Determinant of Corporate Dividend Policy: Empirical Evidence From Selected Quoted Conglomerate Firms In Nigeria

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ABSTRACT

This study examined the determinants of corporate dividend policy in selected listed conglomerate firms in Nigeria. Secondary data was used to obtain relevant information from the annual financial reports and accounts of the listed firms. The data collected were analyzed using both descriptive such as frequencies, mean, median, standard deviation, skewness, kurtosis and Jarque-Bera. It further estimated the models using Fixed Effect Model (FEM), Random Effect Model (REM) and Error Composite Model estimation technique using Hausman test. Based on the findings, it was recommended that the Board of Directors (BODs) should maintain a steady increase in earnings, cash flow and dividend payment in order to attract more investors and shareholders

Keywords: Investment, Dividend Policy, Shareholders, Financial Performance, Conglomerates.

1. INTRODUCTION

Dividend decision is one of the fundamental financial decisions which corporate organizations, manufacturing firms have to make on continuous bases. This involves the determination of the proportion of earnings to retain and the proportion to distribute to shareholders. This concern has prompted many studies on dividend policy. Dividend policy remains one of the most important financial policies not only from the viewpoint of the company but also from that of the shareholders, the consumers, employees, regulatory bodies and the government. It is a pivotal policy around which financial policies rotate (Alii, Kha and Ramirez, 2003). To date, the theories on dividend policy in the finance literature have remained controversial. These controversies do not seem likely to be resolved in the nearest future. The major defects of these theories as Brealey and Myers (2006) pointed out are that they are too incomplete, and the premise upon which they are built is too sensitive to minor changes in specification to warrant any dogmatism. However, it is obvious that firms in practice adopt various dividend policies. The convention in Nigeria and other parts of the world is to grant substantial latitude to the Board of Directors to make dividend decisions subject to some legal and financial constraints. Consequently, divergent practices exist in the area of corporate dividend policy.

Dividend is basically the benefit of shareholders in return for risk and investment. This is determined by different factors in an organization. Dividend policy is the regulation and guidelines that a company uses to decide to make dividend payment to shareholders (Nissim andZiv, 2001). The dividend policy decisions of firms are part of corporate policy. However, the dividend policy/payout of firm's is not only the source of cash flow to the shareholders but it also offers information relating to firm's current state. Dividend could be a means of financial performance red flag especially to investors who need to be assured that the future of the firm is bright and promises enhanced return on investment (Inyiama, Okwo and Oliver, 2015). Nuredin (2012), stated that firms are faced with dilemma of sharing dividend to stockholders and retaining their earnings with a view to reinvesting it into the business so as to promote further growth. Retaining such earnings and reinvesting it for growth and expansion may seem to be a better option. Legally, dividend decisions in Nigeria manufacturing sectors are at the discretion of the directors, there are of course constraints that limit the directors. Some of the constraints are imposed by legal rules while others are imposed by financial factors. The level of influence of these constraints and factors are been evaluated to provide a guide to Board of directors in exercising their discretion in respect of making sound dividend decision.

Despite the large number of literature evidence linking dividend policy with firm performance, the concept still remains a topic for academic discussion. Several works have been conducted on the determinant of dividend policy. And with these study however, the empirical clarification and interpretation on the concept still remain a question of research has many of the previous work ended in mixed report. It is against these backgrounds that this study is conducted to answer the following research question. Hence, this study intends to examine the determinant of corporate dividend policy on firm performance using selected listed conglomerate firms in Nigeria.

From the foregoing, the objective of this paper is to investigate the determinants of corporate dividend on corporate performance with emphasis on quoted conglomerate firms in Nigeria Stock Exchange. The paper is divided into four sections. Section one is the introductory part of the paper which provides a concise overview on the paper gives with emphasis on dividend policy and corporate performance dichotomy. Section two attempts a review of the literature which consists of conceptual clarifications on dividend policy and its patterns. It further consists of theoretical and empirical review. Section three focuses on the methodology which emphasizes on research design, population and sample, source of data collection, model specification, method of data analysis and estimation techniques. Section four discusses the results and findings while section five concludes and provides recommendation

2. LITERATURE REVIEW

The corporate choice to pay a cash dividend to shareholders, to increase the dividend, reduce the dividend or keep it at the same naira amount represents one of the most challenging and perplexing areas of corporate financial policy (Nwidobie, 2013).Since shareholders' return only comes in two forms: stock price change and dividends received, it follows that the dividend decision directly impact shareholders' wealth. The financial need of the company may be in conflict with the desires of shareholders (Akinsulire, 2006). Managerial prudence requires giving more weight to the financial needs of the company.

