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Effect of Dividend Policy on Market-Based Wealth of Shareholders in Nigerian Pharmaceutical Firms

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Abstract

This study investigates the effect of dividend policy on the market-based wealth of shareholders in Nigerian pharmaceutical firms, measured through Market Price per Share (MPPS). Specifically, the study examines how Dividend per Share (DPS), Dividend Payout Ratio (DPR), Retention Ratio (RR), Dividend Yield (DY), and Earnings per Share (EPS) influence MPPS. The objectives of the study were to: (i) determine the effect of DPS on MPPS, (ii) examine how DPR affects MPPS, (iii) analyze the impact of RR on MPPS, (iv) assess the effect of DY on MPPS, and (v) evaluate the influence of EPS on MPPS. An ex-post facto research design was employed, using audited annual reports of five listed pharmaceutical firms in Nigeria covering 2014–2024. Panel data were analyzed using panel least squares regression to establish the statistical effects of the dividend policy variables on MPPS. The findings reveal that DPS ($\beta = 0.406$, $p = 0.0000$), RR ($\beta = 0.391$, $p = 0.0000$), DY ($\beta = 0.544$, $p = 0.0000$), and EPS ($\beta = 0.534$, $p = 0.0000$) have positive and statistically significant effects on MPPS. Conversely, DPR shows a negative and significant effect on MPPS ($\beta = –0.217$, $p = 0.0058$). The model demonstrates strong explanatory power ($R^2 = 0.998$; F-statistic = 4849.50, $p < 0.001$), indicating that dividend policy variables collectively explain a substantial portion of changes in MPPS. The implications of these findings suggest that investors in the pharmaceutical sector place high value on firms with strong earnings performance, attractive dividend yields, and strategic earnings retention. Excessively high payout ratios may be interpreted as limiting future growth potential, thereby reducing market valuation. This underscores the need for firms to achieve an optimal balance between dividend distribution and reinvestment. The study concludes that dividend policy significantly determines shareholder wealth in the Nigerian pharmaceutical sector. Accordingly, the study recommends that pharmaceutical firms adopt sustainable dividend policies that balance dividend payouts with adequate earnings retention, strengthen transparency in dividend decisions, and align dividend strategies with long-term value creation.

Keywords: *Market Price per Share, Dividend per Share, Dividend Payout Ratio, Retention Ratio, Dividend Yield, Earnings per Share, Dividend Policy, Pharmaceutical Firms.*

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Introduction

Dividend policy remains one of the most debated issues in corporate finance because of its potential effect on shareholder wealth. The manner in which a firm distributes earnings whether through dividends or retained profits often signals its financial stability, growth prospects, and managerial confidence. These signals influence investor perceptions and can directly affect the market value of a firm's shares, which represents the market-based wealth of shareholders (Al-Malkawi, 2014).

In Nigeria, the significance of dividend policy is heightened by the characteristics of the business environment, which include economic volatility, fluctuating exchange rates, and regulatory pressures. These conditions shape how firms, including those in the pharmaceutical sector, make financial decisions. The pharmaceutical industry in particular occupies a crucial position in Nigeria's economy due to its role in healthcare provision, employment creation, and national development. However, firms in the industry often face challenges such as high production costs, import dependence for raw materials, and changing government policies. These challenges make dividend decisions even more critical for sustaining investor confidence and enhancing shareholder wealth.

Although dividend policy has been widely discussed in corporate finance literature, there is limited focus on how it affects shareholder wealth within Nigeria's pharmaceutical industry. Most existing discussions highlight the general importance of dividend decisions and their influence on firm value, but sector-specific insights remain scarce. Given the unique operational environment of pharmaceutical firms, understanding the effect of dividend policy on shareholder wealth becomes essential for investors, regulators, and corporate managers seeking to strengthen financial performance and competitiveness.

This study therefore provides sector-specific evidence by examining how dividend policy affects the market-based wealth of shareholders in Nigerian pharmaceutical firms. The study aims to deepen understanding of dividend decisions in the industry and contribute knowledge that can guide investment judgment and corporate financial strategies.

Statement of the Problem

In corporate finance, dividend policy is expected to contribute meaningfully to the maximization of shareholders' wealth. A clear and well-managed dividend policy provides important signals about a firm's financial stability, profitability, and long-term growth prospects. When firms implement consistent and strategically balanced dividend policies, investor confidence is strengthened, market price per share tends to respond positively, and the firm becomes more attractive to long-term investors. Achieving an appropriate balance between dividend distribution and retained earnings is therefore essential for sustaining growth while enhancing shareholder wealth.

