Firm Performance and Dividend Policy: Evidence From Listed Service Firms in Nigeria

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Abstract: This study examines the relationship between firm performance and dividend payout of listed firms in Nigeria. The study employed secondary data retrieved from the published financial records of 16 service listed firms in Nigeria over a period of 10 years beginning from 2012 to 2021. The paper adopted four performance indices which includes return on asset (ROA), return on equity (ROE), earnings per share (EPS) and Tobin' s Q (TOBQ). The dataset were analyzed using the descriptive statistics, diagnostic tests and inferential statistics. The study specified a linear model which was tested using the simple regression analysis as a result of the nature of the study. The findings revealed that Tobin's Q has significant influence on dividend payout; whereas, return on asset, return on equity and earnings per share maintained an insignificant influence on dividend payout of listed firms. The findings indicated that collectively firm performance obtained significant relationship with dividend payout of listed service firms in Nigeria. On the basis of the result, the study recommends that companies should give maximum attention to their financial dealings and operations, as their performance determines the involvement and commitment of shareholders.

Key words: Dividend payout, Return on Asset, Return on Equity, Tobin's Q, Earnings per Share, firm Performance.

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INTRODUCTION

Managers must make tactical, strategic, or regular choices that affect all aspects of the company's operations to sustain its operations, according to (Siyanbola, Benjamin, Amuda & Lloyd, 2020). As commercial activities grow and the corporation needs more money to stay competitive, management must

decide how to raise money for short-term and long-term company activities to fulfill this requirement. Companies invest using internally generated or external funds. Shares and fresh noncurrent borrowings are the major ways a corporation might raise funds. Capital financing is when management decides how much cash to raise by issuing new shares as equity capital and how much it can generate by borrowing from other sources. Retained earnings can help companies fund their investments.

Management also decides whether to pay dividends or invest retained income (Okoro, Ezeabasili & Alajekwu, 2018). After evaluating the firm's financial state, regulatory duties, and debt covenants, management can also decide how much dividend to pay its shareholders, according to Okoro et al. (2018). Since dividend policy affects share market value, it cannot be overstated and a continuous dividend policy is expected to boost share values by reassuring investors. Dividend policy affects other organizational activities and shareholders' returns on investment and the economy, therefore stakeholders worry about it (Jabbouri, 2016). Industrialized economies often lend to enterprises with a history of budgetary responsibility.

Prior studies have shown that a company's primary objective is to increase shareholder wealth (Adeiza, Sabo & Abiola, 2020). This implies that managers must decide and take steps to stabilize or increase the company's profitability in order to raise the share price. The depreciation of the Naira and other economic and monetary measures force businesses operating in the Nigerian economy to deal with risks to the achievement of their main objectives (Sasona, 2017).

In order to maintain their position inside the company, shareholders expect management to adapt in the face of these challenges and make sure that their investment yield is maximized. Dividend serves as a gauge for a company's management effectiveness because shareholders' access to information is limited. Prior research on the firm performance and dividend payout of enterprises in Nigeria either concentrated on the manufacturing industry (Okoro, et al 2018) or consumer products companies (Uwuigbe, 2013) or oil and gas (Adeiza, et al 2020) and the findings are mixed and inconclusive. Some other scholars, we found, have used the service sector as a case study. By examining the impact of firm performance on dividend payout among listed service firms in Nigeria, this study aims to contribute to the expanding demand of literature in filling the knowledge gap.

LITERATURE REVIEW

A company's dividend policy determines how much to pay shareholders. Shareholders receive dividend as a return on their investment. Several criteria affect the dividend amount as financial restrictions, corporate size, sales and asset growth, and investment decisions are thought to place more pressure on shareholder dividends than others (Trisanti, 2018). Dividend policy refers to a company's dividend payment rule that management use to decide how much dividend to pay shareholders. Managers, creditors, innovators, and others are affected by firm policy. According to Akani and Sweneme (2016), a firm's dividend policy may be influenced by an economy's regulatory and legal framework, ownership structure, and capital market.

