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SHAREHOLDERS' DIVIDEND PREFERENCE IN THE NIGERIAN CAPITAL MARKET

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ABSTRACT

Aside from the fact that no legislation requires, as we believe, that management has a distinct fiduciary commitment to shareholders, no act prioritizes the shareholder. The management's fiduciary duty is solely to the corporation. Investors, on the other hand, have a votive claim to the corporation's residual value once all other obligations have been met. The aim of this survey was to empirically investigate the dividend preference of shareholders in the Nigerian capital market with specific reference to listed manufacturing firms in Nigeria. The study used the design of an investigation using questionnaires and interviews. The target population was 500 shareholders selected based on stratified random sampling out of 682,100 shareholders that is 0.07

percent of the total population. The snowball sampling technique was used to recruit potential respondents from among the shareholders' acquaintances. The study used a final sample size of 300 respondents from the shareholders. The validity and reliability of the instrument were tested using factor analysis and a Cronbach's alpha coefficient of 0.72 was obtained. The mean ranking showed that shareholders do have significant dividend preferences which favor cash dividends and support a bird in the hand is worth two in the bush explanation. Given that in practice, shareholders prefer companies with stable and predictable dividend payments, this study could be used to correct and predict the direction of a company's dividend payments and that the stability of dividend payments change over time.

Keywords: Cash dividend, capital gains, dividend policy, shareholders' preference, snowball sampling method.

INTRODUCTION

Interest in share trading has risen over the last few decades as individuals and institutions tend to invest their life savings in company stocks. This is due to a high guaranteed return on equity assets and a desire to take the high risk of high return opportunities, among others (Jain, 2007). As a result, shareholders become partial owners of a company and are entitled to dividend reimbursement as a benefit or growth in their share value. Baker and Haslem (1974) argued that the anticipated return of dividends remains the primary driving force behind investors' decision to invest in stocks. Studies by Jain (2007), Brennan and Thakor (1990), Asquith and Mullins (1986), and Bakar et al. (1985) contended that cash dividends and stock dividends are both proficient in inspiring investors to invest in stocks. However, experience has shown that a growing shareholding interest in the Nigerian stock market is boosted due to the possibility of dividend returns (Salawudeen, 2021).

Ghazali and Min (2005) stated that given the anticipated dividend stream by shareholders, share prices rise as a result. Ordinarily, the positive share price reaction in the market should be driven towards boosting shareholders' value by relaxing some stringent dividend policies for the benefit of the owners. Conversely, management is inclined to create dividend policy decisions that are unlikely to be inverted in the future (Haque et al., 2017; Marsh & Merton, 1987) which means that whether or not stock prices react positively, dividend policy decisions remain unchanged. However, extant studies by Brav et al. (2005) and Lintner (1956) have shown that the current time's dividend disbursement is not based on the prevailing time's income, although it impacts the succeeding time's earnings. Therefore, individual shareholders' cash and stock valuation requirements are crucial components of dividend relevance (Brennan & Thakor, 1990; Gordon, 1963; Lintner, 1956).

La Porta et al. (2000) concluded that countries, where legal fortification of minority shareholders' rights is critical, have better dividend payments because individual minority shareholders can pressure company insiders to pay dividends. However, in Nigeria, shareholders often complain of little or no return on their common equity assets. One primary explanation that may be responsible for this concern is that, in practice, the policy on dividends does not always represent shareholders' wishes. In a free-market society such as Nigeria, dividend policy is typically formulated because shareholders are considered to fit a specific group or clientele and prefer accurate dividend policy appropriate to their function. However, only certain shareholders (e.g., institutional shareholders and executive shareholders) have the luxury of knowing dividend policies that suit them (Salawudeen, 2021; Salawudeen et al., 2020).

In most cases, minority shareholders whose combined interest is typically more than half of the company's total shares are often disregarded. This is because the rights of minority shareholders are not protected. There is no functional legal protection of minority shareholders' rights in Nigeria. Considering the relevance of dividend payments to shareholders, especially in an emerging economy like Nigeria, it is imperative to ask whether Nigeria's shareholders have dividend preferences. Therefore, the potential ways in which dividend preferences for shareholders follow the same dividend policy pattern is an important issue that triggered this research. Accordingly, this inquiry aimed to empirically evaluate the dividend preferences of shareholders in listed manufacturing companies in Nigeria. Hence, the target population of this study comprised those that have shares in the five sectors that make up the manufacturing companies in Nigeria.