However, within Nigeria particularly in the pharmaceutical sector dividend policy practices appear inconsistent and sometimes poorly aligned with shareholder expectations. Some pharmaceutical firms either underutilize dividends as a wealth-enhancing tool or adopt dividend practices that do not correspond with their financial performance. These inconsistencies may arise from unstable earnings, managerial short-termism, weak governance structures, or broader economic uncertainties. Consequently, there is often a misalignment between dividend decisions and their actual impact on shareholder wealth, especially when measured through market price per share.

Despite the importance of this issue, empirical research specifically examining the effect of dividend policy on shareholder wealth within the Nigerian pharmaceutical industry remains limited. This gap in knowledge makes it difficult for investors, managers, and policymakers to understand how dividend decisions influence firm value in this sector.

If the problem persists, shareholders may continue to experience stagnation or erosion of wealth even when pharmaceutical companies declare profits. This could weaken investor confidence, depress the market value of firms, and discourage investment in the sector. Over time, inefficient dividend policies may restrict firms' access to capital, hinder growth, and reduce the competitiveness of Nigeria's pharmaceutical industry in both domestic and global markets.

Objectives of the Study

The main objective of this study is to assess the effect of dividend policy on the market-based wealth of shareholders of pharmaceutical firms in Nigeria. The specific objectives of the study are to:

i. Examine the effect of Dividend per Share on Market Price per Share of pharmaceutical firms in Nigeria.
ii. Determine the effect of Dividend Payout Ratio on Market Price per Share of pharmaceutical firms in Nigeria.
iii. Analyze the effect of Retention Ratio on Market Price per Share of pharmaceutical firms in Nigeria.
iv. Assess the effect of Dividend Yield on Market Price per Share of pharmaceutical firms in Nigeria.
v. Evaluate the effect of Earnings per Share on Market Price per Share of pharmaceutical firms in Nigeria.

Research Questions

The study seeks to provide answers to the following research questions:

i. What is the effect of Dividend per Share on the Market Price per Share of pharmaceutical firms in Nigeria?
ii. How does Dividend Payout Ratio influence the Market Price per Share of pharmaceutical firms in Nigeria?
iii. What impact does Retention Ratio have on the Market Price per Share of pharmaceutical firms in Nigeria?
iv. To what extent does Dividend Yield affect the Market Price per Share of pharmaceutical firms in Nigeria?
v. What is the relationship between Earnings per Share and the Market Price per Share of pharmaceutical firms in Nigeria?

Statement of Hypotheses

The following null hypotheses guided this study:

i. Dividend per Share has no significant effect on the Market Price per Share of pharmaceutical firms in Nigeria.
ii. Dividend Payout Ratio has no significant effect on the Market Price per Share of pharmaceutical firms in Nigeria.
iii. Retention Ratio has no significant effect on the Market Price per Share of pharmaceutical firms in Nigeria.
iv. Dividend Yield has no significant effect on the Market Price per Share of pharmaceutical firms in Nigeria.
v. Earnings per Share has no significant effect on the Market Price per Share of pharmaceutical firms in Nigeria.

Review of Related Literature

Conceptual Review

Dividend Policy

Dividend policy refers to the framework a firm adopts in determining how earnings are allocated between dividends to shareholders and retained earnings for reinvestment. It represents a strategic financial decision that signals management's priorities concerning value distribution and long-term growth. As noted by Al-Malkawi (2014), dividend policy serves as a communication tool that provides insights into the firm's profitability, cash-flow strength and stability. A clear and consistent dividend policy helps shape investor expectations, influences market perceptions and enhances the predictability of corporate financial behaviour. Dividend decisions are therefore central to corporate governance and strategic planning because they reflect how management balances current shareholder income with future expansion needs (Adelegan et al., 2021).

Additionally, dividend policy plays an integral role in shaping shareholder wealth because capital market participants often associate stable dividend payments with financial soundness and managerial competence. Salihu et al. (2024) emphasized that firms with stable and transparent dividend policies are more likely to attract long-term investors due to the perceived reduction in investment risk. In this sense, dividend policy becomes an important determinant of market valuation, especially in industries with fluctuating profitability. The conceptual importance of dividend policy also lies in its ability to align corporate objectives with shareholder expectations by distributing returns in a manner consistent with the firm's financial performance and strategic direction (Oke & Adewunmi, 2018).

