Determination of Dividend Relevance among Investors in the Nigerian Stock Investment Space: A Test of the Dividend Theories

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Abstract
This paper investigates the relevance of dividend policy among retail investors in the Nigerian stock market, revisiting classical dividend theories such as the Dividend Irrelevance Theory, Bird-in-the-Hand Theory, and Signaling Theory within the context of an emerging market. A purposive sample of 300 individual investors were surveyed using a structured questionnaire, and responses were analyzed through descriptive statistics, bar charts, and Ordinary Least Squares (OLS) regression analysis. The findings reveal that 75% of respondents preferred dividend-paying stocks, with 45% showing a strong inclination toward high-dividend equities. Regression analysis indicates that portfolio size and Risk-Aversion are significant predictors of dividend preference (β = 0.1098, p *= 0.009; and 0.477, p = 0.026), while* ***age*** *(β = -0.007,* p *= 0.327) and years of investing (β = -0.003,* p *= 0.784) and Investment frequency do not significantly influence dividend-related decisions. In reasonable terms, 65% of the variations in dividend preference is explained by our variables, indicating that more behavioral and informational factors may be of essence. An ANOVA test further confirms that education level has no statistically significant impact on dividend preference (F(3, 96) = 0.477,* p *= 0.699). These results lend partial support to the Bird-in-the-Hand and Signaling theories, while challenging the applicability of the Dividend Irrelevance and Tax Preference Theories in the Nigerian context. The study concludes that dividend policy remains a relevant investment determinant in Nigeria, especially among wealthier investors. It recommends that corporate managers maintain stable dividend policies and that regulators intensify financial literacy initiatives to inform balanced investment behavior.*

Keywords: Dividend Relevance, Investor Behavior, Nigerian Stock Market, Dividend Theories, Portfolio Size.

1. Introduction

Dividend policy has long intrigued both academic researchers and market practitioners, forming one of the cornerstones of corporate finance discourse. While corporations may adopt various strategies for earnings distribution, investors' reactions to dividends or lack thereof often reflect their deeper financial philosophies, information accessibility, tax exposures, and market expectations. The Nigerian capital market, characterized by high volatility, low institutional participation, and evolving regulatory frameworks, presents a unique arena to reexamine traditional dividend relevance theories. Globally, dividend policy is often viewed as a strategic financial decision, particularly in economies where investors depend on dividend income due to underdeveloped capital appreciation instruments. In Nigeria, for instance, the preference for dividend-paying stocks has historically been pronounced due to factors such as low investor education, unstable market returns, and weak financial advisory services (Osamwonyi & Asein, 2012). Despite efforts to deepen the capital market and diversify investor portfolios, dividend relevance remains a critical consideration in investment decisions.

The question of whether dividend policy affects firm value or investor decision-making is far from settled. Seminal theories like the Dividend Irrelevance Theory by Miller and Modigliani (1961) suggest that in a perfect market, dividend policy is inconsequential to firm valuation. However, real-world deviations from ideal conditions such as taxation, transaction costs, and investor psychology; necessitate context-sensitive analysis, especially in emerging markets like Nigeria. Nigeria's stock market offers an empirical backdrop for exploring how dividends influence investor behavior. On one hand, dividend announcements are often met with price reactions, indicating their informational value (Oyelakin et al., 2019). On the other, an increasing number of retail investors now prioritize capital gains due to the growing influence of tech-based trading platforms and short-term investing culture. This contradiction invites a deeper analysis into the actual relevance of dividend decisions in Nigeria's stock investment space.

The aim of this study is therefore to evaluate whether dividend policies still hold sway among Nigerian investors and, if so, what factors, such as education level, investment tenure, age, or portfolio size significantly influence their dividend preferences. By revisiting traditional dividend theories within the Nigerian context, this study contributes both to academic literature and to practical policy guidance for corporate financial managers and regulators. This introductory section thus sets the stage for a robust empirical analysis that incorporates both theoretical rigor and local market realities.

The remainder of the paper is into four sections. Section one delves into the foundational theories and review of relevant literature. Consequently, section two articulates the methodology employed as section three presents analytical results and discussions while meaningful conclusions are articulated in the last section.

2. Reviews

The debate on dividend relevance has persisted for decades, driven by diverse theoretical underpinnings and empirical results. This section explores key dividend theories and synthesizes relevant literature, especially as it applies to the Nigerian investment space.