The relevance of the dividend policy cannot be overemphasized although Miller and Modigliani (1961) maintained the worthlessness of dividends. Miller and Modigliani (1961) claimed that shareholders are apathetic to yields in the form of dividends and capital gains, and therefore the policy on dividend is irrelevant. Nevertheless, this idea revolves around a world of perfect capital markets. So far, companies have been operating in an imperfect world and unfortunately, market imperfections exist worldwide, especially in emerging economies such as Nigeria. Consequently, dividends are significant to all. There is, therefore, a need to examine the relevance of dividend expectations of shareholders in Nigeria. Despite intensive theories about shareholder dividend preferences, the puzzle has yet to be fixed. This is the reason why dividend preferences of Nigerian shareholders need to be analyzed. To this end, the researcher set out to empirically evaluate and examine the dividend preferences of shareholders of manufacturing firms in Nigeria.

LITERATURE REVIEW

Empirical Review and Hypothesis Development

The practical problem that serves as the motivation for the research is that aside from the lack of a legal requirement on the rights of shareholders, we accept as true that managers and directors owe a special fiduciary duty to shareholders. The fiduciary duty is owed wholly to the corporate entity; although, investors have a contractual claim to the corporation's residual value after other commitments have been met (Steven, 2013). However, directors have the freedom to use that residual value as long as they do not use it for themselves. Nevertheless, it turns out that even as they proclaim their unwavering commitment to the interests of shareholders, corporate executives and directors perform everything in their power to limit and discourage shareholder participation in corporate governance. This clear double standard is seen where shareholders are directly disallowed from voting on executive directors or the right to recommend a competing slate of directors (Steven, 2013).

Nonetheless, shareholders' dividend preferences are borne out of shareholder maximization as investors invest to be well off. Thus, issues of shareholders' wealth revolve around two wide-ranging structural changes (that is globalization and deregulation) which are supposed to interact to boost not just economic growth but also the wealth of the shareholders (Steven, 2013 & Martins, 2002). However, in reality, these together conspired to defraud numerous corporations of huge proceeds (Salawudeen, 2021). Incidences happened during those two periods that adversely affected the returns of shareholders as the directors stayed challenged with a dilemma in making choices of which shareholders' welfare, the corporation was supposed to enhance among the various types. The implication of this is that it was easier for directors to displease shareholders than their workers. Accordingly, less of the profit generated by corporations were returned to shareholders and more of the profit was going to top executives (Martins, 2002; Steven, 2013). Martin (2002) stated that the proportion of chief policymakers' compensation to corporate proceeds amplified eight times between 1980 and 2000 and beyond. As such, several executives became more anxious with compensation, bonuses, influence, and reputation – instead of enhancing the wealth of shareholders (Pelt, 2013). Thus, protecting the trust and confidence of shareholders by members of the board in modern-day corporations has become an issue. Hence, an in-depth investigation to obtain shareholders' views concerning the subject matter. Therefore, this study provided an answer to the following null hypothesis:

Ho_1 Shareholders in the Nigerian capital market have no significant dividend preferences.

Previous studies such as Haque et al. (2017), Jain (2007), Brennan and Thakor (1990) predicted that shareholders would have different dividend preferences like cash dividends or stock dividends. One primary reason for the dividend preference concerns diverse tax treatments. The explanation of tax preference contends that shareholders prefer lower dividend paying concerns (Allen et al., 2000; Gordon & Bradford, 1980; Redding, 1997; Shleifer & Vishny, 1986). It suggests that better tax group investors would settle for few-dividend stocks and low tax bracket investors for high-dividend shares, as the case may be (Bakar et al., 1985). Investors may, of course, prefer shares with little dividend yields if dividends are overtaxed than capital gains, which means that investors would accept a low tax return on securities, promising future profits in the form of capital gains rather than dividends. However, Pettit (1977) analyzed individual securities to determine whether or not a particular firm's shareholders have a significant concentration of personal tax circumstances. The findings provided only a shaky foundation for tax-related dividend clientele hypothesis.

Jain (2007) argued that individual investors prefer to invest in firms paying a high dividend, whereas institutional investors prefer low dividend and/or non-paying firms. Similarly, Lewellen et al. (1978) and Blume et al. (1974) discovered some evidence supporting tax-based dividend clientele by relating individual investors' tax brackets to dividend yield on stocks that they owned. Besides that, tax preference argument suggests that investors may prefer the keeping of earnings over dividend payments on tax related grounds (Stapleton, 1972). Arguably, promising capital expansions over dividends may make investors desire a low dividend payout rather than a high dividend payout. Since tax effect varies between diverse kinds of investors, shareholders are attracted to companies with dividend policies suitable to their specific tax situations. Nevertheless, this theory does not seem to apply to Nigerian investors, as this survey showed that shareholders desire cash dividends to capital expansions, irrespective of tax circumstances.