Dividend per Share

Dividend per Share refers to the total amount of dividends declared for each outstanding share during a financial period. Conceptually, DPS serves as a direct and quantifiable measure of shareholder income derived from equity holdings, reflecting the firm's commitment to distributing returns (Al-Malkawi, 2017). DPS is central to the assessment of a firm's dividend-paying capability because it captures the extent to which earnings are transformed into actual cash rewards for shareholders. Rajagopalan and McConnell (2021) emphasize that changes in DPS often signal revisions in management's expectations about future earnings, making it a critical indicator for investors monitoring dividend stability and predictability.

Furthermore, the conceptual relevance of DPS extends to corporate transparency and dividend reporting quality. According to Fernández et al. (2020), reliable DPS disclosure enhances investor trust by reducing information asymmetry and improving the clarity of dividend decisions. Firms with strong governance structures tend to provide more consistent and credible DPS information, which supports investor confidence and rational decision-making (Silva & Costa, 2022). Thus, DPS is not merely a payout measure but also a communication tool that shapes perceptions of financial discipline, operational stability and corporate accountability.

Dividend Payout Ratio

The Dividend Payout Ratio measures the proportion of net income that is distributed to shareholders as dividends. Conceptually, Dividend Payout Ratio reveals how earnings are allocated between dividend payments and reinvestment activities, providing insight into the firm's financial philosophy and strategy (Mohammed & Al-Amri, 2018). A stable DPR indicates predictable dividend behaviour, which enhances investor confidence and signals consistent financial performance. Gupta and Kumar (2021) explain that the payout ratio also reflects firm maturity, as companies in growth stages generally pay lower dividends in favour of reinvestment, while mature firms tend toward higher payout ratios.

In addition, Dividend Payout Rat serves as a marker of dividend sustainability because it reveals whether dividends are supported by underlying earnings. Ojo and Ojo (2017) argue that firms with transparent and consistent DPRs tend to communicate financial strength more effectively to the market. When the ratio fluctuates widely, it may signal instability in earnings or shifting managerial priorities, thereby influencing market valuation. Nair and Pillai (2022) further note that dividend payout decisions are shaped by regulatory policies, governance practices and earnings management considerations, highlighting the multifaceted role of DPR in corporate financial analysis.

Retention Ratio

The Retention Ratio (RR), also called the plowback ratio, represents the proportion of earnings retained within the firm after dividend payments. Conceptually, RR reflects management's commitment to reinvestment and long-term value creation (Browne & Fazzari, 2018). Firms with higher retention ratios typically prioritize expansion, research and development or capital restructuring over immediate cash distributions to shareholders. Singh and Mehta (2021) observe that retention decisions are strongly linked to a firm's growth strategy and its desire to strengthen internal financing capacity. RR therefore illustrates the balance between rewarding shareholders today and building sustainable profits for the future.

Retention Ratio also serves as an indicator of managerial foresight and governance quality. Silva and Moreira (2021) emphasize that effective governance systems support efficient allocation of retained earnings, thereby enhancing firm value and future competitiveness. Conversely, poor governance may result in retained earnings being misallocated, undermining investor trust and reducing expected returns. Okafor and Abiola (2022) explain that macroeconomic conditions and business cycles also influence retention decisions, as firms may retain more earnings during economic downturns to strengthen financial stability. Thus, RR is a pivotal concept linking dividend decisions with long-term financial sustainability.

Dividend Yield

Dividend Yield expresses the annual dividend received by shareholders as a ratio of the current market price per share. Conceptually, it is a measure of the income-generating ability of a stock relative to its market valuation (Haque & Shamsuddin, 2018). DY is particularly significant for income-oriented investors who prioritize steady dividend returns over capital gains. Asante and Ofori (2017) note that dividend yield reflects both dividend decisions and market price fluctuations, making it a useful tool for comparing investment attractiveness across firms. A high DY may signal undervaluation or strong dividend commitment, while low yields may suggest growth-oriented reinvestment policies.

Additionally, dividend yield provides insights into investor sentiment and market conditions. Bhasin and Pandey (2022) explain that dividend yield responds dynamically to changes in share price, serving as a strategic indicator during periods of market volatility. Munyiri and Wachira (2020) highlight that investors often consider DY when diversifying portfolios or evaluating long-term return stability. In valuation contexts, DY is a central variable in dividend-based pricing models such as the Gordon Growth Model (Carvalho & Martins, 2024), making it important for determining intrinsic value and assessing shareholder wealth implications.

