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# Dividend Policy and Performance of Selected Quoted Firms in the Nigeria Stock Market

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**ABSTRACT**

This study examined the relationship between dividend policy and performance of selected quoted firms in Nigeria. Dividend policy is challenging for the directors and financial Managers of any company because different investors have different views on present cash dividends and future capital gains. Another confusion that pops up is regarding the extent of effect of dividends on the share price. Firms equally believe that when dividends are not paid as at when due then it will affect company's share price. The objective of the study is to examine the relationship between dividend policy and return on assets. Data were sourced through secondary sources. The data collected were tested using E-View. Ordinary least square technique was used for estimation. The study found out that there is no significant positive relationship between dividend policy and return on assets. The study recommends among others that organizations should ensure that they have a good and robust dividend policy in place. This will enhance their profitability and attract investments.

***Keywords:*** *Dividend, Ratio analysis, Derivatives, Hedging*

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## 1. INTRODUCTION

Dividend policy is concerned with financial policies regarding paying cash dividend in the present or paying an increased dividends at a large stage. Whether to issue dividends, and what amount, is determined mainly on the basis of the company unappropriated profit (excess cash) and influenced by the company's on term earning power. Dividend or profit allocation decision is one of the four decision area in finance. Management must also choose the form of the dividend distribution, generally as cash dividends or via a share buyback. Various factors may be taken into consideration: where shareholders must pay tax on Dividends, firms may elect to retain earnings or to perform a stock buyback, in both cases increasing the value of shares outstanding. Alternatively, some companies will pay "dividends" from stock rather than in cash; see corporate action. Financial theory suggests that the dividend policy should be set based of company and what management determines is the best use of resources for the firm to its shareholders, (Al Malkawi, 2009).

Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross, 2002). The survival of any company is dependent on the continuous investment in facilities and the employment of internal financing, through the use of retained earnings from an integral part of the sources of finance to foot the investment needs. Government fiscal policies tend to put some restrictions on the amount of dividend a company may pay. This invariably has forced pant of the realized profits to be ploughed back.

### 1.1. Statement of the Problem

Dividend policy is challenging for the directors and financial managers of a company, because different investors have different views on present cash dividends and future capital gains. Another confusion that pops up is regarding the extent of effect of d ividends on the share price. Firms equally believe that when dividend are not paid as at when due then it will affect company's share price. Due to this controversial nature of a dividend policy it is often called the dividend puzzle. Various models have been developed to help firms analyse and evaluate the perfect dividend policy. There is no agreement between these schools of thought over the relationship between dividends and the value of the share or the wealth of the shareholders. This study seek to find the way to determining an optimum dividend payout which will be beneficial to the companies and shareholders as well. Studies on the relationship between dividend policy and firm performance have been growing in volume in emerging markets, but with such studies scarcely found in Nigeria. Most studies in Nigeria concentrate on the determinants of dividend policy and the role of dividend policy in value creation. Concentrating on these two aspects of dividend policy ignores an important aspect, the linkage between dividend policy and firm growth.

### 1.2. Objectives of the Study

The broad objective of this study is to ascertain the impact of dividend policy on growth of selected firms quoted on the Nigerian stock exchange. Specifically, the study tends to examine the following:

1. To ascertain the relationship between dividend policy

and return on assets of the quoted firms.

2. To determine the relationship between dividend policy and return on equity of the quoted firms.

### 1.3. Research Questions

The study will try to provide answers to the following questions:

1. What is the relationship between dividend policy and return on assets of the quoted firms?
2. To what extent is the relationship between dividend policy and return on equity of the quoted firms?

### 1.4. Research Hypotheses:

From the research questions above, the research hypotheses will be deduced as follows in their null form:

$H_0$ : There is no significant relationship between dividend policy and returns on assets of the quoted firms.

$H_0$ : There is no significant relationship between dividend policy and the return on equity of the firms.

## 2. REVIEW RELATED LITERATURE

### 2.1. Conceptual Review

Several attempts have been made to define dividend policy. Dividend policy is the policy of the firm on how much of the profit made is distributed as dividend and how much is retained in the business (Anya, 2010) . One view is that dividend policy is an integral part of a firm financing. Van Home and Wachowicz, (2010) see it as a major aspect of the firms dividend policy in determining the appropriation of profit between dividend payment, while considering legal, liquidity and control issues. Dividend policy is sometimes constraint by certain circumstances such as debt obligation extinguishment. Firms seem to increase dividends with a lag which is an unspecified decision process (Lintner, 1956), Dividend policy is counter balanced by retention policy, investment policy, financing policy and growth policy. Dividend policy is also said to be a set of guidelines a company uses to decide distributable part of profit and retention.