According to Priya and Mohanasundari (2016), dividend policy determines whether to pay dividends or reinvest. Managers use managed policy pattern when they think dividend policy matters to investors and affects share price. Firms, shareholders, consumers, and other stakeholders have long considered dividend policy a key financial policy. Dividend policy is crucial and organizes other policies. Dividend payers are more inclined to overestimate earnings (Atieh & Hussain, 2012).

Firms may misrepresent earnings to improve dividend payment ratio, compromising financial reporting quality (Tong & Miao, 2011). However, Skinner and Soltes (2011) believed that enterprises with better financial reporting can acquire external capital and sacrifice worthwhile investment projects to pay dividends.

Firm Performance

Diverse classes of stakeholders, including shareholders, investors, workers, the government, and the economy at large, are extremely interested in the success of a company. Investors and shareholders are primarily concerned with the return on their investment in the company. When a company's return on investment or dividend distribution is high, it is frequently considered to be performing well (Jabbouri & El Attar , 2018). The performance of a company affects the return on investment of investors, the wages and salaries paid to employees, and the nature, quality, and cost of goods and services provided to customers and consumers (Suhendi, Ifada & Winarsih, 2022).

Firm performance is an indicator of investor appeal; when a firm pays a strong return on investment, it will attract more investors, hence giving more capital for management to operate the business. Firms frequently have limited accessible resources; yet, the firm's performance is largely determined by its ability to fulfill its corporate objectives with the resources at its disposal (Emudainohwo, 2016). The estimation or evaluation of a company's performance, according to Dahiru (2016), entails a periodic review of the extent to which corporate objectives and goals have been reached.

MEASURES OF FIRM PERFORMANCE

Return on Assets (ROA)

Net revenue before interest expenditure for the fiscal period divided by total assets for that same period is known as return on asset (ROA). It displays the amount of profits made from capital invested in assets and takes into account the efficiency and profitability of the company for shareholders and all other stakeholders (Chernall & Smith, 2007). ROA measurement is a commonly used metric for gauging business performance and it accurately captures that performance. Since Myers and Majluf (1984) address the potential that managers might engage in dysfunctional behaviors like underinvestment while they are performing well, ROA is seen as a verifiable performance indicator, for this reason, ROA will be used in this study as a stand-in for firm financial performance.

Return on Equity (ROE)

ROE evaluates the firm's capital return efficiency. ROE is net profit after tax divided by the firm's equity. Shareholders, particularly ordinary shareholders, care about the ROE because it shows managers' return on shareholders' equity after compensating other capital providers. Traub (2001) described ROE evaluation methods. It may be used to compare organizations or analyze trends. This study may estimate business financial performance using ROE as a performance variable.

Earnings per Share (EPS)

EPS is a company's profit per share of ordinary stock. Corporate profitability is indicated by earnings per share. It is typical to adjust EPS for unexpected items and share dilution. EBIT divided by the number of shares issued is earnings per share. A company profit per share growth attracts investors as the EPS ratio displays net profit per share, according to Eakins (2005).

The balance sheet and income statement are used to compute EPS by determining the period-end number of common shares, preferred stock dividends, and net income or earnings. Market players use it to assess a company's profitability before buying shares. EPS is a company's earnings per share. Investors and stock traders value this phrase. Profitability increases with earnings per share. Since shares outstanding might fluctuate, use the weighted ratio to calculate EPS.

Tobin's Q (TOBQ)

Tobin's Q ratio became popular in the late 1960s (1967 to be precise) when Professor James Tobin introduced Tobin's Q ratio. Tobin's Q is a market-based performance index, shows a firm's current return

on all financial market investments. When investment returns surpass investment expenditure, Tobin's Q > 1. When Tobin's Q ratio is less than 1 , the investment is regarded as a poor investment. Shareholders maximize wealth and business value as a corporation's stock rises (Sarita & Sujono, 2016).

THEORETICAL FRAMEWORK

Agency theory addresses principal-agent issues. Managers embrace accounting advice and practical measures to meet subjective expectations. Agency theory states that managers must serve their principals. Managers usually act in their own interests at the expense of shareholders since they must pay dividends. Such views frequently harm shareholder returns. This theory addresses the conflict of interest and knowledge asymmetry that most managers and principals face (shareholders).