Earnings per Share

Earnings per Share reflects the portion of a firm's net income attributable to each outstanding share. Conceptually, EPS is one of the most widely used indicators of profitability, signalling the firm's ability to generate earnings from its equity base (Dube & Dube, 2019). EPS provides investors with a standardized measure of financial performance, allowing comparisons across firms and time periods. Boateng and Amponsah (2023) note that EPS also influences dividend decisions, as firms with strong earnings capacity are better positioned to maintain or increase dividend payouts.

Furthermore, EPS plays a vital role in investment valuation frameworks. According to Rehman and Rashid (2022), the quality of EPS reporting affects investor confidence and the reliability of financial statements, particularly in markets transitioning to enhanced reporting standards. Kilonzo and Maina (2023) add that EPS is sensitive to capital structure decisions, making it a crucial metric for assessing how financing strategies influence shareholder returns. Conceptually, EPS links firm performance, dividend policy capacity and market valuation, reinforcing its centrality in the analysis of shareholder wealth.

Market Price per Share (Shareholder Wealth Proxy)

Market Price per Share represents the value at which a company's shares are traded in the capital market and serves as a widely accepted proxy for shareholder wealth. Conceptually, it reflects the market's aggregated perception of the firm's current performance, risk profile and expected future prospects (Olayinka & Taiwo, 2020). The measure incorporates investor reactions to dividend policy decisions, earnings announcements and corporate governance practices, making it responsive to both financial and non-financial firm attributes. As emphasized by Cyril et al. (2019), market price per share captures how effectively managerial decisions translate into value for shareholders.

Moreover, Market Price per Share indicates the extent to which dividend policies enhance or diminish investor confidence. Oke and Adewunmi (2018) note that dividend stability contributes to favourable market valuation because it signals predictable returns and efficient financial management. Market price movements also embody market expectations regarding growth and profitability, linking dividend policy to capital market performance. As a measure of market-based wealth, Market Price per Share conceptually integrates financial policy decisions with investment outcomes and shareholder value.

Theoretical Review

This study was theoretically underpinned Bird-in-Hand Theory

Bird-in-Hand Theory

This study is underpinned by the Bird-in-Hand Theory, a component of the broader Dividend Relevance Theory, proposed by Myron Gordon and John Lintner in 1963. The theory suggests that investors prefer certain and immediate returns in the form of dividends over the uncertain prospect of future capital gains. In other words, a "bird in the hand" (dividends) is considered more valuable than "two in the bush" (potential future earnings). This preference arises from the perceived lower risk associated with dividend income. The theory is highly relevant to this study, as it supports the argument that dividend policy directly influences shareholder wealth, particularly in emerging markets like Nigeria where market inefficiencies, limited investor protections and economic uncertainties heighten the demand for stable and regular dividends. By using market price per share as a proxy for shareholder wealth, this study aligns with the Bird-in-Hand Theory's assertion that dividend payments can positively impact firm valuation. Therefore, the theory provides a strong conceptual foundation for examining how dividend policy decisions affect the wealth of shareholders in Nigerian pharmaceutical firms.

Empirical Review

Odoemelam and Obiora (2023) examined how accounting information affects dividend payouts in Nigerian pharmaceutical firms from 2016 to 2021. Using panel least squares regression on EPS, stock price, and net profit margin, they found EPS and stock price significantly influence dividend payouts. This suggests dividend decisions relate closely to market valuation, indirectly affecting shareholder wealth.

Salihu, Ahmad, Maigoshi, and Rabiu (2024) evaluated the effect of stable dividend policies on firm value among Nigerian healthcare firms, including pharmaceuticals. Using regression analysis on data from 2008–2020, they found consistent dividend payments positively affect firm value. This supports dividend signaling theory, where stable dividends communicate financial health, enhancing investor confidence and shareholder wealth.

Adelegan, Olowookere, and Sulaimon (2021) studied dividend policy's impact on firm performance across 80 Nigerian firms from 2001 to 2018 using PMG–ARDL. Results showed dividend policy negatively affected short-term performance but positively influenced long-term performance. This highlights the complex temporal effects of dividends on firm valuation and shareholder wealth in Nigeria's market.

Olayinka and Taiwo (2020) assessed dividend policy's role in shareholder wealth across 60 Nigerian financial and non-financial firms between 2006 and 2016. Through panel regression, dividend payout ratios and yields explained over 65% of shareholder wealth variance. This underscores the strong linkage between dividend decisions and shareholder value beyond specific industries.

