significant relationship between IFRS adoption by companies and FDI in Nigeria which in turn will improve the economy.

2.4.4. Uniformity in Accounting Language

Adoption of IFRS will lead to uniformity in accounting language across the globe which is a pre requites for the globalization of business, finance and investment with primary objective of eliminating the unnecessary complexity that exists with multiple reporting languages. As it is common knowledge, there exist differences in the classifications of financial information, levels of disclosure and accounting concepts between countries. Abel, (2011) opined that accounting terminologies can easily confuse the uninitiated owing to differences in business language. In supporting his view gave an instance on the word stock which, in most North American countries, refers to share ownership, whereas, in the commonwealth countries, the word stock is typically associated with merchandise inventory. The closest word to current in Japanese language is said to be present. While these two words (i.e. current and present) may appear to convey the same meaning, such may not be the case if used in terms of asset valuation in the preparation of financial statements. While current value is about discounted cash flow measures. In this sense, unsold stock may convey under-subscribed floatation. In commonwealth countries, this will refer to unsold inventory of finished goods. Still on current: whereas the time frame distinguishing a current and non-current liability is typically a year in the US and in IFAC standards, the cut-off point is commonly four years in Germany. In fact, Choi (1998) said it succinctly when he observed in his presentation at

the IOSCO TAIPEI 1997 conference that "Accountants inhabit a kind of Tower of Babel where we not only speak different language but also give different interpretations of the same events and transaction".

Other benefits include: The lower susceptibility to political pressures than national standards, continuation of local implementation guidance for local circumstances and the tendency for accounting standards to be raised to the highest possible quality level throughout the world. (Alfredson, Leo, Picker, Pacter & Radford, 2004). Irvine & Lucas (2006), in their study stated that some of the benefits attributed to IFRS are greater efficiency in the allocation of resources, improved and more comparable financial reporting, and a decrease in the opportunities for earnings management expression.

3. CONCLUSION AND RECOMMENDATIONS

IFRS is driving the revolutionary world of accounting with over 120 countries either requiring or permitting its use. There is no doubt that conversion to IFRS in developing countries is a huge task and a big challenge; however like we earlier said adoption and implementation of IFRS should be on the basis of cost- benefit analysis, it should not be a decision based on following the crowd or boarding the IFRS ship with others without arriving at a destination suitable for landing. All in all the decision should not be rushed it should be carefully thought through politically, legally, culturally, financially, and economically.

Based on studies undertaken on IFRS adoption in developing and less developed countries the following recommendations are hereby advanced for countries who still wants to adopt IFRS

(i)   Strengthen professional education and training. The professional accountancy bodies should align their continuing professional education requirements with IFAC guidelines. Business ethics should be taught as a separate subject in undergraduate accounting and business programs and revision to university accounting curricula should enable students to gain exposure to practical IFRS application.

(ii)   Strengthen capacity of the regulatory bodies and review adequacy of statutory enforcement provisions. Take necessary steps to strengthen capacity of regulators and improve the statutory framework of accounting and auditing to protect the public interest.

(iii)   Raise awareness of professionals, regulators and preparers to improve the knowledge gap. Issues to be addressed include the importance of financial statements prepared under IFRS framework and importance of compliance with accounting and auditing requirements.

(iv)   Establish an independent body to set monitor and enforce accounting and auditing standards and codes. The proposed body should be empowered to monitor and enforce accounting and auditing requirements with respect to general purpose financial statements.

(v)   Adequate resources should be put in place to support the sustainable implementation of IFRS. This includes having consultative groups available to respond promptly to concerns by users and to provide for their ongoing training.

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THE EFFECT OF DIVIDEND POLICY ON SHARE PRICE IN NIGERIAN CAPITAL MARKET

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ABSTRACT

This study seeks to find out how dividend policy affects share price in Nigerian capital market. The study used ten quoted companies as case study. Secondary data were used and analyzed by employing descriptive statistics, correlation and multiple regression models. Walters and Gordon models were adopted to analyze the data. The result of the study shows that dividend payout ratio, dividend per share and earnings per share are dependent on dividend policy adopted by a firm. This dependency is significant at 1%. The result supports the relevant theory of dividend policy.

Key words: Dividend policy, market price per share, earning per share, dividend per share and dividend payout ratio.

