What Accounts for Dividend Payment in Nigerian Banks

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Abstract

Investors expect return on investment which is in the form of capital gains and or dividend. Dividend policy in the Nigerian Banking Industry differs as each bank decides on what, how and when to pay dividend to its shareholders. Whatever dividend policy model that is adopted, there are factors that determine the payment of such dividend. The objective of the study is to ascertain what accounts for dividend payout in the Nigerian banking industry taking profit after tax, shareholders fund and liquidity as determinants of dividend payout. The study covers a period of ten years from 2001 to 2010. Data was obtained from the financial Statements of five sampled banks quoted on the Nigerian Stock exchange as at December 2010. Using multiple regressions, the study finds that Profit after tax (PAT), Shareholder funds (SHF) and Liquidity (LIQ) all accounts for dividend payout in Nigerian banks, but liquidity is the foremost of them all. Hence, the study recommends a robust liquidity position that will guarantee investors' confidence and keep shareholder funds stable as profit from daily business takings will culminate into good dividend payout.

Key words: Determinants, Dividend payout, Profit after tax, Shareholders Fund, Liquidity

Introduction

Investors expect return on investment which is in the form of capital gains and or dividend. A dividend is the money that a company pays out to its shareholders from the profits it has made, either in the form of cash or by issuing of additional shares as in script dividend. Dividend can also be said to be distributable earnings of a company. The earnings, which are not distributed, constitute retained earnings.

It is the board of directors of a company that decide whether or not to declare dividend. The decision on dividend payout and retained earnings constitute the dividend policy. It is a decision that considers the amount of profits to be retained by the company and that to be distributed to the shareholders of the company. In theory, there are different types of dividend policy model. The **Constant or fixed policy model** is where a company pays out a fixed amount of its profit after tax as dividend. Thus, the company maintains a fixed payout ratio of dividend. The **Progressive policy model** is where payment of dividend is on a steady increase usually in line with inflation. This could result in increasing dividend in money terms. Every effort is made to sustain the increase even though marginal.

The **Residual Dividend Policy model** is where dividend is just what is left after the company determines the retained profits required for the future investment. This policy gives preference to its positive Net Present Value (NPV) projects and paying out dividends if there are still left over funds available. And where some firms decide not to pay dividend, the policy is termed the **Zero dividend policy**. This is especially common in newly formed companies that rather require capital to execute its projects. All the profit is thus retained for expansion of the business.

Companies pay divided for a number of reasons. Dividend payout determines the value of a company's shares. So, in an efficient capital market, a variation in the payout ratio is generally followed by changes in the price of shares. Dividend can also be used to control the action of managers. Managers, once they have satisfied the entire obligation contracted by the company with fund generated by operations, they can use the remaining cash flows for their own benefit (Jensen, 1986) in Jose and Stevens (2001). Dividend policy can be used as a way of reducing free cash flow but this is conditioned by the existence of alternatives for the control of managers' behavior.

Companies with big investment opportunities have fewer resources for dividends since cash flows which remain free are necessary for the financing of future investment projects. Dividend payout can help to reduce the agency costs associated with the separation of ownership and control which occurs in companies. When the ownership of the company is highly diversified, individual investors have few incentives to control the actions of managers and if they do, the result is high costs for the company. The dividend policy forces the managers to go increasingly to the capital market, submitting their behavior to the evaluation made by the market (Jensen, 1986) in Jose et. al. (2001).

Whatever dividend policy model is adopted by a company, there are the factors that account for the payment of dividend. What/how much to pay, how to pay (method of payment) and when to pay dividend are all determined by several considerations. The objective of this study therefore is to determine the factors that account for dividend payment among Nigerian banks. Specifically, the study examines whether the volume of profits made, the ability to pay which is measured by the amount of cash held by the company and the amount of money shareholders have invested into the company are the functions of dividend payment.

2.3 Review of Empirical Studies on Divided Payout

The earliest major attempt to explain dividend behavior of companies has been credited to Lintner (1956) who conducted his study on American Companies in the middle of 1950s. Since then there has been an ongoing debate on dividend policy in the developed markets resulting in mixed, controversial and inconclusive results. Bhattacharyya et al (2004) performed tobit analyses of managerial compensation and dividend payout in US firms over the period 1992-2001, and found that executive compensation is positively associated with earnings retention and negatively related to dividend payout.