It is indicated that shareholders do not prioritize Nigeria's tax environment, as most shareholders have shown indifference to the issue. Based on the shareholders' reaction, tax does not determine where and how the shareholders invest their money because thirty percent of income tax is imposed on the profits of firms in Nigeria, which is removed before company dividends are paid, and the withholding tax charges on dividends paid. Thus, regardless of the shareholders' decision to invest, the income tax rate remains the same. This explains why shareholders in Nigeria, other things being equal, prefer high-dividend shares. Gang and Jackson (2009) supported the explanation of the tax effect as shareholders may be enticed by companies with dividend policies suitable to their specific tax situations. In addition, Adelegan (2003) found that despite the reduction in capital gains tax in 1996 and its elimination of dividends in 1998, Nigeria's value is positively related to dividends. Conversely, Papaioannous and Savarese (1994) were unable to find support for the explanation. Litzenberger and Ramaswamy (1979) found inconclusive empirical evidence on the justification of tax preferences. Taxes may have an impact on dividend supply, particularly when management responds to tax preferences by increasing the earnings retention ratio to optimize shareholder value.

Furthermore, Lintner (1956) and Gordon (1963) were the first to make a bird-in-the-hand explanation, stating that investors desire to accept a specific dividend instance of a future uncertain capital expansion. One substitute and age-long opinion of the dividend preferences of shareholders is that dividends increase firm value. Dividends and retained earnings (or capital gains) are valued differently under uncertain situations and with perfect information. It is because rational investors like to avoid risks and prefer immediate dividends to future dividends. This theory applies to Nigerian investors as this survey showed that shareholders prefer one naira cash dividends today rather than a two-naira future capital gains. Technically, many investors would prefer to receive cash dividends because of Nigeria's severe economic hardship rather than stock dividends to finance their activities.

Again, if a dividend is paid out or an increase in dividend payments, shareholders' value would increase because shareholders see dividends as a means of receiving cash on investments without selling off their shares. Gordon and Shapiro (1956), Lintner (1956), Gordon (1963), and Walter (1963) investigated this experience empirically and found support for the bird-in-the-hand interpretation. They concluded that high dividend payout ratios maximize shareholders' value. A high payout ratio will lower capital expenses and boost share value since a greater cash dividend decreases uncertainty about future cash flow (Jensen, 1968). However, Miller and Modigliani (1961) and Graham and Dodd (1934) disputed the explanation and referred to it as a bird-in-the-hand fallacy. On the basis that the rationale behind the bird-in-the-hand argument of the significance of the dividend was false. Miller and Modigliani (1961) and Graham and Dodd (1934) argued that the risk of a project's cash flow determines the firm's risk since such an increase in dividend payments would result in an equivalent decrease in stock price. The increase in the dividend today would not increase its value by reducing the risk of future capital gains.

The current survey also revealed that the theory by Graham and Dodd (1934) and Miller and Modigliani (1961) did not make sense especially where most shareholders lost their shares as the share prices failed to appreciate. It is a situation in which firms sell shares at a high rate and experience a sharp decline in stock prices. In Nigeria, some firms sold shares as high as one hundred naira or more per share; after several years of falling prices, the current price of such shares is 50 kobo per share, and there is no hope of reversing stock prices. In such a situation, shareholders would prefer to have regular cash dividends rather than future capital gains.

Jain (2007) and Feldstein and Green (1983) noted that there could also be a preference for dividends for some fiduciaries. The clientele effect view postulates that shareholders are fascinated by different corporate policies and will undoubtedly adjust their shareholdings when a company modifies its policies (Haque et al., 2017). Graham and Dodd (1934) argued that rational investors would invest in firms that are paying more dividends rather than less-or zero-dividend paying firms as value tends to rise when dividend-payment increases and that investors would be happy to pay more for high-dividend-paying stocks (Adelegan, 2003; Baker, 1999; Musa, 2009; Walter, 1963). Invariably, investors will hold their shares if a company pays a higher dividend. Once again, where dividend payments are low, investors will prefer to sell their shares and purchase higher paid-up shares.

