Research Journal of Finance and Accounting www.iiste.org
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.8, No.6, 2017

Determinants of Dividend Policy in Nigerian Manufacturing Firms

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Abstract
Dividend policy is becoming an area of concern to different stakeholders including the researchers in recent time. Although there are existing literatures on Determinants of Dividend Policy in Nigeria, this study wishes to contribute to existing study by viewing determinants of dividend policy with a focus on listed food and beverages and cement firms in Nigeria. Dividend per Share is used as dependent variable while Return on Capital employed, Earnings per Share and Tangible Asset growth rate are used as the independent variables.Panel Data were sourced from annual report and account of the selected five (5) companies to cover a period of eight (8) years(2008 to 2015). Panel least square was employed to estimate the model built for the study. The result shows that Return on Capital employed has no significant relationship with dividend policy; Earnings per Share and Tangible Asset growth rate have significant relationship with dividend policy of firms. Moreso, only Earning per Share out of the three explanatory variables exhibit positive relationship with dividend per share while others have negative relationship. It is strongly recommended that firms should pursue effective dividend policy that will motivate investors to commit more resources in the company, and to also ensure that reasonable proportion of profit is also retained for future growth without detriment to shareholders wealth maximisation.
Keywords: dividend policy, returns on capital employed, earnings per share and tangible asset growth rate.

1.0 INTRODUCTION

Every investor commits his resources in a company with the aim of getting fair returns on the investment. The reward attributable to shareholders by investing their resources in a company is mainly dividend. For shareholders to be paid dividend there must be a policy in place which is known as dividend policy. Dividend policy may be defined as the set of rules and regulations which determines the quantum of dividend to be distributed to shareholders. A company's dividend policy will stipulate the percentage of profit to be distributed and the percentage to retain for future growth.

Dividend decision is one of the most essential decisions in finance, given the increased significant role of finance on the overall growth of the company as proposed by Gul, et al (2012).Dividend decision has been considered as one of the top ten complex issues in finance as mentioned by Brealey and Myers as cited in Thirumagal and Vasantha (2016). Dividend policies determine the proportion of profit to be distributed to shareholders, and the proportion to be retained for investment, expansion and growth, in such a way that, as Management is trying to compensate the shareholders by paying them dividend, it also has sufficient resources to finance its operation, so that its operation is not affected negatively. Part of the resources used in the running of the business may also come from retained earnings as it is considered to be the cheapest source of fiancé among other alternatives. Dividend policy remains one of the most important policies in finance, not only from the viewpoint of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the Government (Uwuigbe, Jafaru and Ajayi (2012).

The dividend policy, signals to the shareholders, that the company is performing well. There are restrictions that force the dividend payout not to exceed certain percentage. These restrictions may include government policy on the proportion of earnings to be distributed, while the second restriction may be the Companies and Allied Matters Act (CAMA) which governs the operation of registered companies in Nigeria. The CAMA stipulates in section 379(2), that the annual general meeting has the power to reduce the amount of proposed dividend. One of the reasons behind the dividend decision policy of the Nigerian government is to ensure that funds are available for continuous investment in assets, so that the companies will continue to operate on the growing concern principle (Uwuigbe, et al: 2012).

One main factor militating against the growth and good performance of Nigerian businesses is insufficient capital to invest in all lines of profitable activities. The insufficient capital can arise as a result of low

investment from investors as it may arise from shareholders' reaction to unpleasant dividend on their investment. Moreover, a regular and relativelyhigh corporate dividend policy could be a reflection of a healthy company. Although there has being attempts in the past by previous researches to address the puzzle of dividend policy, the question of what factors influence companies to pay dividends is still unsettled (Frankfurter, 1999). Factors such as Return on equity, profit after tax, market liquidity, asset growth rate, earning per share and leverage among others were found to influence dividend decision (Mahmoud *et al*, (1995);Ajanthan (2013);Naceur*et al*, (2006); Pal and Goyal (2007); Banerjee (2007)). However, these studies do not have a consensus agreement as regards the determinant of dividend policy. This study therefore intends to bridge the gap in literature by providing answers to the following questions: what relationship exists between returns on capital employed and dividend per share? is there any linkage between earning per share and dividend per share? Does tangible asset growth exhibit any relationship with dividend per share in the food and beverages and cement firms listed in the Nigeria stock exchange? To provide answers to these questions, this study hypothesised as follows;

1.1 Research Hypotheses

$H0_1$: There is no significant relationship between returns on capital employed, and dividend per share.
$H0_2$: There is no significant relationship between earnings per share and dividend per share.
$H0_3$: There is no significant relationship between tangible asset growth rate and dividend per share.

