



DIVIDEND PAYOUT AND FINANCIAL PERFORMANCE OF LISTED FIRMS IN NIGERIA

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ABSTRACT

This study analysis dividend payout and financial performance in the quoted financial firms in Nigeria. Annual time series data for the period 2006-2017 was sourced from the Central Bank of Nigeria statistical database and used to estimate both long and short-run relationships as well as causal effects. The Eview9 Statistical Software was employed to analyze the data empirically. The unit root test shows that all variables to be evaluated at the first difference I(1), utilizing the trend of the variables which were discovered to possess unit root and were stationary at the first difference as the all exhibited ADF t-statistics greater than the critical values at all levels such as 1%, 5%, and 10%, in simpler terms. The regression analysis was adopted with OLSM shows The R-squared (R^2) coefficient of correlation, showing an output of 0.520690, signifies that the predictors account for approximately 52 percent (%) variation in the criterion variable while 48% are captured by other variables not in the model (The white noises or unobserved variables), while the adjusted R-squared 47.6103, showing the coefficient of variation with a relationship of 47.6103%, which indicate credibility in the goodness of fit in the model. However, the Durbin Watson reveals an output of 2.363233 shows the validity and reliability in the relevant range. The Granger Causality test shown from the results indicates there are three uni-directional and non-bi-directional causality among the variables. Overall, all the results obtained are in line with *apriori* expectations that profit after tax Net profit margin and liquidity are being influenced by dividend payout ratio in the short run and the long run. Based on the conclusive analysis, it could be recommended among others that the study recommends that financial institutions should have monitoring and evaluation skills to promote growth in dividend per share.

KEYWORDS

Dividend payout, Financial performance.



Introduction

The dividend payout is faced with numerous problems which comprises decreased trading activities whereby persistent rise in the demand for securities without a corresponding increase in its supply. In this case, investments are not easily found for purchase.

Given the number of years since the stock market has been established and the substantial financial resources available in the country, coupled with the existing institutions one can claim that the entire spectrum of the capital market has not been sufficiently active, especially when compared with the capital unit of similar or lesser aged units in other developing countries. The factors responsible for this could be identified to includes; high book value ratio, lack of capital savings (gross fixed capital formation), poor economic performance (DPOR), low return on investment, low stock turnover ratio, and low leverage ratio.

In spite of the benefits dividend payout brings to economic growth of both developing and emerging market literature indicates that only a few studies have been dealing with this issue in Nigeria.

The effect of the global economic crisis on the dividend payout continued in 2009 with the exorbitant lending rate mounting pressure on the dividend payout as a result of massive borrowed fund in the market. The rush by stock investors to liquidate their investment to repay their loans in order to avoid the excessive lending rate caused the Nigerian Dividend payout to crash. (El-Wassal, 2015) noted that it is not the global financial crisis and the speculative subprime mortgage bubbles and bust alone that is responsible for the crash of the dividend payout, other contributory factors lent support. Some of these, namely; margin lending by the deposit money banks (DMBs), stock price appreciation that had no correlation with the fundamentals in the quoting companies and local investors opting to invest in foreign capital markets and stock turnover ratios to take advantage of the low stock price.

Although several studies that focused on dividend policies and how such policies affect firms' earnings have been conducted by previous researchers (Adelegan, 2003; Lie, 2005; Amidu, 2007); the results of these previous studies have been inconsistent and controversial. While the

Results of some of these studies indicated a positive relationship between dividend payout and firms' earnings (Amidu, 2007); others reported a negative relationship between dividends payout and firms' earnings (Lie, 2005). Thus Amidu (2007) observed that many firms are undecided on whether to pay a large, small or zero percentage of their earnings as dividends or to retain them for future investments. This indecision becomes complicated as the management tries to satisfy the needs of the various stakeholders; such as the shareholders, bankers, employees, creditors and regulatory authorities amongst others. Thus, the need to ascertain the nature of the relationship between dividend payout and financial performance of financial firms in Nigeria necessitates the current study.

