

Effects of Dividend Policy on Corporate Performance of Deposit Money Banks in Nigeria

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Abstract: Dividend policy refers to firm decision framework on payout pattern from corporate earnings. The quantum of such payment has largely conveyed acceptance/rejection information about such share in the Nigerian capital market. Firm's dividend policy has been identified as a major determinant of investors' attraction to a corporate share in the capital market. The main objective of this study is to evaluate the effects of dividend policy on corporate performance in selected Nigeria Deposit Money Banks (NDMBs). Purposive random sampling method was used to select seven out of the sixteen quoted NDMBs based on the size of their capital. Secondary data used were obtained from annual reports of sampled NDMBs and Nigerian Stock Exchange over a period of ten years (2009-2018). The variables used in this study included Retained Earnings (RE), Earning Per Share (EPS), Dividend Per Share (DPS), Return On Equity (ROE), Dividend Payout (DPO), and Market Value (MV). Collected data were analyzed using both descriptive and inferential statistics such as the mean, Standard deviation and Panel regression. Panel regression was used to assess the effects of dividend policy on corporate performance of NDMBs. The results showed that RE, EPS and DPS had positive significant effect on CP with coefficient value of 0.459; ($p < 0.000$), 0.003; ($p < 0.003$), 0.788; ($p < 0.001$) respectively with Adj. $R^2 = 0.311$. The research concluded that dividend policy has significant effect on corporate performance of NDMBs. This study recommended that, managers should improve their working capital and measure them with fair value. Also, banks should increase the level of asset capital to improve profitability. They should be consistent with dividend payout ratio of the shareholder of NDMBs.

Keywords: Dividend policy, profitability, corporate performance, DMB

I. INTRODUCTION

The subject matter of dividend policy remains one of the most contentious in corporate finance. Dividend policy has been a concern of interest in financial fiction since joint stock companies came into existence. For a long period, financial economists have engaged in modeling and investigative corporate dividend policy and earnings as they affect firm's stock prices in Nigeria (Mohammed, 2007). Ross, Westfield and Jaffe (2002) stated that dividend policy is more important for companies because it borders on the proportion of retained earnings by a firm for re-investment purpose and payout to the shareholder as dividend. Moreover, the policy influences the quality of firm's performance and the bottom line of shareholders wealth. Furthermore, firm's cost of capital is partial by the future cash flows as well as future

potential dividends payable by the firm's investment. Foong, Zakaria and Tan, (2007) asserted that dividend is an after tax distribution of a share of the firm earnings to the shareholder and this influence shareholders perception about changes in the firms performance.

This is because the payment of dividend will reduce the sum of retained earnings as a procedure of internal funding for the projects that the firm may wish to invest. As a cheap source of funding for the firm, its insufficiency may necessitate external funding which will incur high cost. This is where the conflict of interest arises since shareholders would have loved greater part of the profit to be distributed as dividend and the managers may prefer retaining most of the earning for the future use. Therefore, dividend pay-out ratio becomes critical in order to balance up the shareholders wealth and firm's growth.

Dividend policy is vital for the trendy of any business organization to display and thus it is one of the succeeding and notable instrument for evaluating the performance and existence of a company. Dividends perform a great value in comforting shareholders and it is extremely important because of its contrary effect on share values. Dividend policy remains one of the most important financial policies not only from the perspective of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Uwuigbe and Jararu, 2012). It is usually articulated as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. In corporate finance, the finance manager is generally thought to face two operational decisions: the investment (or capital budgeting) and the financing decisions. The capital budgeting decisions is concerned with what real assets the firm should attain while the financing decision is concerned with how these assets should be financed. A third decision may arise, when the firms begin to generate profits, the firm should distribute all or proportion of earned profits in the form of dividend to shareholders, or should it be reinvested back into the business? Presumably, in taking any course of action, managers should focus on how to maximize the wealth of shareholders for whom the firm is managed. Managers must not only consider the question of how much of the company's earnings are needed for investment, but also take into consideration the possible effect of their decisions on share prices (Bishop, Harvey, Crapp, Faff, and Twite, 2000).

