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Dividend Policy on Financial Performance: A Case Study of Selected Registered Firm in Nigeria

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Abstract
Dividend policy serves as a mechanism for control of a managerial opportunism. The objective of the study is to ascertaining the relationship between dividend policy and corporate profitability, Investment and Earning per Shares. Data for the study were extracted from annual report and accounts of twenty five quoted companies in Nigeria. These data were subjected to regression analysis, using Eview software and the findings indicate that; There is a positive and significant association between the firm performance and dividend policy of the sampled firm. The study furtherly shows that there is a strong and positive significant relationship between ROCE,ASST and dividend policy. NOTE,ROCE is used in proxy of profit of the firm after tax while ASST is used in proxy of investment of the firm. While EPS shows a positive impact on the firm dividend policy. It is hereby recommended that Organizations should effectively appropriate fund available to them and manage it in such a way that more profit can be generate which will in turn lead to increase in the shareholders' dividend. Secondly, adequate monitoring and supervision should be embarked upon by the firm to ensure prudency and proper accountability.
Keywords: dividend, causality, earning per shares and profitability.

1. Introduction

The issue of dividend policy is a very important one in the current business environment. 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. For a company, it is a pivotal policy around which other financial policies rotate (Alii et al., 1993). Dividend or profit allocation decision is one of the four decision areas in finance. Dividend decisions are important because they determine what funds flow to investors and what funds are retained by the firm for investment (Rossetal.,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 et al., 2007).So many factors affect the performance of corporate organizations and one of those factors is dividend policy. Dividend policy serves as a mechanism for control of a managerial opportunism. Empirical studies show that firms in developing Countries (e.g. Nigeria) smooth on their income and therefore, their dividends. The pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging Capital markets. If the value of a company is the function of its dividend payments, dividend policy will affect directly the firm's cost of capital. But is there any significant relationship between dividend policy and financial performance in form of profitability investment and Earning per Share? This is the question this research study intends to answer

Objectives of the study:

The main focus of the study was to empirically examine the possible impact a firm's dividend policy may have on financial performance of firms listed in the Nigerian Securities Exchange. The secondary objectives of the study include, first, to ascertain if there is any significant relationship between dividend policy and firm's profitability. Secondly, to determine the impact of dividend policy on Investment. Lastly, to determine if there is any significant relationship

Between dividend policy and Earning per Share of Companies. From the research objective above, the following hypotheses formulated in their null form will be tested.

H_{o1} There is no significant relationship between Investment of the firm and dividend policy.
H_{o2} There is no significant relationship between firm's profitability and dividend policy.
H_{o3} There is no significant relationship between earning per shares and dividend policy.

Structure of the study

This study is presented in five (5) different sections. The first section contends with the introduction. This takes a look at general description of the study, statement of problem, purpose of the study and, provides a set of relevant research questions. Section two dwelt on the theoretical, analytical as well as empirical framework on capital formation and economic growth. Section three is on the methodology of study while section four is on data presentation and analysis .Section five discusses the findings of study; from which conclusions are deduced and recommendations drawn.

2. Review Of Related Literature

2.1 Theoretical Framework

Bird In The Hand Theory

The "Bird in Hand" theory of Gordon (1962) argues that outside shareholders prefer a higher Dividend policy. They prefer a dividend today to a highly uncertain capital gain from a questionable future investment. A number of studies demonstrate that this mode fails if it is posited in a complete and perfect market with investors who behave according to notions of rational behavior (Miller and Modigliani, 1961; Bhattacharya, 1979).

Signalling Theory

According to the information content of dividends or signaling theory, firms, despite the distortion of investment decisions to capital gains, may pay dividends to signal their future prospects (Amidu, 2007). The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders.

