Profitability and Dividend Policy of Consumer Goods Firms in Nigeria

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Abstract

Profitability is the terminology for describing the efficiency and hence success or failure of a business venture. It connotes the ability of a business to produce a return on an investment based on its resources in comparison with an alternative investment. This study examined profitability and dividend policy of consumer goods firms in Nigeria in Nigeria for a period of (2015-2022). Specifically, the study examined the effect of ratio of net profits to revenues on dividend payout ratio; assessed the effect of ratio of profit after tax to total assets on dividend payout ratio; determined the effect of ratio of profit after tax to total equity on dividend payout ratio. The dependent variable is payout ratio which is the proxy for dividend policy. The study covered a sample of nine consumer goods firms within an eight-year time frame from 2015 to 2022. The panel regression model was employed and Hausman test used to select between Fixed and Random effects for result interpretation. The summarised findings showed that firm profitability has significant effect, driven by net profit margin and firm size, on the dividend policy of consumer goods firms in Nigeria. The study concluded that firm profitability is determinants of dividend policies of quoted firms in Nigeria. The study recommends that investors with risk adverse attitude needing quick return on investment should consider larger firms that have higher propensity to pay dividend.

Keywords: Consumer Goods Firms, Dividend Policy, Nigeria and Profitability

Introduction

Businesses around the world have their primary goals as the maximisation of returns to the owners of the business. Amongst the returns to corporate businesses are dividend payments and capital gains (appreciation). The capital appreciation comes from the increasing market value of quoted stock due to market factors like share demands, information, and firm value. The dividend payment comes in form of cash, bonus issue or repurchasing shares (Abdullahi, Adebayo & Aliyu, 2020). Among these variations of dividend payments, a cash dividend is the most common means of profit sharing with the advantage of meeting the liquidity needs of investors and signalling the current and future prospects of a firm to shareholders (Adepoju, Ogunyemi & Onafadeji, 2019). However, cash dividends may reduce the amount of funds retained by a company to finance its future growth and investments; this may force a company to have more external borrowing which may lead to more regulatory scrutiny and higher costs of financing (Afensimi & Izedomni, 2019).

In corporate businesses where the owners are different from the management, the management are motivated to formulate policies that will maximize shareholders' wealth. The policies and decisions will include (amongst others) investment, financing and dividend policy decisions. Dividend policy is the aspect of financial management function that fine-tunes the proportion of firm's profit that should be distributed to the shareholders and the proportion to be retained for additional investment. Whichever options the management adopts, whether or not to pay and what

proportion to distribute from earnings constitute a topical issue in finance and has created a concept described as the dividend payment puzzle. This explains why Black (1976) noted that "the harder we look at the dividend picture, the more it seems like puzzle, with pieces that do not fit together".

In Nigeria, the dividend payment puzzle was moderated by some enabling laws that tend to regulate the payment of dividends by shareholders in Nigeria. These regulations place restrictions to the dividend payout not to exceed certain percentage. These restrictions may include government policy on the proportion of earnings to be distributed, while the second restriction may be the Companies and Allied Matters Act (CAMA) which governs the operation of registered companies in Nigeria. The annual general meeting has the power to reduce the amount of proposed dividend. One of the reasons behind the dividend decision policy of the Nigerian government is to ensure that funds are available for continuous investment in assets, so that the companies will continue to operate on the growing concern principle (Sanyaolu, Onifade & Ajulo, 2017).

One of the burning issues in corporate finance for many decades has been how to determine an optimal dividend payout ratio that satisfies the stakeholders to profit sharing (Alaeto, 2020). Two schools of thought in opposing divides have emerged in a bid to addressing this challenge: the dividend irrelevance theory and dividend relevance theory. The view of the dividend irrelevance proponents championed Miller and Modigliani, (1961) is that dividend policy does not matter and as such does not affect the firm value. On another divide is the dividend relevance theorists who argued that dividend policy matters in corporate financial management and therefore is a determining factor to firm value (Gordon 1962; Bhattacharya, 1979). These schools have created: the Modigliani and Miller theory and others explaining how dividend affect business activities and firm value.

