

DIVIDEND PAYOUTS OF NIGERIAN FIRMS: WHAT FACTORS ARE SIGNIFICANT?

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ABSTRACT

Dividend policy, in part, affects investment decisions of potential investors. The study aims at examining the effective factors in determining the dividend payout policies of firms in Nigeria. The study used ninety-five (95) firms quoted in the Nigerian Stock Exchange. The ordinary least squares method of data analysis was used in the study and data were obtained from audited annual financial statements of the selected firms, result estimation was done using E-Views statistical package. The findings of the study show the following for Nigerian firms: a positive significant relationship exists between firm size and dividend payout; also a positive significant relationship exists between leverage and dividend payout; firm profitability is also positively and significantly associated with dividend payouts; the relationship between liquidity and dividend payouts is not significant; a non-significant positive relationship exists between institutional ownership and dividend payouts; an insignificant negative relationship exists between industry type and dividend payouts. The study recommends that: firms should seek to base their dividend policies on variables that reflect performance, risk, financial health; potential investors should always look beyond dividend figures when making investment decisions, and there should be regulations on dividend payout policies.

Keywords: dividends payouts, firm size, institutional ownership, industry type, leverage

1.0 Introduction

Considerable amount of studies has been done on the effect of dividend policies of firms. Dating from the studies of Miller and Modigalini (1961), many researchers have tried to study the relevance of dividend theory (Miller & Modigalini 1961; Dhrymes & Kurz 1967; Higgins 1992; Fama 1974; Anderson 1983; Frankfurter & Gong 1993). Black and Scholes (1974), Rosemberg and Marathe (1979), Blume (1980), Morgan (1982), Elton, Gruber and Rentzler (1983), and Ang and

Peterson (1985) studied tax and dividends using the capital asset pricing model (CAPM) modified. Similarly, Finnerty (1981), Poterbe (1986), Bailey (1988) and Barjaj and Vijn (1990) examined changes in prices during the period around ex-dividend days. Majority of these studies examined the effects of dividend policy. In their studies, dividend policy was an independent variable. In more recent times, scholars have shifted focus to the determinants of dividend policy among

corporate entities (Mehta 2012; Uwuigbe, Jafaru & Ajayi 2012; Zameer, Rasool, Iqbal & Arshad 2013; Kraus, 2006; Saeed, Riaz, Lodhi, Munir & Iqbal 2014).

Shareholders have different reasons for their investments, one of such reasons is the receipt of dividend payouts from the investee firms. Dividends come in the form of cash, right issues, and bonus issues, amongst others. Dividends represent the appropriation of the earnings of a firm. The preferred policy by the shareholders depends on the shareholders' trade-off analysis between immediate interests and the future development of the company (Zhong 2016).

Dividend policy is the framework in which dividend payout decisions are made by management (Lease, John, Kalay, Loewenstein & Sarig 1999). Common dividend policies include: stability of dividends constant dividend per share plus extra dividend, constant payout ratio, and constant dividend per share (or dividend ratio) (Pandey 2005). Each of these policies is aimed at ensuring that at the end of the year, an investor gets an amount in the form of dividend. The degree of variability of the amount paid in the form of dividends to investors may thereafter depend on certain variables such as the amount of liquidity, tax, institutional ownership, firm size, leverage, profitability amongst others. This study specifically seeks to determine the effect of firm size, leverage, performance, liquidity, institutional ownership and industry type on dividend payouts in Nigerian quoted firms.

This study aims to determine the guiding principles when determining the dividend policies of firms. The problem usually faced by managements of organizations is to determine an appropriate amount to declare and pay to investors as dividends. It is also important for investors whose objectives in shareholding include dividend receipts to be properly guided in terms of the variables to watch out

for when investing in order to be able to maximize their objective.

To achieve this objective, the remainder of the paper is organized as follows. The next section (Section II) provides a systematic review of extant literature on effective factors in dividend policy and outlines the hypotheses for testing in this study. Section III outline the methods employed in the study, Section IV presents the result estimations and discussion. Section V concludes the study and provides some recommendations.

2.1 Conceptual Framework

Dividend policy simply means a corporate policy on the payout of dividends. Lee (2005) sees dividend policy as the guiding path that determines dividend payments to shareholders. Kapoor (2009) simply sees dividend policy as the policy (which refers to a plan of action) used to decide how much to pay out to shareholders in dividends.