2.0 LITERATURE REVIEW

2.1 Concept of Dividend

Dividend is the payment by a company to its shareholders out of its distributable profit as a reward for investments. In other words, dividend is paid to the shareholders out of the revenue profits earned by it in the ordinary course of business. (YourArticleLibrary.com, 2016). Furthermore, it can also be seen as a payment which could be in cash or other forms paid by corporations to their shareholders. They are defined by shareholders as the return on the investment made in the entities.The decision on whether or not to pay dividend as well as drafting the overall dividend policy of a company rest with the Board of Directors(Besnik, *et al* (2014).

Dividend decision is the financing decision of a business. It is the distribution of revenue profit to the shareholders in proportion to their holdings. One of the four areas of decisions in finance is profit or dividend allocation. In fact, other financial policies rotate around dividend policy which plays a pivotal role (Alii. Khan.& Ramirez, 1993).Moreso, stakeholders can be informed about the performance of the companythrough dividend policy. Future potential dividends, future earnings and cost of capitalis determined by firm investments (Foong*et al* (2007).

2.2 Factors Influencing Dividend Policy

According to Akinsulire (2008), the decisions on dividend policy are influenced by both internal and external factors.

Liquidity: There is a clear difference between liquidity and profitability. A company that is profitable may not be liquid, and vice versa. The fact that profit is made does not, on its own, justify dividend payment. Dividend can only be paid if there are liquid resources to meet such obligation. Profit made might have been invested to earn more returns in the future or it might have been used in setting business obligations.

Repayment of Loan: When profit is made, and there are obligations in form of debenture, or at times, preference shares, the company might use the profit made in the year to redeem such obligations, and this will affect dividend payment.

Shareholders Tax Positions: Shareholders in high income bracket may prefer capital gain to current dividend so as avoid high tax and vice versa.

Inflation: During inflation, shareholders expect the dividend to increase in line with the increase in the general price level of goods and services in the economy.

Dividend Policy of Similar Companies: Companies consider the dividend policy of similar companies when deciding on their own dividend policy.

Ownership Structure: Where the shareholders want to maintain high structure so as not to dilute their interest, they may prefer investing high proportion of profit. The dividend policy may be low if ownership structure is a significant factor.

Availability of Investible funds: When investible funds are readily available, the managers tend to pay dividend to the shareholders

Loan Restriction: When there is restriction on a company's ability to raise finance from loan, it will fall back to retain earnings as finance option which, in turn, will reduce the proportion of profit to be distributed as dividends to shareholders.

Legal Requirement: Legal requirement like CAMA places restriction on the proportion of profit that can be

paid to shareholders as dividend. The company law in Nigeria allows payment of dividend to be made only out of (a) profit from the use of the company's assets if though it is a wasting asset; (b) revenue reserve; (c) profit from disposal of non-current assets.

Government Regulation: Government issues some policy guidelines that stipulate the percentage of profit to be distributed as dividend.

2.3 Forms of Dividend Policy

According to Olowe (2008), the followings are the forms of dividend:

Stable Dividend: A company may be paying dividend continuously on a yearly basis to its shareholders regardless of the amount of dividend.

Stable Dividend Payout: Companies may seek to continue to maintain an amount paid as dividend instead of paying unstable amounts.

Extra Dividend: After initial dividend, some companies may pay additional dividends to its shareholders.

Residual Dividend: This form of dividend is paid after the investment need of a company has been catered for. Any amount left can now be paid as dividend.

Stock Dividend: Company may pay dividend to its shareholders in form of shares issue.

2.4 THEORETICAL REVIEW

2.4.1 Dividend Irrelevant Theory

The dividend irrelevant theory was developed by Modigliani and Melton H. Miller in 1961. They opined that the pursuance of an active dividend policy should not be taken as a means of shareholders wealth maximization. They argued that in a tax free world, the value of a company is determined solely by the earnings power of its assets and investments and shareholders stand indifferent between capital gains and dividends.

2.4.2 Dividend Supremacy/ Relevant Theory: The proponents argued that dividends were all that mattered in the determination of share prices. This is based on the fundamental theory of share values. It assumes:

The market value of a company's shares depends on:

The size of dividends paid;

The growth rate in dividends; and

The shareholders' required rate of returns.

The dividends growth rate depends on how money is reinvested in the company, and so on the earnings retention rate.

Shareholders will want their money to pursue a retention policy that leads totheir shares' value maximisation.

2.4.3 Bird-In-The-Hand Theory: The "Bird in Hand" theory of Gordon (1962) posits that investors are risk-averse and would want to receive dividend payments rather than uncertain capital gains in the future.This therefore validate relevancy of dividend pay-out which invariably affects the market value of shares. Dividends payments are more valued by Investors than capital gains when decisions relating to Investment are to be made.Current dividends are to a large extent certain when compared to future capital gain that is not time defined.Therefore, a bird (i.e. dividends) in the hand is better than a bird (capital gains) in the bush.