However, retained earnings should be used as a source of financing only when the company has profitable investment opportunities, where shareholders have better investment opportunities the earning should be distributed to them so that they may be able to maximize their wealth. Dividend is payment made out of firm's earning, usually current earning, to its shareholders in form of cash or stock. Dividends are periodic cash payment made by companies to their shareholders. Dividend policy, also called dividend decision, on the other hand is a decision that determines the amount of earnings to be distributed to shareholder and the amount to be retained by the firm. Preference share dividends are usually fixed by the terms of issue and are therefore not subject to policy decision of Management.

Dividend or profit allocation decision is one of the four decision areas in finance. For a company, it is a pivotal po1icy around which other financial policies rotate (Alii, Khan and Ramirez, 2003). The decision is important because they determine what funds flow to investors and what funds are retained by the firm for investment (Ross and Jaffe, 2002). More so, they provide information to stakeholders concerning the company's performance. Firm investments determine future earnings and future potential dividends, and influence the cost of capital (Foong, Zakaria and Tan, 2007). Dividend policy is therefore, considered to be one of the most important financial decisions that corporate managers encounter (Baker and Powell, 1999). It has potential implications for share prices and hence returns to investors, the financing of internal growth and the equity base through retentions together with its gearing and leverage (Omran and Pointon, 2004). There are mixed findings that reveal that a negative relationship exist between dividend policies and last paid dividend as well as shareholder structure and total debt; while Nicholas and Osahro (2009) suggest a positive relationship between dividend policies and last paid dividend as well as shareholder structure and total debt. However, payment of dividends to ordinary shareholders is a matter of company policy to be decided by the Board of Directors. It is an observable fact that the proportion of earning paid out as dividend to ordinary shareholders can vary quite considerably from company to company.

2.1 Corporate Performance and Dividend Policy

The influence of profitability on dividend distribution is better understood on the tenets of signal theory. Thus, Goffin (2001) posits that the emission of a signal is only possible by profitable companies and is meant to distinguish these from non-profitable ones. His view was that the payment of dividend is positively linked to the profitability of the firm. He believes that paying a high and regular dividend is costly to the company as such a payment cannot be achieved by an unprofitable company. Moreover, if a company began paying a temporary high dividend to make investors believe that it is profitable and thereafter, it is compelled to decrease it, the decrease would be perceived by investor/market as an indicator of a non-profitable operation and will produce bad omen for the company. Thus the paying of high dividend differentiates the profitable business from non-profitable ones; it is a good indicator of the health of firms. Du Bois (2007) believe managers do try to maintain the level of dividend to avoid decreasing despite a decrease in profit.

2.2 Theoretical Review

The Residual Theory

According to Kolb and Rodrigues (1996) the conflicting pressures on the dividend policy of the firm stem from taxation and transaction costs. The residual theory of dividends attempts to summarize the net impact of the conflicting influences. According to the residual theory, the firm should follow its investment policy of accepting all positive net present value (NPV) projects, and paying out dividends if, and only if, funds are still available. In this way, the firm treats dividends as the residual amount remaining after the investment policy is satisfied. If the firm treats dividends strictly as a residual, then dividend can vary dramatically from period to period. The dividend will simply depend upon the investment plans and operating results of the firms.