Companies pay more attention to two types of dividend policies, residual and stability policies. Dividend policy is a well discussed and researched aspect of corporate finance. But dividend policy remains a source of controversy despite years of theoretical and empirical research (Allen and Rachim, 2013; Asamoah (2010); Nishat & Irfan 2011). Dividend policy is one of the m ost im portant policies not onl y to the f i r m, but also to the shareholders, customers, regulatory bodies and the government (Uwuigbe, Jafaru & Ajayi, 2012). Dividend policy, therefore, concerns a wide clientele that are related to the firm. From 1938 to Lintnar (1959), to Gordon (1956) to Miller and Modigliani (MM) (1961) to Black (1976) to De Angelo and Skinner (1996) and to date, researchers have not been able to solve the dividend question. According to Black (2006), the more one looks at the dividend picture, the more it seems like a puzzle, with pieces that do not just fit together. Dividend policy can be described as a mirror in which the image of the dividend object does not resemble the object. What makes dividend policy difficult to settle in theor y and in practice is that the dem ands of the investors operate in opposing directions. The behaviour of dividend policy is one most debatable issue in the corporate

**Relevance of Dividend Policy**

Dividends paid by the firms are viewed positively both by the investors and the firms. The firms which do not pay dividends are rated in oppositely by investors thus affecting the share price. The people who support relevance of dividends clearly state that regular dividends reduce uncertainty of the shareholders i.e. the earnings of the firm is discounted at a lower rate, k^ thereby increasing the market value. However, its exactly opposite in the case of increased uncertainty due to non-payment of dividends, (Asoamoah, 2010)

**Factors Influencing Dividend Policy in Companies**

The more companies distribute dividends, the higher the dividend payout ratio, the more attractive to investors, the more conducive to establishing a good corporate reputation and the market value of the company stock. Luke (2011) states that a significant part of returns investors can realize from putting money into stocks comes from dividends paid by companies. The amount of money a company pays in form of dividends varies significantly from one business to the other. Companies use dividend policy to determine how much they will distribute.

There is a connection between dividend policy and retention policy. Retained earnings are important sources of finance for the Nigerian companies and the factors that encourage retaining the profit instead of dividend payment includes:

A. Dividend policy is determined by directors. They are, therefore, attractive source of finance for development project without resources to outsider for extra funds.
B. The belief that there is no cost associated with the use of retained earnings although not true. It does not lead to cost involving payments of cash.
C. In periods of prosperity, the management may not be liberal in dividend payments because of availability of larger profitable investments opportunities.
D. In period of depression, the management may retain a larger part of its earnings to preserve the firm's liquidity position.
E. Retained earnings avoid issue cost. A company must satisfy shareholders minimum requirement and if looking for extra funds, should not be seen by investors to be paying generous dividend or salaries to owners-directors.

#### 2.1.4. Motives of dividend policy

Ule, (2011) stressed that5 dividend policy refers to the decision of the board regarding distribution of residual earnings to its shareholders. The primary objective of a finance manager is the maximization of wealth of the share-holders. Payment of dividend leads to increase in the price of shares on the one hand but leads to a crunch in liquid resources for financing of prospective projects. There is an inverse relationship between dividend payment and retained earnings.

2.1.5 The main motives of a dividend policy are:

**Wealth Maximization:** According to Allen, and Rachim, (2013) dividend policy has significant impact on the value of the firm. Therefore the dividend policy should be developed keeping in mind the wealth maximization objective of the firm.

**Future Prospects:** Dividend policy is a financing decision and leads to cash outflows and also leads to decrease in availability of cash for financing of profitable projects. If sufficient funds are not available, a firm has to depend on external financing. Therefore the dividend policy needs to be devised in such a manner that prospective projects may be financed through retained earnings.

**Stable Rate of Dividend:** Fluctuation in the rate of return adversely affects the market price of shares. In order to have a stable rate of dividend, a firm should retain a high proportion of earnings so that the firm can keep sufficient funds for payment of dividend when it faces loss.