Theoretical Review

The Bird-in-the-Hand theory, proposed by Lintner (1956) and Gordon (1963) asserts that investors prefer assured dividends over risky future capital gain. Dividends increase business value, according to a different and older position on the impact of dividend policy on shareholder wealth. Dividends and retained earnings (or capital gains) are valued differently under uncertain situations and with incomplete information. The “bird in the hand” of cash dividends is preferred by investors over the “two birds in the bush” of future capital expansion. Rational investors are risk averse as they desire current dividends to future dividends. As a result, all else being equal higher dividend payments may be linked to increased shareholder wealth. A high payout ratio will lower the cost of capital and improve share value since a high current dividend decreases uncertainty about future cash flow. This means that high dividend payout ratios increase shareholder wealth. The “bird-in-the-hand” theory is supported by Gordon (1963), Gordon and Shapiro (1956), Lintner (1956), and Walter (1963). However, the notion is criticized by Graham et al. (1934) and Miller and Modigliani (1961), who referred to it as the bird-in-the-hand fallacy. As the risk of a project's cash flow determines a firm's high returns on investment, the argument underlying the bird-in-the-hand theory for dividend significance is flawed. As a result, boosting the dividend today will result in a corresponding decline in stock prices, lowering the risk of future cash flow rather than increasing the firm's worth.

Another reason why dividend policy is important to shareholders is the tax implications. According to the tax preference hypothesis, investors may prefer to keep their gains rather than pay dividends for tax reasons (Stapleton, 1972). Since capital gains are taxed more favorably than dividends, investors may prefer a low or zero dividend payout to a high payout. As tax effect differs among different types of investors, investors may be drawn to companies with dividend policies that are tailored to their specific tax situation. This theory is known as the tax clientele effect. Other variables being constant, stocks with little or zero payments should entice investors in higher tax brackets and vice-versa. The empirical data on tax preference explanation provided by Litzenberger and Ramaswamy (1979) proved inconclusive. An increased dividend payout ratio was posited after the US tax reform act passage 1986 because of the balanced tax treatment of private investor income whether from capital gains or dividends. Epaphra and Nyantori (2018) found strong support for this explanation unlike Papaioannous and Savarese (1994). Adelegan (2003) noted that despite the reduction in capital gains tax in 1996 and its elimination in 1998, the value of firms in Nigeria is positively related to dividends. When management reacts to this tax preference by raising the retention ratio of earnings to enhance shareholder value, this can alter the supply of dividends. As a result of the tax effect, a low dividend payout ratio lowers the cost of capital and raises the stock price. To put it another way, low dividend payout ratios help to maximize shareholder value, as retained earnings are plowed back into the financing of projects that increase the market value of the shares of the company.

Investors are drawn to diverse corporate policies, according to the tax clientele effect idea, and when a firm's policy changes, investors will adjust their stock holdings accordingly (Allen et al., 2000). Investors will keep a stock if it pays a high dividend. If the returns are low, investors will sell the shares and buy higher-paying stocks (Misir, 2010). Individual investors who are taxed at a higher rate do not prefer either high or low dividends. Furthermore, this idea is predicated on the belief that other firms' dividend policies attract investors. If new investors wish to increase the amount of capital gain in their portfolios, they may have to maintain their company earnings rather than pay dividends. When retained earnings result in actions that are not taxed until they are sold, stock value tends to climb. Otherwise, investors may demand higher fees than the company's dividend reinvestment money. As a result, according to this hypothesis, every company has a clientele of shareholders who own stocks because of its dividend policies (Livoreka et al., 2014). Shareholders in a clientele group typically base their dividend payout ratio preferences on comparable income levels, personal income tax considerations, or their age. As a result, shareholders in a dividend clientele have a shared preference for the payment of dividends disbursed by the firm. Members of a dividend clientele, in general, make investment selections based on firms that have dividend-distribution policies that are favorable to them and compatible with their investment goals.

METHODOLOGY

This study adopted a survey research design to seek responses from shareholders on their preference for dividends. The study population comprised 682,100 shareholders that have shares in five sectors that make up the manufacturing firms in Nigeria. There are 65 manufacturing businesses indexed on the Nigerian stock exchange. Due to similarities in the distribution of assets from other sectors, this study used a stratified random sample of listed manufacturing enterprises. As a result, the strata were built around five primary areas (conglomerates, construction, consumer goods, industrial goods, and natural resources companies) with similar characteristics. As such, shareholders from the five sectors were selected for this study.

From the strata, a total of 500 shareholders were selected out of a population of 682,100 shareholders that is 0.07 percent of the total population. Thus, the 500 shareholders were selected based on the time and financial resources needed to trace and locate respondents. Besides the technique was informed by the previous work of Krejcie and Morgan (1970). They claimed that a population ratio of 0.05 was sufficient to provide the requisite sample size for generalization. However, future subjects were recruited from among the shareholders' acquaintances using the snowball sampling method, which is a non-probability sampling method. In this way, it was easy to consult people who worked in the Nigerian stock exchange. Their responses provided the much-needed information on the shareholders and their acquaintances helped considerably in tracing appropriate respondents. Therefore, the distribution of the questionnaire to the shareholders of manufacturing companies cut across three types of shareholders (minority or individual shareholders, majority shareholders, and managerial shareholders). The distribution of questionnaires was made possible by post and e-mail. This was followed by phone calls to ensure adequate response (as informed by Salawudeen, 2021; Al-Azzam et al., 2018; Bakar et al., 1985) from the shareholders utilizing the questionnaire.