INTRODUCTION

One of the objectives of any firm quoted in the capital market is the maximization of shareholders wealth. This is partly achieved by the amount of dividend paid out each year. The amount of dividend paid out is a function of the dividend policy which determines the amount of earnings to be distributed to shareholders and the amount to be retained in the firm. The firm therefore needs to strike a balance between the amount of earnings paid out and the amount retained. This is because while dividends maximizes shareholders returns, retained earnings are viable sources of internal financing to support the firm's growth. For instance, when the immediate objective of a firm is to maximize the shareholders returns from the dividend available, this will affect the investment decision of the firm. On the other hand, a decision to raise fund for capital expenditure from dividend available will reduce cash available for dividends to distribute to shareholders.

Dividend policy has to do with how firms distribute their profits after tax. While some firms attach more importance to paying more to shareholders some believe it is better to retain substantial part of the available dividends for investment on behalf of the shareholders. Various researches have been conducted on whether or not firms should attach importance to the issue of dividend policy.

There are those who believe that having dividend policy is not important. They believe that what is important is how much income a firm is able to generate as this is what determines the firm's value. To this group how income generated is distributed is irrelevant in determining the value of a firm.

Therefore whichever way the shareholders received this income (whether by way of dividend or capital gain) is not relevant to him. Those who believe in the importance of dividend policy argue that sensitive as to whether or not their value is increased by way of dividend or capital gain. While some shareholders want dividend because they believe it increases their purchasing power, others prefer to have increase in capital gain as this will increase their future earnings. There is the need, therefore, for a firm to strike a balance between the needs of its shareholders, hence the importance of dividend policy.

The truth is that there are many internal and external factors which simultaneously affect stock prices and it is almost impossible to separate the effect of each. Therefore the variations remain.

Statement of the Problem

Controversy has always trailed the effect of dividend policy on share price. While some researchers believe that dividend payment increase firm's value, others believe otherwise. Determining the best dividend policy is therefore, difficult. For instance, Watts (1973) found that a company's current and past dividends did have a little effect on the company's future prospects. As a result, managers find it difficult to ascertain which divided policy is best for the company. Myers, Brealey & Allen (2008) opined that firms should retain dividend to finance new investment for future capital gain if dividend is taxed more heavily than capital gain. On the other hand, investors prefer high dividend policy as dividend in hand is less risky than capital gain (Lintner, 1956).

In the mix of this controversy, most firms still attach importance to dividend policy. The question then is, if dividend has impact on the value of a firm, which divided policy can best describe the relationship between dividend payout and share price?

It is against this background that this study attempted to investigate the effect of dividend policy on the share prices in ten of the quoted companies in the Nigerian capital market.

Research Questions

For the purpose of this research, attempts will be made to find answers to the following research questions.

1. To what extent does dividend affect market price of shares?
2. What is the impact of divided payout ratio on market price of shares?
3. What is the impact of earnings per share on market price of shares?

Objective of Study

The broad objective of this study was to investigate the effects of dividend policy on the share price in ten quoted firms in Nigeria Capital Market. The specific objectives were to:

(i)   Investigate the extent to which dividend affects market price of shares

(ii)   Determine the extent of dividend payout ratio affects market price of share

(iii)   Determine the extent of earnings per share affects market price of share

Research Hypotheses

The following null hypothesis are tested in this study

(i)   Dividend has no significant effect on market price of shares

(ii)   Dividend payout ratio has no significant effect on market share price

(iii)   Earnings per share has no significant effect on market share price

Scope of the study

This research was limited to studying the effects of dividend policy on share price in ten quoted firms in Nigerian Capital Market. As such, data for this study was restricted to those financial statement of companies on listed on ten quoted firms in Nigerian capital market. The study covered a time period of ten years 2005-2014.

Significant of the study

The importance attached to a study of this magnitude cannot be over emphasized as many people stand to gain from the findings. First, this study significantly contributed to the body of knowledge on the concepts of effects of dividend policy on share price by providing empirical evidence from Nigerian perspective. Presently, a serious gap exists in the knowledge as to the impact of dividend policy on share price in Nigerian Capital Market.

