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EFFECT OF DIVIDEND PAYMENT PATTERN ON CORPORATE PERFORMANCE: EVIDENCE FROM FIRST BANK NIGERIA PLC

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ABSTRACT

A high dividend payment is more important to investors looking forward to secure current income to maximize their earnings, while management may probably want to retain profit. Thus, organizations are faced with the problem of the type of dividend policy that would increase investment, shareholders wealth as well as profitability and growth of the company. The study examines the effect of dividend payment pattern on profitability and growth of the firm, the effect of poor or bad dividend payment on the value of shares to corporate firms and the effect of poor or bad dividend payment pattern on the shareholders of corporate firm. Primary data were used for the study; which were generated through questionnaire. Convenience sampling was used to select staff of first bank plc, Ilorin branches. Ordinary least square regression analysis method was used to analyze the data gathered. The result of the analysis shows that p-value is 0.037 and is less than the significant level at 0.05. Based on the results of the analysis, it is concluded that cash dividend payment pattern improve the growth, profitability and expectation of the shareholders and build confidence in the firm. Therefore, it is recommended that companies should endeavor to include leverage into it capital structure, so as to increase shareholders wealth.

Keywords: Determinant, Dividend, Payment, Shareholders, Corporate organization.

INTRODUCTION

The success or failure of any institutions has its origins largely on its policy environments Olowe (1997). The importance of deriving the optimal policy or pattern dividend payment challenges of quoted banks in the new century. One the primary purpose of any business is to create profit for its owners and the dividend payment pattern is the most important way the business fulfills its mission. Dividend policy is one of the most important financial policies not only from the viewpoint of the company, but also from that of other stakeholders. For a company, it is a pivotal policy around which other financial policies rotate. Values of the corporate securities of a firm depends to a great extent on dividend and, therefore, in deciding upon the financial structure of a company.

Once a company makes profit, the board of directors must decide what to do with the profits. The company could decide to retain the profit or pay owners of the firm in form of dividend. Dividend policy is extremely important because of its announcement effect on stable values. A stable dividend policy is expected to lead to higher share prices because of the greater confidence of investors about future prospect of the company.

The objective of a dividend policy should be to satisfy the shareholders return so that the value of his investment is maximized. Return consists of two components; dividends and capital gains. Dividend policy has a direct influence on these two components of return. Despite the fact that, the higher the dividend paid, the lower the retention, the two serves the same purpose of maximizing the shareholders' wealth. While retained earnings are used to finance expansion, dividend payment increases the purchasing power of the shareholders.

Government, through some guidelines restricts the amount of dividends payable to shareholder by restricting after taxation. However from 1988, dividend payment has been deregulated. Some companies are required to transfer a given percentage of their profit before! After tax to statutory reserves e.g. Insurance Companies and Banks. Regardless of other considerations, a company will be unable to pay a dividend if cash is not available to do so. It may however, sometimes borrow e.g. by bank overdraft, for this purpose. Investors sometimes expect dividends to increase at least in line with the level of inflation. Also in a world of increasing inflation current flow is better than future when the purchasing power of flow will be low. If a high level of dividends is paid a company might be forced to issue new share capital to raise finance. This can have the effect on the control, if significant factor dividend payouts are liable to be relatively low.

Most companies as quoted on the Nigeria stock exchange have significant foreign equity participation. The parent companies usually prefer high dividends payout but if the exchange rate of the naira is not favorable to the repatriation of dividend, they may prefer capital gains as these shareholders usually affect the company dividend policy. Once a company decides to pay dividend there should be an established method or pattern of distributing such a dividend. Hence, there is need for an empirical investigation of the determinant of dividend pattern of corporate form in Nigeria.

Statement of the Problem

Most corporate organization do not have appropriate procedure pattern of dividend disbursement, due to their inability to determine the ratio, lack of pattern has result into low dividend payable to shareholders. When a company is faced with capital rationing situation, so that insufficient fund to undertake all the available capital expenditure projects and the payment of a dividend, by reducing earnings will inevitably increase the shortage of funds. As a result of this they do not know whether to declare dividend or not.