Oke and Adewunmi (2018) investigated dividend policy's effect on shareholder wealth among 25 Nigerian firms over 1987–2016. Using co-integration and OLS regression, they found EPS and net asset value positively impacted shareholder wealth, but dividend per share had a negative effect. This suggests high dividends may signal fewer growth opportunities, potentially reducing share prices in Nigeria.

Methodology

Research Design

This study adopted an ex-post facto research design, which was appropriate for investigating cause–effect relationships using historical data that could not be manipulated. The research examined how various components of dividend policy affected shareholders' wealth, proxied by the market price per share of selected pharmaceutical firms in Nigeria. The study covered a ten-year period from 2014 to 2024, allowing for trend analysis and capturing recent policy and performance shifts in the pharmaceutical sector.

Area of Study

The study focused on listed pharmaceutical firms operating in Nigeria. The pharmaceutical sector was essential to national health and economic development, and the financial performance of its firms reflected both corporate efficiency and investor confidence. The research specifically targeted companies listed on the Nigerian Exchange Group (NGX), ensuring data reliability and comparability.

Sampled Firms

Using purposive sampling, five pharmaceutical firms were selected based on the consistent availability of audited annual financial reports, listing status, and relevance within the Nigerian healthcare and capital markets. The sampled firms were: MeCure Industries Plc, Neimeth International Pharmaceuticals Plc, Fidson Healthcare Plc, Emzor Pharmaceutical Industries Ltd, and Morison Industries Plc.

Sources of Data

Data for the study were obtained from secondary sources, specifically the audited annual reports and financial statements of the selected firms for the period 2014 to 2024. These reports provided standardized information on dividend payments, earnings, and share prices, making them suitable for empirical analysis.

Population of the Study

The population consisted of all pharmaceutical companies listed on the Nigerian Exchange Group (NGX) as of 2024. Sample Size and Sampling Technique. The sample comprised five pharmaceutical firms selected through purposive sampling, based on the criteria of data availability, stock exchange listing, and relevance to the research topic.

Model Specification

$$MPPS_{it} = f(DPS_{it}, DPR_{it}, RR_{it}, DY_{it}, EPS_{it}) \quad \text{.....(i)}$$

$$MPPS_{it} = \beta_0 + \beta_1 DPS_{it} + \beta_2 DPR_{it} + \beta_3 RR_{it} + \beta_4 DY_{it} + \beta_5 EPS_{it} + c_i + \epsilon_{it} \quad \text{.....(ii)}$$

Where:

$MPPS_{it}$	=	Market Price Per Share of firm *i* in year *t*
DPS_{it}	=	Dividend Per Share of firm *i* in year *t*
DPR_{it}	=	Dividend Payout Ratio of firm *i* in year *t*
RR_{it}	=	Retention Ratio of firm *i* in year *t*
DY_{it}	=	Dividend Yield of firm *i* in year *t*
EPS_{it}	=	Earnings Per Share of firm *i* in year *t*
β_0	=	Intercept term
$\beta_1,\beta_2,\beta_3,\beta_4,\beta_5$	=	Coefficients to be estimated
c_i	=	Bank-specific effects that are unobserved
ϵ_{it}	=	Error term

Method of Data Analysis

The study will employ descriptive statistics (mean, standard deviation, minimum, and maximum values) to summarize the dataset. For inferential analysis, panel data regression analysis will be used—specifically the Fixed Effects Model (FEM) or Random Effects Model (REM) based on the outcome of the Hausman Test. These techniques allow the researcher to account for both time-series and cross-sectional variations across the five sampled firms over the eleven-year period.

Data Presentation and Analysis

Data Presentation

Descriptive Statistics

Table 1: Descriptive Statistics of the variables

	MPPS	DPS	DPR	RR	DY	EPS
Mean	0.351342	-0.801689	-0.612264	-3.991032	1.166522	4.337537
Median	0.336472	-0.798508	-0.597837	-4.017384	1.166271	4.317488
Maximum	0.788457	-0.494296	-0.400478	-3.611918	1.342865	4.488636
Minimum	-0.105361	-1.108663	-0.941609	-4.342806	0.947789	4.234107
Std. Dev.	0.212591	0.147869	0.130849	0.179041	0.088501	0.067687
Skewness	0.219836	0.203807	-0.768698	0.484470	-0.223353	0.878875
Kurtosis	2.412532	2.428089	2.962288	2.578842	2.429630	2.814801
Jarque-Bera	1.233903	1.130323	5.419805	2.558005	1.202822	7.159123
Probability	0.539587	0.568268	0.066543	0.278315	0.548038	0.027888
Sum	19.32380	-44.09291	-33.67452	-219.5068	64.15872	238.5646
Sum Sq. Dev.	2.440525	1.180722	0.924560	1.731006	0.422952	0.247403
Observations	55	55	55	55	55	55

Source: E-view 11.0 Statistical Output, 2025

Table 1 presents the descriptive statistics for the variables used to examine the effect of dividend policy on shareholders' wealth, proxied by Market Price per Share (MPPS), based on 55 firm-year observations from selected pharmaceutical firms in Nigeria between 2014 and 2024.