The aim of this study is to critically examine the impact of dividend payout on financial performance of listed firms in the financial industry firms in Nigeria. However other specific objectives will be to:

- i. Find the impact of dividend payout ratio (DPR) on profit after tax (PAT) of listed firms in the financial industry in Nigeria.
- ii. Ascertain the impact of dividend payout ratio (DPR) on Net profit margin (NPM) of listed firms in the financial industry in Nigeria.
- iii. Evaluate the impact of dividend payout ratio (DPR on liquidity (LQT) of listed firms in the financial industry in Nigeria.

Theoretical/Conceptual Framework

The Market Efficiency Theory

Market efficiency theory suggests that a market is rational and provides correct pricing. That is, the current prices of securities are close to their fundamental values because of either the rational investors or the arbitrageurs buy and sell action of under-priced or overstocked priced stocks. On the other hand, observed market anomalies have a challenge for this argument. Fama (2000) presented a landmark paper on the efficient market, which focused on comprehensive review of the theory and beyond the theory to empirical work. He defines market efficiency very clearly as a market in which prices always fully reflect all available Information. Fama distinguished three nested Information sets: past prices, publicly available Information and all the Information including private Information.

Arbitrage Pricing Theory

The Arbitrage pricing theory relates the expected rate of return on a sequence of primitive securities to their factor sensitivities, suggesting that factor risk is of critical importance in asset pricing (Abdullahi and Lawal, 2011). The APT is a new and different approach to determining asset prices.

It tries to capture some of the nonmarket Influences that cause securities.

to move together. It is based on the law of one price: two items that are the same cannot sell at different prices. Unlike the CAPM, which requires strong restrictions on return distributions and preferences, the APT gives a characterization of expected returns on assets based only on the weak assumptions that there are no arbitrage opportunities, returns follow a factor structure and there are homogeneous expectations (Abugri, 2018).

Conceptual Framework

The Impact of Dividend payout on Financial performance

Numerous empirical tests including Garcia and Liu (2014) have shown that financial variables have important impacts on economic growth using data from 44 industrial and developing countries from 1976 to 2013, Levine et al (2016) concluded that dividend payout goes hand-in-hand with financial intermediary development. Alexander (2016) concluded that capital market development has a positive and significant effect on long run economic growth in Nigeria. Other studies on the Ghana Stock Exchange (GSE) by Osei (1998), Osei (2015) and Yartey (2016) asserted to the same findings.

Osei (1998) examined the institutional factors that affect the development of GSE and the factors included legal and regulatory framework, transparency of transactions, Information disclosure requirements and barrier to entry and exit. He went ahead to conduct efficiency tests on daily and weekly returns for the GSE before and after the listing of the Ashanti Goldfield Corporation (AGC) for the period 2013-1995. Their results established that the institutional factors specifically legal and regulatory frameworks strongly guarantee the protection and security of investors.

Osei (2015) employed a VAR technique developed by Sims (1972). The study centered on Gamolya (2016) definition of causality to examine the relationship between dividend payout and economic growth on a quarterly data for the period 1991 to 2013. He used quarterly data on nominal return on investment and return on investment ratio as the standard of dividend payout and real DPOR as a proxy for economic growth. The outcome of Granger-causality test shows that dividend payout causes economic growth in Nigeria.

Yartey (2016) also examined the financing practices of all non-financial listed companies based on their financial position between 1995 and 2015. He stated that the average listed Nigerian companies are financed through the total assets from internal sources which is about 12%, financing through external debt is about 48% while financing through new issues of equity is about 41%. He noted that the stock market is the best source of long-term finance for Nigerian listed firms and concluded that the stock market played an important role in financing the growth of large corporations in Nigeria.

Empirical Review

There have been the growing concerns and controversies on the role of the market ratio on economic growth (Levine and Zervos 2016). There have been mixed results. While some are in support of a positive link, some negative link and others do not find any empirical evidence to support such conclusion. For instance, Abrokwa et al (2013) found in a cross-country study of stock and economic growth of 40 countries from 1980 to 1988 that there was a significant correlation between the average economic growth and financial performance.