Variables

The variables used in this study consists of the following

Market Price of Share

The market price per share or the price per share of stock is a current measure of share price. The marker price per share is a financial metric that investors use to determine whether or not to purchase a share of a company quoted in stock market. It is usually determined by market forces of demand and supply. Share price may be volatile because of its dependence on the expectations of buyers and sellers. The market price per share is also called the intrinsic value or the actual value based on the actual variables taken from the company's financial statements. The current trading price is based on investors' buying and selling behavior. If investors are paying more than the intrinsic value, then the share is overvalued. If they are paying less than the intrinsic value, then the stock is undervalued which is favorable for such investors. The empirical study conducted by O'Hara, Lazdowski, Moldovean and Samuelson (2000) has proved that share price is directly related to the earnings of the firm as well as to the dividends declared by the firm. However, when viewed over short periods, the relationship between share price, earnings, and dividends could be irrational. In this study market value of shares is the dependent variable of the study.

Dividend Payout Ratio (DPR):

The dividend payout ratio is the percentage of earning paid to shareholders in dividend. It provides an indication of how much money a company is returning to shareholders versus how much money it is keeping on hand to reinvest in growth, pay off debt or add to cash reserves. This latter portion is known as retained earnings. Investors can use the payout ratio to determine what companies are doing with their earnings. Hussainey, et al (2011) found negative relation between stock market prices and dividend payout ratio while Nishat and Irfan (2003) found positive relation between stock market prices and payout ratio.

Dividend Per share

This is the total dividends paid out over an entire year (including interim dividend but including special dividends) divided by the number of outstanding ordinary shares issued. The amount of dividend may fluctuate over years and may not be related with earnings. Bougatef (2011) found that there is a positive relationship between cash dividend and stock prices.

Earnings per Share

Earnings per Share is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. The earning per share (EPS), together with its changes from period to period is an important measure of an entity's profitability. Its importance has been underscored in its uniform computation and disclosure on the firm's financial statements in a consistent form over the years. In Nigeria, all publicly quoted companies are required to present specific earnings per share on the face of the financial statement. O'Hara, Lazdowski and Moldovean (2000) included three (3) financial variables in their study. The main objective was to find some corporate financial measures that would correlate with share price that would, on the average, generate returns that are higher than the S&P500 index over an extended period of time. They found, among others, that companies which increased their earnings per share on a consistent basis would show a strong positive correlation between earnings per share and share price.

Theoretical framework

There are different type of theories but based on our study, many authors argued generally that the amount of the dividend is irrelevant, and anytime spent on that decision is a waste of energy. Others contend that a high dividend will result in a high stock price while others take the view that dividends actually hunt the stock value .The theories are categorized into Bird in the hand theory signally theory, and tax differential of dividend policy.

Dividend Policy based on Bird-In-Hand Theory

Gordon and Lintner (1959) claimed that Modigliani and Miller made a mistake assuming lack of impact of dividend policy on firm's capital. They argued that lower payouts result in higher cost of capital. They suggested that investors prefer dividend as it is more certain than capital gains that might or might not appear if they let the firm retain its earnings. The authors indicated that the higher capital gains/dividend ratio is, the larger total return is required by investors due to increased risk. In other words, Gordon and Lintner (1959) claimed that one percent drop in dividend

payout has to be offset by more than one percent additional growth. Investors are risk averse and believe that incomes from dividend are certain rather than incomes from future capital gains, therefore they predict future capital gains to be risky propositions. They discount the future capital gains at higher rate than the firm's earnings, thereby evaluating a higher value of the share. s.

Signaling Theory

This a theory which asserts that announcement of increased dividend payments by a company gives strong signals about the bright future prospect of the company. An announcement of an increase in dividend payout is taken very positively in the market and helps building a very positive image of the company regarding the growth prospects and stability in future. Generally dividend signaling is done by the company when it changes the amount of dividend to be paid to shareholders. The investments and financing decisions of a firm are made at the management's discretion. It is argued that managers of companies use earnings as a signaling tool to convey information about the prospects of their companies, and that like dividends, if earnings convey useful information, this will be reflected in stock price changes immediately following a public announcement (Melisa, 2013).