Agency Theory

Even if a firm does not have free cash flow, dividend payments can still be useful for the shareholders in order to control the over investment problem. Eastern rook (1984) argues that dividends reduce the over investment problem because the payment of dividends increases the Frequency with which firms have to go to equity markets in order to raise additional capital. In the process of attracting new equity, firms subject themselves to the monitoring and disciplining of these markets. This lowers agency cost.

2.2 Empirical Studies

The behavior of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed an emerging markets (Hafeez & Attiya, 2009).

Many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy but we still don't have an acceptable explanation for the observed dividend behavior of firms (Black, 1976; Brealey & Myers 2005). Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies'observed dividend behavior has been established (Samuel & Edward, 2011). It has long been a puzzle in corporate finance. Dividend is the return that accrues to shareholders as a result of the money invested in acquiring the stock of a given company (Eriki and Okafor 2002).

While dividend policy on the other hand is concerned with division of net profit after taxes between payments to shareholders (ordinary shareholders) and retention for reinvestment on behalf of the shareholders (Kempner 1980).

A difficult decision for both public and private limited companies is to determine the appropriate level of dividend to be paid to shareholders, and to decide whether or not to offer noncash alternatives such as scrip dividends According to Davidson (1990). The existence of some share price reactions on dividend announcement prompts an analysis of the evidence for both shareholder clienteles and possible interaction of firms' dividend policies with key activities such as internal investments. An aspect of the theory of dividend policy is part of a continuum of control allocations between managers and investors, and hence cross sectional variations in dividend policy are driven by an underlying factor. The allocation of controls between the manager and investors is important not because of agency or private information problems, but because of its potentially divergent beliefs that can lead to a disagreement about the value of project available to the firm. This underlying factor is "Corporate Performance". 'Corporate performance is at the heart of the managerial function of an organization' (Samuel 1989).

Analysis of corporate performance is mainly concerned with the development of a modeling methodology to help in the diagnosis of past performance and thus provide a framework for evaluating the effect of changes in operating parameters as a guide for future planning. The performance of an Organization is measured by the choice of the management form of wealth to be held. If the performance of an organization is good there will be little or no disagreement between the management and the shareholders (Ghosh and Subrata, 2006).

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues and expand its operations (Copisarow, 2000). Financial performance can be measured in many different ways, but all these ways should be aggregated. Revenue from operations, operating income or cash flow from operations can be used as well as total unit sales. According to Demsetz and Lehn (1985), financial ratios from financial statements are a good source of data to measure financial performance. Liquidity is one of the most outstanding financial ratios used a measure of the firm's ability to meet financial obligations as and when they fall due without disrupting the normal business operations.Liquidity can be analysed both structurally and operationally. Financial performance can also be measured in terms of net earnings which are divided into two parts, that is, retained earnings and dividends. The retained earnings of the business may be reinvested and treated as a source of longterm funds. The dividend should be distributed to the shareholders in order to maximize their wealth as they have invested their money in the expectation of being made better off financially.

Determinants of Dividend Policy:

Most firms quoted on the Nigerian Stock Exchange have clearly defined dividend policies that are based on the general dividend practice in the industry. In our model, higher agreement between the manager and the investors implies a higher stock price. However, Lintner, (1996) in a study of dividend policies of large Industrial Corporation in the United States suggested that in the majority of cases, current dividend decisions are intimately related to previous decisions. In the study, he concluded that management takes the existing dividend decision as a question of whether or not to change this rate in the current period.

main determinants of dividend policy of a firm can be classified into:

Dividend payout ratio: Dividend payout ratio refers to the percentage share of the net earnings distributed to the shareholders as dividends.

Stability of dividends: Dividend stability refers to the payment of a certain minimum amount of dividend regularly.

Owner's Considerations: Dividend policy is also likely to be affected by the owner's considerations of the tax status of the shareholder, their opportunities of investment and the dilution of ownership.

Capital Market Considerations: The extent to which the firm has access to the capital markets also affects the dividend policy. In case the firm has easy access to the capital market, it can follow a liberal dividend policy. If the firm has only limited access to capital markets, it is likely to adopt a low dividend payout ratio. Such companies rely on retained earnings as a major source of finance for future growth.

