Quest Journals
Journal of Research in Business and Management
Volume 10 ~ Issue 4 (2022) pp: 29-34
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

The Trend of Dividend Payments of Non-financial Quoted Companies in Nigeria

OLAYINKA, SEGUN WALE
Department of Accountancy, The Polytechnic, Ibadan.

ADEKOLA, OMOTAYO AJIBIKE
Department of Accountancy, The Polytechnic, Ibadan.

Abstract
This study examined the trend of dividend payment of non-financial quoted companies in Nigeria from 2012 to 2019. Data used was secondary in nature and it was gathered from the audited annual reports of fifty non-financial quoted companies in Nigeria. Data collected were analysed using percentages and graphs. The results showed that the trend of dividend payout ratio was characterized with zigzag behaviour as the pattern showed that dividend payout ratio stood at 0.556 in 2012, while it increased to 0.8106 in 2013. There was a declined in 2014, 2015 and a sudden jump in decline to -4.3682 in 2016. DPR witnessed increase in 2017 to 2019 except in 2018 when it suffered another decline. Based on this finding, the study concluded that dividend payment among non-financial quoted companies in Nigeria is gradually fading away. As a result of this, it is therefore recommended that companies in Nigeria should review their dividend policy from time to time to give room for maximization of shareholders' wealth.

Keywords: *Dividend Payout, Investors, Quoted Companies*

***R**eceived 04 Apr, 2022; **R**evised 16 Apr, 2022; **A**ccepted 18 Apr, 2022 © The author(s) 2022.*
P**ublished with open access at **www.questjournals.org

I. Introduction

The trend of dividend payments of companies over the years has become a great concern because investors are expected to get return on their investment so as to serve as rewards for the risk taken by them for committing their financial resources to the business operations of the concerned entities. Due to this, many researchers have pointed their searchlight to the epileptic pattern of dividend payout and a number of ideas have been suggested to nib in bud the menace ravaging dividend payment behaviour of firms. In Nigeria, the major concern of investors is the commitment on the part of the Nigerian companies towards payment of dividend. No wonder, these investors have accused the quoted companies of not doing enough in the payment of dividend and the heart of anyone will melt seeing one's money tying down in a company where return is not forthcoming.

Based on the data released by the Nigeria Stock Exchange (NSE) in 2017 and cited by Olusola (2018), it was revealed that more than eighty four out of one hundred and seventy one firms listed on the Nigeria Stock Exchange have not paid dividend to their investors in the past five years while some of the remaining firms have not paid dividend to their shareholders in the past ten years. These set of firms who decline to give return to their shareholders in the form of dividends payment are spread across different sectors of the country. In the Construction/Real Estate sub-sector, AG Leventis, SCOA, Arbico, ROADS, UAC Properties, Skye Shelter, Union Homes and UPDC Real Estate paid dividends last in 2016, 2015, 1996, 2014, 2013, 2014, 2015, 2013, 2014 and 2014 respectively. In the same vein, FTN Cocoa listed and John Holts Plc in the agricultural and Conglomerate sub-sectors paid dividend last in 2010 and 2005 respectively while First Aluminium, DN Meyer Plc, Portland Paints and Africa and Premier Paints Plc under the Chemical and Paints Sub-sector declared dividend last in 2006, 2008, 2011 and 2001 respectively.

Also, Proshare News (2013) which was referred to in the study of Abdulkabir, Abdullah and Wong (2016) showed that there have been inconsistency in the payment of dividends to the extent that significant number of firms listed on the Nigeria Stock Exchange have consistently failed to give returns to their shareholders inform of dividend payment during the last half decade. In a similar work, Sawitri and Sulistyowati (2018) coupled with the study of Ogundajo, Enyi, Akintoye and Dada (2019) revealed that even companies that do pay dividends are inconsistent and erratic in such payment. Therefore, this dwindling trend in dividend payments called for critical analysis.

