International Journal of Advances in Engineering and Management (IJAEM)
Volume 4, Issue 5 May 2022, pp: 1154-1159 www.ijaem.net ISSN: 2395-5252

Dividend Policy and Financial Performance of Quoted Selected Firms in Nigeria

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Submitted: 10-05-2022 Revised: 17-05-2022 Accepted: 20-05-2022

ABSTRACT
This study examines the impact of Dividend policy on Financial Performance of selected quoted firms in Nigeria. The study has been conducted in different parts of the globe and in Nigeria with different findings which are mixed and inconclusive. The population of the study consists of ten (10) firms quoted on the Nigerian stock exchange as at 31st December 2020 out of which ten (10) firms were selected as samples for a period of ten (10) years from 2011 to 2020 based on purposeful sampling technique. The study uses multiple regression as a tool for analysis. The proxy for Dividend policy is Dividend Per Share and Earnings Per Share while the proxy for Financial Performance was Return on Equity (ROE). The study reveals that Earnings Per Share and Dividend Per Sharehave positive significant impact on financial performance of quoted selected firms in Nigeria.

Keywords: Earnings Per Share, Dividend Per Share, Firm size.

I. INTRODUCTION

A dividend is the share of profits that is distributed to shareholders in the company and the return that shareholders receive for their investment in the company. The company's management must use the profits to satisfy its various stakeholdersbut equity shareholders are given first preference as they face the highest amount of risk in the company. Dividend is derived from the Latin word "Dividendum" which means "to be distributed". When firms make profit, the profit is normally distribution to the shareholders according to their ownership proportion. This portion distributed is called Dividend. Dividend of a firm can be in form of Cash and Shares given to investors for their investment. Every firm is required to have a policy called Dividend policy to guide them on how its dividend is distributed. The dividend policy used by a company can affect the value of the enterprise. Dividend policy of a firm dictates the number of dividends paid out by the company to its shareholders and the frequency with which the dividends are paid out. When a company makes a profit, they need to make a decision on what to do with it. They can either retain the profits in the company or they can distribute the money to shareholders in the form of dividends.The directors need to take a lot of factors into consideration when making this decision, such as the growth prospects of the company and future projects. There are various dividend policies a company which are; regular dividend policy, stable dividend policy, irregular dividend policy and No dividend policy.Investment decisions, financing decisions and liquidity decisions is interrelated with dividend decision. Firms decide the proportion of earning to be distributed as dividend and proportion of earnings to be retained with the objective of wealth maximization of shareholders. The firms should find out the optimum dividend payout with risk return trade off leading to the objective of shareholders wealth maximization (Thirumagal&Vasantha 2018). Madubuko, Emeka &Cheluchi (2020) ascertained from literatures that the ability of a firm to pay dividend substantially depends on the firm's profitability for the period. They also discovered that dividend policy is one of the essential financial decisions that corporate managers encounter and a determinant of firms' profitability that facilitate the achievement of the major organizational goal which is maximization of shareholders' wealth. Optimal dividend policy requires that management allocates payout ratio

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that will guarantee the maximization of shareholders wealth through the vehicle of increased market value of the firm and its shares. Firms with high dividend payout along with high profitability are priced high on the Nigerian capital market. A firm's dividend policy can reduce agency problems between managers and shareholders which will in turn, enhance the firm's value to shareholders.Payment of dividends sends signals to shareholders that the firm is liquid and financially stable. It serves as income stream and thus maximizes shareholders' wealth. Empirical studies have been conducted on the Dividend policy and financial performance. These include studies of Madubuko, Emeka & Cheluchi (2020) Velnampy, Nimalthasan & Kalaiarasi (2014) and Odion, Idewele& Murad (2019) are largely in Nigeria and Africa. These studies have provided mixed and inconclusive findings due to the data collected, methodology used and the industry used. To the best of our knowledge, among studies conducted in Nigeria and Africa, we have not seen a study that took into consideration the selected quoted firms from Consumer goods, industrial goods and conglomerate sectors. To this end, this study attempts to fill the gap by examining the impact of Dividend policy on financial performance of quoted selected firms in Consumer goods, industrial goods and conglomerate sectors in Nigeria. The main objective of the study is to examine the impact of Dividend policy on financial performance of quoted selected firms in Nigeria. Specific objectives are: to determine the extent to which Earnings Per Share impact on financial performance of quoted selected firms in Nigeria,to determine the extent towhich Dividend Per Share impact on financial performance of quoted selected firms in Nigeria. In line with these specific objectives, two hypotheses are formulated which are: HO1 Earnings Per Share has no significant impact on financial performance of quoted selected firms in Nigeria. HO2 Dividend Per Share has no significant impact on financial performance of quoted selected firms in Nigeria.