According to Barone (2021), investors choose dividend stability over the possibility of considerably higher future dividends. Dividends beat capital gains. They claim that current payouts erase investors' future worries. Due to risk aversion, near dividends are discounted less than future dividends. Large payout ratios reduce equity costs. As shareholders get cash dividends and like the stock, the stock price rises, lowering capital costs and increasing common stock value.

Empirical Review

Malik, Gul, Khan, Rehman, and Khan (2013) looked at the factors that influence Chinese company corporate dividend distribution decisions. The financial and non-financial industries' listed firms were chosen for the study. The study period was from 2007 to 2009 and focused on the utilization of secondary data gathered from the study sample (100 enterprises) listed on the Karachi Stock Exchange. Panel OLS Regression and Probit model estimates were used as data analysis tools. The results showed that while growth and profitability showed a negligible link with dividend policy, independent variables including liquidity, EPS, financial leverage, and size showed a favorable relationship with dividend.

Kajola, Desu, and Agbanike (2015) conducted research on the variables affecting Nigerian payout policy choices. The study concentrated on using publicly available data that was gathered from the financial reports of a sample of 25 listed non-financial enterprises in Nigeria over a 15-year period, from 1997 to 2011. The study took into account the firm size, profit level, financial leverage, tangibility, cash availability, and changes in dividend payout as variables that could affect dividend. Additionally, descriptive and inferential statistical methods were used to analyze the data. The findings showed a substantial correlation between the dependent variable dividend payout policy and the independent variables profit level, company size, financial leverage, and variations in dividend payout.

In their study, Enekwe, Nweze, and Agu (2015) looked at performance evaluation and dividend payout across Nigerian listed companies. The study's primary focus was on publicly traded cement businesses, from which secondary data were gathered during a 12-year period, from 2003 to 2014. As performance indices, the study used capital employed, ROA, and ROE. Inferential statistical analysis methods were used to conduct the study's analysis. The results showed a substantial positive correlation between dividend distribution and ROCE, ROA, and ROE.

The statistical relationship between dividend policy, firm characteristics, and the impact on the value of Southeast Asian firms was explored by Surwanti and Pamungkas (2020). The study's goal was to examine the variables that might have an impact on the nonfinancial corporate sectors in Southeast Asia's dividend policies. The study looked at non-financial listed enterprises in Southeast Asia over a period of 16 years, from 2000 to 2015. In order to analyze the data taken from the published financial records of the non-financial sampling enterprises, the study used multiple regression approaches. The findings showed that, while in Indonesia, a firm's dividend payout was significantly influenced by its size, in the Philippines, a firm's dividend payout was significantly influenced by its liquidity.

The relationship between company characteristics and dividend policy of listed manufacturing businesses in Sub-Saharan Africa was examined by Ajibade and Agi (2020). The goal of the study was to determine how several indicators of business qualities impact the dividend payout ratio of publicly traded manufacturing companies in Nigeria, Ghana, South Africa, and Kenya. The study made use of panel data that was taken from the annual reports of 20 manufacturing businesses that were listed on several Sub-Saharan African stock exchange marketplaces. The study period was 10 years, from 2008 to 2017, and the dataset was examined using both descriptive and inferential statistical methods. The dividend payout ratio was used as a stand-in for dividend policy. According to the data, there is a positive, non-significant relationship between liquidity, ownership structure, business size, and dividend payment ratio. Leverage, on the other hand, continued to have a favorable, considerable impact on dividend policy.

The relationship between dividend policy and market performance of listed manufacturing businesses in the Nigerian economy was explored by Oniyama, Olaoye, and Ogundajo (2021). The goal of the study was to determine how Nigerian listed companies' dividend policies affected shareholders' wealth. Due to the nature of the study, an ex-post facto research approach was used in conjunction with a secondary dataset that was taken from the audited annual accounts of the sampled firms. The number of firms included in the study's sample is 10, spanning the years 2008 to 2017. During data analysis, the multiple regression approach was used, and the research found a strong relationship between dividend policy and market share. While dividend payout had a big negative impact on market share price, dividend yield had a significant positive impact on share price.