Statement of the problem

Every corporate organization is faced with one problem or the other at various times and at different level of its development, this problem range from internal to external factors. Companies are particularly faced with problem when faced with making dividend policy decision. The satisfaction of one of the components of either dividend payment or retention of dividend policy affects corporate objectives. The most pertinent question to be answered here is that how much cash should firms give back to their shareholders? Should corporations pay their shareholders through dividends or by repurchasing their shares, which is the least costly form of pay-out from tax perspective? Firms must take these important decisions period after period (some must be repeated and some need to be revaluated each period on regular basis). It is on this premise that the present study is built. Even though, there have been a number of studies on dividend policy especially in developed countries, most of the studies examined dividend policy in general without focusing on a particular sector. Also, most of the literature on dividend policy used data from non-financial institutions, with very few on financial institutions.

On some serious occasion due to unpleasant happening within the banking sector, perhaps due to scandals, and other reasons, most banks are either merger or completely taken off (consolidated) either through merger, acquisition or taken off ownership structure tend to change with time. However, the structure of ownership of Nigeria Deposit Money Banks (NDMBs) has greatly affected the performance of most of them thus constituting serious problems for the continued existence and operations. Prior to the year 2004, series of consolidation exercise took place in Nigeria within the banking sector. However, Central Bank of Nigeria (CBN) Governor, Charles Soludo announced through the banker's committee, the review upward of the minimum capital base of banks to #25billion. The change in the capital structure vis-à-vis asset base affected the operational capacity of most of the banks (Sahara Reporters, 2009). So many of them merged together to meet with the CBN capital base of #25billion bench-mark set for them there by affecting their size. Besides, the pattern of corporate dividend policies not only varies over time but also across countries, especially between developed, developing and emerging Capital markets. But this study intends to find out the relationship between dividend policy and corporate performance in form of Profitability in NDMBs, this is the gap the research work intend to fulfill.

The Objectives of the study

Objective is to evaluate the effect of dividend payout on corporate performance of selected deposit money banks in Nigerian.

Hypotheses of the study

The following hypotheses are formulated and tested in null forms:

H₀: There is no significant effect of asset growth on corporate performance of Nigeria deposit money banks in Nigeria.

H₁: There is significant effect of asset growth on corporate performance of Nigeria deposit money banks in Nigeria.

II. LITERATURE REVIEW

Pandey (2003), points out the importance of dividend policy as that which determines the amount of earnings to be distributed to shareholders and that which is to be retained. Watson and Head (2004), sees dividend policy has been primarily concerned with the decision regarding dividend payout and retention. It is a decision that considers the amount of profits to be retained by the company and that to be distributed to shareholders of the company. Chandra (1984) sees dividend policy as that which determines what proportion of earning to be paid to shareholders by way of dividends and what proportion to be ploughed back in the firm for reinvestment purposes.

Olowe (2008) explains that it is a decision made by a firm in each trading period whether to retain all its earnings or distribute part or all of them to shareholders. This to him depends on the level of optimism of having acceptable investment opportunity in the future. Uwuigbe, (2013) sees dividend policy of a firm as determining the division of its earnings between payments to shareholders and what it retains for its future operations. This entails striking a balance between future growth and payment of current dividends to firm's shareholders. Lintner (1956) defines dividend policy as all corporate decision that borders on whether to pay dividend or reinvest firm's earnings in profitable projects. It can be inferred from all above definitions that there are two components of corporate dividend policy which are mutually exclusive. That is, dividend payout and retention of earnings. Dividend policy as one of the three major decision areas is a contentious issue in finance that has received more attention these days from both academics and practitioners (Li et al., 2006).

Dividend Pay-out and Profitability

Firm performance can be measured by the earnings generated by the company in terms of profitability. There is substantial literature on the relationship between dividend policy and profitability. Dividends are important to shareholders and potential investors in showing the earnings that a company is generating. Healthy dividends pay-outs thus indicate that companies are generating real earnings rather than cooking books (DeAngelo et al., 2006). A study by Zhou and Ruland (2006) revealed that high dividend pay-out firms tend to experience strong future earnings but relatively low past earnings growth despite market observers having a contradicting view. The findings of another study done by Arnott and Asness (2003) also revealed that future earnings growth is associated with high rather than low dividend pay-out. They concluded that historical evidence strongly suggests

that expected future earnings growth is fastest when current pay-out ratios are high and slowest when pay-out ratios are low. Their evidence contradicted the view that substantial reinvestment of retained earnings would fuel faster future earnings growth. Their study was done to investigate whether dividend policy of the U.S. equity market portfolio, forecasts future earnings growth. The study comprised companies in the S&P 500 which tend to be large and well established firms in advanced economies Zhou and Ruland, (2006). Empirical studies need to be done in developing capital markets or for newly listed companies which tend to be, less profitable and more growth oriented. Arnott and Asness, (2003), suggested that the positive relationship between current dividend pay-out and future earnings growth is based on the free cash flow theory.