II LITERATURE REVIEW

Various studies have attempted to examine the impact of Dividend policy on financial performance. Thirumagal&Vasantha (2018) examined the impact of dividend payout on shareholders wealth for five important industries in India viz, Automobile, Infrastructure & Construction, Energy, Information Technology and Pharmaceutical industry. They used 15 years data from 2001 to 2015. Panel data regression and Paired t test were employed. The result of the study showed that dividend payout had significant negative impact on shareholders wealth for majority of the industries. Madubuko, Emeka &Cheluchi (2020) studied the relationship between dividend policy and firm's financial characteristics with a particular focus to consumer goods manufacturing companies in Nigeria. It employed the annual time series secondary data obtained from annual report and financial statements of the selected firms for the period from2009-2018. Dividend per Share (DPS) and Dividend Payout Ratio (DPR) were proxies for Dividend policy while the proxies of financial performance were Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). Ex-post facto research design was adopted while analytical techniques employed were Pearson Product Moment Correlation (PPMC) and Pairwise Granger Causality analysis mechanism. The study showed that Dividend per Share (DPS) interacts positively with the selected firm's financial characteristics while there is a negative and insignificant relationship between Return on Assets (ROA), Return on Equity (ROE) and Dividend Payout Ratio (DPR) of the selected firms. A positive relationship was maintained between DPR and EPS for the period. The link between ROA and DPS was significant at 5% level. More so, evidence from the pairwise granger causality test revealed that there is no directional relationship between dividend policy and financial performance of consumer goods manufacturing firms in Nigeria. Velnampy, Nimalthasan&Kalaiarasi (2014), analyzed the relationship between dividend policy and firm performance of listed manufacturing companies in Sri Lanka. A set of listed manufacturing companies' data were employed for the period from 2008 – 2012.Returns on equity and return on assets were used as the determinants of firm performance whereas dividend payout and earnings per share were used as the measures of dividend policy. The statistical tests were used includes: descriptive statistics, correlation and regression analyses. They found out that determinants of dividend policy are not correlated to the firm performance measures of the organization. Regression model showed that dividend policy doesn't affect companies' ROE and ROA. Yusuf (2015) studied the impact of performance on dividend payout ratio of some selected deposit money banks in Nigeria from 2004 to 2013. Four deposit money banks were selected and data relating to relevant variables of leverage and profitability and dividend payout ratio were gathered. Correlation analysis and multiple regressions were carried out to analyses the data.