Firm size is variously defined both as the size of investment in a company's assets and as the investment capital of a firm. Most often, researchers on firm size measure firm size as the natural Log of total assets (Saeed et al. 2014) or simply as Log of total assets (Khan, Nadeem, Islam, Salman & Gill 2016) or number of employees (Elston, Hofler & Lee 2004), or the Log of number of shareholders (Collins, Saxena & Wansley 1996). It is expected that larger firms will have higher capacity to declare and pay higher dividends. Leverage concerns the relationship between debt capital and equity capital. The leverage ratio shows the proportions of debt and equity in financing the firm's assets (Pandey 2005). Financing through debt has fixed financial obligations which demand the payments of predetermined interest charges, thus, raising the risk of low dividend payouts (Soondur, Maunick & Sewak 2016).

Profitability may be somewhat complex to measure as it is a relative concept. Profit is

simply the left-over from revenues after all relevant expenses have been paid. Profitability measures relate the left-over to other variables so as to ensure the same basis of profit measure for the various entities concerned. Commonly used profitability measures are return on investment (ROI), return on equity (ROE), earnings per share (EPS) and return on sales. It is expected that more profitable firms will have more resources from which to pay higher dividends since dividends are paid out of earned profits (Wasike & Ambrose 2015).

Liquidity refers to the ease with which an item can be converted to cash. The payment of dividends requires cash outflow. Sometimes higher profitability may not mean higher liquidity and higher dividends would mean higher demand on cash flow. However, higher liquidity will mean higher amount of resources availability for the payment of dividends (Anil & Kapoor 2008).

Institutional ownership is the percentage of equity shares held by other institutions. This is usually seen as reducing the need for debt financing as a monitoring device. It is often argued that the existence of institutional ownership, amongst others, mitigates the agency problem of the conflicting interests of shareholders and owners (Mutenheri 2003). If institutional ownership provides monitoring, the function of dividends in providing monitoring might be reduced. Also if the cost of raising outside capital is significantly high, then stockholders might not wish to maximize dividend payouts (Elston, et al 2004).

Industry type, which is usually measures as a dummy variable, is also argued to impact dividend policies that firms operate in different industries with different complexities and competition. Industry type could be whether they are financial firms or non-financial, or whether they are manufacturing or non-manufacturing, or whether the firm has foreign affiliation or not – that is, whether

they are multi-national or not. Within an industry classification some firms may just follow the policy of the industry leaders – herding behavior (Lintner 1956; Baker & Smith 2005). In this sense, managers are influenced by the actions of executives from competitive firms when making dividend decisions (Frankfurter & Wood 2002).

2.2 Empirical Literature and Hypotheses Development

Firm Size and Dividend Policy

By theoretical expectation, firm size is argued to be positively related to firm size. It is expected that larger firms have more financial muscles to afford higher dividend payouts. Using log of the number of common shareholders as proxy for firm size, Collins, Saxena and Wansley (1996) observe that large firms are more generous with dividend payouts. Arumba (2014) also found evidence to support the positive relationship between firm size and dividend payouts. Several other studies found that dividend payments related strongly and positively to firm size (Kinfe 2011; Fama & French 1999). Omran and Ponton (2004) observe that smaller firms may be expected to grow faster through the use of retained earnings, and so there would be a negative relationship between retention ratio and firm size. Arumba (2014) studying firms listed on Nairobi Securities Exchange, conclude that though size positively influences dividend payout ratio, firm size does not play a significant role in determination of dividend payout. This insignificance of influence might have informed the non-inclusion of size by Lintner (Frankfurter & Wood 2002). Other studies that did not include size include Kraus (2006), Cyert, Kang and Kumar (1996), Badu (2013) and Naser et al. (2013). Others have actually observed a negative relationship between size and dividend payout. Saeed et al. (2014) found a negative and insignificant

relationship between size and dividend payout. Afza and Mirza (2010) also found that size was negatively related to dividend payout. This inconclusiveness in the findings on firm size may be due to differences in industrial and cultural settings. Based on this we hypothesize that:

H: Firm size has significant effect on dividend payout of Nigerian firms.