Tax Preference Theory

This is one of the major theories concerning dividend policy in an enterprise. It was first developed by Litzenberger and Ramaswamy (1980). This theory claims that investors prefer lower payout companies for tax reasons. They based this theory on observation of American stock market, and presented three major reason why investors might prefer lower payout companies. First, unlike dividend, long-term capital gains allow the investor to defer tax payment until they decided to sell the stock. Because of time value effects, tax paid immediately has a higher effective capital cost than the same tax paid in the future. Secondly, until 1986 in USA all dividend and only 40 percent of capital gains were taxed. At a tax rate of 50%, this gives us 50% tax rate on dividends and (0,4)(0,5) = 20% on long-term capital gains. Therefore, investors might want the companies to retain their earnings in order to avoid taxes. As of 1989 dividend and capital gains tax rates are equal but deferral issue still remains. And finally, if a stockholder dies, no capital gains tax is collected at all. Those who inherit the stocks can sell them on the death day at their base costs and avoid capital gains tax payment.

Factors influencing a firm dividend policy

Dividend decision is an integral part of a company's financial decision-making as it is explicitly related to the other two major decisions – investment and financing decisions (Pilarczyk, 2016). According to him, corporate taxation influences the dividend decision in more thanone way. On the one hand, it influences the net income-after-tax of the company, which in turn, determines the capacity of the firm to pay dividends, and, on the other hand, it may have implications for the net value received by the shareholders.

Again, rate of tax play an important role in determining the dividend policy, amount of dividend declared, distributed or paid by the company. A zero-dividend payout is not uncommon for

young rapidly growing companies. However, companies may also be discouraged from paying higher dividends when these are doubly taxed once in the hands of the company and again in the hands of the shareholders. Personal income tax paid on dividend income amounts to a second tax on corporate profit (Pilarczyk, 2016).

According to Ogundowole (2012), shareholders are the owner of the company; they appoint the directors who legally decide the distribution of the earnings of the company. Therefore, directors should give due consideration to the expectation of shareholders in dividend decision. Financial needs of the company this may conflict with shareholders' desires. If shareholders have better investment opportunities, they will prefer that earning be distributed. Mature companies that have few investment opportunities may generally have high payout ratios. Their shareholders would be more interested in dividends. Share price of such companies are sensitive to dividend changes. Directors of such companies retain small portion of the earning to meet emergent financial needs and to finance occasional investment opportunities. Growth companies may have small payout ratios. They are continuously in need of funds to finance their fast growing fixed assets. Growth companies retain most of their earnings and declare bonus shares to satisfy the dividend requirement of shareholders. They slowly increase dividends as profitable investment opportunities start falling.

Constraints on paying dividends like legal restrictions, exert influence on dividend policy directors are not legally compelled to declare dividends. The companies and allied matters act no. 1 of 1990 provides that dividend shall be paid out of profit after providing for depreciation. Capital profit should not be distributed as dividends unless as permitted by the companies and allied matters act and the profit have actually been realized.

Liquidity of the company can influence dividend policy of such company. The greater the cash position and overall liquidity of a company, the greater will be its ability to pay large amount of dividends than a growing company, which needs funds for expansion. Stability of dividends: stability or regularity is considered a desirable policy by most companies rather than fluctuating ones. It has a positive impact on the market price of the share. (Ogundowole 2012)

Empirical Studies on Dividend policy

Al-Malkawi, Fafferty and Pillai (2010) tried to give a comprehensive understanding of dividends and dividend policy by reviewing the main theories and explanations of dividend policy including dividend irrelevance hypothesis of Miler and Modigliani, bird-in-the-hand, tax-preference, clientele effects, signaling, and agency cost hypotheses. They also attempt to present the main empirical studies on corporate dividend policy. They concluded that the famous statement of Fisher Black about dividend policy "the harder we look at the dividend picture, the more it seems like puzzle, with pieces that just do not fit together, is still valid.

Majanga (2015), aimed to establish if there exists a direct relationship between a firm's dividends and its stock price with particular emphasis on the Malawi Stock Exchange. The study analyses secondary data sets of thirteen local companies listed on the Malawi Stock Exchange for the

period 2008 to 2014 inclusive. Using the correlation analysis stock price as an independent variable, and dividends, retention ration, profit after tax, earnings per share and return on equity, as dependent variables, over the seven years, the study shows a strong positive association between stock prices. Based on this result, Majanga (2015) established that on the Malawi Stock Exchange (MSE), there is a strong positive relationship between a firm's dividends and its stock price on the stock market. The study further finds that stock price is an outcome of a number of factors, dividends being one of them and having a very significant contribution.

