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Research Article

DIVIDEND POLICY AND FINANCIAL PERFORMANCE OF QUOTED BREWERY FIRMS IN NIGERIA

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Abstract

This study examined the relationship between dividend policy and financial performance of quoted brewery firms in Nigeria from 2008 to 2021. Dividend per share, dividend yield and dividend payout ratio were the proxies used to measure dividend policy, while, financial performance was decomposed using return on capital employed. Panel data were utilized in this study. *Ex-post facto* research design was employed. Purposive sampling technique was used to sample seven (7) brewery firms. Pearson Correlation Coefficient and Panel Least Square (PLS) Regression analysis via E-Views 10.0 statistical software were used to test the hypotheses of the study. The findings of this study indicated that there is a significant and positive relationship between dividend per share and return on capital employed ($\beta_1 = 0.286271$, p-value = $0.0000 < 0.05$); there is a significant and positive relationship between dividend yield and return on capital employed ($\beta_2 = 0.261930$, p-value = $0.0000 < 0.05$); there is a significant and positive relationship between dividend payout ratio and return on capital employed ($\beta_3 = 0.261349$, p-value = $0.0000 < 0.05$) of quoted brewery firms in Nigeria at 5% level of significance respectively.

Keywords: Dividend per Share, Dividend Yield, Dividend Payout Ratio, Return on Capital Employed.

INTRODUCTION

Operational decisions have remained a puzzle to be tackled by finance managers. Basically, such operations decision is in two facets: the investment (or capital budgeting) and the financing decisions. The capital budgeting decision is concerned with what real assets the firm should acquire while the financing decision is concerned with how these assets should be financed. A third decision may arise, however, when the firm begins to generate profits. Should the firm distribute all or proportion of earned profits in the form of dividends to the shareholders, or should it be ploughed back into the business? Presumably, in taking any course of action, managers should concentrate on how to maximise the wealth of shareholders for whom the firm is being managed (Amahalu *et al.,* 2022). Managers must not only consider the question of how much of the company's earnings are needed for investment, but also take into consideration the possible effect of their decisions on share prices. Dividend policy refers to the practice that management follows in making dividend payout decisions, in other words, the size and pattern of cash distributions over time to shareholders (Chukwuka *et al.,* 2022). Dividend is a payment either in cash or other forms that corporations pay to their own shareholders. They are regarded by shareholders as the return on the investment made in the corporation. The Board of Directors has primary responsibility for drafting the dividend policy and decides whether to pay dividends or not. If the corporation does not have a stable dividend policy, the corporate shareholders will not have any more interest to keep their capital in such corporations. Consequently, the stock price will fall. When shareholders do not receive the expected return (dividend), they express dissatisfaction by selling shares. The relationship between dividend policy and firm performance has remained a puzzle.

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The first view of literature is of the opinion that firms can signal future profitability by paying dividends (Rui and Li, 2020). Empirically, this view had considerable initial success, since firms that initiate (or raise) dividends experience share price increases, and the converse is true for firms that eliminate (or cut) dividends (Onyeka and Amahalu, 2022; Amahalu *et al.,* 2022; Gehan and Desoky, 2019). On the hand also, Tinungki, Hartono, Robiyanto, Hartono, Jakaria and Simanjuntak (2022) posit that dividend changes do not help predict firms' future earnings growth. The mixed findings from the reviewed literature has created a lacuna which this study sought fill. It is against this backdrop that this study examined the relationship between dividend policy and financial performance of quoted brewery firms in Nigeria.

Research Objectives

The main objective is to determine the nexus between dividend policy and financial performance of quoted brewery firms in Nigeria.

The specific objectives are to:

i. Examine the relationship between dividend per share and return on capital employed
ii. Ascertain the relationship between dividend yield and return on capital employed
iii. Evaluate the relationship between dividend payout ratio and return on capital employed

Research Hypotheses

The following null hypotheses were tested:

Ho_1: There is no significant relationship between dividend per share and return on capital employed

Ho_2: There is no significant relationship between dividend yield and return on capital employed

Ho_3: There is no significant relationship between dividend payout ratio and return on capital employed

LITERATURE REVIEW

Dividend Policy

A dividend is the share of profits that is distributed to shareholders in the company and the return that shareholders receive for their investment in the company. The company's management must use the profits to satisfy its various stakeholders, but equity shareholders are given first preference as they face the highest amount of risk in the company (Nweke Udeh and Amahalu, 2022).