The mean MPPS is 0.3513, with a median of 0.3365, suggesting a fairly balanced central tendency. The values range from –0.1054 to 0.7885, indicating noticeable variability in market valuation across the sampled firms and over time. The standard deviation (0.2126) confirms this spread. MPPS is mildly positively skewed (0.22), with a kurtosis of 2.41, indicating a slightly flatter-than-normal (platykurtic) distribution. The Jarque–Bera test yields a p-value of 0.5396, showing no significant departure from normality at the 5% level.

Dividend per Share (DPS) has a mean of –0.8017 and a median of –0.7985, ranging from –1.1087 to –0.4943. Although dividends cannot be negative in actual financial reporting, the negative values likely result from data transformation (e.g., scaling, normalization, or differencing) applied prior to analysis. The standard deviation (0.1479) indicates moderate variation. DPS is slightly positively skewed (0.20) with a kurtosis of 2.43, suggesting a flat distribution. The Jarque–Bera p-value (0.5683) indicates that DPS is normally distributed.

Dividend Payout Ratio (DPR) has a mean of –0.6123 and a median of –0.5978, with a range from –0.9416 to –0.4005. Similar to DPS, the negative values likely reflect data transformation rather than actual payout behavior. The standard deviation (0.1308) shows low dispersion. DPR is negatively skewed (–0.77), indicating a longer left tail, while the kurtosis of 2.96 is very close to the normal benchmark. The Jarque–Bera p-value of 0.0665 is slightly above 0.05, suggesting borderline but acceptable normality.

Retention Ratio (RR) has a mean of –3.9910 and a median of –4.0174, with values between –4.3428 and –3.6119. The consistently negative range implies the application of a transformed metric rather than the conventional retention ratio. The standard deviation (0.1790) indicates moderate spread. RR is positively skewed (0.48), and its kurtosis (2.58) suggests a flatter distribution. The Jarque–Bera p-value of 0.2783 indicates that RR does not significantly deviate from normality.

Dividend Yield (DY) has a mean of 1.1665 and a median of 1.1663, showing almost perfect symmetry. It ranges from 0.9478 to 1.3429, with a low standard deviation of 0.0885, indicating limited variability. DY is slightly negatively

skewed (–0.22), while its kurtosis (2.43) suggests a platykurtic distribution. The Jarque–Bera p-value (0.5480) confirms normality.
Earnings per Share (EPS) records the highest mean (4.3375), with a median of 4.3175 and a narrow range from 4.2341 to 4.4886, reflecting minimal fluctuation over time. The standard deviation (0.0677) is low, reinforcing this stability. EPS is positively skewed (0.88), indicating some concentration of values on the lower end. Its kurtosis of 2.81 is close to the normal value of 3. However, the Jarque–Bera p-value (0.0279) is below 0.05, indicating significant deviation from normality at the 5% level.

Table 2: Panel Regression Analysis Result of the Time Series Data

Dependent Variable: MPPS
Method: Panel Least Squares
Date: 09/20/25 Time: 22:21
Sample: 2014 2024
Periods included: 11
Cross-sections included: 5
Total panel (balanced) observations: 55

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DPS	0.405637	0.060826	6.668833	0.0000
DPR	-0.216874	0.075182	-2.884636	0.0058
RR	0.391370	0.045905	8.525716	0.0000
DY	0.543928	0.041490	13.10969	0.0000
EPS	0.534213	0.043103	12.39389	0.0000
C	-0.845953	0.214574	-3.942475	0.0003

R-squared	0.997983	Mean dependent var	0.351342
Adjusted R-squared	0.997777	S.D. dependent var	0.212591
S.E. of regression	0.010022	Akaike info criterion	-6.265327
Sum squared resid	0.004922	Schwarz criterion	-6.046345
Log likelihood	178.2965	Hannan-Quinn criter.	-6.180645
F-statistic	4849.495	Durbin-Watson stat	1.435181
Prob(F-statistic)	0.000000		

Source: E-view 11.0

Statistical Output, 2025

Table 4.1.3 presents the panel least squares regression results assessing the effect of key dividend policy variables Dividend per Share (DPS), Dividend Payout Ratio (DPR), Retention Ratio (RR), Dividend Yield (DY), and Earnings per Share (EPS) on Market Price per Share (MPPS), which serves as a proxy for shareholders' wealth. The analysis covers five Nigerian pharmaceutical firms over the period 2014–2024, totaling 55 balanced panel observations.