A structured questionnaire was utilized to obtain data about the shareholders' dividend preferences. The questions administered to the respondents was adopted from the work of Bakar et al. (1985) with modification. The modification was necessary to reflect the phenomenon surrounding the behavior of the shareholders within the context of the study.

The questionnaire consisted of 18 closed-ended statements on three theories about dividend policy: the relevance of dividend clientele, dividend tax preference, and the bird-in-the-hand theory. There were five closed-ended statements on issues of dividend changes (which relate to clientele theory), five closed-ended statements on issues concerning corporate dividend taxes (which relate to tax preference theory), and eight closed-ended statements on issues concerning shareholders' reactions to dividend policy (which relate to bird-in-the-hand theory) in which the level of agreement-disagreement for each question was sought. However, information signaling theory was excluded from this study because the researcher was not interested in the announcement of share prices and advocacy for investment purposes.

Instrument of Data Collection

The data collection instrument was a questionnaire designed on a 5-point Likert scale. The Likert scale design was favored over other unidimensional scales such as the Thurston or Guttmann scale because of its perceived simplicity, comprehensiveness and that responses from such scales were usually reliable. The use of a Likert scale is informed by the works of Haque et al. (2017), Isa (2016), Lam and Kolic (2008). The questionnaire was administered to the shareholders of the listed manufacturing companies in the Nigerian stock exchange. The targeted shareholders cut across three types: minority shareholders, majority shareholders, and management shareholders. Institutional shareholders were excluded from this survey because institutional shareholders were not likely to have a representative reflection of the investor's preference as their profits were distributed directly to the owners who benefit from them. Accordingly, the research work only consisted of individual shareholders who openly participated in investing in the market. Moreover, to eliminate biases that could be caused by wrongly completing a questionnaire, a structured questionnaire was used to interview five selected interviewees as employed in previous studies such as Edelman and Farrelly (1983). The rationale behind this interview was to gather supplementary information from respondents which were limited by the questionnaire.

Test Instrument's Reliability and Validity

To validate the structured questionnaire, out of 15 copies of the questionnaire administered to shareholders' comprising academics, 12 were completed and returned. The initial questionnaire was pilot tested among 12 academics who were also shareholders. They were selected from the five sectors that consisted of the manufacturing companies; however, it was not included in the final sample. The completed and returned questionnaires represented 80 percent of the total number of questionnaires administered. The remaining three uncompleted questionnaires accounted for only 20 percent. However, no question was regarded as not relevant to the study. To objectively remove non-relevant questions, factor analysis and Cronbach's alpha were used to eliminate biases as informed by Balzan and Baldacchino (2007). Based on factor analysis to check the survey questionnaire's reliability, one question was dropped for not meeting the more than 50 percent coefficient and was considered not suitable for the study. The Cronbach's alpha test results revealed a satisfactory coefficient of the scale's reliability of 0.72 or 72 percent (Table 1).

Table 1

Coefficient of Alpha

Variable Name	Shareholders' Preference
No. of items	17.00
Average inter-item covariance	0.631
Scale reliability coefficient	0.719

Note: Computation of Cronbach's alpha using STATA 13.0

RESULTS AND DISCUSSIONS

Survey on Shareholders' Dividend Preferences

Table 2 summarizes the response rate and provides details on the number of questionnaires sent (S), returned (R), not returned (NR), and the percentage for S, R and NR.

Table 2

Questionnaire Response Rate

S/N	Details	Sent (S)	Returned (R)	Not Returned (NR)	S%	R%	NR%
1	Conglomerates	50	40	10	10	80.00	20.00
2	Construction	80	45	35	16	56.25	43.75
3	Consumer goods	150	105	45	30	70.00	30.00
4	Industrial goods	140	80	60	28	57.14	42.86
5	Natural resources	80	50	30	16	62.50	37.50
	Total/Mean	500	320	180	100	64	36

