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DETERMINANT OF DIVIDEND POLICY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT:

This study examines risk as a determinant of dividend policy of quoted commercial banks in Nigeria. Specifically, the study intends to ascertain the extent of relationship between debt security and dividend payout ratio of quoted commercial banks in Nigeria. Furthermore, it intends to evaluate the extent to which equity security relates with dividend payout ratio of quoted commercial banks in Nigeria. The ex-post facto research design was adopted while a total of 13 quoted commercial banks actively trading in the floor of Nigeria Exchange Group constituted the sample size of this study for the years 2008 – 2021 using purposive sampling technique. Inferential and descriptive statistic using correlation analysis was employed. The data analysis reveals that equity securities and debt securities are significantly positively related with dividend payout ratio. Conclusively, equity securities and debt securities are the key determinant factor of dividend policy of quoted commercial banks in Nigeria. It is recommended that, since there is positive relationship between equity securities and dividend policy, deposit money banks should pay more attention to retain earnings than to give out profit as dividend.

1. INTRODUCTION

Dividends are payments made by a company to their shareholders. The payment of dividend is made out of company earning and it thus reduces the amount of earnings that could be used for internal financing by the firm. The dividend decision ought to be evaluated in the light of maximizing the value of firm to its shareholders. The importance of dividend policy cannot be over emphasized. Dividend is used as an instrument for financial signal indicating stability and growth prospect.

Dividend is very important in a farm's capital structure. Payment of dividend by firm does not have any opportunity of investing the profit (Imran, 2011). According to Benjamin Graham, David Dodd and Cottle, firms should generally have high dividend payout (Rose 2010). The primary element of corporate policy is the dividend policy decisions of firms. Firms' dividend is determine by the share holders, firm size, regulatory agencies investment chances and choices are financing limitations. (Ajanthan, 2013). As countries differ in their tax policies rules, regulations and different institution and capital market, so also in their dividend policy (Zameer 2013).

1.1 Objectives of the Study

Broadly, this study intends to investigate risk as a determinant of dividend policy of quoted commercial banks in Nigeria. Specifically, the study intends to:

i. ascertain the extent of relationship between debt security and dividend payout ratio of quoted commercial banks in Nigeria.
ii. evaluate the extent to which equity security relates with dividend payout ratio of quoted commercial banks in Nigeria.

1.2 Hypotheses

The following null hypotheses guided the study:

Ho_1: Debt security has no significant relationship dividend payout ratio of quoted commercial banks in Nigeria

Ho_2: Equity security does not significantly relates with dividend payout ratio of quoted commercial banks in Nigeria

2. LITERATURE REVIEW

2.1 Conceptual review

2.1.1 Debt Security

Investment in debt security is one of the determinant factors of dividend policy. It is a financial asset that entitles their owners to a stream of interest payment. A debt security is any debt that can be bought or sold between parties in the market prior to maturity. This structure represents a debt owed by an issuer (The government organization or a company) to an investor who acts as a lender (Fallanca, Forgione & Othranto, 2021).

2.1.2 Equity Securities

An Equity security is another factor that affects dividend policy. Equity security represents ownership claims on a company's net assets and play a fundamental role in investment analysis, because it represents a significant portion of many individual and institutional investments (Narang, 2018). An equity security is a financial instrument that represents an ownership share in a corporation.

2.1.3 Risk

Risk implies future uncertainty about deviation from expected earnings or expected outcome. It measure the uncertainty that an investor is willing to take, to realize again from an investment, changing preference of consumers, strikes, increased competitors, changes in government policy and obsolescence are issues of risk.