Levine and Zornos (2016) examined whether there was a strong empirical relationship between stock exchange or market development and long run economic growth. Levine (2016) using data from 44 countries for the period 1986 to 2013 found that different measures of stock exchange size are strongly correlated to other indicators of activity levels of financial, banking, non-banking institutions as well as to insurance companies and pension funds. They concluded that countries with well-developed market ratio tend to also have well developed financial intermediaries.

Again, Eita (2011) have shown and re-emphasized the complementary relative to ROI and listings were used. The four (4) measures were combined into one (1) over all composite index of capital market development using principal component analysis. The financial market department was included as control. It was found that capital market development is negatively and significantly correlated with the long-run growth in Nigeria.

El-Nader and Al-Raimony (2013) found a relationship between economic growth and the dividend payout activity in the field of transmission of security (secondary market) more than in funds channeling (primary market). Waweru (2010) and Flick (2009) demonstrated that a rising stock prices raises the wealth of the economy (wealth effect) by encouraging increase in consumers consumption and increase investment.

Gatua (2013) appraised the impact of the capital market efficiency on the economic growth of Nigeria using time series data from 1961 to 2014. They found that the capital market in Nigeria has the potential of growth inducing but it has not contributed meaningfully to the economic growth of Nigeria because of low return on investment, low absorptive capitalization, illiquidity, misappropriation of the funds among others.

Studies have also shown the impact of financial performance on economic growth. Some studies like Robert H. Frank (2011), conducted ordinary least square (OLS). Ting, Feng, Weng and Lee, (2012) noted that a higher financial performance led to higher ROI. This study was also conducted using ordinary least square (OLS) regression on cross-section date.

Abramovitz in Alexander (2016), conducted ordinary least square (OLS) regression on cross-sectional data and concluded that financial performance account for higher percentage of the growth rate of the economy.

Managers access a firm's financial information more often than investors do. When they announce changes in dividend policy, managers try to convey information to the market and other stakeholders in as positive a way as possible in order to achieve long-term objectives (Firer, Gilbert and Maytham, 2008). Signalling theory suggests that firms with poor future prospects should not take actions that are easily duplicated with poor prospects. Firms make a long-term commitment to future growth in order to pay cash dividends over a short period of time (Firer et al, 2008). The clientele preference theory argues that dividend payments are taxed directly whereas capital gains are not taxed until the share is sold (Al-Kuwari, 2007). For tax reasons, most investors do not prefer high dividend payouts, they prefer large amount of retain earning to avoid tax. The importance of capital gains is that they lead investors to favour lower dividends (Al-Kuwari, 2007). Contrary to the theory, some suggest that firms should pay lower dividends in order to maximise share price.

Modigliani and Miller (1961) are in agreement with clientele theory, observing that this theory influences dividend payout in imperfect capital markets, but in perfect markets, it does not influence dividend payout policy. The Modigliani and Miller model (1959) runs counter to the relevance theory of dividend, which states that an increase in dividend payout leads to an increase in financial performance. In addition, Modigliani and Miller (1961) argue that dividend payout does not affect shareholders' wealth, which means that irrespective of the percentage paid, as dividends to investors, do not influence dividends are not influenced. However, this argument is based on two assumptions, namely a perfect capital market and a rational investor. It is commonly accepted that wealth creation is determined by retained earnings and financing by the particular firm. Therefore, MM theory states that paying large or small dividends does not affect financial performance. Transaction costs arise when a firm uses external funding in the form of debt, which leads to high interest costs. However, some firms prefer to use internal funding based on their capacity to use this type of funding that influences dividend payment.

Al-Kuwari (2007) argues that external funding is more costly than internal funding. The residual theory of dividends is that a firm pays dividends from earnings after financing all net present value projects. The major problem facing a firm's managers is the investment of large portions of dividends when this is not appropriate. The importance of adopting a residual dividend policy is that it saves flotation and other costs associated with issuing debts by generating funds internally (Zameer, Rasool, Igbal and Arshad, 2013). Firm managers believe that high retention increases growth.