Low dividend resulting in low growth may be as a result of suboptimal investment and less than ideal projects by managers with excess free cash flows at their disposal. This is prominent for firms with limited growth opportunities or a tendency towards over-investment. Paying substantial dividends which in turn would require managers to raise funds from issuance of shares, may subject management to more scrutiny, reduce conflicts of interest and thus curtail suboptimal investment (Arnott and Asness, 2003). This is based on the assumption that suboptimal investments lays the foundation for poor earnings growth in the future whereas discipline and a minimization of conflicts will enhance growth of future earnings through carefully chosen projects. Therefore, paying dividends to reduce the free cash flows enhances the performance of a company since managers will have less cash flow thus avoiding suboptimal investments.

Concept of Corporate Performance

Corporate performance management is the area of business intelligence involved with monitoring and managing an organizations' performance. Corporate performance is measuring the results of an organizational policies and operations in monetary terms. These results are revealed in the organization's return on assets, return on equity, and profit after tax, earnings per share, dividend per share, net assets per share, value added, etc. Getting on top of financial measures of a firm, performance is an important part of running a growing business, especially in the present economic condition. Many business fails because of poor financial management or planning stemming from firm's management and financial managers. Corporate performance through profitability is one of the most important areas of focused by shareholders as well as debt holders if the firm is using debt for operation.

Nigeria Deposit Money Banks

Banks as financial institution has the major role of greasing the gears assisting the economic operations of a nation. The major role in banking system is to move funds from the saving units to the spending units.

If a financial system is efficient, there will be improvements in their profitability, increasing in the availability of funds flowing from saver to borrowers, and provision of better and quality services for the consumers. Banks as the financial intermediaries play an important role in the operation of an economy. Moreover, stability of Banks is of great importance being the sole dealer of funds to the financial system. In the literature of banks, the determinants of profitability are empirically well explored although the proxy of profitability differs among studies. Some employed, Return on Asset, Return on Equity, Net Interest Margin, Return on Average Asset and so on. The Nigerian banking sector is mainly regulated by two bodies. The first is Central Bank of Nigeria, (CBN) which has the larger regulatory power, and then, the Nigerian Deposit Insurance Company (NDIC), and external auditors (EA). These bodies, were used by the government to standardize and supervise the Banking sector.

III. METHODOLOGY

In this research, descriptive design was used to analyse the objectives of this study and to quantify the component of the variables and analyse the research hypotheses. This research work used time series data generated from secondary sources through the annual financial statements of the selected deposit money banks. In an attempt to establish the effect of dividend policies on corporate performance in Nigeria, data were also sourced from the seven (7) sampled Nigeria deposit money banks which covered a period of ten (10) years (2009 to 2018)

Panel data design was chosen because of the nature of the data used for this study which is basically extracts from the audited annual report and accounts of the selected banks observed and collated over a defined time frame. Stata version 11 was used in estimating the regression results.

Model Specification

Models for this study were adapted, with little modifications, from findings in prior studies on the effect of dividend policy on corporate performance of NDMBs, most particularly that of Uwuigbe, Jafaru and Ajayi (2012). These studies emphasized all the major dimensions that described relationship between the recognized variables.

General Model:

$$ROE_{it}DPO_{it} = f(DPS_{it} + EPS_{it} + DD_{it} + RE_{it}) \dots \dots (3.2)$$

$$DPO_{it} = \beta_0 + \beta_1 ROE_{it} + \beta_2 ROA_{it} + \beta_3 DPS_{it} + e_{it} \dots (3.3)$$

Where;

DPO = Dividend Payout ratio

ROE = Return on Equity for firm.

ROA = Return on Asset for firm

DPS = Dividend per share

EPS = Earnings per Share

DD = Declared Divided

DY = Dividend Yield

RE = Retained earnings

MPS = Market Price per Share

MV = Market Value

e = Stochastic or disturbance term.

t = Time dimension of the Variables

β0 = Constant or Intercept.