Inflation : With rising prices due to inflation, the funds generated from depreciation may not be sufficient to replace obsolete equipment and machinery. So, organizations may have to rely on retained earnings as a source of fund to replace those assets. Thus, inflation affects dividend payout ratio in the negative side.

Factors Influencing Dividends Policy in Companies: As high risk financial assets, stock investors suffer from high investment risks and share the company's operating results. This is the main purpose of investors investing in stocks. 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. These factors influence company's dividend policy:

Liquidity: if the dividends are to be paid by cash, of course, cash must be available to pay the dividend declared.

Stability of earnings: earnings are subject to varying degrees of risk and the greater the variability, the greater the likelihood of reduced dividend due to sudden drop in earnings.

Taxation: income distribution and capital gain have different tax implications for investors. This will affect the relative desirability of dividend and retained earnings. Hence the marginal rate of tax of the dormant shareholder can be an important consideration in determining dividend policy.

Forms of Dividend

Dividend originally is a distribution of profits earned by a joint stock company, among its shareholders. Mostly, dividend is paid in cash, but there are also other forms of dividend which are Cash Dividends, Stock Dividend, Script Dividend, Bond Dividend and Property Dividend.

3. Methodology

Sources of Data

The data for this study are secondary data generated from annual reports and accounts of twenty five randomly selected companies quoted on the Nigeria stock exchange. The data were then analyzed using multiple regression analysis with the aid of eview software.

Model Specification

The model for the regression analysis is stated below;

DIVP = f (ROA, ASST, EPS)

Specifying in econometric format; we have;

$DIVP = \beta o + \beta 1\ (ROA\ it) + \beta 2\ (ASST\ it) + \beta 3\ (EPS\ it) + \varepsilon it$

Where: DIVP, $\beta 0$, $\beta 1$, $\beta 2$, $\beta 3$, εit represent dividends paid to shareholders, intercept term, impact on ROA, impact on ASST, impact on EPS and εit error term respectively.

ROA, ASST and EPS represent Return on Assets, Fixed Assets and Earnings Per Share respectively.

Variables Description:

Dividend: Total Ordinary Dividends / No. of Ordinary Shares : DIVP

Return on capital employed: Operating profit / Capital Employed*100 : ROCE.

Fixed Asset: Total Fixed Assets : ASST

Earnings per Share: Profit After Tax / No. Of Ordinary Shares in Issue and Ranking of Dividend*100 : EPS

Estimation Techniques

This study uses linear panel data regression methods to evaluate the dividend policy on firm's financial performance of some selected firms listed on the Nigerian Securities Exchange. The a priori economic expectations are;B1>0; B2>0; B3>0 .

4. Data Analysis and Interpretation

The data obtained from the various financial statements in their financial year end report of 2010 are presented in Table 1. Variable extracted and computed from financial statement