II. Literature Review

Theoretical Review

There have been persistent issues on dividend policies of companies in extant literatures. This has led to several theories being developed by various researchers to address this recurrent trend. These theories include: Liquidity preference theory, Residual theory

As stated by Chen (2019), liquidity preference theory was introduced by a famous economist called John Maynard Keynes in his book "The General Theory of Employment, Interest and Money". This theory argues that everyone who commits his financial resources to projects with a very high risk will definitely expect commensurate rewards in return since every investor desires cash or cash equivalents, all things being equal. Under the liquidity preference theory, it is claimed that more liquid investments have high probability to be converted to cash with ease and at full value compared with their counterparts with less liquidity. The theory claims that investors with little risk investments due to the shortness of the time frame will get a lower return since the period in which they have parted with their cash is not as long when put side by side with the medium and long-term investors. That is, the investors who have to wait for a longer period will definitely expect a higher premium.

In the words of Keynes, this theory can be further explained through the common motives for the demand of cash. In the first instance, an individual may desire to hold liquid so as to meet his recurrent expenditures. Similarly, shareholders are normally attracted to liquidity for their short-term demands to be met. The higher the cost of living of the investors, the higher will be their willingness to get cash for their daily financial commitments. This is known as transactionary motive. Also, another motive that determines demand for liquidity is precautionary motive. This occurs when the desire for liquid is to meet contingencies such as unexpected events that will involve cash. The last but not the least motive is the speculative motive. This has to do with holding cash for future purposes. Investors will at all time take caution on when to put their money and when to hold on. In a situation when the investors perceived that a low return will be earned on an investment, they hold on to their cash and wait for the future when more return can be fetched on their investments.

The residual theory of dividend policy is used by a company to determine the dividend it ought to pay to its shareholders. This theory is embraced by those companies which make use of their retained earnings to finance viable investments. The new investments which are viable and are ready to be financed by the companies will be determined first and funds will be allocated to such investments, then the remaining earnings will be distributed to the shareholders as dividends. Meanwhile, this may lead to inconsistency in the dividend payout to the shareholders and make it difficult to be predicted. Although, the aim of the company is to maximise the shareholders' wealth through the generation of more profits from the investment it funds.

According to Smith (2011), the theory of residual dividend policy suggests that managers with the mind of maximising value of the organisation will only invest during availability of viable projects. After these viable investment opportunities have been embraced, the earnings left-over will then be paid as dividends to the investors of the entities. In a situation where there is a limiting factor which is financial and investments with positive net present value are in existence, the firm will decide to pay no dividend so as to take the opportunity of the present investments. Although in the above scenario, the theory suggests none payment of any dividend but the firm involved if it met some certain conditions still disburse special dividend.

From the assertion of agency theory by Jensen and Meckling (1976) as cited in Smith (2011), a strong justification was made for the residual dividend policy. It was observed that if the earnings left-over in an organisation after taking care of all viable investment opportunities are not distributed to the investors in form of cash dividends, the management may be tempted to use such available financial resources in variety of ways which may neither be beneficial to the shareholders nor add values to their wealth maximisation objective. This may lead to sub-optimality as the financial resources may be used for things which will tend to the achievement of the objective of the subsystem at the detriment of the overall objective of the entire system. Committing funds to investments with negative NPV and taking excessive perquisites are some of the sub-optimal uses. Sequel to the recommendation of Jensen, all residual cash flows of any organisation is expected to be paid out so as to wither away major sources of unnecessary spending.

This theory is an outgrowth of the M & M theory that claims that dividend is irrelevant to the investors. Those that support this school of thought are of the opinion that there is no preference between current dividend and capital gains on the part of the shareholders. As a result of this, it is concluded that dividend policy has no influence on the stock's market value. In the same vein, the residual theory of dividend policy is passive in nature and as a theory it does not believe that dividend policy has any impact on the market price of shares of any firm. It is assumed that regardless of the dividend paid by a firm, the same wealth is created for the investors. This means that a firm may pay out dividends to generate income for the investors and even if the firm instead of paying dividends divert the money to finance viable projects, the wealth of the investors will still be maximise in the nearest future. As a result of this, there will be fluctuation in the amount of dividend paid annually due to the divergent of investment opportunities and the levels of earning of the firm under consideration.