The coefficient for DPS (0.4056; p = 0.0000) indicates a positive and statistically significant effect on MPPS. This suggests that higher dividend payments per share are strongly associated with increases in market price per share. A 1-unit increase in DPS corresponds to an estimated 0.406-unit rise in MPPS, holding other variables constant.

RR also exhibits a positive and significant effect on MPPS (0.3914; p = 0.0000). This implies that firms retaining more earnings tend to experience enhanced market valuation, consistent with the view that retained earnings may signal future growth potential appreciated by investors. Likewise, DY shows a strong positive relationship with MPPS (0.5439; p = 0.0000), indicating that higher dividend yields—representing the return on investment through dividends are associated with increased share prices. This aligns with the attractiveness of dividend-yielding stocks to income-seeking investors.

EPS displays a positive and statistically significant coefficient (0.5342; p = 0.0000), demonstrating that greater profitability per share contributes meaningfully to higher market valuation. This is consistent with financial theory, which posits that earnings are a fundamental driver of stock prices and investor confidence.

On the other hand, DPR has a negative and statistically significant effect on MPPS (–0.2169; p = 0.0058). This suggests that higher payout ratios are associated with lower market prices, which may imply that investors interpret excessive dividend payouts as a reduction in funds available for reinvestment and future growth. Thus, overly aggressive payout policies may generate negative market signals.

The intercept (–0.8459; p = 0.0003) is negative and significant. Although the constant term has limited standalone interpretive value in applied finance, its significance indicates that the explanatory variables jointly contribute meaningfully to determining MPPS.

The model demonstrates exceptionally high explanatory power, with an R-squared of 0.99798 and an adjusted R-squared of 0.99778. This shows that approximately 99.8% of the variation in MPPS is explained by the included dividend policy variables. The F-statistic (4849.50; p = 0.0000) confirms the overall significance of the model.

Test of Hypotheses

Test of Hypothesis One

Restatement of Hypothesis:
H_{01}: Dividend per Share (DPS) has no significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.
H_{a1}: Dividend per Share (DPS) has a significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.

Decision Rule:
Reject H_{01} if the p-value is less than 0.05; otherwise, do not reject H_{01}.

Decision:
The coefficient of DPS is 0.4056, with a t-statistic of 6.6688 and a p-value of 0.0000 (< 0.05). Therefore, the null hypothesis (H_{01}) is rejected, and the alternative hypothesis is accepted.

Test of Hypothesis Two

Restatement of Hypothesis:
H_{02}: Dividend Payout Ratio (DPR) has no significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.
H_{a2}: Dividend Payout Ratio (DPR) has a significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.

Decision Rule:
Reject H_{02} if the p-value is less than 0.05; otherwise, do not reject H_{02}.

Decision:
The coefficient of DPR is –0.2169, with a t-statistic of –2.8846 and a p-value of 0.0058, which is less than 0.05. Thus, the null hypothesis (H_{02}) is rejected, and the alternative hypothesis is accepted.

Test of Hypothesis Three

Restatement of Hypothesis:
H_{03}: Retention Ratio (RR) has no significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.
H_{a3}: Retention Ratio (RR) has a significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.

Decision Rule:
Reject H_{o3} if the p-value is less than 0.05; otherwise, do not reject H_{o3}.

Decision:
The coefficient of RR is 0.3914, with a t-statistic of 8.5257 and a p-value of 0.0000, which is less than 0.05. Hence, the null hypothesis (H_{o3}) is rejected, and the alternative hypothesis is accepted.

Test of Hypothesis Four

Restatement of Hypothesis:
H_{o4}: Dividend Yield (DY) has no significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.
H_{a4}: Dividend Yield (DY) has a significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.

Decision Rule:
Reject H_{o4} if the p-value is less than 0.05; otherwise, do not reject H_{o4}.

Decision:
The coefficient of DY is 0.5439, with a t-statistic of 13.1097 and a p-value of 0.0000, which is less than 0.05. Therefore, the null hypothesis (H_{o4}) is rejected, and the alternative hypothesis is accepted.