Huang, You and Lin (2009) carried out an investigation on dividend payout ratios and subsequent earnings growth in Taiwanese stock-listed companies. Data for the study were obtained from Taiwan Economic Journal for a five year period. The analysis was conducted using the ordinary least square regression. The results revealed that for the dual-dividend sample, high dividend payout ratios equate to higher earnings growth. As regards future returns, high dividend payout ratios were also found to be associated with subsequently strong high returns for the dual-dividend sample.

Murekefu and Ouma (2013) conducted a study on the relationship between dividend payout and firm performance among listed firms in the Nairobi Security Exchange in Kenya. The study used correlation analysis to establish the relationship between dividend payout and financial performance. The population of the study consisted of the fifty-eight companies listed on the Nairobi Security Exchange. Secondary data were obtained from the accounts of forty-one selected companies. The result of the regression analysis revealed that a strong and positive relationship exists between dividend payout and performance.

Ajanthan (2013) examined the relationship between dividend payout and firm profitability among listed hotels and restaurant companies in Sri Lanka. The study used correlation analysis to establish the relationship between dividend payout and financial performance. The population of the study consisted of the sixteen hotels and restaurant companies listed on the Colombo Stock Exchange. The result of the regression analysis revealed that a strong and positive relationship exists between dividend payout and performance.

Research Design

The researcher employed the ex-post facto research design because the data for this research exists that it is a study after the fact has occurred. Also, ex-post facto research determines the cause-effect relationship among variables. The population of the study is all firms in the financial industry listed on the Nigeria stock exchange. The study employed the census survey to select seven (7) firms because they are accessible and have all the ingredients of the research process. The sample frame is 98 observations from 2006-2019 using stacked data from the companies' annual reports. The nature and source of the data that the researcher used is secondary source extracted from Nigeria stock exchange for the period 2006 – 2019.

Measurement of variables

Dividend Payout ratio (DPR)

The dividend payout ratio referred as a percentage, which paid to the investors or shareholders as a return of risk invested in the firms and reflected as a percentage of net income available to them after all expenses including interest and tax deducted.

$$\text{Dividend payout Ratio} = \frac{\text{Total dividend paid}}{\text{Net profit after tax}}$$

Net profit margin (NPM)

Net profit margin (NPM): The net profit margin ration gives a good indication of the overall level of firm's profitability. This ratio indicates how much of each naira obtained from firm's generated profit (Rehamn, Khan and Khokhar, 2014). It is important to note that net profit margins provide evidence to firm policies and decision regarding the dividends payments. The higher the profit margins the more effective the firm converting revenue into profit (Rehman et al, 2014).

$$\text{NPM} = \frac{\text{Net profit after tax}}{\text{Sales/Turnover}}$$

Liquidity(LQT)

Liquidity is measured by current assets divided by current liabilities and indicates the firm's ability to pay short-term liabilities (Mehta, 2012). The dividend payout is dependent on a firm's profitability and cash flow. Poor liquidity leads to a small dividend payout ratio (Kiefe, 2011). In measuring liquidity, which is an important factor for dividend payout, Al-Shubiri (2011) and Mehta (2012) suggested the use of Current Ratio as a measure of liquidity.

$$\text{LQT} = \frac{\text{current assets}}{\text{Current liabilities}}$$

Data Analysis Techniques

Descriptive statistics in form of tables, percentages was used to present demographic and other data relating to the study. Parametric inferential statistical tools such as the Correlation Matrix and the Panel Least Square Regression analysis was also used in the analysis of the data. Panel data include observations on *N* cross section units (i.e., firms) over *T* time-periods.