Hashemijoo (2012) examined the relationship between dividend policy and share price volatility with a focus on consumer product companies listed in Malaysia stock market. A sample of 84 companies from 142 consumer product companies listed in main market of Bursa Malasia were selected and the relationship between share price volatility with two main measurements of dividend policy, dividend yield and payout were examined by applying multiple regression for a period of six years from 2005 to 2010. The primarily regression model was expanded by adding control variables including size, earning volatility, leverage, debt and growth. The empirical result showed significant negative relationship between share price volatility with two main measurements of dividend policy which are dividend yield and dividend payout. Moreover, a significant negative relationship between share price volatility and size was found. Based on this study Hashemijoo (2010) concluded that dividend yield and size have most impact on share price volatility amongst predictor variables.

According to Fawaz (2014) examined the relationship between dividend policy and share price volatility with a focus on companies represent four sectors listed in Jordanian stock market. For this purpose, a sample of 53 companies listed in main market of Bursa Amman were selected and the relationship between share price volatility with two main measurements of dividend policy, dividend yield and payout ,were examined by applying multiple regression for a period of 13 years from 2001 to 2013. The primarily regression model was expanded by adding control variables including size, stock repurchase, and stock dividend. The empirical results of this study showed significant negative relationship between share price volatility with dividend payout and a very weak positive relationship between dividend yield and share price volatility. Moreover, a significant positive relationship between share price volatility and size is found. Based on findings of this study, dividend payout and stock dividend have most impact on share price volatility amongst predictor variables.

Abdullah, Asaduzzaman and, Rashed (2013) investigated on the effect of dividend policy on share price The most debated issue in the field of finance is over the effect of dividend policy on market price per share. There are huge literatures for and against this wisdom. The current study has been undertaken aiming at evaluating the effect of dividend policy on market price of share in the context of Bangladesh. The study has covered secondary data and analyzed the data by employing descriptive statistics, correlation and multiple regression models. It has tested hypothesis by using F test. The study has found that the effect of dividend payout is more on market price than retention. This dependency is significant at 1%. Finally, the paper concludes that the findings over the effect of dividend policy on market price supports the relevant theory of dividend policy

Abdullah (2014) examined how dividend policy decisions affect a firm's stock price, is a widely researched topic in the field of investments and finance but still it remains a mystery that whether dividend policy affects the stock prices or not. The study empirically estimates excess stock market returns for all the thirty banks listed in Dhaka Stock Exchange for the period of 2007 to 2011. Attempts are made to examine, what kind of relationship exists between dividend policy and stock market returns of private commercial banks in Bangladesh, and to what degree the returns on stocks can be explained by their respective dividend policy for the same period of time. To compare the results of this research with those conducted earlier. Sample size is large i.e. all the listed commercial banks of Dhaka Stock Exchange so the results are reliable and valid. Panel data approach is used to explain the relationship between dividends and stock prices after controlling the variables like Earnings per Share, Return on Equity, Retention Ratio have positive relation with Stock Prices and significantly explain the variations in the market prices of shares, while the Dividend Yield and Profit after Tax has negative, insignificant relation with stock prices. Overall results of this study indicate that Dividend Policy has significant positive effect on Stock Prices.

Oyinlola and Ajeigbe (2014) Investigated on the impact of dividend policy on stock prices in Nigeria, the research was conducted on 22 companies listed on Nigerian Stock Exchange (NSE) using secondary data on their firms' fundamentals as available on their respective annual reports from 2009 to 2013 and their closing quoted share prices extracted from two Nigerian Dailies – The PUNCH and The GUARDIAN. Regression analysis, Correlation analysis and Granger Causality Test were used to test research hypothesis on 110 observations and the findings reveal that both dividend payout and retained earnings are significantly relevant in the market price per share of the companies.

Adefila, Oladipo and Adeoti (2014) examined the effect of dividend policy on the market price of shares in Nigeria. The issue of how much a company should pay its stockholders, as dividend is one that has been of concern to managers for a long time. The optimal dividend policy of a firm may the methodology adopted was Person's Product Movement Correlation to evaluate the data collected from the fifteen studied companies. The study revealed among other things that, both internal and external factors affect dividend policy and hence a holistic approach to dividend policy becomes inevitable if a generally acceptable decision is to be taken.