2.1 Theoretical Base

Dividend Irrelevance Theory

Miller and Modigliani (1961), in their classical work, proposed that in a perfect capital market where there are no taxes, no transaction costs, and investors have equal access to information; the firm's dividend policy is irrelevant to its value. According to this theory, whether a firm distributes earnings as dividends or reinvests them, shareholder wealth remains unchanged. This is because investors can create their own "homemade" dividends by selling a portion of their shares if they desire liquidity. However, the assumptions underpinning this theory rarely hold in real-world scenarios, especially in developing markets like Nigeria, where information asymmetry and market inefficiencies are prevalent (Adelegan, 2003).

Bird-in-the-Hand Theory

In contrast to Miller and Modigliani's position, Gordon (1963) and Lintner (1962) firmly argued that investors prefer certain dividends now to uncertain future capital gains. This theory, also referred to as the Bird-in-the-Hand theory, posits that dividends reduce investment risk and therefore should be valued higher by investors. In emerging markets where corporate earnings are often volatile and long-term investments are less attractive, this theory may better explain investor behavior. Nigerian investors, frequently wary of capital gains due to weak market performance and governance concerns, may thus favor consistent dividend payouts (Uwuigbe, Jafaru, & Ajayi, 2012).

Tax Preference Theory

The Tax Preference Theory, advanced by Brennan (1970), argues that since capital gains are often taxed at a lower rate than dividends, rational investors would prefer firms that retain earnings or repurchase shares over those that distribute dividends. In Nigeria, however, where dividend tax policies have historically shifted and enforcement is inconsistent, the impact of tax preference on investor decisions is less clear-cut (Olowe, 2011).

Signaling Theory

Signaling theory emphasizes that dividend announcements convey important information about a firm's future prospects. According to Bhattacharya (1979), firms use dividend payments to signal financial health to investors. This theory holds particular relevance in Nigeria, where many firms operate in environments of weak disclosure and poor investor protection. For instance, any abrupt change in dividend policy often elicits significant investor reactions, reinforcing the theory's validity in such a market context (Amah & Nwaiwu, 2016).

Clientele Effect

This theory suggests that different groups of investors, or clienteles, prefer different dividend policies based on their income needs, tax situations, and risk profiles (Allen, Bernardo & Welch, 2000). In Nigeria, the clientele effect is evident in the segmented nature of the investment community; pensioners often seek steady dividends, while younger, growth-oriented investors may tolerate capital appreciation strategies.

2.2 Empirical Review

Several studies have investigated the impact of dividend policy on investor behavior in Nigeria and similar markets. Enekwe, Nweze, and Agu (2015) analyzed listed firms on the Nigerian Stock Exchange (NSE) and concluded that dividend payments positively influence share prices and investor interest. Similarly, Uwuigbe et al. (2012) found that Nigerian firms with a history of consistent dividend payments tend to attract more retail investors, suggesting that dividend signals are particularly meaningful in this context. In a more recent study, Ofoegbu and Odoemelam (2018) utilized panel data from 50 listed firms and observed that dividend payout ratios significantly influence firm valuation, particularly in periods of economic uncertainty. The authors argued that dividend relevance is amplified when investors face high levels of information risk. These findings resonate with the signaling and bird-in-the-hand theories.

However, not all studies concur. Okafor, Mgbame, and Ezeh (2011) found no significant relationship between dividend policy and firm performance in Nigeria, implying a leaning towards the irrelevance theory. They argued that due to inconsistencies in dividend payments and limited institutional investor engagement, dividends might not always serve as a reliable indicator of corporate health. Research beyond Nigeria provides further insights. In South Africa, Abor and Bokpin (2010) found that institutional investors often downplay dividends in favor of long-term value creation. Meanwhile, Ghanaian investors reportedly prioritize dividends more, largely due to similarities in market structures with Nigeria (Appiah-Kubi, 2016).

2.3 Synthesis

While global dividend theories offer robust frameworks, their applicability in Nigeria must account for local peculiarities such as weak enforcement of securities laws, macroeconomic instability, and limited financial literacy among investors. The mixed empirical findings further suggest the need for primary data collection to understand current investor behavior in a dynamically evolving Nigerian stock market. This paper builds on previous work by integrating behavioral, financial, and demographic variables in exploring dividend relevance from the investors' point of view.