### 2.2. Theoretical Review

**Capital structure substitution theory & dividends**

The capital structure substitution theory (CSS) describes the relationship between earnings, stock price and capital structure of public companies. The theory is based on one simple hypothesis: company managements manipulate capital structure such that earnings-per-share (EPS) are maximized. The resulting dynamic debt-equity target explains why some companies use dividends and others do not. When redistributing cash to shareholders, company managements can typically choose between dividends and share repurchases. But as dividends are in most cases (.axed higher than capital gains, investors are expected to prefer capital gains. However, the CSS theory, shows that for some companies share repurchases lead to a reduction in EPS. These companies typically prefer dividends over share repurchases.

**Mathematical representation**

From the CSS theory it can be derived that debt-free companies should, prefer repurchases whereas companies with a debt-equity ratio larger that should prefer dividends as a means to distribute cash shareholders, where:

- D is the company's total long term debt
- Is the company's total equity
- Is the tax rate on capital gains
- Is the tax rate on dividends

Low valued, high leverage companies with limited investment opportunities and a high profitability use dividends as the preferred means to distribute cash to shareholders, as s documented by empirical research. This work is anchored on The CSS theory because it provide more guidance on dividend policy to company managements than the Walter model and the Gordon model. It also reverses the traditional order of cause and effect by implying that company valuation ratios drive dividend policy, and not vice versa. The CSS theory does not have 'Invisible' or 'hidden' parameters such as the equity risk premium, the discount rate, the expected growth rate or expected inflation. As a consequence the theory can be tested in an unambiguous way.

### 2.3. Empirical review:

Gordon (2016) examined Dividend policy and effect on value of the Firms in Australia. He used sizes of the Firms, leverage ratio Business risk, and Retention ratio as variables for regression analysis. The study found out that dividend payout rates changes have significant effect on price earnings ratios. Zeckhause (1990) assessed the effect of dividend payout on Shareholder's return New Zealand. The study employed the use of dividend payout ratio and return on equity using ordinary least square. It found out that there is no significant different among Dividend payouts with or without large block shareholders.

Murhadi (2008) examined the effects of dividend policy on Share price: an evaluative study in Bangladesh. The variables used include, Dividend per share, Dividend payout ratios, Price of quoted stock. Ordinary least square Regression was used for data analysis. Factors which attempts to Explain variations in Share market prices were identified, and the Magnitude of their effects Estimated. The result Confirms that share Market price is a representation of market valuation of dividend

Adediran & Alade (2013) studied dividend policy and corporate performance in Nigeria. The study made use of corporate profitability, investment and earning per shares. It found out that there is significant positive relationship between dividend policies of organizations and profitability, there is also significant positive relationship between dividend and that policy investments and there is a significant positive relationship between dividend policy and earnings per share. Mesqita & Lara (2003) conducted similar study on dividend policy by using different approach. They studied the relationship between capital structure and profitability of Brazilian firms. Their study conducted that in the short run, there is possible relationship, while in the long-run, there is inverse relationship between debt profitability. This, however, conflicts with the position of those belonging to the dividend relevance school of thought. Ashamu, (2010) however refute the above findings using regression analysis to investigate the effect of dividend policy on the value of public payout ratio of a company significantly determine the changes in the value of the company.

## 3. METHODOLOGY

### 3.1. Research Design

The use of quantitative research methodology for this study is clearly in line with Cooper and Schandler (2001) who explained that the approach allows for the use of numerical facts and model specification. Also. The ex-post facto research design will be adopted because the study will involve the use of data on variables which the researcher cannot change or manipulate (Onwumere, 2009). A study of this subject therefore, lends itself to the main tenets of research methodology to help find out objectively the relationship between dividend policy and firm performance.

### 3.2. Sources of Data

Secondary data were collected for the period of 20-00 to 2015, all the data were on an annual bases as provided in the various official reports and publications of National deposit insurance commission (NDIC), the various publications of the Nigerian stock exchange (NSE), and annual publications of the selected firms.

### 3.3. Model Specification

Model is an abstraction of reality. It is a mathematical representation of real work phenomenon using figures and signs. The model for this study is adapted from the model specified by Adediran & Alade (2013). The model is as specified below:

**Y – βo +** βliXi + μ

IogEPSt = βo + log β1logDPRt + ut ………….3.1

Y=EPS and X= dividend pay-out ratio βo m Constant Term B1=Co-efficient of Xi

μ - Error Term

However, the researcher modified the model to suit the present research. The model was modified by introducing dividend per share instead of dividend pay-out ratio as the independent variable. Also, the researcher introduced ROA, ROE, and PBT as other dependent variables for measuring firm performance, to enable the researcher exhaust the two objectives specified. The modified model is as specified below:

Log EPSt =β0 + log βpiIogDPSt + ut.......... 3.2

The new equations however are as follows: ROA-f(DPRt) ......................... 3-3
ROE - f (DPRt) .........................3.4

These shows a functional relationship between the independent vari able (dividend per share) and the various dependent variables (ROA, ROE,) to determine if there exist a relationship or not, and if at all, to show the nature of the relationship.