Life cycle theory

Mueller (1972) firm life cycle theory of dividends is based on the notion that as a firm becomes mature; its ability to generate cash overtakes its ability to find profitable investment opportunities. Eventually, it becomes optimal for the firm to distribute its free cash flow to shareholders in the form of dividends. This invariably means smaller firms cannot distribute dividend until it has reaches maturity. Mueller (1972) indicates that optimal dividend policy at a value-maximizing firm in his framework is to retain all earnings in the rapid growth phase and payout 100% of the earnings at maturity. Mueller (1972) also traces the implications of the life cycle theory of the firm to dividend policy. Mueller (1972) proposed a formal theory that a firm has a relatively well-defined life cycle, which is fundamental to the firm life cycle theory of dividends. His main focus is on the agency problem within the firm, namely the question of whether the managers of a firm maximize shareholder value, or pursue growth for its own sake and "over invest" in assets contrary to shareholder interests. This theory been adopted by various studies like Behzad and Ali

(2015), Ihejirika and Nwakanma (2012) and Osama (2012). This study was built upon both residual and firm life cycle theories since the two theories stated that firms can only distribute dividends if their NPV is positive and there is excess return on their investment.

2.3 Empirical Review

Baah, Tawiah and Eric (2014) investigated the determinants of dividend payout and its effect on share prices of firms quoted on the Ghana Stock Exchange between 2006 and 2011. They examined price volatility, profit after tax, earnings per share, size, growth in Assets, Return of equity, and liquidity as explanatory variables and the dividend payout as the depended variable. A sample of 12 companies covering six different sectors of the economy was used. He found that the main determinants of dividend policy for companies listed on Ghana Stock Exchange are return on equity, profit after tax and size of the firm. It was also found that there are varying factors that influence the dividend decision across the different sectors and profit after-tax happens to be a key variable that is consistently considered by most sectors in paying their dividend. Al-Kuwari (2009) studied the determinant of dividend payout for companies quoted on the Gulf Co-operation Council (GCC) country stock exchanges. He studied impact of government ownership, free cash flow, firm size, growth rate, growth opportunity, business risk and firm profitability on dividend payout ratios. He found that firms pay dividends with the intention of reducing the agency problem and maintaining firm reputation. Because the legal protection for outside shareholders was limited, he also found that a firm's dividend policy tend to depend heavily on firm profitability. Talat, Muhammed, Ashfaq and Muhammed (2012) examined the factors that motivate dividend policy among the cement industry in Karachi Stock Exchange. Data was collected from 8 firms from Karachi Stock Exchange and state bank of Pakistan and analysed using SPSS 17. Result showed P.E ratio, EPS growth and Sale growth are positively associated with the dividend payout while profitability and debt to equity showed a negative association with dividend payout.

Uwuigbe (2013), investigated the determinants of dividends policy in the Nigerian stock exchange market; using the judgmental sampling technique and regression analysis method. The variables considered as determinants were financial performance of firms, firm size, financial leverage and board independence. The analysis reveals that there is a significant positive relationship between firms' financial performance, size of firms and board independence on the dividend payouts decisions of listed firms in Nigeria. The relationship between profitability and dividend payout in Korean banks during 1994 – 2005 was examined by Lee (2006) using panel data. He found that the banks with higher profitability or performance pay more dividends.

Nwidobie (2013), applied the multiple regression equation model to identify dividend policy determinants of quoted firms in Nigeria and found that solutions to agency problems' past dissatisfactory behaviors of shareholders is not a determinant of current and future dividend decisions. The study reveals that there exists an inverse relationship between the needs and desires of shareholders and the Naira dividend paid by the firms, implying that dividend policies of quoted firms in Nigeria are not aimed at solving the existing agency problems in these firms. Arif and Akbar (2013) made an attempt to evaluate profitability, size, tax, investment opportunities and life cycle stage of firm as determinants of dividend policy in non-financial and sub sectors of non-financial sector of Pakistan. Using panel data and regression analysis, it was revealed that profitability, tax, size and investment opportunities are the most influential determinants of dividend policy.

3. METHODOLOGY

For the purpose of this study, the target population is all the eight quoted conglomerate firms on Nigerian Stock Exchange (NSE), where the study obtained data from all the 10 firms ranges 2005 to 2014. In this study, the researcher adopts the panel design because the study is carried out on a group of conglomerate firms listed in the stock exchange (cross sectional units) and for more than a year (time series). The study utilized data from secondary source. This is because the estimation of the model in the study requires the use of panel cross-section/time series data in the form of financial information. The sources of data for the study are therefore the annual reports of all the eight (8) conglomerate firms for 2005 to 2014 study period.