Summary of the Returned Questionnaires

Analysis of the 500 questionnaires, representing 100 percent were sent to respondents across the five sectors representing the manufacturing companies. A total of 320 questionnaires were completed and returned which accounted for 64 percent. From the completed and returned questionnaires, 300 workable responses were obtained which gave an overall response rate of 60 percent. A total of 20 questionnaires which accounted for 4 percent were invalid as they were not correctly completed. Whereas a total of 180 questionnaires were not returned. The non-response rate was 36 percent, which was not substantial. The analysis of the 320 returned responses representing the five manufacturing sectors of the economy was calculated by taking the number of returned questionnaires from each sector divided by the total number of sent questionnaires multiplied by 100 to obtain the percentage of returned responses. The breakdown is as follows: 40 questionnaires completed and returned from the conglomerates sector accounted for 80 percent, 45 questionnaires completed and returned from the construction sector accounted for 56.25 percent, 105 questionnaires completed and returned from the consumer goods sector accounted for 70 percent, 80 questionnaires completed and returned from the industrial goods sector accounted for 57.14 percent and 50 questionnaires completed and returned from the natural resources sector accounted for 62.50 percent as shown in Table 2.

The analysis of the 300 workable questionnaire responses from the five industrialized sectors of the economy indicated that 39 properly completed and returned questionnaires were from the conglomerates sector which accounted for 97.5 percent, 43 properly completed and returned questionnaires were from the construction sector which accounted for 95.5 percent, 98 properly completed and returned questionnaires were from the consumer goods sector which accounted for 93.33 percent, 76 properly completed and returned questionnaires were from the industrial goods sector which accounted for 95 percent and 44 properly completed and returned questionnaires were from the natural resources sector which accounted for 88 percent.

In this analysis, the corporation's case was therefore adequate, and the views could fairly represent a sample of the study (Krejcie & Morgan, 1970). The extent to which this survey could be reliable lies in the response rates, which can therefore be taken with a high degree of caution, as a low response rate could lead to a biased conclusion (Isa, 2016; Tijjani, 2008).

Survey on Shareholders' Category

Table 3 analyzes the response category of the shareholders to the questionnaire administered. This survey was administered to three classes of shareholders: minority (individual) shareholders, majority shareholders, and management shareholders.

Table 3

Types of Shareholders and Number of Responses

Type of Shareholder	Number of Responses
Number of questionnaires	320
Individual shareholder	250
Majority shareholder	43
Managerial shareholder	27
Institutional shareholder	Nil
Total	320

Source: Computation from returned questionnaires 2019.

The analysis of Table 3 shows that, out of the total of 320 completed and returned questionnaires, 250 were from individual shareholders, 43 from majority shareholders, 27 from managerial shareholders. This survey excluded institutional investors. The likelihood of a non-representative portrayal of investor preferences was the fundamental reason for institutional investors' exclusion. As revenue flows directly to beneficiary owners if institutional investors, investment funds, or mutual funds function as replacements for their clients, their portfolio decisions may reflect their clients' tastes. Thus, this survey only included investors who made direct market investments. As such, the survey was sent to three classes of respondents: minority (individual) shareholders, majority shareholders, and managerial shareholders.

Analysis of Shareholders' Dividend Preferences

Table 4 depicts the mean values for each of the 17 issues of dividend preferences after due validation tests. This analysis was based on mean ranking; Spearman's rank-order correlation coefficients were computed which indicated that a significant relationship existed at the

10 level of significance among the companies. The use of ranking of mean was informed by Edelman and Farrelly (1983) who used the ranking method to analyze issues concerning dividend policy in Texas.

Table 4

Analysis of Issues Involving Shareholders' Dividend Preferences

Detail	Statement	Mean	Rank	Sig.
Q18	Stock investment is worthwhile in firms with high paying dividends.	4.29	1	0.000
Q8	Management should be responsive to its shareholders' preferences regarding dividends.	3.92	5	0.001
Q17	Shareholders are given the chance to indicate their dividend preference.	4.07	2	0.002
Q10	Dividend distributions are made after the desired investment from available earnings.	3.69	10	0.001
Q3	Firms strive to maintain an uninterrupted record of dividend payments.	3.92	6	0.016
Q4	Firms should have a target payout ratio and periodically adjust their earnings toward the target.	3.97	3	0.000
Q2	Reasons for dividend policy changes should be adequately disclosed to shareholders.	3.92	4	0.000
Q5	A change in an existing dividend payout is more important than the actual sum of dividends paid.	3.66	11	0.000
Q11	Shareholders in high tax brackets are attracted to low-dividend stocks.	3.64	12	0.032
Q12	Financing decisions be independent of a firm's dividend decisions.	3.72	8	0.006
Q1	Firms should avoid making changes in their dividend rates that might be reversed within a year.	3.82	7	0.056
Q9	Shareholders in low tax brackets are attracted to high dividend stocks.	3.51	14	0.003
Q6	Shareholders are attracted to firms that have dividend policies appropriate to the tax environment in Nigeria.	3.69	9	0.000
Q16	Shareholders consider the current dividend payout as very low.	3.61	13	0.260
Q14	Shareholders' liquidity needs are satisfied with the amount of dividend payouts.	2.99	16	0.056
Q7	Capital gains expectations resulting from earnings retention are riskier than dividend expectations.	3.46	15	0.047
Q13	Shareholders are indifferent about returns from dividends in contrast to those from capital gains.	2.79	17	0.310

Note. The analyzed shareholders' responses on dividend preferences were computed using STATA 13.0.