2.1.4 Dividend Policy

Dividend policy refers to a reward that a company gives to its shareholders and which can be issued in various forms, such as cash payment, stocks or any other form and the company's dividend is decided by its Board of Directors and it requires the shareholders' approval (Dimitropoulos & Steriou, 2018). Dividend is a distribution of profits by a corporation to its shareholders. Dividend policy is the guideline for dividend distribution drafted by the Board of Directors of the company and the policy includes parameters for sharing profits with the shareholders and it also includes how often and in which form the dividends are to be distributed

2.1.5 Dividend Payout Ratio

The dividend payout ratio is the ratio of the total amount of dividend paid out to shareholders relative to the net income of the company which means the percentage of earnings paid to shareholders through dividends. The dividend payout ratio shows how much of a company earnings after tax (EAT) are paid to shareholders. The dividend payout ratio is the proportion of a company's net income that is paid out as dividend as a form of a compensation for common and preferred shareholders (Febrianiad, 2019). The dividend payout ratio depicts how much of a company's earnings are paid out to shareholder as opposed to being retained and re-invested into operations which has significant implications.

2.2 Theoretical Review

The under pinning theory of this study is Tax preference theory.

2.2.1 Tax preference theory

Tax preference theory was propounded by Litzenberger and Ramaswamy in 1805. The theory states that because capital gains are subject to less onerous taxes than dividends, investors prefer to have companies retains earning rather than pay them out as dividends. They based this theory on observation of American stock market, and presented three major reasons why investors might prefer lower payout companies. First, unlike dividend, long-term capital gains allow the investor to defer tax payment until they decide to sell the stock. Because of time value effects, tax paid immediately has a higher effective capital cost than the same tax paid in the future. Secondly, up until 1986 in USA all dividend and only 40 percent of capital gains were taxed. At a taxation rate of 50%, this gives us a 50% tax rate on dividends and (0,4)(0,5) = 20% on long-term capital gains. Therefore, investors might want the companies to retain their earnings in order to avoid higher taxes. As of 1989 dividend and capital gains tax rates are equal but deferral issue still remains. Lastly, if a stockholder dies, no capital gains tax is collected at all. Those who inherit the stocks can sell them on the death day at their base costs and avoid capital gains tax payment (Pilarczyk, 2023). This theory is considered relevant to this study because shareholders prefer saving their profit than sharing it as dividend.

2.3 Empirical Review

Maladjian and Elkhoury (2014) investigated the factors determining the dividend payout policy in the Lebanese banks listed on the Beirut Stock Exchange for six (6) years. Two models were tested using OLS and the dynamic panel regressions. Empirical result shows that the dividend payout policies are positively affected by the firm size, risk and previous year's dividend. The result suggests that the Lebanese listed firms prefer to invest their earnings to grow rather than to pay more dividends.

Ahmad, GototNazir and Wardani, (2014) examined the effect of fundamental factors on dividend policy's of 98 firms listed on Indonesia Stock Exchange for period of 3 years, it was discovered that profitability and firm size correlate significantly positive with dividend policy. Zaman (2013) studied dividend policy of all 30 Dhaka Stock Exchange listed private commercial banks in Bangladesh over a period of 7 years. Bank profitability, growth and size were measured as potential determinants of dividend policy. The result shows that profitability appear to be a better determinant of bank dividend policy than a bank growth and size.

From the study of Moradi et al. (2010), it was discovered that all listed companies in the Tehran Stock exchange between 2000 – 2008 have it that there is a direct relationship between dividend and profitability. According to Panel date of Korean banks during 1994 – 2005, the result shows that the banks with higher profitability or performance pay more dividends, they also found very strong significant and consisted evidence that the safer banks pay more dividends.

Al-kuwani, (2009) examined the determinant of dividend policies for non financial firms listed on Gulf Co-operation Council (GCC) country stock exchanges from 1999 to 2003. The results suggest that the main characteristics of firm dividend payout policy were that dividend payments are related strongly and directly to government ownership firm size and firm profitability, but negatively to leverage ratio. 100 companies listed at Karachi stock exchange (KSE) for 3 years has been analyzed by Afza and Mivza (2010) using ordinary least square (OLS) regression. The result showed that marginal and individual ownership, cash flow, sensitivity, size and leverage are negatively related to cast dividend whereas, operating cash flow and profitability are positively related to cash - dividends.

Mehta (2012) investigated the determinant of dividend payout for all firms in the area of real estate, energy sector, construction sector, telecommunication sector, health care and industrial sector. The study provides evidence that profitability and size are the most important considerations of dividend payout decision.