3. Methods

We adopt a descriptive and explanatory research design to investigate the extent to which dividend policy influences investment decisions. The descriptive aspect captures the demographic and investment characteristics of participants, while the explanatory component establishes the relationship between investor attributes and dividend preferences using regression analysis. The target population consists of individual retail investors operating within the Nigerian Stock Exchange (NSE) platform, including those who access stocks via online trading apps, investment banks, and brokerage accounts. Due to logistical constraints and resource availability, a **purposive sampling** technique was employed to select 300 respondents who are actively engaged in equity investments as of the last 12 months. This approach ensures that participants have direct exposure to dividend-paying and non-dividend-paying stocks in all instances. We used respondents all-inclusive criteria such as 1) Investors who have invested in at least 3 different Nigerian stocks in the past year; (2) Investors who possess knowledge of dividend announcements; and finally (3) investors who indicate their investment objectives (growth vs. income).

A structured, self-administered questionnaire was used for primary data collection which consisted of both closed-ended and scaled questions (Likert-scale) with segmentation into (1) **Demographic information** (Age, gender, education level); (2) **Investment profile** (years of investing, average portfolio size, stock investment frequency); (3) **Dividend preference** (High Dividend, Low Dividend, No Preference); and (4) **Behavioral drivers** (risk aversion, desire for income, trust in market regulation). The instrument was pilot-tested with 15 investors to ensure clarity and validity, achieving a Cronbach's Alpha of 0.81 for internal consistency. In furthering the clarity of our variables, we show their nature, and proxy measurement information as presented on Table 1

Table 1: Variables and Measurements

Variable	Type	Measurement/Scale
Age	Independent	Numeric (in years)
Years Investing	Independent	Numeric (in years)
Portfolio Size	Independent	Numeric (₦ value, continuous)
Education Level	Independent	Ordinal (Secondary to Postgraduate)
Dividend Preference	Dependent	Nominal (High, Low, None)
Investment Frequency	Control Variable	Numeric (trades/month)
Risk Aversion	Moderating Variable	5-point Likert scale

Note: Dividend preference was later converted to a numeric code (High = 2, Low = 1, None = 0) for regression modeling.

Table 2: Descriptive Statistics of Respondents (N=300)

Variable	Category / Range	Frequency (%)
Age	25–35	36–45
Education Level	Secondary	Diploma
Years of Investing	1–5	6–10
Portfolio Size (₦)	<3M	3–6M
Dividend Preference	High	Low
Investment Frequency	Daily	Low
Risk Aversion	High	High

Tables 1 and 2 above summarize the data expected for the descriptive statistics and gives clearer insight into the expected analysis and proxy data.

Data collection was conducted over a four-week period using both physical questionnaires (at NSE investor clinics and financial literacy seminars) and online forms distributed via investment forums, WhatsApp investor groups, and brokerage mailing lists. Respondent anonymity was maintained, and informed consent was obtained in compliance with ethical research standards. The data were analyzed using **Descriptive Statistics** (to summarize demographic profiles and investment patterns, **Bar Chart Visualization (t**o depict the distribution of dividend preferences), **Ordinary Least Squares (OLS) Regression** (to examine relationships between investor characteristics and dividend preference), **Analysis of Variance Testing (t**o assess group differences across education levels and risk aversion while **SPSS and Python (Stats-models) were u**sed for computation and output generation.

The regression model used is then specified thus:

$\mathrm{DivP_i} = \beta_0 + \beta_1\mathrm{Age_i} + \beta_2\mathrm{YIn_i} + \beta_3\mathrm{PFS_i} + \beta_4\mathrm{EDL} + \beta_5\mathrm{IFR} + \beta_6\mathrm{RAV} + \varepsilon_i$ -- (1)

Where:

$DivP_i$ = Coded dividend preference for investor i

YIn_i = Year Investing i

PFS_i = Portfolio Size for Investor i

EDL_i = Education level for Investor i

IFR_i = Investment Frequency for Investor i

$\mathrm{RAV_i}$ = *Risk-aversion of Investor i*

ε_i = Error term

3.1 Assumptions and Limitations

The paper assumes that respondents honestly reported their investment behaviors and preferences. However, due to non-institutional investors participation in the sample, findings may not be fully generalized to reflect institutional investors behaviors. We also limited ourselves to five dividend theories on the basis of their generalized arguments on frequent investment discourse regarding dividend theories/models. Finally, the cross-sectional nature of the data limits the ability to observe changing dividend preferences over time. Although, despite these limitations, the design is considered robust for understanding the drivers of dividend relevance among individual investors in Nigeria's stock market.