Jose (2001) with data from between 1991- 1998 of 484 European banks belonging to 22 countries found a positive relationship between earnings and dividends such that an increase in profit enables higher payments. In market oriented countries, financial entities will try to increase their market presence through their dividend policy in order to have a good company reputation. He also found that companies with a higher level of debt pay out lower dividends. In this case, the good reputation the company seeks is with its creditors to ensure the attainment of debt in the future. He didn't find a significant dependence between growth opportunities and dividends, contrary to research that a company with future investment projects retains a greater proportion of their funds which then makes them to put the brakes on dividend payments. Lastly, he found a negative influence of size with respect to the dividend decision.

Ayub (2003) investigated the long-term return behaviour of dividend-changing firms and concluded that about 23 percent additional profit is only transformed into dividend while the remaining profit of about 77% are utilized for additional investment. The higher retention shows that firms adopt a self-financing way for growth and expansion. He also finds that a large number of shares held by the board lead to high dividends or low retention, which leads to low reserve funds. He concluded that if ownership in a company is largely concentrated in the hands of directors, then chances are that dividend would be higher, because the dividend will go into the pockets of directors. However, dividend payment will be low if a large amount is paid as dividend to outsiders. In this case, directors will compensate themselves through the executive compensatory benefits.

The issue of divided did not receive any serious attention among academic scholars in Nigeria until when Uzoaga and Alozienwa (1974) attempted to highlight the pattern of dividend policy pursued by Nigerian firms particularly since and during the period of indigenization and participation programme. Their study covered 52 companies - years of dividend action (13 companies for four years). They claimed that they "checked but found very little evidence" to support the classical influence that determine dividend policies in Nigeria during this period. They concluded that fear and resentment seem to have taken over from the classical forces.

However, Soyode (1975) and Inanga (1978) commented on the work of Uzoaga and Alozienwa (1974). Inanga concluded that the problem arising from the change in dividend policy can be attributed to the share pricing policy of the Capital Issue Commission (CIC) which seemed to have ignored the classical factors that should govern the pricing of equity shares issues. This in turn made companies to abandon "all the classical forces that determine dividend policy". Soyode criticised Uzoaga and Alozienwa's work on the ground that it glossed over some important determinants of optimal dividend policy and questioned certain conclusions made in the study because they are inadequate or a mistaken evaluation.

Adelegan (2001) in a more recent study of the impact of growth prospect, leverage and firm size on dividend behaviour of corporate firms in Nigeria between 1984 and 1997; observed that the conventional Lintner's model does not perform quite creditably in explaining the dividend behaviour of corporate firms for the period under review, supports that factors that mainly influenced the dividend policy of quoted firms are after tax earnings, economic policy changes (due to the partial liberation of the indigenization decree in 1989 and the subsequent simultaneous abolition of the indigenization decree of 1995), firm growth potentials and long term debts. A study carried out by Mainoma (2001) revealed a significant relationship between the dividend policy and the value of firms in Nigeria.

Musa (2005), criticizes both Lintner's and Rozeff's model with their modifications on the basis of the fact that the models are predicated on the assumption of constant response coefficient implying that investors react identically to the explanatory power of all firms.

3. Methodology

The population of this study comprises of all the twenty two (22) banks in the first-tier securities market on the Nigerian Stock Exchange as at 31st December, 2010. In order to arrive at a suitable sample for the study, we introduced three filters such as banks with regular annual report and account for the study period, banks with positive earnings throughout the period of the study and banks with dividend payout history throughout the period of the study. Strictly applying these filters left only five banks as the new population of the study which we also adopted as sample for the study. They are Zenith Bank Plc, First Bank Nigeria Plc., Guarantee Trust Bank Plc, United bank for Africa Plc and Diamond bank of Nigeria Plc.

The Study makes use of secondary data collected from the Nigerian Stock Exchange (NSE) Fact Books from 2001 to 2010 and the audited Financial Statement of the sampled banks for all the years covered by the study.

The data analysis technique employed is the regression analysis. Dividend payout is regressed on Profit after tax, shareholders fund and liquidity. The data obtained is fitted to the equation by ordinary least-square (OLS) regression method. The linear relationship between the dependent and the independent variables was determined. Multiple regressions were used for the regression analysis and inferences were drawn based on the regression analysis.