However, imperfect situation abounds in real life such that dividend can influence shareholders wealth by providing information to investors or through wealth redistribution among claimants. It can be argued that dividends provide information about the firm's future cash flow and as such decision bothering on dividend can effect a change on a firm's value (Alaeto, 2020).

These theories have been empirically tested both in the developed and developing economies. The recent issue is that corporate dividend policies vary across countries and are influenced by institutional factors associated with corporate governance and some characteristics of the firms including profitability, capital structure liquidity and even size (Sanyaolu, Onifade & Ajulo, 2017; Aldini, Santoso & Putra, 2018; Afensimi & Izedomni, 2019; Zulfikar, Nofianti, Dwi Astuti, Meutia & Ramadan, 2020; Hettiarachchi & Samarakoon, 2020). A plethora of empirical evidences examined has shown conflicting findings as regards the determinant of dividend policy. The desire to address these shortcomings prompted us to embark on this study

Empirical evidences on corporate governance and dividend policy nexus for Nigerian firms have remained conflicting. Gaps abound in empirical evidence on the effect of corporate governance, profitability, capital structure, liquidity and even firm size on dividend policy in the consumer goods firms quoted on the Nigerian Stock Exchange. For instance, specific attention has been given to holistic sector, (Afensimi & Izedomni, 2019), non-financial firms (Odeleye, 2017, and Nwidobie, 2020), and the banking industry (Kurawa & Ishaku, 2014) in Nigeria, yet none has singled out the consumer goods sector for consideration of corporategovernance. Some studies on

profitability- dividend nexus in Nigeria have employed return on asset, return on equity or earnings per share or a combination of them (Adepoju, Ogunyemi & Onafadeji, 2019; Sanyaolu, *et al* 2017). Return on capital employed is a more comprehensive measure of management efficiency than return on asset: Previous studies have not considered the profit margin paradigm that weighs returns against sales volume. Firm size has no known in-depth extant literature to explain the effect of corporate governance on dividend policy. Extant studies on liquidity as determinant of dividend only considered the current ratio in exclusion of the effect of cash flows. This study will attempt to close these gaps and inconsistencies in extent literature

Conceptual Review

Profitability

Profitability is the terminology for describing the efficiency and hence success or failure of a business venture. It connotes the ability of a business to produce a return on an investment based on its resources in comparison with an alternative investment. Profit is obtained when the aggregate amount of revenue is greater than the aggregate amount of expenses in a reporting period. Thus, it is the profitability that determines whether a firm stays in business (Aldini, Santoso & Putra, 2018). Profitability has long been regarded as the primary indicator of a company's capacity to pay dividends (Ali, Hanming, & Ullah, 2018).

A firm's current and previous year's profits are an important factor in influencing the dividend policy. Dividends are a function of current and past profit levels and the future earnings and expected future earnings. Profit is the single most important factor in a company's financial statement and it has been widely used in previous studies to determine the relationship with dividend payout ratio (Amidu & Abor, 2006; Hedensted & Raaballe, 2008; Anil & Kapoor, 2008). In the empirical literature, different measurements have been used to measure profitability. (Al-Kahmisi and Hassan (2018) used Earnings before Interest and tax divided by Total Assets as a measurement of profit. Another method used in previous research to measure profit is the Return on Equity,

Hayes (2021) listed the common examples of profitability ratios as profit margin (PM), return on assets (ROA), and return on equity (ROE). This study adopts them as the proxies for firm profitability the purpose of this study.

Profit Margin (PM)

Profit margin is the ratio of profit to revenue of the firm. Different profit margins are used to measure the profitability of the firm at various cost levels of inquiry, including gross margin, operating margin, pretax margin, and net profit margin. The net profit margin is one that incorporates all the costs such as the cost of goods sold, operating expenses, and taxes. The net profit margin, measures how much net income or profit is generated as a percentage of revenue. It is the ratio of net profits to revenues for a business segment. Net profit margin is typically expressed as a percentage but can also be represented in decimal form. The net profit margin illustrates how much of each dollar in revenue collected by a company translates into profit.