According to Nguyen, Pham, Doan, Ta, Nguyen, and Truong (2021), the impact of dividend payments on a company's financial performance was investigated. The study was an empirical investigation carried out in Vietnam with the goal of determining how dividend policies affected particular performance indexes. As indicators of dividend policy, the study used the dividend rate and the reasons to pay dividends; as performance indices, ROA, ROE, and Tobin's Q were used. Over a 12-year span, from 2008 to 2019, the study was done on a sample of 450 listed companies on the Vietnam stock market. The published annual reports of these sampled companies' secondary data were taken, processed, and hypotheses tested using the multiple regression approach. The outcome suggested that there was still a negative, substantial link between dividend payment decisions and business performance.

In Malaysian publicly traded companies, Foong and Malek (2021) investigated the effect of dividend policy on business performance. The goal of the study was to investigate the effects of listed companies' dividend policies on certain performance indexes. The study used a sample size of 200 firm-year observations across an 8-year period, from 2011 to 2018, and focused on companies in the consumer goods and service sector's subsectors. Earnings per share (EPS), dividend pay-out ratio (DPR), and price earnings ratio were used in the study to measure dividend policy (PER). Return on Assets (ROA) and Return on Equity (ROE) were used to gauge company performance (ROE). A mix of descriptive and inferential statistical approaches were used to assess the secondary data that was retrieved from the financials of these sampled firms. The research found a strong correlation between ROA and ROE and earnings per share. While maintaining a considerable relationship with ROA, price earnings ratio had little impact on ROE.

RESEARCH HYPOTHESIS AND CONCEPTUAL FRAMEWORK

This study adopts one measure of dividend payout (DPA) and investigates its relationship with four performance indices (return on asset, return on equity, earnings per share and Tobin's Q).
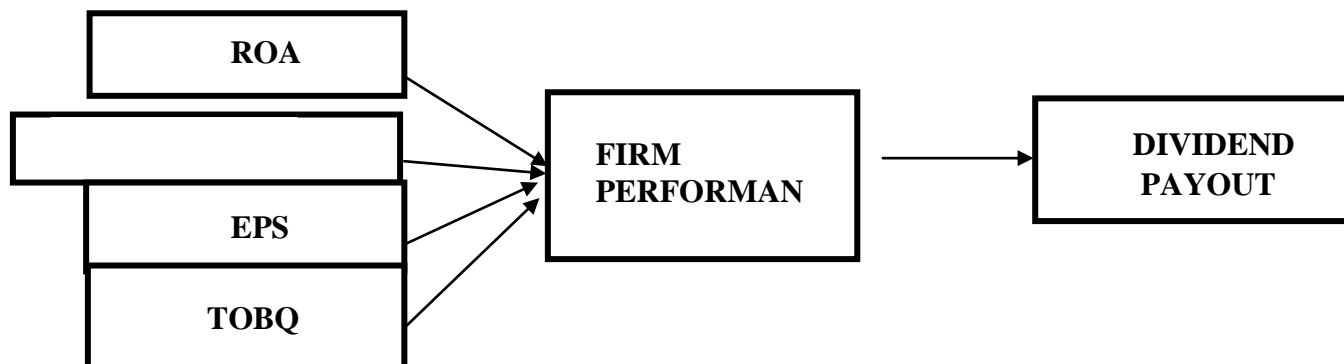
Research Hypothesis

H_{O1}: *Firm performance does not have significant effect on dividend payout of listed service Nigerian firms.*

CONCEPTUAL MODEL

FIGURE 1

The conceptual model of the study is presented in accordance to the study hypothesis.

Research Methodology

The study used an ex post facto research approach and utilized secondary data obtained from the public financial records of sixteen listed Nigerian service companies within a period of ten years, from 2012 to 2021. In order to evaluate the stated hypothesis, the study utilized the simple regression approach and conducted correlation analysis, testing for multicollinearity, and testing for heteroscedasticity.