The study therefore, adds to the existing body of knowledge by empirically chalking out the important determinants which affect the dividend payout policy decisions in first bank.

Research Objectives and Hypotheses

The broad objective of the study is to investigate the determinants of dividend payment pattern in corporate organizations. However, the specific objectives are as follow:

- i. To examine how dividend payment pattern has affect the profitability and growth of corporate firms in Nigeria.
- ii. To examine the effects of poor or bad dividend payment policy on the values of share of corporate firms.
- iii. To examine the effect of poor or bad dividend payment pattern on shareholder of corporate firm in Nigeria.

The following hypotheses were formulated and tested:

H₀₁: Whether dividend payment pattern has no impact on a firm growth and profitability.

Hypothesis Two

H₀₂: Cash dividend has no significance different on meeting the expectation of the shareholders.

LITERATURE REVIEW

Dividend: Concept and Forms

The major decision of the firm is its dividend policy, the percentage of earning it pays in cash to its shareholders, and dividend payments of cause reduce the amount of internal financing (Pandey, 2005). Consequently, it must be in relation to the overall financing decision. On the other hand, dividend must be considered desirable from the shareholders point of view, as they tend to increase their current returns. A dividend however constitutes the use of the firms funds, the dividend payout ratio obviously depend on the way earnings are measured for ease of expulsion.

In practice, however, net earnings may not conform to CBN standard and may be an appropriate measure of ability of the firm to pay dividends. Certain writer argues that cash flow, the sum of earning and depreciation, is a better measure of the capacity of a firm to pay dividends. It has become part of the core of the stock market that investors favor a company, if its dividends are basically stable over time. A gentle upward movement is to be desired but violet fluctuations in either direction are not desirable. Thus, stable dividend policy is usually considered as a

desirable policy by the management of most companies, shareholders generally favor this policy and value stable dividend policy to fluctuating ones. (Pandey, 2005).

All other things being equal, stable dividends have a position impact on the market price because of the market imperfections and uncertainly shareholders give a higher value to the near dividends than the future dividends and capital gains. Thus the payment of dividend has a strong influence on their market price of the share. Higher dividends increase the values. In order to maximize wealth under uncertainty, the firm must declare sufficient dividend to meet the expectation of investors"

On logical grounds there is reason to believe that a stable dividend policy leads to higher stock prices. Investors can be expected to value more highly dividends they are sure of receiving since fluctuating ones are riskier than stable ones, although investors can always sell portions of their stock for income. When the dividend is not sufficient to meet their current needs many investors have an aversion to dipping into principal and the transaction and inconvenient costs. (Frank, 2002) stability may be important from the standpoint of permitting certain institutional investors to buy stock, government bodies preparing lists of securities in which pension funds, savings, banks insurances companies and other may invest. In order to qualify, a company must have a un interrupted pattern of dividends"

The various advantages on the stability of dividend from the standpoints of both shareholders and firm include:

- i. Requirement of legal listing; one of the criteria for placing stock on the legal list is that dividend payment are maintained. Thus legal listing encourages a pursuance of a stable dividend policy.
- ii. Resolution of investors uncertainty; stable dividend imply that if when the earning of a company fall it continues the same amount of dividend as in the past. Thus the passing onto investors that the company has a bright future than suggested by the drop of earnings.
- iii. Investors desire for current income, there are many investors such as old and retired persons who desire to receive regular and periodic income. They invest their savings in their shares with a view to use dividends as a source of income to meet their living expenses. Dividends are like wages and salaries for them, these investors will prefer a company with stable dividend to the one with fluctuating dividends.
- iv. Institutional investors and requirement: financial educational and social investors and unit trust also invest funds in shares of the companies, which have a record of paying regular dividend.
- v. A stable dividend policy is also an advantage to the company in its efforts raise external finances, stable regular, dividend policy tends to quality investments rather than as speculation.
- vi. Investors purchasing these shares intend to hold them for a long time, their loyalty and goodwill of shareholder towards a company increase with stable dividend policy. They would be more receptive to an offer by the company for further issues of shares. However, according to Olowe, 1997 there are dangers of stable dividends. The greatest danger in adopting a stable dividends policy is that; once it is established, it cannot be changed without seriously affecting investors' attitude and the financial standing of the company.