a. Leverage and Dividend Policy

Firms with significant leverage ratio usually have large outside influence which may mean that such firms may not need to use dividend payout to monitor the executives. This implies a negative relationship between leverage and dividend payout. Similarly, higher debt-equity ratio would mean higher interest payments on debts and a less propensity for dividend payouts. This ratio measures risk and gearing (Gill, Biger & Tibrewala 2010). Zameer, Rasool, Iqbal and Arshad (2013) found an insignificant relationship and no impact on dividend payout by Leverage. Al-Malkawi (2008) found that leverage decreases the probability of paying dividends. Findings by Al-Kuwari (2009), Rafique (2012) and King'wara (2015) also indicate a negative relationship. However, studies by Rehman and Takumi (2012), Awad (2015), and Mutenheri (2003) found leverage to have negative relationship with and impact on dividend policy. Some industries are naturally more leveraged than others thus leverage may have different impacts on dividend payouts across different industries and climes. There hypothesis on this is:

H₂: Leverage does not significantly affect dividend payout in Nigerian firms.

b. Performance and Dividend Policy

Theoretically, higher profitability implies higher dividend payouts as more resources would be available to firms to meet both expansionary and dividend distribution

objectives. Zhong (2016) found profitability to have positive effect on dividend policy. Several empirical studies support this finding (Soondur et al. 2016; Wasike & Ambrose 2015; Banerjee 2016; Kajola et al. 2015; Arumba 2014; Khan et al. 2016; Afza & Mirza 2010). It is noteworthy that in the face of massive empirical evidence, Saeed et al. (2014) found a negative and insignificant relationship between profitability and dividend policy. This appears to contradict theoretical expectations; others have even found a negative and statistically significant relationship between profitability and dividend payouts because companies tend to plow back more earnings when profitability increases (Thu, Trien, Anh & Nhon 2013). The inconclusiveness on the findings on the impact of profitability on dividend payouts by different studies might be as a result of the influence of other factors such as the prevalence of growth prospect in the economy that might tend to increase the propensity to use retained earnings to finance expansion. To this end the hypothesis in this regard is:

H₃: Profitability has a positive and significant influence on dividend payouts in Nigerian firms.

c. Liquidity and Dividend Policy

Dividend payouts normally involve cash flow, so it is expected that the ability of firms to payout dividends depends on the amount of liquidity at the given point in time. Extant empirical literature has shows findings that liquidity significantly and positively affects dividend payouts (Zhong 2016; Mohammed, Hui, Omar, Rahman, Mastuki, Azis & Zakaria 2006; Jensen & Johnson 1995; Anil & Kapoor 2008; Juma'h & Pacheco 2007; Badu 2013). Like profitability, findings on liquidity are also surprisingly mixed. Mehtra (2012) found that liquidity is not a most significant consideration in dividend payouts. Zameer et al. (2013) found that in the banking industry in Pakistan,

liquidity negatively correlates with dividend payouts. Using operating cash flow per share as proxy for liquidity, Rehman and Takumi (2012) also found a negative relationship between dividend payouts and liquidity. And contrary to theoretical expectation, many studies provide results that conform to this position (Aivazian, Booth & Cleary 2003; Gugler & Yurtoglu 2003; Kinf 2011). The inconclusiveness of results on liquidity leads us to hypothesize that:

H₄: Liquidity does not positively and significantly influence dividend payout in Nigerian firms.

e. Institutional Ownership and Dividend Policy

Shleifer and Vishny (1986) suggest that the presence of institutional investors should reduce payout ratios due to their role in monitoring managers' activities. They suggest a more complex relationship as this takes into account taxes as well as agency cost and monitoring value of large shareholders (Manos 2001). Apart from the monitoring issue in institutional ownership, dividend policies of affiliate of privately owned parent companies are found to be quite similar to the dividend policies of affiliate of publicly owned companies (Desai, Foley & Hines 2001). Among the variables investigated by Manneh (2014), ownership was among the four found to be the most important factors influencing dividend policy.