Specification Of The Study Model

The model is presented below in its implicit form;

Dividend Payout = f(ROA, ROE, EPS, TOBQ)   -   -   -   -   - *Eqn. 1*

The above equation is further presented in its explicit form as shown in equation 2

$DPA_{it} = a_0 + a_1ROA_{it} + a_2ROE_{it} + a_3EPS_{it} + a_4TOBQ_{it} + \mu_t$ -   -   -   - *Eqn. 2*

Table 1: DEFINITION OF VARIABLES			
Variables	**Proxy**	**Symbols**	**Measurement**
Dividend Policy	Dividend Payout	DPA	Total Dividends Paid/Payable Profit before Interests and Taxes.
Firm Performance	Return on Asset	ROA	Net income divided by total assets.
	Return on Equity	ROE	Net Profit after Taxes divided by stockholders' equity
	Earnings per share	EPS	Dummy (1,0), 1 for firms that external auditor uses qualified opinion statement while 0 for firms that uses otherwise
	Tobin's Q	TOBQ	Market-based performance of sampled firms

Source: Author's Collation, 2022.

RESULTS AND DISCUSSION OF FINDINGS

Description Statistics

The result of the descriptive statistics for the entire dataset is displayed in the table below.

Table 2: SUMMARY OF DESCRIPTIVE STATISTICS					
Variables	**No. of Observation**	**Mean**	**Standard Deviation**	**Minimum Value**	**Maximum Value**
DPA	160	22.39802	56.70367	-363.5215	275.2977
ROA	160	4.06768	20.81771	-119.633	89.5447
ROE	160	10.3969	121.9879	-981.3666	905.423
EPS	160	2.04931	4.53817	-4.37	25.87
TOBQ	160	1.63367	1.56187	0.4979	11.2986

Source: Author's Collation, 2022.

From the result in the table above the approximated mean value of Dividend payout (DPA) is 22.39 alongside a standard deviation of approximately 56.7. The standard deviation value obtained for DPA revealed that there is significant difference across companies within the study period, this is further revealed by the minimum value of -363.5 and a maximum value of 275.3 approximately.

Furthermore, for the independent variables measures of firm performance, the average values recorded for ROA, ROE, EPS and TOBQ are 4.06768, 10.3969, 2.0493 and 1.6337 respectively. ROA, ROE, EPS and TOBQ obtained corresponding standard deviation value of 20.8177, 121.9879, 4.5381 and 1.56187 respectively. The value of the standard deviation obtained for the independent variables revealed that the values of all the independent variables significantly differ across the various firms. The minimum values recorded for ROA, ROE, EPS and TOBQ were -119.633, -981.3666, -4.37 and 0.4979; with a corresponding maximum value of 89.5447, 905.423, 25.87 and 11.2986 respectively.

Correlation Analysis

The result of the correlation matric for all variable is presented in the table below.

Table 3: CORRELATION ANALYSIS					
Variables	**DPA**	**ROA**	**ROE**	**EPS**	**TOBQ**
DPA	1.0000				
ROA	0.0562	1.0000			
ROE	0.0875	0.3858	1.0000		
EPS	0.0399	0.2240	0.1272	1.0000	
TOBQ	-0.2263	0.2331	0.1712	0.0450	1.0000

Source: Author's Collation, 2022.

As indicated in the table above, the correlation between DPA and other measures of firm performance (ROA, ROE and EPS) were positive, apart from that of TOBQ. The result revealed that TOBQ had negative correlation with DPA. Furthermore, the coefficients displayed no sign of multicollinearity, because the pair of independent variables had coefficient that is below 0.8. The variables are further subjected to Variance Inflation Factor (VIF) to further confirm the absence of multicollinearity.

Test of Multicollinearity

	Table 4: VIF Result Test				
Variables	**ROA**	**ROE**	**TOBQ**	**EPS**	**Mean VIF**
VIF	1.26	1.19	1.07	1.06	1.14
1/VIF	0.79268	0.84235	0.93778	0.94772	

Source: Author's Collation, 2022.