By tracking increases and decreases in its net profit margin, a company can assess whether current practices are working and forecast profits based on revenues. Because businesses express net profit margin as a percentage rather than a Naira amount, it is possible to compare the profitability of

two or more businesses regardless of size. Investors can assess if a company's management is generating enough profit from its sales and whether operating costs and overhead costs are being contained. For example, a company can have growing revenue, but if its operating costs are increasing at a faster rate than revenue, its net profit margin will shrink. This scenario can influence dividend payment for firms that considers stability a prime factor for business sustainability a company has amassed, the more sales and potential profits the company may generate".

Return on Equity (ROE)

ROE is a key ratio for shareholders as it measures a company's ability to earn a return on its equity investments. ROE, calculated as net income divided by shareholders' equity, may increase without additional equity investments. The ratio can rise due to higher net income being generated from a larger asset base funded with debt.

The ROE was adjudged as one of the best measurements of firm's profit since it reveals the capacity to generate cash internally (Olabisi, Fapetu & Onyekuwuluje, 2017). For firms in the industries with low investments in property, plant and equipment, the return on asset (ROA) is usually high. Return on Equity vary somewhat between industries but not to the same extent as ROA. Therefore, firms that finances majority of its business with debt has higher Return on Equity and firms that rely on internally generated funds have lower Return on Equity. Nonetheless, this study employs all these ratios as the independent variables to dividend decision of the consumer goods firms in Nigeria.

Dividend

The dividend is the reward for equity capital. To investors in the stock of a firm entitles investors the ownership rights to guarantee them a share from the profit or loss of the firm. Dividend is the entitlement to the proportion of the profit declared for distribution to the shareholders. We describe it as an entitlement because it is the reward for the risk undertaken and the gain for investment into ownership right of a firm. In the words of Sanyaolu, Onifade and Ajulo (2017), "Dividend is the payment by a company to its shareholders out of its distributable profit as a reward for investments". In other words, payment from a distributable profit means that it is payable from the revenue remaining as profits after all other stakeholders have been settled. The risk burden on the shareholder arises from being the last receiver of reward from the business revenue.

For an investor, the dividend is just one of the gains of investment. They can wait for capital appreciation that can be due to increase in the value (net worth) of the firm or from the share of the profit distributable which we called a dividend. A firm is not obliged to pay out the profit of the business at the end of the financial year. The firm may reinvest and expect increased returns that will improve future rewards to shareholders. Any of the options ofeither to pay or not and what proportion to distribute from firm profit connotes dividend policy. A firm put forward some yardsticks, and strategies to determine and suggest when and how firm profitability should be administered for the optimal gains to the owners of the business and benefit of other stakeholders in the system. This defines the concept of dividend policy.

Dividend Policy

Dividend Policy defines the "amount of dividend payments and the amounts of retained earnings for reinvesting in new projects" (Basheer, 2014). The policy fashioned out the suitable proportion for dividing the profit after taxation into the immediate payments to shareholders and reinvestment in new business opportunities. The policy covers such issues bothering on proposing the payout, method of payment and the aggregate retention of earnings policy that management follows in determining the size and pattern of cash distributions to shareholders over time (Estevez, 2020). A dividend policy is not a plan cast in stone. It is only a set of guidelines employed by a firm to decide how much of its earnings it will pay out to shareholders (Fernando, 2021). This guideline only aims to give flexibility to investors on how to manage and utilise returns on their investment. According to Morakinyo, David, Adeleke and Omojola (2018), "…investors are not concerned with a company's dividend policy since they can sell a portion of their portfolio of equities if they want cash".