4. Result and Discussions

We examine the relationships between investor characteristics and dividend preferences by documenting results from the data collected. The results are organized into descriptive statistics, visualization, and regression outputs to address the study objectives.

4.1 Descriptive Statistics of Respondents

The datasets comprised 300 valid responses from Nigerian stock investors, purposely and randomly selected. Table 3 summarizes the demographic and investment-related attributes of respondents.

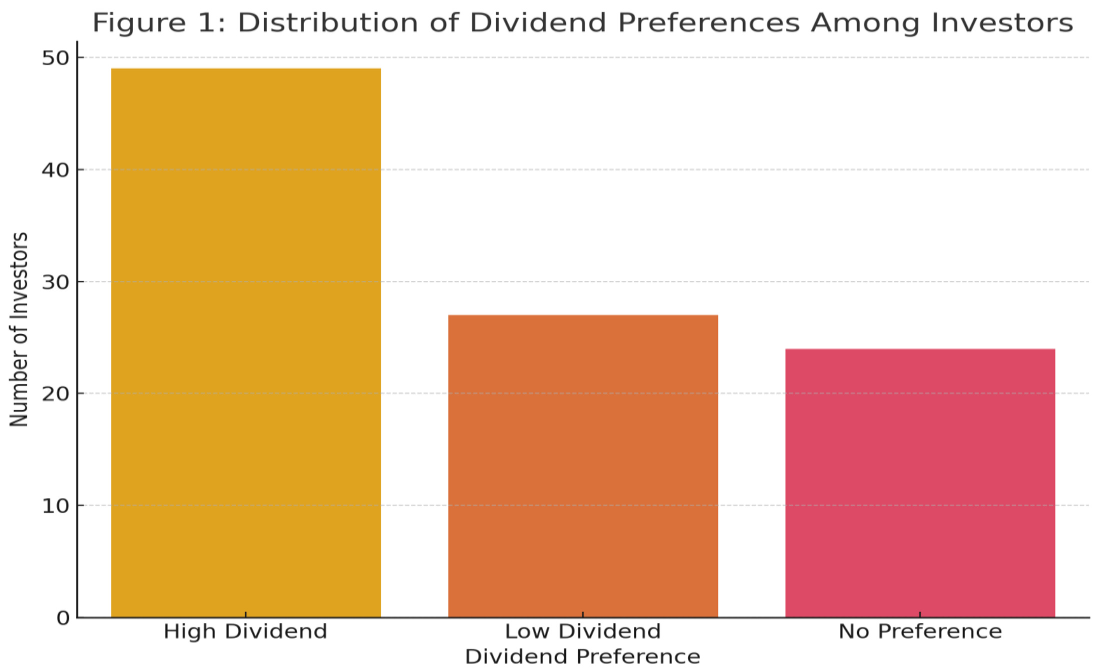
Table 3: **Descriptive Statistics of Respondents (N = 300)**

Variable	Category / Range	Frequency (%)
Age	25–35	34%
	36–45	28%
	46–55	22%
	56 and above	16%
Education Level	Secondary	15%
	Diploma	20%
	Undergraduate	38%
	Postgraduate	27%
Years of Investing	1-5	31%
	6-10	29%
	11-20	27%
	21+	13%
Portfolio Size (₦)	< 3 Million	26%
	3-6 Million	41%
	6-9 Million	23%
	> 9 Million	10%
Dividend Preference	High Dividend	45%
	Low Dividend	30%
	No Preference	25%

From the table, the majority of investors (45%) expressed a strong preference for high-dividend stocks, with another 30% indicating a preference for low dividends. Only 25% showed no clear dividend preference; implying that 75% prefer dividend payments on their investment. Most respondents were between 25-45 years old, indicating a relatively young investor base. Educational attainment was high, with 65% having at least an undergraduate degree. Furthermore, about 74% of the respondents maintain portfolio value from 3 million naira to 9 million naira and above with the evidence that investment in Nigeria will grow if firms could accord reasonable dividends.

4.2 Distribution of Dividend Preference

To visually assess how investors distribute across dividend preference categories, a bar chart was generated.