β_{1,3}= Coefficients to be estimated or the Coefficients of slope parameters.

The expected signs of the coefficients (a priori expectations) are such that **β₁ - β₃ > 0**.

Model 2: (Objective i)

$$ROE_{it} = \beta_0 + \beta_1 RE_{it} + \beta_2 EPS_{it} + \beta_3 DPS_{it} \dots(3.2)$$

Where,

RE = Retained Earnings

EPS = EPS = Earnings per Share

DPS= Dividend Per Share

ROE = Return on Equity

MV= Market Value

IV. RESULTS AND DISCUSSIONS

Descriptive analysis

The total numbers of observations were N-70; this indicated that these variables were very important for this research work. The total numbers of observations were N-70, among the variables; earnings per share, market value, dividend per share and retained earning post highest mean. Findings from our descriptive statistics as presented from Table 4.1 shows the descriptive statistics including means and standard deviations of all the variables. The mean value of earning per share is the highest i.e. 70.16586. Followed by the mean value of dividend per share of 64.18571. The lowest mean value is the mean of dividend declared which is 1.320110 and standard deviation shows the variation in the data. The highest standard deviation value is 107.1104 showed high variations in the dividend per share of Nigerian deposit money banks.

Table 4.1: Descriptive statistics

Variab les	Obs.	Mean	Std. Dev.	Min	Max
Fs	70	2011.5	2.89302	1.010109	9.730109
Re	70	3.700107	3.200107	-8.310107	9.240107
Ag	70	.1210521	.9923849	-7.516685	1.0000
Roe	70	.3878141	.2169617	.0427181	.99414
Ci	70	2.580108	1.640108	1.020108	9.970108
Eps	70	70.16586	107.1104	.2400000	467
Dd	70	1.320110	1.510110	1.	5.840110

Mv	70	1132.257	1813.774	100	14212
Dps	70	64.18571	47.03415	5	189
Dy	70	.2632857	.9724938	0	7.57
Dpo	70	2419776	.3990056	1	1.981007

Source: Data analysis (2018)

Analyses of the effect of dividend payout on corporate performance of NDMBs

This model was used in assumption that all the variables were predicted to have the same characteristics, that is, heterogeneity and individuality was considered. In reality, the estimated variables cannot replace each other. The results (F (4, 65) = 3.15, P = 0.0197. R = 0.4625, Adj. R² = 0.3110) revealed the degree of freedom and level of significant. Earnings per share (p = 0.003) dividend payout (p = 0.001) and retained earnings (p = 0.000) are positive significant while, return on equity (p = 0.242) show insignificant. Adj. R² = 0.3110 and p= 0.0197 estimated the variability of 31% change in dependent variable on independent variables and significant. The result shows that the payments of dividends to the shareholders have positive effect on the corporate performance of NDMBs. It further estimated that if there is increase in market value there will be improvement in dividend payout of NDMBs at 95% of confidence interval. Based on the result of the hypothesis tested, the null hypothesis is rejected while the alternate hypothesis accepted. Thus, dividend payout has significant effect on corporate performance of Nigerian Deposit Money Banks. This is in line with the works of DeAngelo, et al (2003).

Table 4.2: OLS Pooled regression on AG and DPO

Variables	Coef.	Std. Err.	T	p> t	Adj. R ²	P-value
re	-.4593383	.0755497	-6.08	0.000*	0.3110	0.0197
eps	.0034657	.0011046	3.14	0.003*		
dpo	.7883621	.0861889	9.15	0.001 *		
roe	.6252473	.529158	1.18	0.242		
_cons	-2.95587	6431229	-4.60	0.000		

Dependent variable: mv. *<0.05 @ level of significant

Source: data analysis, 2018

Fixed Effects Model (FEM)

The fixed effects model accepts the heterogeneity or individuality, allowing having its own intercept value, fixed effects intercept may differ across the variables, but the intercept does not vary over time, that is, it is time invariant. The fixed effects results shows that R²= 0.53, p = 0.025 which indicated that dividend pay-out has 53% effect on the economic improvement of Nigerian Deposit Money Banks but show significant. This results, (coeff; re = -.309697, t= -4.47, p= 0.003, roe = 0.401011, t= 0.05, p= 0.959, eps; .3352193, t= 2.94, p =0.004, dps: -.0341737, t= -2.76, p = 0.007, mv = 0.000513, t = 0.64, p= 0.526) shows that retain

earnings, earning per share, and dividend per share have significant effect on corporate performance. While, return on equity and market value shows insignificant effects in quantify dividend payout on corporate performance at 95% confidence intervals.