Shareholders expect management to make decisions that maximize their wealth, but management might make decisions that will maximize their compensation even if such decisions do not maximize owners' value. This normally leads to agency costs in the form of shareholders monitoring of management behaviour. One of the ways shareholders would want to do this is by reducing the funds available to managers and may do this by using

dividends policy. To prevent this management might involve outside monitors. Also institutional shareholders usually have a greater propensity to monitor management because of their huge investments. These mechanisms (outsider monitors and institutional investors) influence dividend policy (Manneh 2014). However the study by Afza and Mirza (2010) shows evidence of a negative relationship between ownership structure and dividend policy. Several other studies conform to this position (Khan 2006; Meyers & Frank 2004; Elston & Lee 2004; Kajola et al. 2015; Wasike & Ambrose 2015).

Based on the inconclusiveness of findings of extant literature on institutional ownership and dividend policy, we hypothesize that:

H₅: Institutional ownership does not significantly influence dividend policy in Nigerian companies.

f. Industry Type and Dividend Policy

Norms and practices differ from industry to industry. On this basis it might be expected that industry type can affect dividend policy. The influence of herding behaviour in dividend policy may be noticeable within an industry (Bikhchandani & Shama 2000; Baker & Smith 2005). However, other studies have since shown evidence contradicting the herding behaviour theory (Howe & Shen 1998; Frankfurter & Wood 2003).

Gill, Biger, Pai, and Blutani (2009) found that for firms in the service industry of United States, dividend payout in 2007 was a function of profit margin, sales growth, debt-to-equity ratio but for manufacturing companies, dividend payout was found to be a function of profit margin, tax, and market-to-book ratio. This suggests that dividend payout is industry-dependent. From the foregoing we hypothesize as follows:

H₆: Industry type has no effect on Nigerian non-financial companies

2.3 Theoretical Framework

Studies on firm attributes are frequently anchored such theories as the stakeholders theory, agency theory, resources dependent theory, M-M irrelevance theory, signaling effect theory, information asymmetry theory, Gibrat's Law and stewardship theory, amongst others.

This study is anchored on the **agency theory**. Today's business world deeply involves principal-agent relationships. The principals are expected to act in the best interest of the shareholders. In many cases, however this may not be so as managers may actual act in ways that may be detrimental to the interests of shareholders. This creates agency costs and problems. This problem can be mitigated: by paying more dividends; paying dividends will reduce the excess funds which managers may have access to for purpose which may not be in the interests of shareholders; the firm will also have the opportunity to access additional funds from the capital market which will make it possible for stakeholders to scrutinize the financials of the firm; (Kajola, Desu & Agbanike 2015; Kinfu 2010).

This study also draws on the **signaling effect theory**. This theory hinges on the belief

that dividend payment passes information to stakeholders, about the current performance of the firm and about its future prospects (Mehta 2012; Pandey & Bhat 2004). Corporate management may use dividend payouts to signal information to the markets to value their firms. Investors also consider changes in dividend payouts as signals of company's prospects (Naser, Nuseibeh & Rashed 2013).

3.0 Methods and Data

The data used in this study were obtained from the audited annual financial statements of selected firms listed in the Nigerian Stock Exchange (NSE). A sample of 95 firms was used in the study. The sample was purposively selected for the study. The E-Views statistical package was used to estimate results used in the analysis of the collected data using the ordinary least squares (OLS) method. The model adopted in this study is:

$$DIVP = B_0 + B_1FSZ + \beta_2LEV + \beta_3PRF + \beta_4CSHF + \beta_5INS + \beta_6IND + \alpha$$

Where:

$\beta_0 - \beta_6$ = Parameters

α = Error Term

And the variables are measured operationally in this study as shown in Table I.

Table I: Operationalization of Variables

Variable	Symbol	Variable Type	Expected Sign	Operationalization
Dividend Policy	DIVP	Dependent		Cash Dividend per share
Firm size	FSZ	Independent	+ve	Log ₁₀ (Total Assets)
Leverage	LEV	Independent	-ve	Debt-Assets ratio
Profitability	PRF	Independent	+ve	Earnings per share (EPS)
Liquidity	CSHF	Independent	+ve	Log ₁₀ (Net Cash flow from operating activities)
Institutional Ownership	INS	Independent	-ve	Dummy (1 if another organization owns up to 5% of shares; 0, otherwise)
Industry Type	IND	Independent	+ve	Dummy (1 if a financial institution; 0, otherwise)