Model Specification

The econometric model is expressed as:

$$PAT = \beta_0 + \beta_1 DPR_{it} + \mu \dots\dots 4$$

$$NPM = \beta_0 + \beta_1 DPR_{it} + \mu \dots\dots\dots 5$$

$$LQT = \beta_0 + \beta_1 DPR_{it} + \mu \dots\dots 6$$

Where:

$$PAT = \text{profit after tax} \dots\dots\dots 7$$

$$NPM = \text{Net profit Margin} \dots\dots\dots 8$$

Liquidity = Liquidity,

μ = Stochastic Disturbance (Error Term)

f = Functional Relationship

β_0 = Intercept of relationship in the model/ constant

$\beta_1 - \beta_3$ = coefficients of each of the independent variables

RESULTS AND DISCUSSIONS

Descriptive Statistics

Table 1: Results of Descriptive Statistics of Profit after tax (PAT), Net profit Margin (NPM), liquidity (LQT), dividend payout ratio (DPR) in Nigeria over the period of 2006-2019.

	PAT	NPM	LQT	DPR
Mean	14556.75	1.226395	43.12083	4235.396
Median	2173.500	0.747252	13.50000	2061.000
Maximum	72264.00	8.317156	305.0000	11705.00
Minimum	116.0000	1.00E-06	0.000000	48.00000
Std. Dev.	21351.65	1.900213	71.54407	4373.666
Skewness	1.439734	2.891785	2.133472	0.419862
Kurtosis	3.695420	10.53246	6.757817	1.581205
Jarque-Bera	17.54989	180.3752	64.65601	5.436230
Probability	0.000155	0.000000	0.000000	0.065999
Sum	698724.0	58.86698	2069.800	203299.0
Sum Sq. Dev.	2.14E+10	169.7080	240572.1	8.99E+08
Observations	98	98	98	98

Source: E-view 9 Output (Authors Computation).

Multiple Regressions (Ordinary Least Square)

The multiple regression was carried out using the Ordinary Least Square regression tool, as it is the best unbiased linear regression estimator, it was carried out in the differenced form.

Table 2: Ordinary Least Square Output of Profit after tax (PAT), Net profit margin (NPM), liquidity (LQT), and Dividend payout ratio (DPR) over the period of 2006-2019.

Dependent Variable: PAT
Method: Panel Least Squares
Date: 04/17/19 Time: 18:25
Sample: 1 98
Periods included: 4
Cross-sections included: 12
Total panel (balanced) observations: 98

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	22939.49	4594.674	4.992627	0.0000
PAT	625.9560	1385.779	0.451700	0.6538
NPM	170.6450	43.07704	3.961391	0.0003
LQT	-2.635025	0.710800	-3.707124	0.0006
DPR	-730.4261	288.2066	-2.534384	0.0150
R-squared	0.520690	Mean dependent var		14556.75
Adjusted R-squared	0.476103	S.D. dependent var		21351.65
S.E. of regression	15454.48	Akaike info criterion		22.22752
Sum squared resid	1.03E+10	Schwarz criterion		22.42243
Log likelihood	-528.4604	Hannan-Quinn criter.		22.30118
F-statistic	11.67808	Durbin-Watson stat		2.363233
Prob(F-statistic)	0.000002			

Source: E-view 9 Output (Authors Computation).

From the above output (Table 2), the coefficient of the constant (C) is 4.992627, which signifies that if all other variables are kept at a constant or zero, the criterion variable profit after tax (PAT) 0.0000 level of significant, showing a positive progresses of the criterion variable to the predictors. All variables exhibit a positive coefficient showing a positive relationship and movement with the criterion variables with the exception of dividend per share, market value per share, shareholders' equity and exception of debt equity ratio thus affecting the proposed apriori expectation.

The R-squared (R^2) coefficient of correlation, showing an output of 0.520690, signifies that the predictors account for approximately 52 percent (%) variation in the criterion variable while 48% are captured by other variables not in the model (The white noises or unobserved variables), while the adjusted R-squared 47.6103, showing the co-efficient of variation with a relationship of 47.6103%, which indicate credibility in the goodness of fit in the model. However, the Durbin Watson reveals an output of 2.363233 shows the validity and reliability in relevant range. The F-statistics given its Probability level of 0.00002 is significant, while the t-statistics show short run significance of the predictor variables on the criterion variables of equity, market value per share, dividend per share and debt equity ratio using the probability level of their t-statistics against the 0.05 (5%) level of significance.