This study therefore examined the determinants of corporate dividend policy in conglomerate firms in Nigeria. The firms includes A.C. Leventis Nigeria Plc, Chellarams Plc, John Holt Plc, P.Z. Industries Plc, SCOA Nig. Plc, UACN Plc, Unilever Nigeria Plc and UTC Nigeria Plc. The study will be limited to a period from 2005 to 2014. For systematic analysis of the data collected, estimation models were used using Fixed Effect Model (FEM), Random Effect Model (REM) and Error Composite Model estimation technique using Hausman test
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3.1 Model Specification
This study adopted Uwuigbe (2013) model and modified to suit the main objective of the study. The models were specified as follows.

$$DPO_{it} = f (ROE_{it}, FSIZE_{it}, FL_{it}, BI_{it}, e_{it}) \text{------------------------------------} \quad (1)$$

The model was modified as:

$$DPO_{it} = f (ROE_{it}, FSIZE_{it}, FL_{it}, ROA_{it}, PAT_{it}, e_{it}) \text{------------------------------} \quad (2)$$

This can be written in econometric form as:

$$DPO_{it} = \beta_o + \beta_1 ROE_{it} + \beta_2 FSIZE_{it} + \beta_3 FL_{it} + \beta_4 ROA_{it} + \beta_5 PAT_{it} + \mu_{it} \text{------------------------------}(3)$$

Where:
DPO_{it} = Dividend Payout ratio is measured as the dividend per equity share divided by earnings per share
ROE_{it} = Return on Equity for firm i at time t (in years). Used as a proxy for performance and is measured as net profit after tax divided by shareholders equity.
$FSIZE_{it}$ = Firms size is measured by the natural logarithm of the book value of the firms Total Assets.
FL_{it} = Financial leverage is proxied as the debt to equity ratio. It measures the percentage of debt over equity.
ROA_{it} = Return on Asset for firm i at time t (in years).
PAT= Profit After Tax for firm i at time t (in years).
e = Stochastic or disturbance term.
t = Time dimension of the Variables
β_0 = Constant or Intercept.
β_1- β_5 = Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (*a priori expectations*) are such that $\beta_1, \beta_2, \beta_4, \beta_5 > 0$ while on the other hand $\beta_3 < 0$
$\mu_{it} = \varepsilon_{it} + \lambda_i$
ε_{it}= stochastic error term
λ_i = cross-sectionals individual difference (Composite Error)
Decision rule; null hypothesis is rejected if the prob (p-value) is < 5% significance level, otherwise it is accepted.

4. PRESENTATION AND DISCUSSION OF RESULTS.

Table 1: Summary Statistics of Operational Variables

	DPO	FSIZE	FL	PAT	ROE	ROA
Mean	6.105237	-4.415562	3300.043	2956.600	-3.862118	-0.870004
Median	5.700960	-3.439741	351.9600	2362.000	-3.332063	2.072104
Maximum	10.43726	25.28227	17128.98	5809.000	25.28227	25.28227
Minimum	2.410130	-43.57266	8.570000	862.0000	-43.57266	-43.57266
Std. Dev.	0.99451	0.66432	0.28672	1.10085	1.21422	1.145478
Skewness	0.174895	-0.423849	1.557371	0.667587	-0.364247	-0.853862
Kurtosis	1.816945	3.469036	3.892063	2.073606	3.358110	3.720346
Jarque-Bera	4.439088	2.737541	30.61740	7.702602	1.921929	10.01940
Probability	0.108659	0.254420	0.0418000	0.021252	0.382524	0.006673
Sum	427.3666	-309.0893	231003.0	206962.0	-270.3482	-60.90027
Sum Sq. Dev.	446.0186	15003.74	2.04E+09	1.73E+08	15971.59	18682.42
Observations	70	70	70	70	70	70

Source: Author's Computation (2016).