Table 4 shows the average responses on shareholders' dividend preferences among the sampled responses: Q1, Q2, Q3, Q4, and Q5. However, Q1 set out to ask shareholders to respond to their concerns when companies changed the dividend rate after it was reversed in recent times. The average response was overwhelming as most respondents responded positively, with a mean of 38.2 percent. The outcome was consistent with the clientele impact assumption and suggests that shareholders are attracted to various corporate policies. If businesses decide to change the policy, particularly the dividend policy, shareholders modify their shareholdings accordingly in favor of companies whose dividend policies are suitable. Q2 set out to ask shareholders to respond to their concerns about adequate disclosure of dividend policy changes to shareholders. The average response was overwhelming as the answers were highly ranked, at 39.2 percent. This indicates that shareholders prefer prior information on changes to dividend policy, giving shareholders a sense of empowerment. As a right, shareholders should have knowledge of such strategic decisions, particularly those that affect their returns directly.

Q3 set out to ask shareholders to respond to the shareholders' concerns about firms that make prudent use of their resources. The response mean was overwhelming as the response rate was relatively high, at 39.2 percent. It could point to the country's harsh economic situation as shareholders preferred firms that pay dividends regularly. The dividend mechanism serves as an opportunity for administrators to reduce the organizations' principal and agent expenses. This principle implies that one way of reducing costs is to maximize the payment of dividends. Q4 set out to ask shareholders if the target payout ratio and periodic adjustments were necessary. Manufacturing businesses were ranked 4, with an average of 39.7 percent, which was notable at one percent. It may be that shareholders have aspirations for their investments. As a result, shareholders favor businesses with dividend payment targets.

Q5 intended to elicit shareholders' reaction concerning which they considered as more important, change in existing dividend payments or actual dividends. The majority of respondents responded positively with an average of 36.6. Shareholders tend to invest in firms that take steps to resolve this issue. The study rejected the null hypothesis that shareholders do not have substantial dividend policy preferences. Q6 was selected to solicit shareholders' response with regard to their receptiveness to the tax environment in Nigeria. It pointed out that shareholders give Nigeria's tax environment a high priority, as most respondents agreed. According to the study, the tax does not determine where and how shareholders invest their money. The research proved contrary to the tax preference principle, suggesting that investors prefer lower tax payout firms. Q9, Q11, and Q13 touched on shareholders' response to the shareholder tax bracket. The response rate was overwhelming, as most of the respondents i.e., over 40 percent reacted positively, across all manufacturing firms. This implies that the bulk of Nigeria's owners are in the lower tax bracket and desire higher dividend payments. Q13 proved insignificant.

According to Q7, capital gains projected from profits retention were riskier than dividend expectations. Investors did not favor a low or zero dividend payout to a high payout and thus the null hypothesis was rejected. Rational investors are risk-averse, and they have a preference for immediate dividends to future dividends. The mean of the responses was overwhelming, which indicated that most shareholders do not buy shares purely for investment but also to get rich. Q8, Q10, and Q12 elicited shareholders' response regarding their preference on issues relating to investments and dividends. Shareholders' response was overwhelmingly positive to the questions, with a mean of over 40 percent for companies. This indicated the need for shareholders to ensure that other decisions, such as investments and financial decisions, do not affect their returns. Q14 indicated a mean of 29.9 percent which was significant at 5 percent. However, Q16 indicated a mean of 36 percent which was insignificant. Liquidity needs are satisfied based on dividends paid and shareholders consider the current dividend payment as below their expectations. The responses confirmed that the shareholders were dissatisfied with their returns on investment. Therefore, this study rejected the null hypothesis that shareholders do not have a significant preference for dividend policy. Findings of this study is consistent with the findings of Haque et al. (2017) and Easterbrook and Fischel (1981).

Q17: Shareholders prefer a chance to indicate their preference for dividends. This question is intended to seek answers from shareholders regarding whether shareholders should be allowed to indicate their preference for dividends. It could be because not all shareholders want a cash dividend; some shareholders prefer stock dividends for their investments. However, it indicates that shareholders prefer to be allowed to specify their dividend preference which gives shareholders a sense of empowerment. As a right, shareholders should be allowed to indicate their interest in terms of choice of dividend, particularly as it directly affects their returns. This study followed the clientele effect principle, which assumes that investors are enticed by different corporate policies. This finding is consistent with the results of Haque et al. (2017).