If a company with a pattern of stable dividend misses divided payment in a year, this break will have a severe effect on the investors than the failure to pay dividends by a company with unstable dividend policy.

The companies with stable dividend policy create a "clientele, which depends on dividends income to meet their living and operating expenses. A cut in dividend is considered as a cut in salary (Pandey, 2005).

Apart from stable dividend policy, other alternative dividend policy(s) are:

Constant payment ratio: when dividend policy fluctuate also. These policies for obvious reasons are not likely to maximize the value of a firm's stock. This policy is related to company incur losses: no dividends shall be paid regardless of the desires of shareholders internal financing with retained earnings is automatic when this policy is followed.

Low regular dividend extra: This is a kind of compromise between stable dividend policy and constant payout ratio. It gives the firm flexibility, but leaves investors in an uncertain state of what their dividend income will be. If firms' earnings are quite volatile, however this policy will be its best choice Watson and Brigham (1980)

Forms of Dividend payment

According to Pandey (2005), there are two forms of dividends, these include cash dividends and stock dividends

Cash dividends: A cash dividend is a dividend paid in cash, to be able to pay cash dividends, companies need to have not only sufficient earning but also sufficient cash. Even if a company shows a large amount of retained earnings on its balance sheet, it may not be enough to ensure cash dividend. The amount of cash that a company has is independent of retained earning cash-poor companies still can be profitable. Most companies pay dividends annually or semiannually.

Stock dividend: Some companies choose to conserve their cash by paying stock dividend; the companies then recapitalize their earning and issue new shares, which do not affect its assets and liabilities. A stock split is an appropriate increase in the number of outstanding shares that does not affect the issuing company's assets, liabilities or earnings. A stock split resembles a stock dividend in that an increase occurs in the number of shares issued on appropriate basis, whereas the assets, liabilities, equity and earning remain the same. The only difference between a stock split and a stock dividend is technical. A company can split its stock because the price is too high and with a lower price the company's stock becomes more marketable. (Lekan and Sunday, 2005) occasionally, companies announce reverse splits, which reduce the number of shares and increase the share price. A reverse split is a proportionate reduction in the number of share outstanding without affecting the company's assets or earnings. When a company's stock has fallen in price, a reverse split raises the price of the stock to a respectable level.

Implication of Stock Split and Stock Dividend

Stock dividend and stock split in theory are purely cosmetic. They receive receiving additional stock certificate but their proportionate ownership of the company does not change. Although in economics they are very similar, but are usually used for different purpose. Stock dividend simply is the payment of additional stock to stockholders. It represents nothing more than a recapitalization of the company to a stockholder, its proportional ownership remains unchanged (Linter, 2002) for clarification.

Factors Influencing Dividend Policy

According to most analysts, a number of factors determine the extent to which a firm will pay out dividend instead of retained earning .In view of (Oye, 2008). Some of the factors that influence dividend policy include:-

- i. Legal rules
- ii. Liquidity position
- iii. Restriction in debt contract
- iv. Rate of asset expansion
- v. Profit rate
- i. **Legal rules:** Provided that the dividend policy of the firm has to evolve within the legal framework and restrictions. The directors are not legally compelled to declared dividends. Dividends are to be paid either from the current years earning or past earning as reflected in the balance sheet account "retained earnings" state laws emphasizes three rules.
 - a. The net profit rule.
 - b. The capital impairment rule
 - c. The insolvency rule
- a. The net profit rule: provides that dividend that can be paid from past and present earnings.
- b. The capital impairment rule, provide that creditor therefore should hide the payment of liquidity dividends as this will amount to distributing the investment in a company rather than its earnings.
- c. The insolvency rule provides that companies cannot pay dividend while insolvent. To pay dividends under such condition will mean giving stockholders funds that rightfully belong to the creditors. Legal rules are significant in that they provide a framework within which dividend policy can be formulated. Within the legal

constraints, the amount of the dividend is at the discretion will be governed by provision in company's article of association