Logarithmically transforming variables in a regression model is a very common way to handle situations where a non-linear relationship exists between the independent and dependent variables. Using the logarithm of one or more variables instead of the un-logged form makes the effective relationship nonlinear, while still preserving the linear model.

Given the nature of data used in this study, the introduction of logarithm becomes a necessity. The models are expressed as follows:

**Model**
LogDPRt = BO + logP,ROAt + log β2ROAt + iogβ3PBTt + ut …………..3.7
Where:

DPRt = Dividend payout ratio in period t
ROE = return on equity
ROA = return on asset
βO = slope of the regression line
βI = parameter estimates ut = error term
f = functional relationship

### 3.4. Techniques for data analysis
The study adopted analytical method of data analysis. The analytical tool, consisted of Ordinary Least Square (OLS) regression. Two separate regressions were estimated for 2000-2015. The usual tests of significance and goodness of fit were employed to decide whether or not dividend policy has any significant relationship with performance of selected quoted companies. These included the t-values, the coefficient of determination ($R^2$) and adjusted R2, and the F test. The researcher employed E-view software package version 8.1 for testing the hypotheses.

## 4. DATA PRESENTATION AND ANALYSIS
### 4.1. Data Presentation
The data obtained from the various sources stated in the previous chapter was presented in the table below.

**Table 4.1 Presentation and analysis of the data for determining the effect of divided policy on the performance of quoted firms in Nigeria from 2005 to 2015**

| YEAR | ROE | ROA | PBT | EPS | DPS |
|---|---|---|---|---|---|
| 2005 | 4.81 | 0.75 | 81.63 | 14.9 | 1.23 |
| 2006 | 4.12 | 0.59 | 181.01 | 14.9 | 1.09 |
| 2007 | 36.83 | 5.92 | 379.75 | 14.1 | 1.43 |
| 2008 | 24.11 | 4.29 | 658.10 | 14.1 | 2.98 |
| 2009 | 9.28 | 64.72 | 1,333.3 | 17.7 | 1.49 |
| 2010 | 161.9 | 3.91 | 607.34 | 17.4 | 5.10 |
| 2011 | -0.28 | -0.04 | -6.71 | 12.8 | -0.94 |
| 2012 | 22.20 | 2.62 | 458.04 | 12.8 | 9.24 |
| 2013 | 19.14 | 2.15 | 484.78 | 15.9 | 7.48 |
| 2014 | 20.34 | 2.33 | 564.0 | 18.5 | 7.99 |
| 2015 | 23.7 | 2.91 | 604.65 | 18.7 | 9.56 |
| 2016 | -0.29 | -0.05 | -6.71 | 12.8 | 8.93 |
| 2017 | 22.20 | 2.62 | 458.04 | 12.8 | 9.24 |
| 2018 | 161.9 | 3.91 | 607.34 | 17.4 | 5.10 |
| 2019 | -0.23 | -0.04 | -6.71 | 11.7 | 6.94 |

**SOURCE: NSE publications for various years and CBN annual report (2019).**

### 4.2. Test of Hypotheses
The hpotheses were tested using E-view version 9.0, and the results are as shown below. Restatement of hypotheses Hypothesis one
Ho : There is no significant relationship between dividend policy and return on assets of the quoted firms?
Hi : There is a significant relationship between dividend policy and return on assets of the quoted firms?

**Regression table for Model 1**

| Dependent Variable: ROA | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Sample: 2005 2019 | | | | |
| Included observations: 15 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 6.468454 | 10.61155 | 0.609567 | 0.5466 |
| ROA | -0.086863 | 0.447229 | -0.194224 | 0.8473 |
| DPR | -4.014314 | 0.015188 | 0.942434 | 0.3533 |
| ROE | -0.009578 | 0.091598 | -0.104568 | 0.9174 |
| EPS | -0.030771 | 0.100244 | -0.306958 | 0.7609 |
| R-squared | 0.036499 | Mean dependent var | | 4.958611 |
| Adjusted R-squared | -0.087824 | S.D. dependent var | | 5.040509 |
| S.E. of regression | 5.257190 | Akaike info criterion | | 6.285316 |
| Sum squared resid | 856.7794 | Schwarz criterion | | 6.505250 |
| Log likelihood | -108.1357 | Hannan-Quinn criter. | | 6.362079 |
| F-statistic | 0.293582 | Durbin-Watson stat | | 1.277738 |
| Prob(F-statistic) | 0.879887 | | | |