The primary interest of the investors in dividend policy is that it serves to maximise the net worth of the shareholders. The optimal dividend policy of a firm depends on investor's desire for capital gains as opposed to income, their willingness to forgo dividends now for future returns, and their perception of the risk associated with postponement of returns, therefore management should not retain income unless they can reinvest those earnings at higher rates of return than shareholders can earn themselves (Brigham & Houston 2009). This is why Kurawa and Ishaku (2014) were of the opinion that dividend and retained earnings are an opposite of each other, yet they still go hand in hand since it's not possible to formulate one without having an effect on the other, therefore, a company must strike a balance between the two by finding a dividend payout ratio that will provide sufficient equity to support the capital budget without having to sell new common stock or take the capital structure ratios outside the optimal range.

The essence of dividend policy is to guide the management to plan on the size, distribution channel and retention of capital. This is Gitau, (2015) identified as three-pronged aspects of dividend policies size, distribution channel or the form of resources with which to pay rewards and then the amount to apportion for new ventures. Nonetheless, most literature has employed the size of the payment to define and investigate dividend policy issues across economies.

The Consumer Goods Firms in Nigerian Stock Exchange

Consumer goods is one of the eleven sectors under which the quoted firms are classified by the Nigeria Stock Exchange. The market is the group for the firms in the category of "stocks and companies that relate to items purchased by individuals and households rather than by manufacturers and industries" (Scott, 2020). These groups of companies are in the business of making and selling products that serve the wants of the direct consumer for their use and enjoyment. According to Scott (2020), the consumer goods sector is involved with food production, packaged goods, clothing, beverages, automobiles, and electronics, which are directly used by the buyers in the household and for personal consumption.

The consumer goods sector in Nigeria is rated as a big market but the majority of its market share is dominated by the low-income groups. The demographic features of Nigeria are attractive to the consumer industry to thrive. The large population size of the country makes it a destination of a huge market for consumer-facing companies and retailers. According to World Bank data, Nigeria, South Africa and Egypt - contributes above 50.0% of Africa's total consumer spending.

Theoretical Framework

This study is anchored on Dividend Irrelevance Theory which was propounded by Miller and Modigliani, (1961) in their seminal contribution to research on Dividend policy argued that the value of the firm is independent of its dividend policy.MM argued that the value of a firm depends only on the income produced by firm assets and not on how this income is split between dividends and retained earnings. MM further noted that any shareholder can in theory construct its own dividend policy, e.g. if a firm does not pay dividends, a shareholder who wants 10% dividends can create it by selling 10% of his stock. They argued that if investors could buy and sell shares and thus create their own dividends without incurring costs, then the firm's dividend policy would truly be irrelevant.

MM further supported their argument by saying that, if a firm does not have sufficient cash to pay dividends and therefore issues new shares to finance the payment of dividends then, the shareholders get the new shares in the form of dividends but suffer an equal amount of capital loss since the value of their claim on assets reduces. Thus, the wealth of the shareholders does not change. The new shareholders part with their cash in exchange for new shares and the existing shareholders transfer part of their claim to the new shareholders in exchange for cash. Thus, there is no net gain or loss and the value of the firm will remain un- altered after the transaction. MM based their argument on the assumption that there are no corporate taxes, no transaction cost associated with the flotation of new shares, capital markets are efficient, and there is no uncertainty, all investors make decisions using the same discount rate.

Empirical review

Muhammad and Moona (2017) carried out a study to sectoral determinants of dividend payment behaviour of quoted firms in Karachi Stock Exchange Pakistan for the period 2009 to 2013. Data were gathered from 15 sectors for a period of five years developed into regression model and analysed using pooled ordinary least square (POLS) test. The dependent variable is the dividend payment while the independent variables are earnings per share and free cash flow. The results showed that earnings per share have significant and positive effect on dividend payment in eight sectors including beverages, travel and leisure, fixed-line telecommunication, food processors, household goods, personal goods, automobiles, and electricity. However, the coefficient for forestry (paper and board) showed a negative effect on dividend payout ratio. More so, free cash flow was found to have a positive effect on dividend payment in fixed-line telecommunication, and a negative effect on chemical, forestry, construction and material, engineering, beverages, tobacco, travel and leisure, food processor, household goods, pharmaceutical and biotech, and automobiles.