2.4.4 Signalling Theory: Dividend signalling is a theory suggesting that the announcement of an increase in dividend payouts by a company is an indication that it possesses positive future prospects. The rationale behind this theory is directly related to game theory; managers with viable investment potential are more likely to signal. While the concept of dividend signalling has been widely contested, the theory is still a Key concept utilised by proponents of inefficient markets.

Dividend signalling theory is based on the information asymmetry where managers are seen to have better access to inside information about the company than outsiders (Bhattacharya, 1979; Miller and Rock, 1985). Through the dividend policy adopted by the mangers, information asymmetry can be reduced when such information is signalled with the shareholders and potential investors.Moreover, information about the future prospect of a firm can be communicated to the markets by using changes in dividend policy.

2.4.5 Agency Theory: Agency theory assumes that the relationship between management and shareholders is an agency relationship (Jensen and Meckling, 1976; La Porta et al., 2000). Conflict of interest usually occurs between management and shareholders. While the managementstrives to maximize their reward, the shareholders strive for wealth maximization. In other to ensure that the conflict between them is minimised, management tries to assure the shareholders. In this regard, management can employ dividend mechanism to reduce agency cost emanating from the conflict of interest with shareholders.

2.5 EMPIRICAL REVIEW

Sequel to theimportance of dividend policy in organisation's performance, different studies have been conducted in different both within and outside the shore of Africa to find out the effect and relationship between dividend policy and firm's performance. For instance, M'rabet and Boujjat (2016) conducted examined the relationship

between dividend payments and firm performance with a focus onlisted companies in Morocco. The study found that Dividend policy plays important role in enhancing firm's performance,with a significant and positive relationship established between the two variables.

Moreso, the linkage between dividend policy and corporate profitability was investigated by Anandasayanan and Velnampy (2016) using econometric analysis of Listed Manufacturing Firms in Sri Lanka. Dividend policies were found to exhibit significant effect on corporate profitability.

Murekefuand Ouma (2016) undertook a research onthe relationship between Dividend Payout and Firm Performance using listed Companies in Kenya". The findings showed that dividend payout was a major factor affecting firm's performance. A strong and positive relationship was found to exist between dividend payout and firm performance.

Furthermore, Uwuigbe, *et al* (2012) carried study dividend policy and firm Performance relationship. A significant positive relationship was established between the firms' performance and dividend payout of the selected listed firms in Nigeria. The study further revealed that firm's size and ownership structure exert significant effect on the dividend payout of firms.

In their study titled "Does Dividend Policy Affect Firm Earnings? Empirical Evidence from Nigeria", Osamwonyi and Ebueku (2016) found that Current dividend payout and dividend per share were both found to exhibit significant relationship at the 5 (five) percent level. The study further showed that cash flow, previous dividend payout and leverage have positive but insignificant influence on Earning per share, while firm's size has insignificant negative impact on Earning per share

A study on the effects of Dividend Policy on Firm's Financial Performance was carried out by Yegon*et al* (2016). Using data sourced fromlisted manufacturing firms in Kenya, the result of the econometric analysisshows that a significant positive relationship exists between dividend policies of the selected organisations and firm's profitability. In addition to this,investments and earning per share were both found to have significant positive relationship with dividend policy. This outcome corroborates the work of Adediran and Alade (2013) who examined Dividend Policy and Corporate Performance in Nigeria in which investments, earning per share and profitability were all found to have significant positive relationship with the dividend policy.

On the contrary, Osegbue*et al* (2013)analysed the Relationship between Dividend Payment and Corporate Performance of Nigerian Banks. Dividend payout and corporate performance were found to have a no significant relationship in Nigerian banks.

3.0 METHODOLOGY

The study made use of secondary source of data obtained from the annual reports of the selected five companies. The data were analysed through panel least square by the use of E-views 9. The model for the analysis is stated below:

DIVP = f (ROCE, EPS, TAG)………………………………………………………………. (i)

Where:

DIVP = Dividend Policy (proxied by Dividend paid to shareholders)
EPS = Earnings per Share
TAG = Tangible Asset Growth Rate

Econometrically, the Model can be stated as:

DIVP = a0 + a1ROCE +a2 EPS + a3TAG +µt……………………………………………….. (ii)

Where: DIVP is dividends paid to shareholders (dependent variable),
a0, a1, a2 and a3 are the coefficient of explanatory variables
µt is the error term
ROCE, EPS and TAG are the explanatory variables.

3.1 VARIABLE DEFINITIONS

Dividend per share: This is the returns in form of dividend to the holders of ordinary shares of a company with respect to proportion of holding.