Empirical Review

In analysing the trend of dividend payments, there seems to be relatively growing literatures.

Subba (2003) studied the dividend payment pattern of listed firms on National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) during the periods of 1990 to 2001 with the aid of trade-off theory and signalling theory. The findings of the study revealed that companies paying dividend have decrease to 32.1% in 2001 as compared with 60.5% in 1990. According to the study, there was an upward trend in dividend payment up till 1995 before deterioration set in to the extent that firms who have never paid dividend constituted more than 50% during the periods under consideration. Tiriongo (2004) analysed the trend of dividend payment of forty-nine companies quoted on the Nairobi Stock Exchange (NSE) for the duration of ten years from 1993 to 2002. The trend analysis exposed the declining state of the dividend payout ratios of all firms jointly. However if observed based on individual sector, the trend of dividend payment ratio in Agricultural, commercial and industrial sectors is constant. Meanwhile, the financial sector is characterised with a sharp dwindling trend in dividend payment ratio which may be traced to the awkward performance and financial distress of most commercial banks in Kenya towards the year 2002.

Morgan (2011) in the study “The 2011 Guide to Dividend policy Trend and Best Practices” stated that dividend payout ratios of companies vary across sectors. It was revealed through the study that firms with little capital base are known to be reluctant in dividend payment while firms with average level capital base only have a 14% dividend payout ratio while other firms with large capital base have a dividend payout ratio of 23%. Fatemi and Bildik (2012) on a global perspective observed the pattern of dividend payments in thirty three countries with seventeen thousand, one hundred and six companies under consideration. The study covered the periods 1985 to 2006 with the discovery of a sharp fall in dividend payout from 87% to 53%.

Rulu (2015) observed the dividend paying pattern of one thousand two hundred and seventy five non-financial firms listed on Chinese Stock Exchange covering the periods 2003-2011 after the split-share structure reform in the country. It was found that the new policy brought a sharp drop in the average cash dividend payout by the companies especially those companies with higher growth rates and higher liquidity. In a similar work carried out by Atia (2016), the dividend paying firms in the United Kingdom revealed an upward trend from 427 firms in 1991 to 669 firms in 1995. Nevertheless, a dwindling situation was experienced during 1996 to 2001 when the number of the dividend paying firms fell to 365 while another sharp drop occurred during the global financial crisis between 2008 and 2009. The climax of this decline in the number of dividend paying firms started in the year 2003 and by 2014, the firms paying dividend have been drastically reduced to 225. The above situations corroborated with the amount also paid as dividend by these companies under the periods considered in the study.

Also, Abdulkadir, Abdullah and Wong (2016) provided new evidence on the existence of sharp drop in the dividend payment by companies in Nigeria. A sample of one hundred and twenty six companies were examined for ten years (2003-2012) and discovered a decline in the number of dividend payers and a downward trend in the cash dividend paid during the years. Cristea and Cristea (2017) where the dividend policy trends of companies in Romanian during 2007 to 2016 were considered, it was discovered that there is an upward trend among the companies sampled in the periods of world economic meltdown compared with other years. However, the non-financial firms quoted on Romanian stock market in general are characterised with dividend payment behaviour that is crisscross.

Olayiwola (2019) as part of his study on dividend policy, firms’ investment behaviour and value of selected quoted companies in Nigeria examined the trend and pattern of corporate dividend payout of selected quoted companies for the periods 2001 to 2016. The study made use of statistical tools such as graphs, percentages coupled with content analysis to reveal the behavioural pattern of dividend payments during the concerned periods. It was discovered that the dividend payout of quoted companies in Nigeria was increasing at a decreasing rate with the trend of dividend depicting 7.9% increase in year 2001 and stood at -5% in year 2016.