Discussion of Findings

The first hypothesis sought to examine the relationship between dividend per share and profit after tax. Hence, it was hypothesized that there is no significant relationship between dividend per share and profit after tax. This hypothesis was tested using multiple regression analysis (OLSM). As can be seen from our analysis of data this alternate hypothesis was accepted. Based on the above, M'rabet

and Boujjat (2016) in Morocco assessed the relationship between dividend policies and financial performance of selected listed firms in Morocco. Using data from the annual reports of the sampled quoted firms and analysed using panel data regression model, the study reveals that dividend policy is an important factor affecting firm performance and their relationship was also strong and positive which therefore showed that dividend policy was relevant.

The second hypothesis sought to examine the relationship between dividend payout ratio and Net profit after tax. Hence, it was hypothesized that there is no significant relationship between dividend payout ratio and Net profit after tax. This hypothesis was tested using multiple regression analysis (OLSM) statistical technique. As can be seen from our analysis of data this alternate hypothesis was accepted. Based on the above, it was concluded that dividend payout ratio does not Influence Net profit after tax. Ozuomba, Anichebe & Okoye (2016) in their study sought to find out how share value cum shareholders wealth is affected by dividend policies. Based on survey design that cover a one-year period with a sample of 10 quoted companies in the Nigeria stock exchange with the use of Anova analysis, this study shows the relevance of dividend and further proves that dividend policies of public limited companies influence the wealth of shareholders in Nigeria.

Ugwuegbe, Ugochukwu, and Ezeaku (2016) studying the effect of board interest (insider ownership) on dividend payout of the Nigerian manufacturing sector for the period of 2009 to 2015 with the aid of data generated from the annual report of five randomly selected firms from the manufacturing sector in Nigeria economy and analyzed using pooled panel least square model revealed that board interest has a negative and insignificant impact on dividend payout of the firms investigated. The empirical result also indicates that firm size has a positive and significant effect on dividend payout among Nigerian manufacturing firms.

The third hypothesis sought to examine the relationship between dividend payout ratio and liquidity. Hence, it was hypothesized that there is no significant relationship between dividend payout ratio and liquidity. This hypothesis was tested using multiple regression analysis (OLSM) statistical technique. As can be seen from our analysis of data the alternate hypothesis was accepted. Osiegbu (2004) studied dividend payment policy in the aluminum industry in Nigeria. He found that first aluminum had maintained a steady dividend pay-out (1996) at No 23 share. In 1996 first aluminum violated the income policy guidelines of Federal Government which pegged maximum dividend distributable at 60% of annual profit after tax. The company paid out 75% of its annual profit after tax to its shareholders. Aluminum manufacturing company (Alumaco) adopted a dividend payout ratio from 1996-1998, but from 1999-2000 the company opted for irrelevant dividend policy which was not attractive to shareholders. Aluminum company share values performed below industrial sector average within the period under review (1996-2000).

This sense suggests that firms with high retained earnings are especially likely to pay dividends. In this view, firms pay high dividend when earned equity total equity is high, and decline when this ratio is zero or near to zero, meaning that firms do not have the earned equity. They finally found that the highly significant association between the decision to pay dividends and the ratio of earned equity to total equity controlling for size of the firm, profitability, growth, leverage, cash balance and history of dividends.

Conclusion

This study examined the dividend payout and financial performance from the period 2006–2017. The study investigated the long run and short run relationship between the variables by using Johansen Co-integration and Error Correction Model (ECM) approach. The empirical result shows that profit after tax Net profit margin and liquidity are being influenced by dividend payout ratio in the short run and the long run as these variables have positive effect and thus stimulate PAT in Nigeria. While dividend payout ratio have positive impact on financial performance in Nigeria as this variables are found to be statistically significant in predicting the growth of the financial performance. This study concludes that there is a strong positive relationship between the dividend payout and financial performance.

Recommendations

Base on the findings of this study, the following recommendations are advanced:

- i. Financial institutions should have monitoring and evaluation skills personnel to promote growth in dividend per share
- ii. An effective utilization of such funds is should be advocated for to enhance growth in shareholders earnings

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