Return on Capital Employed: This is a measure of operating efficiency. Capital employed is calculated as total assets — current liabilities. Return on capital employed is calculated as:

Operating profit/Return on Capital Employedx100

Earnings per Share: This is the proportion of company's profit allocated to ordinary shareholders.

Tangible Asset Growth Rate: This is the rate of growth on assets that cannot be easily converted into cash and have useful lives of more than one year.

4.0 DISCUSSION OF FINDINGS

Dependent Variable: DPS
Method: Panel EGLS (Cross-section random effects)
Date: 01/16/17 Time: 06:35
Sample: 1 40
Periods included: 8
Cross-sections included: 5
Total panel (balanced) observations: 40
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.793620	2.073101	1.347556	0.1862
ROCE	-0.412721	1.864312	-0.221380	0.8260
EPS	0.439751	0.038602	11.39201	0.0000
TAG	-6.791800	2.583521	-2.628893	0.0125
	Effects Specification			
			S.D.	prob
Cross-section random			4.120942	0.6276
Idiosyncratic random			3.174448	0.3724

	Weighted Statistics		
R-squared	0.817245	Mean dependent var	1.584224
Adjusted R-squared	0.802016	S.D. dependent var	7.026054
S.E. of regression	3.126273	Sum squared resid	351.8490
F-statistic	53.66177	Durbin-Watson stat	1.534471
Prob(F-statistic)	0.000000		
	Unweighted Statistics		
R-squared	0.801722	Mean dependent var	6.028750
Sum squared resid	732.0651	Durbin-Watson stat	0.554376

Econometrically, we have the model to be:

DIVP=2.793620 -0.412721ROCE + 0.439751EPS - 6.791800TAG……………………… (iii)

The model above shows that a unit positive change in ROCE will result to a negative change of 0.412721 in dividend paid. Moreso, a unit positive change in EPS will lead to a positive change in Dividend paid by 0.439751 and a unit change in TAG will result to negative of change in dividend paid.

Given the R- square of 0.817245, the regression co-efficient indicates that about 82% of the changes in the dependent variable is explained by the changes in the independent variables. The D.W statistic of 1.534471indicates the absence of serial autocorrelation since it is close to the rule of Thumb of 2.

4.1 TEST OF HYPOTHESES

The hypotheses are stated below:

$H0_1$: There is no significant relationship between dividend policy and return on capital employed.
$H0_2$: There is no significant relationship between dividend policy and earnings per share.
$H0_3$**:** There is no significant relationship between dividend policy and tangible asset growth rate.

The hypotheses above were tested by considering the f-tabulated and f-calculated values.

Decision Rule: Reject the null hypothesis if the f-calculated is higher than the f-tabulated. Moreover the p-value of 0.05 was used to test the significance of each of the independent variables.

From the table above, the calculated F-value of 53.66177 is higher than the tabulated F-value of 2.90. This implies that the explanatory variables (ROCE, Earning per share and asset growth rate) are jointly significant in explaining changes in dividend payment. Furthermore,ROCE has a p-value of 0.8260 which is greater than 5%. Therefore the null hypothesis that says there is no significant relationship between dividend policy and return on capital employed is accepted. Earnings per share have a p-value of 0.0000 which is less than 5%. To this end, the null hypothesis is rejected which implies that there is significant relationship between

dividend policy and earnings per share. The p-value of tangible asset growth rate is 0.0125. This is less 5%, and from this, the null hypothesis is rejected leading to a conclusion that there is significant relationship between dividend policy and tangible asset growth rate. This implies that if profit is invested on intangible asset, there will be little dividend available to shareholders and vice versa.

The findings from the study can then be summarized as:
There is no significant relationship between dividend policy and return on capital employed
There is significant relationship between dividend policy and earnings per share.
There is significant relationship between dividend policy and tangible asset growth rate.

5.0 SUMMARY AND CONCLUSIONS

The study tries to examine the determinants of dividend policy in Nigeria manufacturing firms with a focus onselected listed food and beverages and cement companies in Nigeria. The data for the study were obtained through secondary source from the annual reports of the 5 (five) selected companies from 2008 to 2015. The data were analysed through panel least square by the use of E-view 9.The result of the analyses revealed that there is no significant relationship between dividend policy and return on capital employed. Moreso, dividend policy and earnings per share were found to exhibit significant positive relationship and a significant relationship was found to existbetween dividend policy and tangible asset growth rate. It can therefore be concluded that earnings per share and tangible asset growth rate are the main determinants of dividend policy.

RECOMMENDATIONS

The followings are recommended, based on the findings of the study:

Companies should have efficient and effective dividend policy, and also try to enhance performance so as to improve return on capital employee.

Companies should try through the Board of Directors to ensure that, they try to reduce the case of unclaimed dividends.

Companies should have proper investment in tangible asset by investing on assets that will improve profitability as this influences the dividend.

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