Table 4.3 Fixed Effects Analyses

variables	coef.	std. err.	T	p> t	Adj.R ²	p-value
re	-.309697	.069351	-4.47	0.003	0.531	0.025
roe	.0401011	.7723394	0.05	0.959		
eps	.3352193	.1141546	2.94	0.004		
dps	-.0341737	.0123785	-2.76	0.007		
mv	.0000513	.0000805	0.64	0.526		
_cons	-2.95587	6431229	-4.60	0.000		

Dependent variable is constant. *<0.05

Source: data analysis, 2018

Random-Effects Model

This model determines if the corporate performance have a common value of intercept on the variables. Random-effects regression is appropriate as null hypothesis. The Random-effects model results (Coef; re = -3.780109, t = -0.98 p = 0.327, roe = .322114, t= 0.59, p= 0.556, eps = -.0017594, t = -1.21, p = 0.225, dps = -.0063953, t= -1.78, p= 0.075, mv = .000045, t= 0.68, p = 0.499) shows that dividend pay-out has significant influence on corporate performance. Wald chi² (2) test result (16.20, p = 0.006) indicated that the overall model is statistically significant. The more the Wald chi² (2) the more the model is considered significant. Here, Wald chi² (2) test = 16.20 showing that the model is significant with R²= 0.0632 indicating 63.2% change in dependent variable is because of change in independent variables at 95% confidence intervals.

Table 4.4: Random-effects analyses

Variables	Coef.	Std. Err.	Z	P> z	Wald chi ² (2)	P-value
Re	-3.780109	3.85109	-0.98	0.327	16.20	0.006
Roe	.322114	.5477561	0.59	0.556		
Eps	-.0017594	.0014495	-1.21	0.225		
Dps	-.0063953	.0035957	-1.78	0.075		
Mv	.000045	.0000666	0.68	0.499		
_cons	.618667	.3819023	.3819023	1.62		

Dependent variable is constant @ *<0.05 level of significant

Source: data analysis, 2018

Hausman Test

Housman test was run to make a decision between Fixed Effects Model (FEM) and Random Effects Model (REM), The decision of choice between these models was based on outcome of the results. If the p-value of the Housman test is

less than 0.05, we have a preference to use a fixed effects model. On other hand, if the p-value of the Housman test is more than 0.05, we select to use random effects. However, chi²(2) = (p<0.000) by implication is less than 0.05 that fixed effects tested positive and should be considered.

Table 4.5: Hausman Test Analysis

Variables	coef.		diff.	chi ² (2)
H/Model	(b) Fe	(B) Ra	(b-B)	0.00
Re	-3.7809	-3.7809	0.00	
Roe	.322114	.322114	0.00	
Eps	-.0017594	-.0017594	0.00	
Dps	-.0063953	-.0063953	0.00	
Mv	.000045	.000045	0.00	

0.05 level of significant

b = consistent under Ho and Ha; B = inconsistent under Ha, efficient under Ho;

Test: Ho: difference in coefficients not systematic

V. SUMMARY OF FINDINGS AND RECOMMENDATIONS

This study examined the evaluation of the effect of dividend policy on corporate performance of Nigeria deposit money banks. The study employed pooled regression using STATA 11

The results emanating from this study reveal that dividend policy, earnings and payout ratio of Nigerian Deposit Money Banks have positive and significant impact on corporate performance of Nigerian Deposit Money Banks. The research concluded that dividend policy has significant effect on corporate performance of NDMBs.

In the real world, however a change in the dividend policy is often followed by a change in the corporate performance of NDMBs. The economic argument for investor’s preference for dividend income was offered by Graham and Dodd (1934); Walter (1963) and Gordon (1959 and 1962).

Hence, this paper recommends strict adherence to interest of shareholders in choosing dividend policies that will maximize shareholders’ value by management. Also, Nigerian Deposit Money Banks should follow a dividend payout policy that will constantly involve paying dividends annually.

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