4.0 Analysis of Data

Table 2: Descriptive Statistics

	DPS	EPS	SIZ	CSHF	LEV	INS	IND
Mean	190.3000	323.5276	10.41066	6.739995	0.517821	0.726316	0.105263
Median	54.00000	104.0000	10.44705	9.051435	0.508000	1.000000	0.000000
Maximum	2808.000	2995.000	12.53451	11.37221	0.992000	1.000000	1.000000
Minimum	0.000000	-29.00000	8.781803	0.000000	0.018000	0.000000	0.000000
Std. Dev.	507.0417	625.3726	0.909606	4.356931	0.217957	0.448214	0.308520
Skewness	4.455704	3.151338	0.224368	-0.829216	0.108494	-1.015213	2.572479
Kurtosis	22.53395	12.32011	2.373271	1.856887	2.422249	2.030658	7.617647
Jarque-Bera	1824.746	501.0779	2.351857	16.05936	1.507650	20.03809	189.1816
Probability	0.000000	0.000000	0.308532	0.000326	0.470563	0.000045	0.000000
Sum	18078.50	30735.12	989.0129	640.2996	49.19300	69.00000	10.00000
Sum Sq. Dev.	24166577	36762544	77.77398	1784.388	4.465488	18.88421	8.947368
Observations	95	95	95	95	95	95	95

Source: Computed from Figures Extracted from Various Annual Reports Using E-Views

Table 2 shows that with the exception of size and leverage all the variables studied are normally distributed of 5% level of significance. With that, the descriptive statistics show that a wide range of firms were studied in this sample. For instance, the study is not dominated by either small or large firms. The mean Log of total assets (a proxy for firm size) is 10.41, the minimum Log is 8.78 while the maximum Log is 12.57. The study is also not dominated by either low or high dividend paying firms. The mean dividend paid is 190.3 kobo per share with a standard deviation of 507.04 kobo per share. The study also comprises of both high and low performing companies. Mean EPS is 323.53 kobo per share and a standard deviation of 625.37 kobo per share. However, the study is dominated by non-financial sector companies indicated by mean of 0.105, a standard deviation of 0.308 and a skewness of 2.572. This is understandable as the Nigerian quoted companies are predominantly those in the non-financial sectors. The other variables also exhibit similar characteristics.

Table 3: Correlation Matrix

Correlation	DPS	EPS	SIZ	CSHF	LEV	INS	IND
DPS	1.000000						
EPS	0.841032	1.000000					
SIZ	0.200213	0.261263	1.000000				
CSHF	0.228691	0.295941	0.143553	1.000000			
LEV	0.125237	0.040812	0.362087	-0.085760	1.000000		
INS	0.160995	0.191326	0.110512	0.169758	-0.211114	1.000000	
IND	-0.080111	-0.097450	0.213625	-0.282958	0.429491	-0.404901	1.000000

Source: Computed from Figures Extracted from Various Annual Reports Using E-Views

Table 3 shows the absence of multicollinearity in the chosen model as no two explanatory variables are perfectly correlated neither are any two such variables very highly correlated. The results show that only industry type is negatively correlated with dividends per share. The results show a high positive correlation between earnings per share and dividends payouts. The degree of positive correlations among the variables is low and differs among the variables.

Table 4: Regression Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EPS	0.682875	0.048124	14.18995	0.0000
SIZ	17.49560	11.07009	-1.580439	0.0176
CSHF	1.974544	7.173234	-0.275266	0.0838
LEV	299.0552	152.2530	1.964200	0.0526
INS	22.31449	72.07077	0.309619	0.7576
IND	-69.99680	113.2741	-0.617942	0.5382
R-squared	0.720034	Mean dependent var		190.3000
Adjusted R-squared	0.704306	S.D. dependent var		507.0417
S.E. of regression	275.7180	Akaike info criterion		14.13771
Sum squared resid	6765816.	Schwarz criterion		14.29901
Log likelihood	-665.5412	Hannan-Quinn criter.		14.20289
Durbin-Watson stat	2.002844			

Source: Computed from Figures Extracted from Various Annual Reports Using E-Views

The Durbin-Watson statistic of 2.0028 indicates that the model is free from auto-correlation problems. The R-Squared and adjusted R-Squared statistics of 0.720034 and 0.704306 respectively show that the systematic variations in the dependent variable (dividend payouts) can be explained by the variations in the independent variables (firm size, liquidity, leverage, institutional ownership and industry type) up to 72%, and when adjustments have been made for the degree of freedom, the percentage falls to 70.43%. This means that from our model, the explanatory variables significantly account for variations in dividend payouts in our sample. From the firm specific characteristics studied, the following relationships can be inferred.