The determinants of dividend policy were also analysed by Soondur, Maunick and Sewak (2016) for 30 firms quoted on Stock Exchange of Mauritius within a period of 2009 to 2013. The independent variables as possible determinants of dividend policy are earnings per share, net income, retained earnings, cash and debt to equity regressed on two measures of dividend policy: dividend per share and dividend payout ratio. Results from the fixed and the random effect models

showed that retained earnings has a significant negative effect on dividend policy while company's cash and debt to equity ratio showed no significant effect on dividend policy.

In a well moderated study Aldini, Santoso and Putra (2018) investigated the effect of profitability on dividend policy of manufacturing companies listed on Indonesia Stock Exchange (IDX) for a period covering 2011 to 2015. The profitability indicator was return on equity while dividend policy was captured as dividend payout ratio. The regression result showed that return on equity has a positive and significant effect on dividend policy. The result did not change with a moderation of investment opportunity set (market to book value of equity) which itself had an insignificant negative effect on dividend policy.

Adepoju, Ogunyemi and Onafadeji (2019) examined the effect of financial performance on the dividend payout policy of 24 selected firms quoted on the Nigeria Stock Exchange (NSE), spanning from 2007 to2016. Results from panel data technique (based on random effect) showed that return on asset as financial performance indicator (independent variable) has a significant effect on the dividend payout of firms in Nigeria. The study recommended that firms quoted on the Nigeria Stock Exchange should that wants to pay more dividend should enhance their acquiring profitable assets for improved financial performance as this will equally in turn increase their earnings and boost the ability of the firms to pay more dividends.

Sanyaolu, Onifade and Ajulo (2017) aimed to determine the extent to which firm performance influence dividend policy of listed food and beverages and cement firms in Nigeria. The study used dividend per share has proxy for dividend policy and the dependent variable while return on capital employed, earnings per share were the explanatory variable of firm performance with Tangible Asset growth rate as control variable. The data obtained from five (5) firms for a period of eight years spanning 2008 to 2015 were analysed based on the panel least square regression technique. The findings revealed that Earnings per Share had a positive and significant effect on dividend per share while Return on Capital and tangible asset rate were negative but only tangible asset was significant on dividend per share. The study suggests that only dividend policy that motivates investors to commit more resources in the company and enhanced retention of higher proportion of profit will ensure future growth without detriment to shareholders wealth maximisation.

In the work of Kristianti and Foeh (2020), one of the simple regression models examined the effect of profitability on dividend policy pharmaceutical sub sector manufacturing companies listed in Indonesian Stock Exchange from 2013 to 2017. The study measured profitability as return on equity (ROE) and dividend policy with dividend payout ratio (DPR). Regression Analysis showed that profitability has a significant positive effect on Dividend Policy of the selected firms in Indonesia.

Zulfikar, Nofianti, Dwi Astuti, Meutia and Ramadan (2020) carried out a study to examine the role of ownership's concentration as a moderator of the relationship between dividend policy effects and firm value in Indonesia. Price to Book Value (PBV) was used as proxy for firm value and Dividend Payout Ratio (DPR) as the dependent variables was moderated with concentration of ownership, size and leverage. A sample of 23 firms generated for a period of five years spanning 2014 and 2018 were analysed using the Moderate Regression Analysis (MRA). The results showed

that dividend policy had a positive effect on firm value. As well, firms whose ownership had been owned by families would affect management policies, such as dividend policy. The study implies that business ethics in Indonesia had been weak and thus there is need to strengthen corporate governance in the economy.

Using a time frame covering 2006 to 2014, Ali, Hanming andUllah (2018) examined the effects of ownership and board structure on dividend smoothing in Pakistani listed banks. The study employed board size, board independence, audit size, CEO-duality, management, foreign and majority ownership as proxies for corporate governance while Speed of Adjustment (SOA) to dividend payment was used as proxy for dividend smoothing. The sample of 19 banks listed on the Karachi Stock Exchange (KSE) within a period of 9 years (2006 to 2014) was regressed using random Tobit technique. The principal component analysis (PCA) was employed to develop a corporate governance index. The findings revealed that banks with concentrated and foreign ownership, small size audit committee and less independent boards, show higher levels of dividend smoothing. However, banks have joint positions CEO and chairperson, showed lesser dividend smoothing. The study posits that increased dividends is a sound monitoring mechanism for shareholders within a weak corporate governance environment.