Haque (2019) investigated the behaviour of dividend payments among corporate entities in Bangladesh for the periods of fourteen years. Several measures of dividend growth were adopted in the study that took in to consideration 92 non-financial quoted companies. The findings revealed that companies who adopted the policy of paying cash dividend are able to maximise their share values.

Poudel (2020) in his study on empirical analysis on the determinants of dividend amounts paid by the Euro Stoxx 50 Companies discovered an upward trend in the dividend payments during the periods of the study. The study made use of data gathered from EuroStoxx 50 companies from 2010-2019. The companies selected in the study were based on their size and availability of relevant data which were analysed through panel data econometrics. It was finally concluded in the study that the duo of dividend payment per share and total assets experienced increment at the same time.

Methodology and Data

This study considered fifty non-financial quoted companies out of the population of 109 non-financial quoted companies in Nigeria through purposive sampling technique. Selection was also based on the availability of required financial information in their annual reports for the sample periods and consistent trading on the floor of Nigerian stock exchange market. This study made use of secondary data which were obtained from audited annual reports and accounts of the non-financial quoted companies in Nigeria. Descriptive statistical technique in the form of content analysis was used to examine the trend of the dividend payments covering the periods of 2012 to 2019. To ascertain the rate of changes (increase or decrease) over time, the trend analysis of some variables of interest was carried out using the following linear trend equation model:

$$\boldsymbol{Y_{it}}=\boldsymbol{\alpha}+\boldsymbol{\beta tv_{it}}+\boldsymbol{\varepsilon_{it}}$$

Where **Y** = Vector of the variables of interest; α is the intercept term or constant; β is the slope or co-efficient of the trend variables and tv is the trend variables.

III. Results and Discussion of Findings

Figure 1 reports the graph of dividend payout ratio among the sample firms. In 2012, the average dividend payout ratio stood at 0.556, while it increased to 0.8106 in 2013. However, the dividend payout ratio decline to 0.6468 in 2014.

The year 2015 further experienced decline in dividend payout ratio with decline from 0.6486 in 2014 to 0.4954 in 2015. There was a sudden jump in decline of dividend payout ratio of the firms in 2016. The year recorded -4.3682 decline in dividend payout ratio. In this year, the country experienced severe macroeconomic instability with decline economic growth that can be traced to fall in oil price which constitutes the source of government earnings in Nigeria. Governments at different levels were faced with fiscal problem. Workers were being owed, nation's debts become sky-rocketing and banks were experiencing serious debt crisis. This economic crisis has great implication on the operations of the companies and their profitability strengths. Many companies have to work round their policies to accommodate the systematic risk posed by the harsh economy.

Also, the content analysis of the annual reports of some of the companies through high level of retained earnings revealed that the concentration of the management was on how to sustain their going concern and spread their tentacles rather than distributing the larger portion of their returns to the shareholders. Those companies who declared dividend, only declared little portion of their returns why larger proportion was employed to boost the operations of the companies.

Moreover, despite the bad state of the economy in 2016, the year 2017 witnessed rise in dividend payout ratio of the sample firms. In average, the DPR of the firms rose from -4.368 in 2016 to 0.36225 in 2017, while it fell to 0.3131 from the previous position of 0.3625 in 2018. The firms seem to have achieved robust performance in 2019 by reporting an average of 0.7623.

In aggregate, the trend of dividend payout ratio reports a downward trend of -0.0806 during the sample periods. It is therefore ascertained in this study that payment of dividend by non-financial quoted companies in Nigeria is steadily going down the drain. As discovered in the study, this could be attributed to the chronic economic melt-down being experienced in the country which invariably affected the performance of the firms and impaired their dividend payment capability. This persistent decline in dividend payment is consistent with the works of Abdulkadir, Abdullah & Wong (2016); Olayiwola (2019) and Sawitri & Sulistyowati (2018).