Table 1: Variables Extracted and Computed from Financial Statements S/N	**Name of Company**	**Dividend Per Share (N/K)**	**Return on Capital Employed (%)**	**Earnings Per Share (N/K)**	**Fixed Assets (N)'000**
1	Okomu Oil Plc.	1.00	33.6	23.58	13,976,234
2	NESTLE Nigeria Plc.	1.50	72.81	403.50	12,567,832
3	Nigeria Breweries Plc.	3.00	89.45	94.89	21,875,467
4	Paints and Coatings Plc.	0.08	31.8	0.89	15,987,647
5	Access Bank Plc.	0.50	9.68	5.50	34,756,544
6	UAC-Nig. Plc.	0.65	15.8	9.91	9,234,675
7	Guaranty Trust Assurance	0.08	6.0	1.47	18,389,354
8	Afro media Plc.	0.0025	14.29	0.50	11,128,648
9	STANBIC IBTC Plc.	0.10	18.97	7.45	26,320,289
10	Total Nig. Plc.	7.00	64.77	132.34	41,564,738
11	Fidelity Bank Plc.	0.14	9.12	1.36	14,322,987
12	Mobil Oil Nig. Plc.	5.00	96.02	117.16	15,904,124
13	United Bank for Africa	1.00	10.24	3.16	19,204,563
14	Dangote Sugar Refinery	0.30	39.50	3.75	22,446,874
15	SKYE Bank	0.25	6.51	3.70	34,453,467
16	Large Cement WAPCO	0.75	17.53	43.12	9,456,876
17	NEM Plc.	0.05	2.21	0.05	6,125,986
18	Dangote Cement Plc.	1.25	102.96	110.22	10,756,986
19	RT BRISCOE plc.	0.10	5.57	1.24	8,344,863
20	International Breweries Plc	4.00	236.44	34.20	7,578,984
21	Nigerian Aviation Handling Plc.	0.25	23.58	6.59	31,865,146
22	Custodian Allied Insurance Plc.	0.08	3.25	1.54	12,865,765
23	GT Bank Plc.	100	13.06	127	1,006,503,718
24	Continental Reinsurance Plc.	90.0	2.86	150	158,052,582
25	MRS Oil Nigeria plc	125	12.6	7.27	18,579,292

Source: Nigeria stock exchange fact book and annual report and account 2010.

Descriptive Statistic

Table 2

	DVIP	ASST	EPS	ROCE
Mean	33.68330	63290546	51.61560	37.54480
Median	0.650000	15987647	7.270000	15.80000
Maximum	125.0000	1.01E+09	403.5000	236.4400
Minimum	0.002500	6125986.	0.050000	2.210000
Std. Dev.	34.85118	1.99E+08	89.24261	51.68151
Skewness	2.433202	4.540408	2.652827	2.525035
Kurtosis	7.165774	22.04300	10.68578	9.825629
Jarque-Bera	42.74538	463.6427	90.85535	75.09626
Probability	0.000000	0.000000	0.000000	0.000000
Sum	342.0825	1.58E+09	1290.390	938.6200
Sum Sq. Dev.	29150.51	9.48E+17	191141.8	64103.49
Observations	25	25	25	25

From table 2 above, the average percentage dividend of about 33.7 is paid out to the firm under consideration. Minewhile, ASST,EPS and ROCE maintain an average of 63290546, 51.61560, 37.54480 respectively for the sample listed firm. ASST has the highest average value in the model follow by EPS and ROCE.EPS and ROCE has the first two highest standard deviation in the model. This suggests that EPS and ROCE are more volatile variable in nature. This is evident by the extence of their dispersion from the mean in the model such that the entire mean in the model are greater than the media. The data on the variable in the model are all positively skewed which mean that in all of the 25 firm under study,the financial performance rate in all the variable are skewed to the right toward normality. This is evident by the fact that the mean of all the variable are learger than the media (lind, marchel andwathen,2006). Based on bowman shalton test for normality which is anchor on the closeness to zero (0) of sample skeweness and the closeness to three (3) of sample kutorsis, the variable kurtosis are all greater than three (3) which suggest that the variable are leptokurtic in nature. Which implies that there are higher than normal kurtosis and the weight in the tail of their probability density of their function is larger than normal (new bold 1995). The result of the jarque bera statistic indicate that at 5% level of significant the probability value of the variable series are normally distributed.