A dividend policy is the policy a company uses to structure its dividend payout to shareholders (Chen, 2020). Dividend policy is concerned with financial policies regarding paying cash dividend in the present or paying an increased dividend at a later stage. A company's dividend policy dictates the amount of dividends paid out by the company to its shareholders and the frequency with which the dividends are paid out (Ezechukwu *et al.,* 2022). When a company makes a profit, they need to make a decision on what to do with it. They can either retain the profits in the company (retained earnings on the balance sheet), or they can distribute the money to shareholders in the form of dividends.

Dividend per Share

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time, usually a year, by the number of outstanding ordinary shares issued. Dividend Per Share (DPS) is the total amount of dividends attributed to each individual share outstanding of a company (Nickolas, 2022). Calculating the dividend per share allows an investor to determine how much income from the company he or she will receive on a per-share basis. Dividends are usually a cash payment paid to the investors in a company.
Dividend per Share = Total Dividends Paid / Shares Outstanding

Dividend Yield

The dividend yield, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price. Dividend yield is a tool used to calculate the return on the amount of money a shareholder will receive in dividends from a company, based on the current market price of the stock. In other words, it is the potential dividend-only value of a stock investment (Probasco, 2022). Dividend yield is the financial ratio that measures the quantum of cash dividends paid out to shareholders relative to the market value per share. It is computed by dividing the dividend per share by the market price per share and multiplying the result by 100. A company with a high dividend yield pays a substantial share of its profits in the form of dividends.

$$\text{Dividend Yield} = \frac{\text{Annual Dividends per Share}}{\text{Current Share Price}} \times \frac{100}{1}$$

Dividend Payout Ratio

The dividend payout ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders via dividends (Amahalu & Obi, 2020). The amount that is not paid to shareholders is retained by the company to pay off debt or to reinvest in core operations. It is sometimes simply referred to as simply the payout ratio. The dividend payout ratio shows how much of a company's earnings after tax (EAT) are paid to shareholders (. It is calculated by dividing dividends paid by earnings after tax and multiplying the result by 100. The Dividend Payout Ratio (DPR) is the amount of dividends paid to shareholders in relation to the total amount of net income the company generates. In other words, the dividend payout ratio measures the percentage of net income that is distributed to shareholders in the form of dividends (Hayes, 2022).

Dividend Payout Ratio= Total Dividends Paid/ Net Income

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Financial performance is used as a general measure of a firm's overall financial health over a given period (Kenton, 2022). A company's financial performance tells investors about its general well-being. It is a snapshot of its economic health and the job its management is doing by providing insight into the future: whether its operations and profits are on track to grow and the outlook for its stock (Eze *et al.,* 2022).

Return on Capital Employed

Return on capital employed (ROCE) refers to a financial ratio that can be used to assess a company's profitability and capital efficiency (Okudo and Ndubuisi, 2021). In other words, this ratio can help to understand how well a company is generating profits from its capital as it is put to use (Barrantes, 2022). Return on Capital Employed (ROCE) is a profitability ratio that measures how efficiently a company is using its capital to generate profits (Amahalu and Ezechukwu, 2017). The return on capital employed metric is considered one of the best profitability ratios and is commonly used by investors to determine whether a company is suitable to invest in or not.

$$\text{ROCE} = \frac{\text{Earnings before Interest and Tax}}{\text{Capital Employed}}$$

Where:
Capital Employed = Total Assets - Current Liabilities

Dividend policy and financial performance

Dividend policy is one of the most controversial issues in modern corporate finance. Dividend represents a distribution of earnings to the shareholders of a company. As noted by Muljanto, Anwar and Djan (2022), companies view the dividend decision as quite important because it determines what funds flow to investors and what funds are retained by the firm for investment. Dividend policy can also provide information to stakeholders concerning the company's performance. The investments made by a firm determine the future earnings and future potential dividends; and dividend policy influences the cost of capital. The ability of a firm to pay dividends will have a heavy toll on its financial performance (Ezechukwu and Amahalu, 2016).