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The result of the findings revealed that dividend payout ratio is negatively related to banks' leverage and profitability. Odion, Idewele& Murad (2019) analyzed the relationship between financial performance and dividend policy for a sample of fifteen Deposit Money Banks quoted on the Nigeria Stock Exchange from 2009 to 2014. Panel data regression analysis was employed for analysis. The model was estimated using the Pooled Least Squares estimation technique. The result of the study revealed that there is a positive and significant relationship between dividend payout ratio and financial performance. There was a negative and insignificant relationship between dividend yield and financial performance. Mamaro&Tjano (2020) examined the relationship between dividend payout ratio and the financial performance of Top40 JSE Johannesburg Stock Exchange based on the market capitalization on dividend payment. They analyzed the relationship between the two variables dividend payout ratio (DPR) dependent variable and financial performance (independent variable) which is measured by net profit margins (NPM), liquidity (LIQ), leverage (LEV), growth (GRO) and firm size (SIZE). Panel data of Top40 companies on the JSE from 2010-2015 were purposively selected for analysis. The fixed effect model was applied as recommended by Hausman test. In order to eliminate the problem of collinearity, autocorrelation and heteroked asticity they also employed the generalized least squares (GLS). Their results showed negative relationship between dividend payout ratio of Top40 firms with profitability and liquidity, and a positive relationship were found on dividend payout with net profit margins (NPM), leverage (LEV), growth (GRO), and firm size (SIZE). Enrile (2018) examined the influence of dividend payout-ratio on the share prices of companies listed at Nairobi Securities Exchange. Data from audited financial reports and daily price indices for the period 2009 to 2013. 54 companies consistently listed at the NSE during the five-year period were considered. Multiple regression and correlation analysis using SPSS 20 were employed. The results of the study showed that there was a high correlation between the predictor variables and the dependent variable. They also showed that dividend pay-out ratio had a negative but insignificant relationship with share prices. Chumari (2013) examined the impact of corporate dividend payout and the financial performance variables. Descriptive research design was employed. Four financial performance variables were used namely; profitability, sales growth, cash flow and market to book value. Thirty financial statements of listed companies were analyzed. Their results showed that there was a positive relationship between dividend payout and profitability, liquidity and a negative relationship exist between dividend payout and sales growth and market to book value. Atchyuthan (2015) studied the relationship between the firm performance and dividend policy ratios among listed manufacturing firms in Sri Lanka. Annual reports from 2010-2014 were used as the source of data collection firms. Regression analysis method was employed as a statistical technique for analyzing the data collected. The result of the study revealed that dividend payout and earnings per share has a significant impact on the firm performance. Mwangi, Kaijage& Ochieng (2017) analyzed the relationship between dividend policy and firm performance of firms listed at the Nairobi securities exchange. The study applied positivism research philosophy and descriptive causal research design. A sample size of 31 firms listed at the Nairobi securities exchange selected using purposive sampling technique. Their findings revealed a statistically significant direct association between return on equity and dividend policy. Also, a statistically significant direct connection between price earnings and dividend policy was established. However, market to book value depicted a weak insignificant inverse relationship with dividend policy and was dropped. Karethio (2013) examined the relationship between dividend payout ratio and financial performance among listed firms in the Nairobi Securities Exchange. All the firms trading at the Nairobi Securities Exchange formed the population for this study. Twenty-three companies were selected three from agricultural sector, five from commercial and services sector, five from financial and investment sector, seven from industrial and allied sectors and three from alternative investment sector. These companies were selected based on availability of data. Correlation was done to establish the type of relationship between the dividend pay-out ratio and the performance of the firms at the Nairobi stock exchange. Multiple regression analysis was carried out to establish the relationship between financial performance as the dependent variable and dividend payout ratio given by dividend per share divided by earnings per share, firm size measured by natural logarithm of market capitalization, tangible assets measured by natural logarithm of tangible assets of the firm and leverage given by total debt divided by shareholders equity as the independent variables. The data was obtained from the Nairobi Securities Exchange and was analyzed using SPSS. Their findings showed that dividend

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policy was relevant. Zaman &Mulya (2018) examined the effect of cash ratio, debt to equity ratio, and return on the asset to dividend payout ratio on manufacturing companies listed on Indonesia Stock Exchange from 2010-2014. They used purposive sampling technique and the number of samples is 27 companies. Multiple linear regression, hypothesis test and t-statistic to test partial regression coefficient and f statistic to test the feasibility of research model with a level of significance 5%. Their result revealed that the variables of cash ratio and return on asset have positive and significant influence, while the variable of debt to equity ratio has a negative and significant effect to dividend payout ratio. Hasan, Ahmad, Rafiq & Rehman (2015) investigated the relationship between dividend payout ratio and profitability of a firm. Two main sectors of Pakistan are selected, energy and textile. They covered from 1996-2008. Firm performance was measured by earning per share (EPS) and return on assets (ROA). The results of logarithmic regression show that no matter what industry is, there is a negative impact of dividend payout ratio on next year earnings of a firm.