- ii. **Liquidity Position:** The payment of dividends, here means the cash out put. Although the firm may have adequate earning to declare dividends, it may not have sufficient cash to pay dividends due to its liquidity position. Indeed a growing firm even a very profitable typically has a pressing need for funds. In such a situation, they may decide not to pay cash dividends. The fact that, legally, a company is entitled to pay dividend does not in any way guarantee that it has available, liquid funds necessary to enable this to be done.
- iii. **Restriction in loan agreement:** lender may generally put restriction on dividend payments to protect their interest when the firm is experiencing low liquidity on profitability. As such, the firm agrees as a part of contract with a lender to restrict dividends payment. For example, a loan agreement may prohibit payment of dividends as long as the firm's debt-equity ratio in excess of say 1:5 or when the liquidity ratio is less say 2:1 or may require the firm to pay dividend only when some amount of current earnings has been transferred to as sinking fund established to retrieve debts.
- iv. **Rate of asset expansion:** The more rapid a firm grows the greater the need for financing asset expansion. The greater the need for funds, the more likely it is for the firm to retain earnings than payout dividend. But if earnings are paid out as dividends and are subject to high personal income tax rates, only a portion of them will be available for investment (De Angelo, 2006).
- v. **Profit rate:** The higher the rate of return on assets, the more attractive it is to distribute dividend and vice-versa.

Theories of Dividend

Dividend decision is a decision made by the director of a company. It relates to the amount of the timing of any cash payment made to the company's stockholder. The decision is very important for the company's stockholder. The decision is an important one for the firm as it may influence its capital structure and stock price. The decision may determine the amount of taxation that stockholders pay.

There are three main factors that may influence a firm's dividend decision

- i. Free-cash flow
- ii. Dividend clienteles
- iii. Information signaling
 - a. **The free – cash flow theory of dividends:** Under this theory, the dividend decision is very simple. The firm simply pays out, as dividends, any surplus after it invests in all available positive and not present value projects. A key criticism of this theory is that it does not explain the observed dividend policies of real-world companies. Most companies pay relatively consistent dividends one year to the next and managers tend to prefer to pay a steadily increasing dividend that fluctuates dramatically from one year to the next. These criticisms have led to the development of other models that seek to explain the dividend decision.
 - b. **Dividend clienteles:** A particular pattern of dividend payment may suit one type of stockholder more than another; this is some time called the clientele effect. A retiree may prefer to invest in a firm that provides a consistently high dividend yield, whereas a person with a high income from employment may prefer to avoid dividends due to their high marginal tax rate on income. If clienteles exist for particular pattern of dividend payments, a firm may be able to maximize its stock price and minimize its cost of capital by catering to a particular clientele. This model may help to explain the relatively consistent dividend policies followed by next listed companies. A key criticism of the idea of dividend clienteles is that investors do not need to rely up on the firm to provide the pattern of cash flows that they desire "An investor who would like to receive some cash from their investment always has the option of selling a portion of their holding. This argument is even more cogent in recent times, with the advent of very low cost discount stockbrokers. It remains possible that there are taxation based clienteles for certain types of dividend policies.
 - c. **Information signaling:** This model, developed by Miller and Rock in 1985, suggests that dividend announcement convey information to investors regarding the firm's future prospects. Many earlier studies had shown that stock prices tend to increase when an increase in dividends is announced, or tend to decrease when a decrease or omission is announced.

Miller and Rock (1985) pointed out that this is likely due to the information content of dividends. Managers have more information than investors about the firm and such information may include their dividend decision. When managers lack confidence in the firm's ability to generate cash flows in the future, they may reduce the amount of dividends paid out.

According to Frank (2002) the information value lies in the fact that a dividend increase signals a decrease in systematic risk (rise in discount rate), the correlation between dividend changes and earning changes has been proved.

The dividend decision is usually taken by considering at least the three question of how much excess cash is available. What do our investors prefer? And what will be the effect on the stock price of announcing the amount of the dividend? The result of most firms tends to be a payment that steadily increases over times, as opposed to varying wildly with year- to year changes in free cash flow.