Test of Hypothesis Five

Restatement of Hypothesis:
H_{o5}: Earnings per Share (EPS) has no significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.
H_{a5}: Earnings per Share (EPS) has a significant effect on the Market Price per Share (MPPS) of pharmaceutical firms in Nigeria.

Decision Rule:
Reject H_{o5} if the p-value is less than 0.05; otherwise, do not reject H_{o5}.

Decision:
The coefficient of EPS is 0.5342, with a t-statistic of 12.3939 and a p-value of 0.0000, which is less than 0.05. Hence, the null hypothesis (H_{o5}) is rejected, and the alternative hypothesis is accepted.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The key findings are summarized as follows:

i. Dividend per Share (DPS) exhibited a positive and statistically significant effect on Market Price per Share (MPPS) (coefficient = 0.4056; p-value = 0.0000). This indicates that increases in the dividend amount distributed per share are associated with corresponding increases in share value, demonstrating that shareholders positively respond to higher cash dividends.

ii. Dividend Payout Ratio (DPR) showed a negative and statistically significant effect on MPPS (coefficient = –0.2169; p-value = 0.0058). This suggests that allocating a larger proportion of earnings to dividend payments rather than retention may be perceived unfavorably by the market, possibly due to concerns about reduced reinvestment capacity and future growth potential.

iii. Retention Ratio (RR) recorded a positive and statistically significant effect on MPPS (coefficient = 0.3914; p-value = 0.0000). This indicates that retaining a greater proportion of earnings tends to enhance share value, implying investor confidence in firms' reinvestment strategies and long-term growth prospects.

iv. Dividend Yield (DY) exerted a positive and statistically significant effect on MPPS (coefficient = 0.5439; p-value = 0.0000). This finding shows that higher dividend yields attract investors and strengthen the market valuation of pharmaceutical firms, illustrating the importance of dividend attractiveness in wealth creation.

v. Earnings per Share (EPS) demonstrated a positive and statistically significant effect on MPPS (coefficient = 0.5342; p-value = 0.0000). This highlights that improved earnings performance contributes meaningfully to the enhancement of shareholder wealth through higher market valuation.

Conclusion

This study investigated the effect of key dividend policy components Dividend per Share, Dividend Payout Ratio, Retention Ratio, Dividend Yield, and Earnings per Share on the Market Price per Share of listed pharmaceutical firms in Nigeria. The results provide clear evidence that dividend policy remains a significant determinant of shareholder wealth in the sector. Specifically, Dividend per Share, Retention Ratio, Dividend Yield, and Earnings per Share exert positive and statistically significant effects on market price, demonstrating that higher dividend distributions, stronger reinvestment capacity, attractive dividend yields, and robust earnings performance are consistently rewarded by the capital market.

In contrast, the Dividend Payout Ratio exhibits a negative and significant effect on market price, suggesting that allocating a larger share of earnings to dividend payments at the expense of retained earnings may weaken investor confidence, especially in a sector where long-term investment and research-driven growth are critical. This underscores the need for firms to maintain a balanced payout structure that does not compromise reinvestment capacity or future profitability.

Therefore, the study concludes that dividend policy is a strategic financial tool that influences market valuation and shareholder wealth in Nigeria's pharmaceutical industry. Firms that combine stable dividend payments with prudent earnings retention and sustained profitability are more likely to command higher market valuations and attract long-term investors. Accordingly, managers should adopt dividend policies that align with both current investor income preferences and future growth imperatives to optimize shareholder wealth and enhance competitive performance.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

i. Adopt a balanced dividend policy framework: Pharmaceutical firms should maintain dividend policies that provide competitive cash returns while retaining adequate earnings to finance productive investments. This balance is essential for sustaining growth and enhancing market valuation.

ii. Manage dividend payout ratios prudently: Given the negative effect of high payout ratios on market price, firms are advised to avoid excessive dividend distributions that weaken reinvestment capacity and signal limited future growth prospects to the market.

iii. Strengthen disclosure and communication practices: Improved transparency regarding dividend decisions, earnings performance, and reinvestment strategies will enhance investor confidence, reduce information asymmetry, and support favourable share price responses.

iv. Align dividend policy with market and industry dynamics: Management should continuously evaluate investor reactions to dividend announcements and adjust policies in response to macroeconomic conditions, firm performance, and sectoral trends to maintain optimal market valuation.

v. Promote industry-wide governance standards: Regulatory authorities and professional bodies should develop and enforce guidelines that encourage responsible dividend management, ensuring alignment between shareholder interests and long-term sectoral sustainability.

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