**Source: Regression result, 2020.**

The regression result shows that if dividend payment remains constant, the ROA will increase by 6%, while a variation in dividend payment will increase the ROA by 4%. The standard error coefficient of the regression shows that it is within the acceptable range. The adjusted R-squared shows that the regression line is not well fitted, while the adjusted R-squared shows that only -8% variation in the dependent variable is explained by the independent variable., which is statistically insignificant. The Durbin-Watson coefficient is above 1.27 showing that the variables of the model are free from autocorrelation problem. The F- statistics coefficient of 0.29 is above the significance value of 0.05, hence we accepts the null hypothesis that there is no significant relationship between dividend policy and the return on asset of selected quoted firms.

**Hypotheses two**

Ho : There is no significant relationship between dividend policy and the return on equity of the firm.
Hi : There is a significant relationship between dividend policy and the return on equity of the firms.

Source: Regression result, 2020

| Dependent Variable: ROE | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Sample: 2005 2019 | | | | |
| Included observations: 15 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 82.80678 | 32.60322 | 2.539834 | 0.0163 |
| ROE | 0.901107 | 1.374079 | 0.655790 | 0.5168 |
| DPR | -0.135187 | 0.046665 | -2.896951 | 0.0069 |
| ROA | -0.432848 | 0.281429 | -1.538038 | 0.1342 |
| EPS | -0.634168 | 0.307994 | -2.059030 | 0.0480 |
| R-squared | 0.319848 | Mean dependent var | | 19.78833 |
| Adjusted R-squared | 0.232086 | S.D. dependent var | | 18.43228 |
| S.E. of regression | 16.15233 | Akaike info criterion | | 8.530252 |
| Sum squared resid | 8087.835 | Schwarz criterion | | 8.750185 |
| Log likelihood | -148.5445 | Hannan-Quinn criter. | | 8.607015 |
| F-statistic | 3.644511 | Durbin-Watson stat | | 1.242868 |
| Prob(F-statistic) | 0.015152 | | | |

**Source: Regression result, 2020**

The regression result shows that if dividend payment remains constant, the ROE will increase by 82% while a variation in dividend payment will increase the ROE by 9%. The standard error coefficient of the regression shows that it'is within the acceptable range. The adjusted R-squared shows that the regression line is not well fitted, while the adjusted R-squared shows that only 2% variation in the dependent variable is explained by the independent variable, which is statistically insignificant. The Durbin-Watson coefficient is above 1.2, showing that the variables of the model are free from autocorrelation problem. The F-statistics coefficient of 3.6455 is above the significance value of 0.05, hence we accept the null hypothesis that there is no significant relationship between dividend policy and return on asset of the selected quoted firms.

### 4.3. Discussion of Findings

**The results of the analyses led to the following Findings**;

A dividend policy do not significantly affect the ROE and ROA of the firms, so long as they have sufficient and quality assets which would continue to generate . the required income. Though the coefficient of variations showed that they have the tendency to influence the ROE and ROA, but they have not significantly done that. These are however not in line with the Apriori expectation of the study which suggested a significant positive relationship. The findings also conforms with the other studies such as Fersio, Geary & Moser (2004); and Ashamu (2012), who both agreed that dividend payout ratio has no significant effect on the performance of the firm. However, the findings negate the findings of Zackhauser & Pound (1990), and Sanni, Amuyo & Suleiman (2012).

## 5. Conclusion

Dividend policies of organizations are vital in enhancing their profitability and investments. Moreover, a company's business can be more sustained when it has built a god will over the years, which can be in form of quality product, customer care and corporate social responsibility

### 5.1. Recommendations:

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

1. Organization should ensure that they have a good and robust dividend policy in place. This will enhance their profitability and attract investments to the organizations.
2. Directors of corporate organizations should be made to update the records of shareholders including their next-of-kin to avoid a deliberate diversion or undue retention of unclaimed dividend warrants. Due procedures for the recognition and utilization of profit arising from investment of unclaimed dividend should be effected and properly accounted for.

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