III METHODOLOGY

This research adopted correlation research design and was considered adequate and appropriate for this study because it describes the statistical relationship between independent variables of the study (Earnings Per share and Dividend Per Share) and the dependent variable (Return on Equity). The population consists of selected firms namely Cadbury Nigeria Plc, Champion Breweries Plc, Chellarams Plc, Dangote cement Plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Unilever Nigeria Plc, Transnational Corporation of Nigeria Plc, PZ Cussons Plc and Nigeria Breweries Plc quoted on the Nigerian Stock Exchange as at 31st December 2020 and covered a period of Ten (10) years (2011-2020). Purposeful sampling technique was employed to select the sample. The sample selected is: Cadbury Nigeria Plc, Champion Breweries Plc, Chellarams Plc, Dangote cement Plc, Guinness Nigeria Plc, Nestle Nigeria Plc, Unilever Nigeria Plc, Transnational Corporation of Nigeria Plc, PZ Cussons Plc and Nigeria Breweries Plc. In line with this, the sample size is all the ten (10) selected quoted firms on the Nigerian stock exchange. The study employed panel data using statistical package for social sciences (SPSS 25) and Ordinary Least Square (OLS) method adopted in this study is a parametric statistical test that is based on a number of assumptions, the violation of which could affect the reliability of the results. The Pearson correlation and t-test statistics were used for inferential analysis. Two of the most commonly encountered problems addressed in this study relate to normal distribution of the variables and descriptive statistics was used to test for normality of data.

Model Specification

The model that was used to test the hypothesis formulated for this study is presented below. The null Hypothesis is tested considering the results for the P-values at 1%, 5% and 10% level of significance.

$ROE = f(\beta_1 EPS + DPS\beta_2 + \beta_3 FSIZE)$

$ROE = \alpha + \beta_1 EPS + DPS\beta_2 + \beta_3 FSIZE + \epsilon_i$

Where

α= the intercept

ROE = Profit After tax divided by Total Equity.

EPS = Net profit divided by outstanding ordinary shares issued.

DPS = Total Dividend paid divided by outstanding ordinary shares issued.

FSIZE = Firm Size measured as Natural log of total assets.

ϵ_i= error term

Firm size is a control variable.

IV. DATA PRESENTATION

This part presents the results of the descriptive statistics and regression results on the impact of Dividend policy on financial performance of selected quoted firms in Nigeria. (2) Two explanatory variables and one (1) control variable are employed for the purpose of explaining and predicting the impact of Dividend policy on financial performance of selected quoted firms in Nigeria.

Test of Normality

The normality tests are supplementary to the graphical assessment of normality. For this study, Z skewness and Z Kurtosis are used to test for normality of the Two (2) independent variables; namelyEarnings Per Share,Dividend Per Share. The Z skewness was computed as skewness divided by standard error of skewness and the Z kurtosis was computed as kurtosis divided by standard error of kurtosis.

Table 4.2.1 shows the skewness, kurtosis and Z skewness and Z kurtosis.

Table 4.2.1 Descriptive Statistics Table for the Variables

Variables	Skewness	Standard Error	Z Skewness	Kurtosis	Standard Error	Z Kurtosis
EPS	2.938	0.241	12.190	11.963	0.478	25.027
DPS	3.059	0.241	12.693	11.216	0.478	23.464

This table shows the normality test for Earning Per Share and Dividend Per Share.