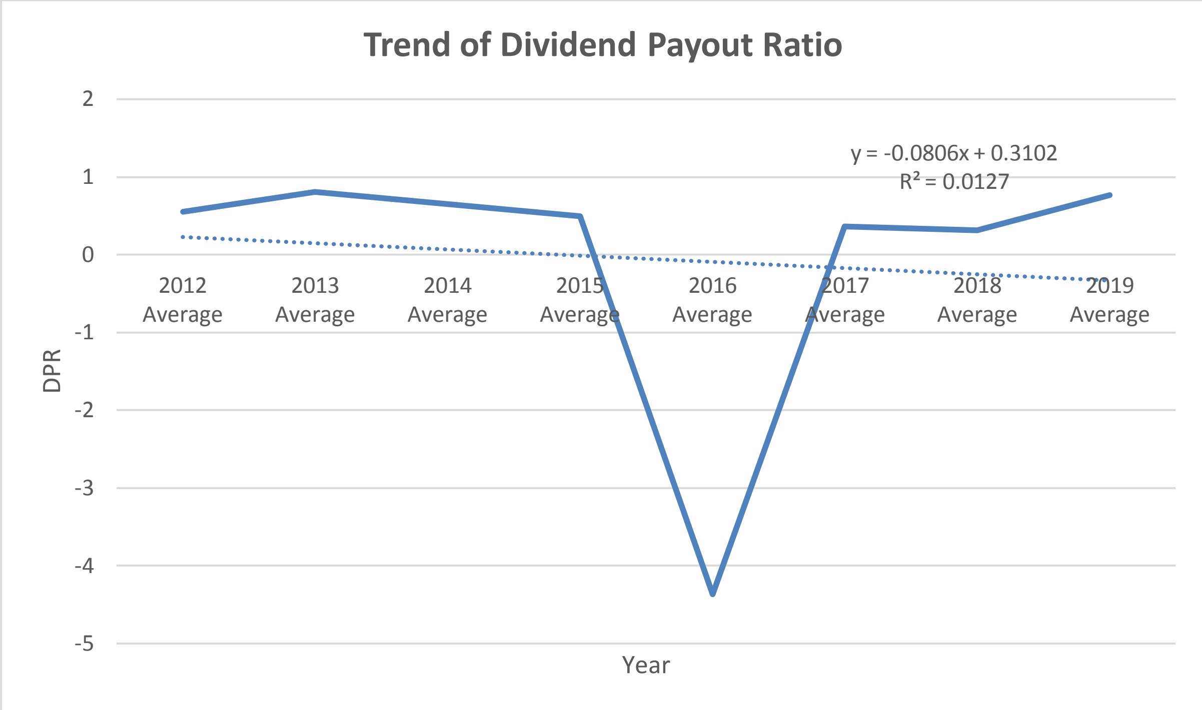

Figure 4.1: Trend of Dividend Payout Ratio

Source: Author's Computation, 2022.

Table 4.4: Dividend Payout Ratio and Turnover ratio

	Dividend Payout Ratio (DPR)
2012 Average	0.556406
2013 Average	0.810612
2014 Average	0.648693
2015 Average	0.49546
2016 Average	-4.36821
2017 Average	0.362547
2018 Average	0.313156
2019 Average	0.762333
Grand Average	-0.06894

Source: Author's Computation, 2022.

IV. Conclusion and Recommendations

This research work investigated and dealt with the devastating trend of dividend payout in Nigeria. Several empirical literatures were perused to have a better view of the study focus. To verify the results of previous researchers such as Abdulkadir, Abdullah and Wong (2016); Fatemi and Bildik (2012), and Sawitri and Sulistyowati (2018) on the zigzag behavioural pattern and declining state of dividend payments among quoted companies, the assessment of the dividend payments of non-financial quoted companies in Nigeria from 2012 to 2019 was carried out. Drawing from the trend of dividend payout among non-financial quoted companies in Nigeria, the result of this study agrees to the claim of deteriorating state of dividend payments of corporate entities in Nigeria. Although, this could be traced to the economic meltdown witnessed in the country during the sampled periods which affected their performance and indirectly impaired their dividend payment ability. This is due to the fact that corporate entities operate as open systems which influence the society and are also influenced by the society.