The model is given as $DPO_p = f(PAT_p, SHF_p, LIQ_p)$ (1)

Where; DPO_t = Dividend Payout

$\quad\quad PAT_t$ = Profit After Tax

$\quad\quad SHF_t$ = Shareholders Fund

$\quad\quad LIQ_t$ = Liquidity (represented by cash and bank balances with central

$\quad\quad$ bank)

From equation (1) above, the following equation in linear form was generated:

$\quad\quad DPO_p = \Omega_o + \Omega_1 PAT_p + \Omega_2 SHF_p + \Omega_3 LIQ_p + e_t$ (2)

$\quad\quad$ Where:

$\quad\quad \Omega_o$ = Intercept

$\quad\quad \Omega_1, \Omega_2, \Omega_3$ = Slope coefficients

$\quad\quad e_t$ = error term

4.0. Data Analysis and Discussion

This section presents and discusses data analysis in relation to dividend payout, profit after tax, shareholders fund and liquidity are presented.

Table 4.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DIVIDENDPAYOUT	10	707.20	10633.40	2.8807E3	1383.468
PROFIT AFTERTAX	10	2389.00	28994.00	9.0794E3	7730.780
SHAREHOLDERS FUND	10	10305.80	211661.80	5.1352E4	54203.726
LIQUIDITY	10	29480.40	335619.30	6.1036E4	26562.018
Valid N (listwise)	10				

Source: SPSS 17.0 Output File

Table 4.1 presents the descriptive statistics of dividend payout, profit after tax, shareholders fund and liquidity. The table shows that the dividend payout of the sampled banks during the study period ranges from N707.2 million to N10.63 billion. The profit after tax lies between N2.31 billion and N28.99 billion. The result also indicates that on average Nigerian banks pay out N2.88 billion as dividend, while the profit after tax have a mean of N9.07 billion. The shareholders fund lies between N10.30 billion and N211.66 billion. The result also indicates that shareholders fund have a mean of N51.3 billion. This seems to suggest that there have been a significant increase in shareholders fund during the study period. The liquidity lies between N29.48 billion and N335.61 billion. The result also indicates that liquidity has a mean of N61.03 billion.

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std error of the Estimate	Durbin-Watson
1	0.824[a]	0.679	0.550	928.079	1.320

    a. Predictors: (Constant), Profit after tax, Shareholders fund, Liquidity
    b. Dependent Variable: Dividend Payout.

Source: SPSS 17.0 Output File

Table 4.2 presents the model summary of the regression. The result indicates that the value of the coefficient of correlation (R) is 0.824. This shows a strong positive correlation. The coefficient of determination (R^2) stood at 0.679. This indicates that only 67.9% of the total variation of dividend payout is accounted for by profit after tax, shareholders fund and liquidity while the remaining 32.1% is accounted for by other variables. The adjusted R^2 of 0.550 compliments the high explanatory power of the R^2.

The standard error of the estimate is 928.079. This is low compared to the standard deviation of the mean of the dependent variable 1383.468 (Table 4.1). The model is therefore adequate and preferred. The Durbin-Watson (DW) statistics is 1.320. The DW test indicate absence of serial correlation since as a rule of thumb, the DW statistics should be more than 0.50.

Table 4.3 Regression Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig t	Collinearity Statistics	
	B	Std Error	Beta			Tolerance	VIF
(Constant)	2067.764	540.230		3.828	0.012		
PAT	-0.003	0.075	-0.015	-0.037	0.972	0.369	2.709
SHF	-0.002	0.011	-0.068	-0.161	0.878	0.362	2.763
LIQ	0.011	0.021	0.220	0.536	0.615	0.362	2.766

    a. Dependent Variable: Dividend Payout
      Source: SPSS 17.0 Output File

Table 4.3 is Regression coefficients. The regression equation is given thus:

$$DPO_p = \Omega_o + \Omega_1 PAT_p + \Omega_2 SHF_p + \Omega_3 LIQ_p$$
$$DPO_t = 2067.764 - 0.003 PAT_p - 0.002\ SHF_p + 0.011 LIQ_p$$

        (540.230) (0.075)   (0.011)   (0.021)