In Small samples like that of this study which the number of observations is 100, values of Z skewness and Z kurtosis greater or lesser than 1.96 are sufficient to establish normality of the data. The result of Skewness for Earnings Per Share is 2.938. The Z skewness of Earnings Per Share is 12.190 which is more than 1.96 shows that the data is normal which indicates that the data for Earnings Per Share relates linearly to the dependent variable (Return on Equity). The result of the Kurtosis forEarnings Per Share is 11.963 and the Z kurtosis of Earnings Per Share is 25.027 is more than 1.96 and therefore, is normal which indicates that the data for Earnings Per Share relates linearly to the dependent variable (Return on Equity). The result of Skewness for Dividend Per Share is 3.059. The Z skewness of Dividend Per Share is 12.693 which is more than 1.96 shows that the data is normal which indicates that the data for Dividend Per Share relates linearly to the dependent variable (Return on Equity). The result of the Kurtosis forDividend Per Share is 11.216 and the Z kurtosis of Dividend Per Share is 23.464 which is more than 1.96 and therefore, is normal which indicates that the data for Dividend Per Share relates linearly to the dependent variable (Return on Equity). Ghasemi and Zahediasl (2012).

4.2.2 Dividend Policy impact on Financial Performance

Variable	**Coefficient**	**T – value**	**P – value**
Constant	1.873	3.276	0.001
EPS	0.122	3.661	0.000
DPS	0.041	7.699	0.000
FSIZE	0.198	3.050	0.003
R	0.73		
R^2	0.53		
Adj R^2	0.51		
F stat	35.822		
F-Sig	0.000		
DW	0.950		

Source: Author's computation using SPSS 25

The estimated equation of the study is presented as follows:
ROE= 1.873 + 0.122 (EPS) + 0.041 (DPS)+ 0.198 FSIZE.

Financial Performance of firms measured by Return on Equity would be equal to 1.873 when all other variables are held to zero. A one-unit change of Earnings Per Shares all other variables remain constant, would increase Earnings Per Shares by 0.122.The regression result of the study shows that the beta coefficient in respect of Earnings Per Shares is (0.122) and the t-value is (3.661) and it is significant at 1%. This means that, Earnings Per Shares has a positive significant impact on financial performance of quoted selected firms in Nigeria. The implication of this is that, the higher the Earnings Per Shares, the better the financial performance of quoted selected firms in Nigeria. This provides an evidence of rejecting the hypothesis stating Earnings Per Share has no significant impact on financial performance of quoted selected firms in Nigeria. A one-unit change of Dividend Per Share all other variables remain constant, would increase Dividend Per Share by 0.041.The regression result of the study shows that the beta coefficient in respect of Dividend Per Share is (0.041) and the t-value is (7.699) and is significant at 1%. This means that, Dividend Per Share has a positive significant impact on financial performance of quoted selected firms in Nigeria. The implication of this is that, the higher the Dividend Per Share,the higher the financial performance of quoted selected firms in Nigeria. This provides an evidence of rejecting the hypothesis stating that Dividend Per Share has no significant impact on financial performance of quoted selected firms in Nigeria.

The Total impact of the Dividend policy is able to explain the dependent variable up to (73%). This shows a strong positive relationship as indicated by the R valueand the remaining (27%) are controlled by other factors. Similarly, the result of the F- statistic shows the overall fitness of the model. The F- statistic has a value of (35.822) and is significant at 1% which implies that the model is fit because it is significant at all levels of significant. Durbin Watson of (0.950) shows that there is no problem of autocorrelation in the data set (Gujarati, 2004).

FINDINGS OF THE STUDY

Earnings Per Share has a positive significant impact on financial performance of quoted selected firms in Nigeria.

Dividend Per Share has a positive significant impact on financial performance of quoted selected firms in Nigeria.

V. CONCLUSIONS

This study has contributed to findings on Accounting and Finance Research in Nigeria. It investigated whether Dividend Policy impact on financial performance of quoted selected firms in Nigeria. Dividend Per Share and Earnings Per Share impact on financial performance of quoted selected Consumer goods, industrial goods and conglomerate firms in Nigeria.

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