Table above presents the descriptive statistics for all the variables that operationalized our study in a common sample. The low standard deviation of 0.99%, 0.66%, 0.28%, 1.10% and 1.14% for DPO, FSIZE, FL, PAT, ROE and ROA, this implies that those individual observations did not deviate much from their respective means. The skewness estimate is used to capture how the variables for the determinant of corporate dividend policy of listed conglomerate firms in Nigeria. FSIZE, ROE and ROA variables are negatively skewed which implies a relatively larger probability distribution of the variables during our study period from 2005 to 2014 resulting in the means having fatter tails to the left of their respective means. On the other hand, DPO, FL and PAT are positively skewed and thus have a fatter tail to the right of their respective means. We also note that the relative skewness of the variables lie closer to zero which implies that the probability distribution is evenly distributed around their respective mean i.e. been approximate to normal distribution. Again the normality of the probability distribution is further justified by the probability of the Jarque-Bera that the probability value is greater than 5% which indicate that the data set are normally distributed.

4.1 Random Effects - Hausman Test
Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section and period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	10.632678	5	0.0092
Period random	0.052471	5	1.0000
Cross-section and period random	10.875652	5	0.0039

Source: Author's Computation (2016).

Table 4.3 shows the results of Hausman test conducted to make a choice between Fixed and Random Effects Model estimates as shown in the table above. Since the calculated ($P < 5\%$), we do not accept the null hypothesis that the differences between the estimated parameters yielded by the two estimation techniques are not systematic. As a result, Fixed Effects method produces better results for the model and is therefore adopted for this study.

4.2 The Redundant Fixed Effects Test.

Given that the panel least squares in this study were estimated under the fixed effects assumptions thereby imposing time and cross section independent on determinant of dividend policy variables specific effects on the panel series controlled for firm size, financial leverage, return on assets, return on equity and profit after tax, the Redundant Fixed Effects test were conducted on the panel least squares to ensure that the fixed effects assumptions were adequately applied. To check whether the cross-sectional and the (Cross-Section/Period F Cross-Section/Period Chi-square) tests the validity of a model where both cross-sectional and time effects are included in the model against a standard OLS model.

The null hypothesis is that the set of dummies, h_i and h_t, are not statistically different from zero. The appropriate application of the fixed effects strengthens the result of our panel least squares. The results are presented and discussed below.

4.3 Redundant Fixed Effects Test for the Equation

Redundant Fixed Effects Tests
Equation: Untitled

Test cross-section and period fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.324331	(24,616)	0.0475
Cross-section Chi-square	96.823580	39	0.0152
Period F	0.723541	(9,616)	0.6875
Period Chi-square	7.361013	41	0.5996
Cross-Section/Period F	4.255859	(32,616)	0.0074
Cross-Section/Period Chi-square	103.303011	70	0.0092

Source: Author's Computation (2016).

The null hypothesis is that the set of dummies, h_i and h_t, are not statistically different from zero. However, a look at the table above present the cross-section and period fixed effects for the equation reveals that the probability of the Cross-section/Period F and Cross-Section/Period Chi-square statistics of 4.25 and 96.82 are perfectly significant at $P < 0.05$ respectively. The study therefore, rejects the null hypothesis and concludes that h_i and h_t is statistically significant from zero thus implying that the cross-sectional and time specific effects are appropriately applied in our estimation.

5. CONCLUSION AND RECOMMENDATIONS

This study basically examined the determinants of corporate dividend policy of quoted conglomerate firms in Nigeria. To achieve the objectives of this study, the Nigerian stock exchange fact book and the corporate annual reports for the period 2005-2014 were analyzed. The study nevertheless came up with the following findings that are of salient value to investors and scholars. Based on the hypotheses tested that FSIZE (Firm Size), return on equity, Financial leverage (FL) has negative effect on conglomerate firms dividend payout ratio but insignificant at 5% level of significance and ROA and PAT have positive effect and significantly affect dividend payout ratio in Nigeria quoted conglomerate firms. It was recommended that the Board of Directors (BODs) should continually maintain a steady increase in earnings, cash flow and dividend payment in order to attract more investors and shareholders.

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