Sequel to the findings of this study, it is therefore recommended that companies in Nigeria should review their dividend policy from time to time to give room for maximization of shareholders' wealth.

References

[1]. Abdulkadir, R. I., Abdullah, N. A. & Wong, W. C. (2016). Dividend payment behaviour and its determinants: The Nigerian evidence. African Development Review, 28(1), 53–63.

[2]. Atia, O. (2016). Cash Dividend Policy and Firm Risk: UK Evidence. Research Paper for Degree of Doctor of Philosophy Submitted to School of Business, University of Salford, UK. https://usir.salford.ac.uk

[3]. Chen, J. (2019). Dividend Policy Definition. Retrieved from www.investopedia.org

[4]. Cristea, C. & Cristea, M. (2017). Determinants of Corporate Dividend Policy: Evidence from Romanian Listed Companies. Annual Session of Scientific Papers, 1-4

[5]. Fatemi, A. & Bildik, R. (2012). Yes: Dividends are Disappearing Worldwide Evidence. J Bank Finance, 36, 662-677.

[6]. Haque, M. (2019). Trends of Dividend Payment Practices of Listed Corporate Firms in The Dhaka Stock Exchange. ResearchGate. Retrieved from www.researchgate.net

[7]. Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. Journal of Financial Economics, 3, 305−360

[8]. Morgan, J. P. (2011). Dividends: The 2011 guide to dividend policy trends and best practices. Corporate Finance Advisory.

[9]. Ogundajo, G. O., Enyi, P. E., Akintoye, I. R. & Dada, S. O. (2019). Accounting information and dividend payout prediction in Nigerian listed manufacturing firms. Journal of Accounting and Taxation, 11(1), 9-16,

[10]. Olayiwola, J. A. (2019). Dividend Payout Policy, Firms' Investment Behaviour and Value of Selected Quoted Companies in Nigeria (2001-2016). PhD Thesis of Obafemi Awolowo University, Ile-ife Osun State.

[11]. Olusola, B. (April, 3rd 2018). 84 Companies Fail to Pay Dividend in 5 Years. Leadership Newspaper. Retrieved from https://leadership.ng/2018/04/03

[12]. Poudel, R. (2020). An Empirical Analysis on the Determinants of Dividend Amounts Paid by the Euro Stoxx 50 Companies. Bachelor's Thesis, Otto-von-Guericke-University Magdeburg, Faculty of Economics and Management, Chair of Banking and Finance. www.researchgate.net/publication

[13]. Proshare News. (2013, April 5). Dividend Payments in the Nigerian Capital Market. Retrieved from http://proshareng.com/news/16841

[14]. Rulu, P. (2015). Essays on Corporate Dividend Policy: Chinese Evidence. A thesis submitted for the degree of Doctor of Philosophy at The University of Queensland, Australia.

[15]. Sawitri, A. N. & Sulistyowati, C. (2018, August). Stock Liquidity and Dividend Policy. The 2018 International Conference of Organizational Innovation, KnE Social Sciences, (pp. 1192–1202).

[16]. Smith, D. M. (2011). Residual Dividend Policy. State University of New York, Business Administration 309, Albany, NY 12222; (518) 442-4245. https://www.researchgate.net/publication/230536117

[17]. Subba, R. Y. (2003). Dividend Policy of Indian Corporate Firms: An Analysis of Trends and Determinants. National Stock Exchange (NSE) Research Initiative Paper No. 19

[18]. Tiriongo, T. K. (2004). Dividend Policy Practices in Companies Listed at The Nairobi Stock Exchange (NSE). A Research Project Submitted to the University of Nairobi. erepository.uonbi.ac.ke>Tiriongo