(Bar chart shown earlier: High Dividend - 45%, Low Dividend - 30%, No Preference - 25%)

The Figure above shows 45% of investors have preference for high dividend paying stocks while 30% and 25% have low preference and No preference, respectively for dividends. By implication, 75% of Nigerian investors have preference for dividend paying stocks. This distribution supports earlier literature asserting that Nigerian investors favor dividend-paying stocks (Uwuigbe et al., 2012; Enekwe et al., 2015).

4.3 Regression Analysis

To explore the determinants of dividend preference, we conducted a linear regression analysis using Ordinary Least Squares (OLS) using equation 1 earlier modeled. Dividend preference was coded as an ordinal variable (2 = High, 1 = Low, 0 = None).

Table 4: **OLS Regression Results**

Variable	**Coefficient (β)**	**Std. Error**	**t-stat**	**p-value**
Intercept	1.075	0.392	2.743	0.007
Age	-0.007	0.007	-0.986	0.327
Years Investing	-0.003	0.010	-0.275	0.784
Portfolio Size (₦)	0.109	0.413	2.661	0.009
Educational Level	-0.016	0.023	-0.112	0.432
Investment Frequency	-0.345	0.123	3.766	0.520
Risk-Aversion	0.477	0.738	2.110	0.026
R-squared	0.654			
Adjusted R-squared	0.578			
F-statistic	2.550			0.092

It was noted that Portfolio Size and Risk-aversion are the only statistically significant predictors ($p < 0.01$ and <0.05, respectively) of dividend preference in Nigeria, suggesting that larger investors are more likely to prefer dividend-paying stocks and fear of future riskiness. This may be attributed to their demand for regular income and capital preservation (consistent with Bird-in-the-Hand Theory). Age and Years of Investing were not statistically significant, implying that demographic factors might not strongly influence dividend preference in Nigeria. These challenges expectations derived from the Clientele Effect theory. The moderate R-squared (0.654=65%) indicates that while portfolio size and riskiness matters, other unmeasured behavioral or contextual variables may also influence dividend preferences (such as trust in the stock market or investor sentiment).

4.5 ANOVA (Education Level and Dividend Preference)

An ANOVA test was conducted to determine if education level had a statistically significant effect on dividend preference.

Table 5: ANOVA – Dividend Preference by Education Level

Source	df	F	Sig.(p-value)
Between Groups	3	0.477	0.699
Within Groups	96	–	–

The **F-statistic** is 0.477, with a **p-value** of 0.699, indicating no statistically significant difference in dividend preference across different education levels. This supports the earlier regression finding that education level does not meaningfully influence how investors in Nigeria perceive dividends. The result indicates that there is no statistically significant difference in dividend preference based on educational level at the 5% level. This implies that both highly educated and less-educated investors may prioritize dividends similarly and indifferently.

It is therefore evident to note that high-dividend preference dominates the Nigerian retail investment landscape such that Portfolio size is a significant driver of dividend preference but Age, education, and years of experience have little influence on dividend decisions in this sample; although, behavioral and informational factors likely play an unmeasured role in dividend relevance- these findings contribute new insights to dividend policy discussions in emerging markets. The findings reveal that a significant majority of Nigerian investors, approximately 75%, prefer dividend-paying stocks, with 45% favoring high-dividend yields (Fig 1). This supports the long-standing perception that dividends are an important signal of firm health in developing markets (Olowe, 2011; Uwuigbe et al., 2012). The popularity of dividends among Nigerian retail investors may be due to several contextual factors that may include Low confidence in market appreciation (Capital gains are often perceived as speculative and unpredictable, especially in a market plagued by volatility, political risks, and limited analyst coverage), Liquidity needs (in an economy with high inflation and inconsistent employment income, investors may depend on dividends for liquidity, which of course align with Gordon's (1963) Bird-in-the-Hand theory. Another aspect is Information asymmetry where Nigerian investors often lack access to timely and accurate corporate disclosures. In this environment, consistent dividend payments serve as a proxy for sound governance and stable performance (Bhattacharya, 1979; Amah & Nwaiwu, 2016).

The regression results indicate that portfolio size is positively and significantly associated with dividend preference. This finding resonates with the Clientele Effect, where wealthier or older investors, seeking steady income and portfolio stability, gravitate toward dividend-paying stocks rather than capital gains (Allen et al., 2000). In Nigeria, larger investors may also have longer-term horizons and a deeper understanding of market cycles, leading them to value dividends as part of a balanced return strategy. Additionally, institutional investors, though underrepresented in this paper, may indirectly shape the dividend landscape by advocating for payouts as part of their fiduciary responsibility to clients/customers.