Outcome of Interview on Shareholders' Dividend Preferences

Five selected shareholders of Nigerian manufacturing companies responded to the interview. Nigeria's legislation did not make it compulsory for firms to pay dividends to their shareholders. Nevertheless, the ultimate motivation behind every investment is to get a return on investment. Nigerian shareholders believe that financial and investment decisions should be discussed as separate entities and should not in any way interfere with the payment of dividends to shareholders. They would like companies to treat dividend policy issues as strictly independent of investment and financing decisions and that dividends should be paid as regularly as possible. Generally, the findings were consistent with Lintner's (1956) interviews with corporate managers about their dividend policies in the mid-1950s. The response suggests that shareholders are uncomfortable with changes that make them unaware and are reluctant to change their dividend rate if they are likely to be reversed. The study rejected the null hypothesis that shareholders do not have a significant dividend policy preference and prefer to receive a dividend. The study concluded that dividends be paid after all internal investment options have been exhausted as internal investment efforts have been taken for granted and paid only after external investment opportunities are no longer needed.

On the issues of tax preference theory, the interviewers' response as shareholders, was consistent because high-dividend stocks still prefer the payment of dividends to capital gains irrespective of tax implications. It highlights the relevance of dividend policy and shareholder preferences in the Nigerian context. The clientele effect theory holds that different corporate policies entice investors. Investors will keep their shares if a company pays a higher dividend. If the dividend is low, investors will sell the stock and buy more fully paid-up shares.

The results reported that the shareholders in the Nigerian capital market do have significant dividend preferences. The null hypothesis was evaluated using mean ranking. Based on the analysis of the issues relating to shareholders' dividend preferences as shown in Table 4, it is statistically significant which means that shareholders in the Nigerian capital market have significant dividend preferences. Thus, the null hypothesis which states that shareholders in the Nigerian capital market have no significant dividend preferences is rejected and it can be concluded that there are significant dividend preferences among shareholders of manufacturing companies in Nigeria.

CONCLUSION, IMPLICATIONS, LIMITATIONS, AND DIRECTIONS FOR FUTURE RESEARCH

One important conclusion is that this research has shown that dividend policy is relevant to Nigeria's companies and shareholders. Companies need to pay dividends to stimulate investment in stocks, and shareholders need dividends to meet their investment needs. Therefore, the study contradicted Modigliani and Miller's irrelevant dividend policy theory but supported the bird-in-the-hand and the clientele effect theory.

This study concludes that there are several variances between theory and empirical evidence on dividend policy and shareholders' perception of dividend policy. Thus, this study's findings could be used to correct and predict the direction of a company's payment of dividends and the changes in dividends over time.

Findings in this study has theoretical and practical/regulatory implications. Its significant contribution to knowledge is expected to benefit shareholders, management, regulators, policymakers, and researchers. Further, given the fact that shareholders in practice usually prefer companies with a stable and predictable dividend policy, this can be actualized using information available in a firm's financial decision with regards to its returns to shareholders. Shareholders that usually favor regular dividend payments and those who intend to enhance their wealth would find this survey quite useful.

Therefore, the survey on shareholders' dividend preference offers an insight into major players especially the board of directors and shareholders, to understand the expectations of the principal from the agent. From the findings, dividend restructuring is of utmost importance. If adhered to, it could pave the way for a paradigm shift from a traditional dividend policy where dividend policy is the decision of the board of directors without any consideration for owners' opinions, to a more flexible dividend policy where dividend policy takes into account shareholders' interest of when and how they are to be paid.

There are some limitations in this study. First, this study used manufacturing companies from various sectors, namely conglomerates, construction, consumer goods, industrial goods, and natural resources. Hence, the findings and recommendations herein are only applicable to shareholders of manufacturing companies as findings may vary in other sectors of the economy. Therefore, researchers interested in this area should include firms from other sectors to ensure agreeable generalization.

The use of the snowball sampling method facilitated the task of consulting people who work in the Nigerian stock exchange. Their responses contributed to the much-needed information on shareholders and their acquaintances which helped immensely in tracing appropriate respondents. Nevertheless, this study was limited by the inability of the authors to locate a large number of shareholders due to their scattered locations and the cost incurred for such a project which had no external funding.

Further studies should also consider besides type of shareholder, the biodata of the shareholders such as their qualifications, age, work experience, marital status, and gender in relation to preference for dividends.

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