Firm Size (SIZ): Size is found to significantly (0.018) and positively (17.496) impact dividend payouts in our study. This conforms to apriori expectation and this to the acceptance of H_1 at a 5% level of significance. The result is consistent with the findings of Collins et al. (1996), Omran and Ponton (2004), Kiefe (2011) and Arumba (2014). This is probably so because stakeholders expect more from bigger firms, and the size of the

firms enables them to command more resources that may be used at any time.

Leverage (LEV): LEV from our study is found to positively (299.06) and significantly (0.05) correlate with dividend payouts in our study at a 5% level of significance. This is contrary to apriori expectation and leads to the rejection of H_2 . This result contradicts the findings by Al-Kuwari (2009), Rehman and Takumi (2012) and Awad (2015). The inconsistency may be due to the existence of differences in institutional maturity.

Performance (EPS): Performance is theoretically expected to be positively associated with firm's ability to pay dividends, the result of this study shows that EPS is positively (0.0682) and significantly (0.00) related to dividend payouts at a 5% level of significance for our sampled firms. This is consistent with apriori expectation and leads to the acceptance of H_3 . The result is consistent with the findings of Afza and Mirza (2010), Arumba (2014), Wasike and Ambrose (2015), Kajola et al. (2015) and Khan et al. (2016). This may be as a result of the firms wanting to communicate the good news in the

profit performance to shareholders so as to signal performance potentials.

Liquidity (CSHF): Liquidity (proxied by net cashflow from operating activities) is found to positively (1.9745) but insignificantly (0.0838) associated with dividend payouts at a significant level of 5%. This is consistent with apriori expectation and leads to the rejection of H_4 . The positive impact is consistent with the findings of Mohammed et al. (2006) and Zhong (2016). The insignificance of the impact of liquidity is consistent with the finding of Mehtra (2012). The insignificance in the positive impact may be due to the fact that firms may always want to invest the extra cash in available investment opportunities as much as possible so as to boost firm value.

Institutional Ownership (INS): The result of this study shows that INS is positively (22.314) but insignificantly (0.7576) related to dividend payouts in our sampled firms. This leads to the acceptance of H_5 , and this contradicts our apriori expectation. The result however conforms to the findings of Shleifer and Vishny (1986). The reason for this is that institutional ownership may actually be a very strong influence because of the block voting powers and size of institutional shareholding.

Industry Type (IND): Industry type was found to negatively (-69.997) and insignificantly (0.538) associated with dividend payouts. This leads to the rejection of H_6 and is contrary to our apriori expectation. The finding is consistent with the finding of Gill et al. (2009). This negative impact might be as a result of the different conditions, expectations and norms in the different industries.

5.0 Conclusion and Recommendations

From the findings of this study on the determinants of the dividend payouts of

Nigerian firms, profitability, size and leverage are significant factors, while cashflow, institutional ownership and industry type are not so significant factors in making such decisions. Based on the findings of this study, the following recommendations are made to guide investors and regulators in their activities.

- a) Investors should know that dividend payouts do not determine the performance/financial health of business entities. On the contrary, the performance/financial health of the entities determine dividend payout. Thus they should always emphasize performance and pay attention to the indices that border on financial health.
- b) Investors should always look beyond the numbers on dividend payout as low performing firms may actually pay higher dividends than those that are high performing. Thus, the investors should always look at indicators bordering on risk, performance and financial health of businesses. The long-term survival and growth of firms are more crucial than the short-term dividend receipts from firms.
- c) Firms should seek to base dividend payout policies on such variables in the firms that reflect performance, stability, riskiness and long-term survival.
- d) Governments and corporate regulators should establish basic benchmarks which must be met before corporate entities can declare dividends and the extent of such dividends. This will ensure stability in the corporate world, thus enhancing investor confidence which is vital for long-run business survival and growth.

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