Empirical Review

Idewele and Murad (2022) investigated the relationship between financial performance and dividend policy for a sample of fifteen deposit money banks quoted on the Nigeria Stock Exchange 2009 to 2014. Panel data regression analysis was used as the method of analysis, and the model was estimated using the Pooled Least Squares estimation technique. The study revealed that there is a positive and significant relationship between dividend payout ratio and financial performance. On the contrary, there is a negative and insignificant relationship between dividend yield and financial performance. Das (2022) evaluated the impact of dividend policy on financial performance of selected companies registered in Bombay Stock Exchange. The study based on correlation matrix and panel regression model showed that the selected companies did not follow consistent pattern of dividend payments and the association between price earnings ratio and dividend payout ratio is positive but weak. However, there is strong association between return on assets and return on equity. Hausman Test revealed that random affect model is appropriate thereby indicating that performance of selected companies have momentous impact on dividend policy.

Theoretical Review

Agency Theory

Agency theory is an economic theory that views the firm as a set of contracts among self-interested individuals. Agency theory was developed by Jensen and Meckling (1976). They suggested a theory of how the governance of a company is based on the conflicts of interest between the company's owners (shareholders), its managers and major providers of debt finance. An agency relationship is created when a person (the principal) authorizes another person (the agent) to act on his or her behalf. Agency theory posits that corporations act as agents of its shareholders. That is, shareholders invest in corporate ownership and thereby entrust their resources to the management of the directors and officers of the corporation (Okudo and Ndubuisi, 2021). Agency theory focuses upon relationships between parties where one delegates some decision-making authority to the other. The principal would delegate some decision making authority to the agent who, in turn, would be responsible for maximizing the principal's investment in exchange for an incentive, such as a fee.

METHODOLOGY

Ex-post facto research design was applied in this study. The population of this study consisted of all the eight (8) quoted brewery firms on the Nigerian Exchange (NGX) Group as at 31st December, 2021. They include: Champion Breweries Plc, Golden Guinea Breweries Plc, Nigerian Breweries Plc, Guinness Nigeria Plc, International Breweries Plc, Jos International Breweries Plc, Premier Breweries Plc and 7-Up Bottling Company Plc. Judgmental sampling technique was adopted to select the sample size of this study. The sample size of this study consisted of seven (7) quoted brewery firms that were continuously listed by Nigerian Exchange (NGX) during the period 1st January 2008 to 31 December 2021. They include: Champion Breweries Plc, Golden Guinea Breweries Plc, Nigerian Breweries Plc, Guinness Nigeria Plc, International Breweries Plc, Premier Breweries Plc and 7-Up Bottling Company Plc. Secondary data that were extracted from the annual reports and statements of account of the sampled firms.

Table 1. Variable Measurement

Variable	Acronym	Measurement
Independent (Dividend Policy)		
Dividend per Share	DPS	Total Dividends Paid / Shares Outstanding
Dividend Yield	DY	Annual Dividends per Share x 100 / Current Share Price 1
Dividend Payout Ratio	DPR	Total Dividends Paid / Net Income
Dependent Variable (Financial Performance)		
Return on Capital Employed	ROCE	Earnings before Interest and Tax / Capital Employed

Model Specification

This study adapted and modified the model of Abiahu and Amahalu (2017) in determining the relationship between dividend policy and financial performance:

$$ROA = \beta 0 + \beta_1 DPS + \beta_2 DPR + \mu$$

The modified model used for the study is shown below as thus:

$$ROCE = \beta 0 + \beta_1 DPS_{it} + \beta_2 DY_{it} + \beta_3 DPR_{it} + \mu_{it}$$