In table 4.3, the unstandardized coefficients show the coefficients (B) and the standard error. The intercept shows a positive relationship with dividend payout. The coefficient for profit after tax shows a negative relationship (-0.003) with dividend payout. This doesn't conform to the a priori expectation. The standard error of the constant is 540.23 and it is less than 1033.88, which is half the numerical value of the parameter estimate of 2067.764. This implies that the estimate for the constant is statistically significant. The standard error of profit after tax is 0.075 and it is greater than -0.0015, which is half the numerical value of the parameter estimate of -0.003. This shows that the estimate for profit after tax is statistically insignificant. The coefficient for shareholders fund shows a negative relationship (-0.002) with dividend payout. This doesn't conform to the a priori expectation. The standard error of shareholders fund is 0.011 and it is greater than -0.001, which is half the numerical value of the parameter estimate of -0.002.

This shows that the estimate for shareholders fund is statistically insignificant. The coefficient for liquidity shows a positive relationship (0.011) with dividend payout. This conforms to the a priori expectation. The standard error of liquidity is 0.021 and it is greater than 0.006, which is half the numerical value of the parameter estimate of -0.01. This shows that the estimate for liquidity is statistically insignificant. The standard coefficients indicate that the values of the variable have been converted to scale for ease.

The beta value gives the contribution or relevance of each of the independent variables. The highest beta figure is 0.220 which indicates that the liquidity variable has a strong correlation with dividend payout rather than profit after tax, which has a less beta value of -0.015. The statistics for the constant is 3.828; the significance is 0.012. This is less than 5% significance level (1.2% < 5%) and greater than 95% confidence interval (98.8% > 95%). It means that the constant is significant. The t statistics for the coefficient of profit after tax is -0.037 and the significance is 0.972. This is greater than 10% significance level (97.2% > 5%) and less than 95% confidence interval (2.83% < 95%). This indicates that PAT is not significant.

The statistics for the coefficient of shareholders fund is -0.161 and the significance is 0.878. This is greater than 5% significance level (87.8% > 5%) and less than 95% confidence interval (12.2% < 95%). This indicates that shareholders fund is not significant. The statistics for the coefficient of liquidity is 0.536 and the significance is 0.615. This is greater than 5% significance level (61.5% > 5%) and less than 95% confidence interval (38.5% < 95%). This indicates that liquidity is not significant. The tolerance is the percentage of the variance in a given predictor that cannot be explained by the other predictors. Thus, the small tolerances show that about 30 percent of the variance in a given predictor can be explained by the other predictor. When the tolerances are close to 0, there is high multi-collinearity and the standard error of the regression coefficients will be inflated. A variance inflation factor greater than 2 is usually considered problematic, and the highest VIF in table 4.3 is 2.709.

Table 4.4   Analysis of Variance (ANOVA[b])

Model	Sum of Squares	Df	Mean Square	F	Sig.
1. Regression Residual Total	9091242.321 4306655.514 1.340E7	2 5 7	4545621.161 861331.103	5.277	0.034[a]

   a.   Predictors: (Constant), Profit after tax, Shareholders fund, Liquidity.
   b.   Dependent Variable: Dividend Payout
   Source: SPSS 17.0 Output File

Table 4.4 presents the analysis of variance of the model under study, and it is used to test the overall significance of the regression. Testing the overall significance of the regression implies testing the null hypothesis against the alternative hypothesis. If the null hypothesis is true that all the parameters are zero, there is no linear relationship between the dependent and independent variables. The overall significance of the regression is tested using F Statistic. In this study the F value is 5.277 with a significance of 0.034 (Table 4.4), which is less than 5% (3.4% < 5%). This means that the variation explained by the model is not due to chance. Thus the regression is significant. It is therefore, concluded that a linear relationship exist between the endogenous and the exogenous variables of the model. Based on the research findings, the null hypotheses of the study which states that profit after tax, shareholders fund and liquidity do not account for payment of dividend by Nigerian banks is herby rejected.

5. *Conclusion and Recommendation*

From the analysis in section four above, the study finds that Profit after tax (PAT), Shareholder funds (SHF) and Liquidity (LIQ) are all determinants of dividend payout in Nigerian banks, but liquidity is the foremost of them all. This shows that liquidity is used by banks that have investment projects to generate after tax profit. Hence, liquidity is a function of the profitability of the bank. Accordingly, the study recommends a robust liquidity position that will guarantee investors' confidence and keep shareholder funds stable as profit from daily business takings will culminate into good dividend payout.

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