For the purpose of this research, we shall consider some scholars like John Burr Williams, Professor James E. Walter, Myron Gordon, Miller-Modigliani (MM). We shall begin our discussion with John Burr Williams.

And examine the positions of the others. One of the earliest proponents of the view that dividend examine the investment value is Williams. He said "let us define the investment value of stock as the present worth of all dividends to be paid upon it". Some will say that it should rather be the present value (worth) of the future earnings and not dividend but should not earn dividend both give the same answer under the implicit assumptions of the critics.

If earnings are not paid out in dividend they are successfully reinvested at compound interest for the benefit of the stockholders so the critics imply that this earnings should produce dividend later if not then the money is lost (Miller and Modigliani, 1961). Furthermore, if these retained earnings will produce dividends then our formula will take account of them when it takes account of all future dividends but our formula will rightly restrain them from including them in any discounted annular of benefits. Earnings are only a means to an end, and the means should not be mistaken for an end, therefore we must say that is worth only what you can get out of it.

Williams avoids the awkward question of the effect of change in the market value of stock by emphasizing that he is talking about investment value of stocks. Thus, allowing him to assume that the investments is held for a very long period of time and that therefore the discounted value of change in the market value has negligible impact, Myron Gordon. One of the recent scholars discusses the controversy as to relative import of dividend and earnings in his articles. "Dividend earnings and stock prices" that the investor buys per share when acquires a share of stock. The rationale is that regard of whether they are distributed to him, the shareholders has an ownership right in the earnings per share.

METHODOLOGY

The study adopted the descriptive survey, using questionnaire to collect required information. Specifically, close ended questionnaire were used to collect primary data, in other to streamline responses for easy analysis. Convenience sampling technique was used in selecting the respondents who are staff of First Bank Nig. Plc. The four branches located within Ilorin metropolis were used as a case study.

A total of 120 copies of questionnaire were distributed to the respondents, i.e 30 copies of the questionnaire for each branch, however, on return only 100 copies of the questionnaire were retrieved from the respondents. The data were analyzed by means of descriptive and inferential statistical tools. Precisely, least square regression model was developed and applied in testing the research hypotheses.

The mathematical model for least square regression analysis is stated as: $Y = a + bx$

Where: a = Constant variable

Y = Dependent variable

X = Independent variable

a and b are the regression co-efficient known as the intercept and slope respectively, which is obtain as:

$$a = y - bx$$

$$b = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - \sum (x)^2}$$

DATA ANALYSIS AND DISCUSSION

Test of Hypotheses

H₀₁: Dividend payment pattern has no impact on a firm growth and profitability.

The result of data analysis as contained in appendix 1 shows that, R-Square value is 0.639 or 64%. This revealed that 64% variability in the dependent variable (Firm growth and profitability) is accounted for by the independent variable (Dividend payment pattern). This implies that the nature of dividend payment pattern adopted by the organization is a major determinant of the growth and profitability of the organization.

The analysis of variance show that; the calculated F-value is 173.362, at 99 degree of freedom is greater than the tabulated value of 2.01 obtained from the statistical table (See appendix 1). Therefore, it means that the filtered model is statistically significant, which implies that the null hypothesis is rejected while the alternative hypothesis is adopted.

Table 1: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1.256	.083		3.082	.003
Are you attracted to a bank because of its dividend policy.	.744	.0325	.799	13.167	.000

a. Dependent Variable: Dividend payment pattern have impact on a firm growth and profitability

The filtered model coefficient above shows that the slope is 0.744 while the intercept is 1.256. This established that the positive sign of the slope established that the independent variable (dividend payment pattern) has positive impact on the dependent variable (Firm's growth and profitability). Therefore, the filtered model is given as: $Y = 1.256 + 0.744x$. (Y= firm's growth and profitability) (x= dividend payment pattern).

From the table 1, the t-value of the result is 3.082, which shows that the t-value is greater than 2. The statistical decision rule for t-value states that where 30 or more sample size is used, accept the null hypothesis if t-value is less than 2 otherwise reject the Null hypothesis and adopt the alternative hypothesis. Therefore, since the sample size used for this study is more than 30 and the t-value is 3.082 which is greater than 2, the Null hypothesis which states that; dividend payment pattern has no impact on a firm growth and profitability is rejected and the alternative hypothesis which posits that dividend payment pattern has impact on a firm growth and profitability is adopted.