Duke, Ikenna, and Nkamare, (2015) examined the Impact of Dividend Policy on Share Price Valuation in Nigerian Banks. This was done by utilizing data on two banks operating in the Nigerian economy (GT Bank and United Bank for Africa). The data used for this study are market price, dividend yield and retention ratio. Market price was the dependent variable while dividend yield and retention ratio were included in the independent variables. In order to accomplish the set out objectives of this study, two research hypotheses (Ho1 K Ho2) were formulated which were tested via a number of analytical techniques. These are the ADF
Unit Root Test and the ordinary least squares test. These tests were carried out with the aid of eK views software package. Based on the results gotten, the null forms of both hypotheses were rejected while the alternate forms were accepted. The results revealed that dividend yield had a

significantly positive effect on share price while retention ratio was found to have a significantly negative effect on it.

METHODOLOGY

The study adopts a cross-sectional research design with an extensive reliance on secondary data from the financial statement of quoted companies and the Nigerian Stock Exchange annual report for 2005-2014. Panel regression using a combination of the Ordinary least squares (OLS) and the Generalized Least Squares (GLS) techniques will form the data analysis method.

MODEL SPECIFICATION

For the purpose of the study we shall adopt Walter's model and Gordon's model a multivariate econometric model. The functional specification is shown thus;

$$MPS = f (DPS, DPR, EPS_U) \qquad (1)$$

The econometric specification is thus;

$$MPS = \beta_0 + {}_{\beta 1} DPS_{it} + \beta_2 DPR_{it} + {}_{\beta 3 EPS\ it} + {}_{Uit} \qquad (2)$$

Where;

MPS = Market price of share

DPS = Dividend per share

DPR= Dividend pay ratio

EPS= Earnings per share

u= Error term

PRESENTATION AND ANALYSIS OF RESULT

Table 1 Descriptive statistics

	MPS	DPS	DPR	EPS
Mean	5.43E-11	0.79	5.666667	0.543
Median	-44213.9	0	6	7.598
Maximum	835733.2	1	9	5
Minimum	-1040373	0	2	2
Std. Dev.	399546.9	0.466	1.295	1.298
Jarque-Bera	0.301	5.725	4.428	265.687
Probability	0.860	0.047	0.00	0.00

Source: views 7.0

From the descriptive statistics of the variables as shown in table 1 above, it is observed that MPS as a mean value of 5.43E-11 with maximum and minimum values of 835733.2 and -1040373 respectively. The standard deviation measuring the spread of the distribution stood at 399546.9. The mean value for DPR is 5.66 with maximum and minimum values of 9 and 2 respectively. The standard deviation stood at 1.295. Finally, the mean value for dividend pay ratio (DPS) stood at 0.79 which suggest that about 79% of the sample company pay dividend. The mean for earnings per share

(EPS) is 0.543 with a standard deviation stood at 1.298. The maximum and minimum values are 5 and 2 respectively. An evaluation of the Jarque-Bera statistics for the variables reveals that only DPS appears to be normal (P=0.047).

Table 2 Pearson Correlation result

	MPS	*DPS*	*DPR*	*EPS*
MPS	1			
DPS	-0.193.	1		
DPR	-0.478	0.109		
EPS	0.281	0.213	0.298	1

Source: Eviews 7.0

Table 2 above presents the Pearson correlation coefficient result for the variables. As observed, MPS and DPS appear to be negatively associated as depicted by the correlation coefficient (r=-0.193). DPS also shows a negative correlation with MPS (r=-0.478) while EPS was observed to correlate positively with MPS (r=0.281). DPS is positively correlated with DPR (r=0.109) and with DPR (r=0.213). Finally, EPS show positive correlation with DPR (r=0.298). The correlation coefficient results show that none of the variables are strongly correlated (r>0.50) and this indicates that the problem of multicollinearity is unlikely and hence the variables are suitable for conducting regression analysis. Next, we proceed to conduct the regression analysis.