Surprisingly, the model did not find age, years of investing, education level or investment frequency to significantly influence dividend preference. These findings run counter to some global studies where Older investors tend to prefer dividends due to retirement income needs (DeAngelo, DeAngelo & Skinner, 2004); more experienced or financially literate investors are believed to have more nuanced investment strategies (Graham & Kumar, 2006). In the Nigerian context, however, this result may be attributed to Homogeneous behavior across investor segments so that given limited investment advisory infrastructure, most retail investors may adopt similar strategies, regardless of age or education; or dominance of informal financial education where forums such as WhatsApp groups and online trading platforms, and herd behavior can dilute the impact of formal education or experience on informed decision.

The findings present partial support for the Bird-in-the-Hand and Signaling Theories, especially among wealthier investors, while contradicting the Dividend Irrelevance Theory of Miller and Modigliani (1961). In an environment of informational inefficiencies (information asymmetry) and weak investor protection (regulatory efficiency), dividend signals are not neutral. They influence investor confidence and behavior. Fully observed, the Tax Preference Theory, which holds more sway in developed markets, finds limited application here in emerging markets. Nigerian investors may not factor tax efficiency heavily into their decisions due to weak enforcement,multiple taxation, inconsistent tax education, and frequent changes in tax policy (Oyelakin et al., 2019).

This paper, while revealing, is not without limitations especially the sample size 300, that excluded institutional investors may not fully represent Nigeria's diverse investor base. We excluded Institutional investors and foreign participants, thereby, limiting the generalization of findings. Finally, we could not also capture behavioral factors such as risk tolerance, financial goals, and sentiment. On these notes, future researches should incorporate time-series data on dividend announcements and price reactions; Compare pre-pandemic and post-pandemic investor preferences; and extend the model to include psychological and behavioral finance variables such as loss aversion and anchoring bias.

5. Conclusion and Recommendations

This paper examined the relevance of dividend need among investors in the Nigerian stock investment space, against the backdrop of classical dividend theories. Specifically, it aimed to determine whether Nigerian investors consider dividend payments in their investment decisions and to identify which demographic and investment-related variables influence this preference. In conclusion, this paper reaffirms that dividend policy remains a relevant and strategic consideration in Nigeria’s capital market. While global theories provide a useful starting point, their explanatory power must be tested and localized to reflect the realities of emerging markets. For Nigerian firms and policymakers alike, understanding investor dividend preferences is vital not only for corporate financial planning but also for enhancing stock market depth and efficiency and wider investment attraction. We evidenced that dividend Preference is Strong**-** a substantial 75% of surveyed investors indicated a preference for dividend-paying stocks, with 45% explicitly favoring high-dividend yields. Again, Portfolio Size and Risk-Aversion showed Significant Determinant revealing that Investors with larger portfolios were more likely to prefer dividends and more risk-averse, suggesting a linkage between wealth accumulation and income generation needs. Conversely, Age, Education, and Experience showed no significant Predictors which though **are** contrary to theoretical expectations, did not statistically affect dividend preference among Nigerian investors. Mildly, however, the Classical Theories Partially Apply **-** While the Bird-in-the-Hand and Signaling Theories find support, especially among larger investors. The assumptions of the Dividend Irrelevance Theory do not hold in the current Nigerian context. The Tax Preference Theory also appears weak in explanatory power, likely due to Nigeria's tax irregularities and enforcement challenges. The paper contributes to dividend literature by showing how classical theories must be reinterpreted in emerging markets. Specifically, the dividend irrelevance postulate becomes less tenable in environments with information asymmetries, volatile macroeconomic conditions, and evolving investor sophistication. This study supports the view that dividend policy is both a financial and a behavioral tool in Nigeria.

Practical Recommendations

Corporate Finance Managers must maintain consistent dividend payout policies where feasible, particularly for companies that rely on domestic retail investors; use dividend announcements to strategically signal financial stability, especially during macroeconomic uncertainty; and segment investor communication strategies to target high-portfolio-value clients who show higher dividend sensitivity. Policymakers and Regulators,such as The Nigerian Securities and Exchange Commission (SEC) and the Nigerian Exchange Group (NGX), on the other hand, they should intensify efforts in investor education, emphasizing the role of dividends within a broader investment strategy, encourage transparency in firms earnings reports and dividend declarations to enhance market confidence.

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