Hypothesis Two

H₀₂: Cash dividend has no significant different on meeting the expectation of the shareholders

The model summary presented in appendix 2, shows that the R-Square value was .416 or 42%. This revealed that 42% variability in the dependent variable (shareholder's expectation) is accounted for by the independent variable (cash dividend). This entails that a change in the shareholder's expectation of the organization could be accounted for by 42% change in the cash dividend of the organization.

The calculated F-value is 69.743, with 1 and 98 degree of freedom is greater than the tabulated value of 2.01 obtained from the statistical table of 2.01. Therefore, it means that the filtered model is statistically significant, which implies that the null hypothesis is rejected while the alternative hypothesis is adopted (See appendix).

Table 2: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.462	.095		4.859	.027
	Are you attracted as a customer to a bank because of dividend policy	0.538	.024	.645	8.351	.000

a. Dependent Variable: Dividend is the best way for company to meet shareholder's expectation

The coefficient of determinants in table 2 shows that slope is 0.538 while the intercept is 1.462. The positive sign of the slope established that the independent variable (Cash dividend) has positive impact on the dependent variable (shareholder's expectation). Therefore, the filtered model is given as:

$$Y = 1.462 + 0.538x.$$

Where: Y= shareholder's expectation, X= Cash dividend.

From the table, the t-value of the result is 4.859, which is greater than 2. The statistical decision rule for t-value states that where 30 or more sample size is used, accept the null hypothesis if t-value is less than 2 otherwise reject the null hypothesis and adopt the alternative hypothesis. Therefore, since the sample size used for this study is more than 30 and the t-value is 4.859 which is greater than 2, the null hypothesis which posits that cash dividend has no significant different on meeting the expectation of the shareholders is rejected while the alternative hypothesis which posits that cash dividend has significant different on meeting the expectation of the shareholders is adopted.

CONCLUSIONS AND RECOMMENDATIONS

From the findings of the research work, the researcher can now draw from the following conclusions. That this research work has highlighted the need to identify the various types of shareholders and their preferences, as well as knowing that a company should follow a stable dividend policy because a bank dividend policy could make or mar its future prospects, for this is a measure of the investors' confidence and rating of the firm.

Also, the level of investment in shares is determined by the degree of education of the investors and potential received on the dynamics of investments in stocks and shares in Nigeria, because majority of the populace are ignorant about investment opportunities and that First Bank has performed very well. The study also concludes that dividend payment has impact on firm growth and profitability and also cash dividend has significant different on meeting the expectation of the shareholders.

This study recommends the following to the bank's and shareholders;

- Banks should lay more emphasis on cash dividend payment pattern than stock dividend because it improves their growth, profitability and also influence expectation of the shareholders.
- That the shareholders should have confidence in the bank and be sure of their welfare.
- Companies should endeavor to include leverage into its capital structure so as to increase shareholders wealth.
- More effort should be made to educate investors, although presently majority of Nigerians are becoming more aware of such investment opportunities.

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APPENDIX 1

Model Summary

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	.799 ^a	.639	.635	.275

a. Predictors: (Constant), Are you attracted to a bank as a result of its dividend policy.

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.154	1	13.154	173.362	.037 ^a
	Residual	7.436	98	.076		
	Total	20.590	99			

a. Predictors: (Constant), Are you attracted to a bank because of its dividend policy

b. Dependent Variable: Dividend payment pattern have impact on a firm growth and profitability.

APPENDIX 2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.645 ^a	.416	.410	.314

a. Predictors: (Constant), Are you attracted to a bank because of its dividend policy

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.898	1	6.898	69.743	.004 ^a
	Residual	9.692	98	.099		
	Total	16.590	99			

a. Predictors: (Constant), Are you attracted to a bank because of its dividend policy

b. Dependent Variable: Dividend is the best way for company to meet shareholder's expectation