Ordinary Least Square Regression Estimates
Table 3
Dependent Variable: DVIP
Method: Least Squares
Date: 07/12/15 Time: 16:50
Sample: 1 25
Included observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASST	0.955008	3.22E-08	2.967576	0.0073
EPS	0.034679	0.074508	0.965433	0.6464
ROCE	0.064567	0.126896	1.666429	0.5124
C	9.024570	8.078966	1.117045	0.2766
R-squared	0.650414	Mean dependent var		13.68330
Adjusted R-squared	0.627616	S.D. dependent var		34.85118
S.E. of regression	30.02837	Akaike info criterion		9.787809
Sum squared resid	18935.76	Schwarz criterion		9.982829
Log likelihood	-118.3476	Hannan-Quinn criter.		9.841899
F-statistic	3.776092	Durbin-Watson stat		0.491827
Prob(F-statistic)	0.025984			

Findings from regression analysis result from the selected firm as depicted in table 3 shows that from the model, the R2 adjusted which is refer to as the measure of the fitness of the model was 0.65 which mean that about 65% of the variation in the dependent variable are captured and explained by the explanatory variable. Minewhile, about 35% variations of the firm dividend policy of the sample firm are captured by other factors such as error term.from the analysis on the table 4 above, the coefficient shows that ASST has a strong positive and significant association with the firm dividend such that 1% increase in the firm fixed asset will bring about 0.95%increase in the firm dividend while EPS and ROCE has a week and positive association with the firm dividend policy. Similarly, findings from the (F statistic which is the prove of the validity estimated model) as specified in table 3, present a PV(probability vaue) that is less than 0.05 i.e pv<0.05. This suggested that ASST EPS an ROCE is significantly related to dividend policy which is the dependent variable. Further empirical findings shows that there is a significant and positive relationship between the fixed asset of the sampled firm and dividend policy. This is evident by the T statistic value of (2.9675 and p- value 00.7), i.e (B1> 0), this outcome simply implies that the higher the investment capacity of the firm into fixed asset, the higher the dividend generated from such investment. increase in the asset of a firm create more opportunity for the firm to generate and source for more fund for investment .effective management of such investement will yield more profit which will in turn bring about increase in firm dividend. Further more, from the above analysis, we can infer that there is a significant and positive relationship between the earning per shares and dividend policy. Same applicable to return on capital employed. This is evident by (0.965> 0.6464) and (1.666 > 0.512) respectively. This implies that increase in the return on capital employed will bring about more increase in the firm dividend. Firm who Effective utilization its operating capital will experience an increase in return on capital which will intrun increase shareholders wealth.

Pairwise Granger Causality Test Result

Table 3

Date: 07/12/15 Time: 17:05
Sample: 1 25
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
EPS does not Granger Cause DVIP	23	0.26423	0.7707
DVIP does not Granger Cause EPS		1.81530	0.1914
ROCE does not Granger Cause DVIP	23	0.61681	0.5507
DVIP does not Granger Cause ROCE		0.27846	0.7602
ASST does not Granger Cause DVIP	23	1.60630	0.2281
DVIP does not Granger Cause ASST		1.25007	0.3102

The result of the granger causality test show that there is a bi-directional relationship between DIVD, which means that there is no causal relationship between DIVD, EPS, and ROCE. Minewhile, there is a unidirectional relationship between DIVD and ASST, which means they both granger cause each other.

5. CONCLUSION

This study basically looked at dividend policy and firm performance in Nigeria.

The study came up with findings that are of salient importance to scholars

Investigating dividend issues in the Nigerian context

In order to achieve the objectives of the study, data were obtained from 2010 financial year of twenty-five companies quoted on the Nigerian Stock Exchange. From the data obtained, various variables were extracted and computed to enable adequate analysis to be carried out. From the result of the analysis, it was discovered that the dividend policies of organizations have a significant positive relationship with profitability, investments and Earnings Per Share of corporate organizations. We can therefore conclude that investment, profitability and earnings of a firm is vital in enhancing the dividend policy of a firm.

RECOMMENDATIONS:

Based on the findings of this research study, the following recommendations are made;
firstly, Organizations should effectively appropriate fund available to them and manage it in such a way that more profit can be generate which will in turn lead to increase in the shareholders' Wealth maximization.
Secondly, adequate monitoring and supervision should be embarked upon by the firm to ensure prudency and proper accountabily.

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