Alzomaia and Al-khadhiri (2013) investigated the impact of earnings per shares, previous dividends represented by dividend per share for last years, growth, debt to equity ratio, beta and capital size on dividend per share for 105 non financial firms listed in Saudi Arabia Stock exchange from 2004 to 2010. The results show that non-financial firms rely on current earnings per share and past dividend per share of the company to set their dividend payment.

Zameer et al. (2013) used stepwise regression analysis, discover that liquidity, profitability, last year dividend and ownership structure show a highly significant relationship with the dividend payment of Pockistani banks. The result reveals that profitability, last year dividend and ownership structure show positive impact on dividend payout. Ajanthan (2013) studied the relationship between dividend payout and firm profitability among listed hotels and restaurant companies in the Colombo Stock Exchange (CSE), the finds indicated that dividend payout was a crucial factor affecting firm performance. In order to determine whether there is a relationship between the companies selected factors and the dividend pay ratio, Hellstorm, Gustav, Inaeamdaev, and Gairatjion (2012) conducted both an ordinary least square and Tobit regression. They found that some of the company selected factors have an impact on the companies' dividend payout ratio.

3. MATERIAL AND METHOD

This study adopts ex-post facto research design because the study makes use of historical data and the researcher cannot manipulate the variables. Assuch, a total of 13 commercial bank which are listed on the Nigerian Exchange Group were purposively sampled. This comprises Access Bank Plc, Eco Bank Plc, FCMB Plc, Fidelity Bank Plc, First Bank Plc, Guaranty Trust Bank Plc, Stambic IBTC Plc, Sterling Bank Plc, Union Bank Plc, United Bank for Africa Plc, Wema Bank Plc, Zenith International Bank Plc, and Unity Bank Plc. In view of the nature of the hypotheses tested which maintained focus on relationship, the Pearson correlation statistical tool was employed. To this end, Risk which represents the independent variable was measured with debt security and equity security while the dependent variable, dividend policy, was measured with dividend payout ratio.

3.1 Decision Rule: The decision rule was based on 5% (0.05) level of significance. The null hypothesis will be accepted, if the probability (F-Statistic) is greater than (>) the stated 5% level of significance, otherwise reject.

4. RESULT AND DISCUSSIONS

4.1 Test of Hypotheses

H_{o1}: Debt security has no significant relationship dividend payout ratio of quoted commercial banks in Nigeria

H_{o2}: Equity security does not significantly relates with dividend payout ratio of quoted commercial banks in Nigeria

Table 1: Pearson Correlation Matrix

	DPR	DS	ES
DPR	1.0000		
DS	0.3939	1.0000	
ES	0.0146	0.0225	1.0000

Source: E-views 10.0 correlation output 2023.

Pearson Correlation analysis aids in determining the degree of association between two or more variables. Person correlation coefficient was used to assess the strength of direction of the association between the dependent and independent variables. From the findings on the correlation analysis in Table 1, the study found that there was positive but insignificant relationship between DS and DPR

(0.3939 > 0.05) and a positive and significant relationship between ES and DPR (0.0146 < 0.05) respectively. From the above statistical output in Table 1, it is obvious that, there is a significant positive relationship between Debt securities and Dividend payout ratio though insignificant in nature. Also, there is a significant and positive relationship between equity securities and dividend payout ratio.

CONCLUSION AND RECOMMENDATIONS

This study is carried out to examine risk as a determinant of dividend policy of Quoted commercial money banking in Nigeria. The study investigate the determinants of dividend payout ratio for 14 banks listed in the Nigeria Exchange group from 2008 – 2021, the study used dividend policy as the dependent variable and risk as independent variable. It analyzed the determinants of dividend policy (Debt securities and equity securities). The study concluded that there is a positive and significant relationship between Debt securities and equity securities with dividend policy. Banks pay more dividend when its debt is high, also the greater the number of shares bought, the larger the dividend payout. Therefore, it is recommended that deposit money bank should be more interested in retain earning than to distribute the profit as dividend. It is also recommended that more research should be carried out on other determinants factors like tax, leverage and others.

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