The result in the table above reveals that the result of the VIF ranges between 1.26 to 1.06 with a mean value of 1.14, the result indicated that the independent variables is free from multicollinearity problem.

The mean VIF obtained is 1.14 which is lesser than 10 (1.01<10) revealing the fitness of the study's specified models.

Hypothesis Testing

The study focused on one dependent variable (DPA), the study adopted the simple regression analysis in stating the stated hypothesis. The result of the simple regression analysis is displayed below.

Table 5: Result of Simple Regression Analysis				
Variable Statistics	**Dividend Payout (DPA)**			
	Coefficient	**Standard Err.**	**t-statistics**	**p>| t |**
ROA	0.19911	0.23659	0.84	0.401
ROE	0.04705	0.03917	1.20	0.231
EPS	0.27975	0.99255	0.28	0.778
TOBQ	-9.49934	2.89918	-3.28	0.001
_CONS	36.0444	6.62486	5.44	0.000
Obs.				160
F				3.05
Prob > F				0.0186
R-squared				0.0731
Adj. R-squared				0.0491

Source: Author's Collation, 2022.

As the table above revealed, ROA, ROE and EPS have positive correlation with the Dividend payout (DPA). This implies that increase return on assets, return on shareholder equity and earnings per share will have a positive increase on the dividend payout of firms. Furthermore, TOBQ obtained a negative correlation with DPA. Among all the independent variables examined only TOBQ obtained a significant negative relationship with dividend payout. On the other hand, ROA, ROE and EPS recorded insignificant relationship with dividend payout.

The result recorded a R^2 and Adj. R-squared value of 0.0731 and 0.0491 respectively, which signifies that approximately 4.91% - 7.31% of changes in dividend payout is caused by changes in the firm performance indices (ROA, ROE, EPS and TOBQ). The F value of 3.05 with a p-value of 0.0186, implies that the firm performance indices, ROA, ROE, EPS and TOBQ, have significant effect on dividend payout of listed service firms in Nigeria. This findings is in consonance with those of Enekwe, Nweze, and Agu (2015) who revealed in their study on firm performance and dividend of listed insurance firms in Nigeria, that ROCE, ROA and ROE has significant effect on dividend policy of listed firms in Nigeria. Similarly, Uwuigbe, Jafaru and Ajayi (2012) in their study on dividend policy and firm performance reported that there is favorable significant link between firm performance and dividend payout of Nigerian firms. On the contrary, the result is inconsistent with those of Adeiza, Sabo and Abiola (2020) who revealed that dividend payout has insignificant effect on firm performance of Total Plc and Mobil Plc in 2017 and 2018.

CONCLUSION AND RECOMMENDATION

Over the years, various studies have examined firm performance and dividend policy adopting various performance indices. However, the findings of these prior studies have been mixed and inconclusive, most empirical studies reported that firm performance indices affect dividend policy significantly, while others reported an insignificant effect between firm performance and dividend policy. The inconsistency in literature prompted this study which was conducted to examine the extent to which firm financial performance influences the amount of dividend declared and paid to shareholders at the end of the accounting year.

The study was conducted using four performance indices (return on assets, return on equity, earnings per share and Tobin's Q) and one measure of dividend policy (dividend payout ratio). The study employed the use of various statistical tools ranging from descriptive statistics, correlation matrix, VIF test and simple regression analysis, to evaluate the variables and test the stated hypothesis alongside the specified regression models. The result of the analysis indicated that individually, TOBQ exerts significant effect on dividend policy, which implies that the market based performance of the firm can greatly determine the percentage of dividend paid out to shareholders at the end of the year. On the other hand, ROA, ROE and EPS, on individual basis have insignificant effect on dividend payout of listed firms in Nigeria. However, these variable (ROA, ROE, EPS and TOBQ) jointly exert significant effect dividend policy of listed service firms in Nigeria.

On the basis of these empirical findings, the study recommends that companies should give maximum attention to their financial dealings and operations, as their performance determines the involvement and commitment of shareholders. If the interest of shareholders and investors must be maximized, corporate entities must prioritize the maximization of shareholders' wealth, ensuring that they receive a profitable return on their investment.

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