Where:
βo = Constant term
$\beta_1 – \beta_3$= Regression coefficient of the independent variable
μ_t = Error Term of firm ί in period t
ί = individual firms (1,2,3...7)
t = time periods (2008, 2009 ... 2021)
ROA_{it} = Return on Assets of firm ί in period t
$ROCE_{it}$ = Return on Capital Employed of firm ί in period t
DPS_{it} = Dividend per Share of firm ί in period t
DY_{it} = Dividend Yield of firm ί in period t
DPR_{it} = Dividend Payout Ratio of firm ί in period t

Presentation and Analysis of Data

Table 2. Pearson Correlation Matrix

	ROCE	DPS	DY	DPR
ROCE	1.0000	0.0150	0.0410	0.2234
DPS	0.0150	1.0000	0.6296	-0.0238
DY	0.0410	0.6296	1.0000	0.1889
DPR	0.2234	-0.0238	0.1889	1.0000

Source: E-Views 10.0 output, 2022

The correlation result in table 4.2 reports a positive relationship between DPS, DY DPR and ROCE at coefficient factors of 0.0150, 0.0410 and 0.2234 respectively.

Table 3. Regression result testing the relationship between dividend policy and financial performance

Dependent Variable: ROCE
Method: Panel Least Squares
Date: 09/22/22 Time: 16:38
Sample: 2008 2021
Periods included: 14
Cross-sections included: 7
Total panel (balanced) observations: 98

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.302467	0.048909	6.184330	0.0000
DPS	0.286271	0.033268	8.604898	0.0000
DY	0.261930	0.034126	7.675456	0.0000
DPR	0.261349	0.054521	4.793539	0.0000
R-squared	0.395712	Mean dependent var		0.454964
Adjusted R-squared	0.376426	S.D. dependent var		0.188036
S.E. of regression	0.148486	Akaike info criterion		-0.936689
Sum squared resid	2.072526	Schwarz criterion		-0.831181
Log likelihood	49.89778	Hannan-Quinn criter.		-0.894013
F-statistic	20.51829	Durbin-Watson stat		1.845303
Prob(F-statistic)	0.000000			

Source: E-Views 10.0 output, 2022

DISCUSSION

The adjusted R-Squared of 0.376426 is an indication that 37.64% variations that occurred in ROCE is caused by DPS, DY and DPR. It is also demonstrated in table 4.3 that holding other factors constant, one naira increase in DPS, DY and DPR will correspondently exert 28.63%, 26.19% and 26.13% increase on ROCE. The t-statistic and p-value for X_1 = 8.604898, 0.0000; X_2 = 7.675456, 0.0000; X_3 = 4.793539, 0.0000 revealed the existence of a positive and significant relationship between DPS, DY and DPR at 5% level of significance.

Findings and Conclusion

i. There is a significant and positive relationship between dividend per share and return on capital employed of quoted brewery firms in Nigeria at 5% level of significance (β_1 = 0.286271, p-value = 0.0000 < 0.05)

ii. There is a significant and positive relationship between dividend yield and return on capital employed of quoted brewery firms in Nigeria at 5% level of significance (β_2 = 0.261930, p-value = 0.0000 < 0.05).

iii. There is a significant and positive relationship between dividend payout ratio and return on capital employed of quoted brewery firms in Nigeria at 5% level of significance (β_3 = 0.261349, p-value = 0.0000 < 0.05).

In conclusion, the study upholds that dividend policy has a statistically significant influence on the financial performance of brewery firms in Nigeria at 5% level of significance.

Recommendations

Firstly, firms should ensure a growing dividend per share over time which is a sign that the firm's earnings growth can be sustained.

Secondly, firms should endeavour to pay a high dividend yield which indicates that the company is distributing a better share of its profit to its shareholders. A higher yield is more attractive, while a lower yield can make a stock seem less competitive relative to its industry.

Thirdly, a dividend payout ratio of about 40% is considered healthy and sustainable for firms to adopt to be distributed to her shareholders. Because, such companies tend to attract income investors who prefer the assurance of a steady stream of income to a high potential for growth in share price, thereby making the firm to have some potential opportunities for reinvestment.

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