TABLE 3 Panel Regression Result

POOLED OLS		PANEL EGLS (RANDOM EFFECTS)		PANEL EGLS (FIXED EFFECTS)	
Variable	Coefficient	Prob. Coefficient	Prob	Coefficient	Prob.
C	-0.036	0.238 0.000*	0.052	0.000	0.098
DPS	-0.192	0.101 0.000*	0.438	0.432	-0.138
DPR	-0.001	0.156 0.312	0.006	0.683	-0.827
EPS	-0.621	0.000* 0.042*	0.003	0.927	- 0.711
R²	0.167		0.33		0.89
ADJ R²	0.148	0.29		0.86	
F-Stat	8.846	1.87		31.84	
P(f-stat)	0.00	0.11		0.000	
D.W	2.1	1.9		2.1	
Hausman					
	0.021				

Source: Eviews 7.0

ANALYSIS OF RESULT

Table 3 above shows the ordinary least squares regression result conducted using Eviews 7.0. As observed, pooled, random and fixed effects estimates are presented. However, based on the Hausman test, our preferred estimates is the of the fixed effect regression. We shall nevertheless examine that of the pooled and random estimations. Using the pooled (stacked) OLS estimation and

hence assuming the absence of neither significant cross-section unit nor temporal effects, we find that the R^2 is 0.167 which suggests a 16.7% explanatory ability of the pooled OLS estimation for the systematic variations in the dependent variable with an adjusted value of 0.148. The F-stat (8.846) and p-value (0.00) indicates the joint statistical significance of the explanatory variable and is suggestive the model's goodness of fit. We find out that dividend per share has a negative effect on market price of share (-0.192) though not significant at 5% ($P>0.05$). Dividend pay ratio and earnings per share were also observed to impact negatively on the market price of share (-0.001 & -0.621) respectively with dividend per share been significant at 5% ($p<0.05$). The D. W statistics of 2.1 suggest the unlikelihood of serial correlation of the residuals in the model. Using the Random effects estimation and hence assuming the   individual effects are strictly uncorrelated with the regressors, we find that the R^2 is 0.33 which suggests a 33% explanatory ability of the random effects estimation for the systematic variations in the dependent variable with an adjusted value of 0.29. The F-stat (1.87) and p-value (0.11) rejects the hypothesis of a   joint statistical significance of the explanatory variables. We find that dividend per share, dividend pay ratio (DPR) and EPS were all observed to impact positively on the MPS respectively though none was observed to be significant at 5%. The D. W statistics of 1.9 suggest the unlikelihood of serial correlation of the residuals in the model. Finally, using the fixed effects estimation and hence assuming the omitted effects in the general model to be correlated with the regressors, we find that the R^2 is 0.86 which is high and suggests an 89% explanatory ability of the fixed effects estimation for the systematic variations in the dependent variable with an adjusted value of 0.86. The F-stat (31.84) and p-value (0.11) indicates that the hypothesis of a joint statistical significance of the explanatory variables is accepted at 5% and the model fits the data well. We find that DPS has a negative effect on the MPS as expected (-0.138) and also significant at 5% ($P<0.05$). DPR is also negative (-0.827) but not significant at 5% ($p>0.05$). EPS is also observed to impact negatively on the size of discretionary accruals (0.711) and also significant at 5% ($p>0.05$). The D. W statistics of 2.1 suggest the unlikelihood of serial correlation of the residuals in the model.

DISCUSSION OF THE RESULT

In discussing the results, we utilize the fixed effects estimations based on the Hausman test. We find that DPS has a negative effect on the MPS expected and also significant at 5%. Hence we accept (H1) of a significant relationship between DPS and MPS. Dividend pay ratio(DPR) is also negative but not significant at 5%. Hence we accept (H2) of a significant relationship between dividend pay ratio and market price of shares.

Earnings per share (EPS) is also observed to impact negatively on the MPS at 5%. Hence we accept (H3) of a significant relationship between EPS and MPS. The result provide evidence showing DPS, DPR and EPS that market value of companies will respond favourably to increases in dividend payments by companies and that earnings tend to display a stronger association with returns. The results are similar to the findings of Fawaz (2014), Abdullah (2014) and Oyilola and Ajeigbe (2014) that dividend payout and earnings are significantly relevant in the market price of shares of the companies.

CONCLUSION

This study has investigated the relationship between dividend policy and market price per share. MPS, DPS, DPR and EPS are examined. It is hypothesized that there is a significant effect of dividend policy on the share price. The regression model has shown that there is a positive relationship between the MPS and DPS, DPR and EPS. The result has also indicated that highly payout industries have more MPS than low payout industries. The study has proved that there is a significance effect of dividend policy on MPS which supports the relevance theory of the dividend policy.

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