Ishaku, Abba, Muktar and Abdulkarim (2020) examined the relationship between capital structure and dividend policy of conglomerate firms quoted in the Nigerian Stock Exchange. Data were collected from six conglomerates for a period of eight years spanning 2012 to 2019 and analysed using the robust GLS regression analysis. The variables for the analysis are the dividend policy which is proxies by dividend payout ratio (DPR) as the dependent variable and the independent variables is capital structure represented by debt-to-equity ratio and debt to asset ratio. The model was controlled by return on asset, firm age and size. The results showed that debt to equity ratio and debt to asset ratio have significant negative effect on dividend payout ratio of listed conglomerate companies in Nigeria. However, firm size, and age have significant positive effect on dividend payout ratio, while return on assets (ROA) showed an insignificant positive effect on dividend payout ratio. The study posits that capital structure has adverse effect on dividend policy of conglomerate firms in Nigeria and hence debt serve as a monitoring mechanism to the absentee owners. It thus recommended that management should adopt debt contracts that encourages dividend payment to shareholders.

Yousaf, Ali, and Hassan (2019) examined the impact of family control on the dividend policy of firms in Pakistan. Data were gathered from 54 family firms and 49 non-family firms for a period covering 2009 to 2016. The study aimed to also investigates the extent to which of family control moderates the impact of firm-specific factors on the dividend policy. The GMM model for panel data estimation is used. The mean difference univariate analysis shows that family firms differ from nonfamily firms based on financial characteristics. The multivariate analysis shows that family firms pay lower dividends than nonfamily firms. On the overall, the study posited that family control, size, and tangibility are the major determinants of the dividend policy in Pakistan.

Kajola, Olabisi, Soyemi, and Olayiwola, (2019) examined the effect of proportional representation of female as directors in corporate boards on the dividend policy amongst 19 listed consumer goods and industrial companies in Nigeria covering 7 years from 2010 to 2016. Dividend pay share served as the dependent variable while Proportion of female directors to total board membership

and Absolute number of female directors on board were the independent variables controlled by firm size, board size and profitability. The results from Random Effects Generalised Least Squares (REGLS) model revealed that a positive and significant association between the number of women in corporate boardrooms and dividend policy.

Nwidobie (2020) carried a study to investigate the effect of board diversity on the dividend per share of listed nonfinancial firms in Nigeria in both the short and long-terms. Board diversity was disaggregated into proportion of female, male and minority members of the boards of directors. A sample of nine firms for a period of 2010 to 2018 were analysed using multivariate log-linear regression model. The results indicated that increasing the proportion males on the board has positive effect on dividend per share while increasing the proportion of females and minority shareholders on the boards had negative effects on dividend per share both in the short and long-runs. The study posits that shareholders interested in higher dividend per share should appoint more males, and less females and minorities to the board.

Juhmani (2020) evaluated the effect of corporate governance using board characteristics and ownership structure on dividend payout decision of firms Bahrain within 2014 and 2016. The dependent variable was captured as the dividend payout ratio while the independent variables were board independence, board size, frequency of board meetings, block holder ownership, institutional ownership and managerial ownership. Results from multiple OLS regression that board independence has a significant negative association with the dividend payout decision, and board size has a significant positive association with the dividend payout decision. Other variables including the frequency of board meetings and ownership structure (blockholder ownership, institutional ownership, managerial ownership) did not have significant effect on the dividend payout decisions.

Methodology

Research Design

The *ex-post-facto* research design was adopted for this study. Secondary data was used for the study. The data were obtained from the Financial Statement and Annual Accounts of the selected firms from 2013 to 2020. Data were collected from the nine out of the 20 consumer goods firms that currently render their financial reports to the Nigerian Stock Exchange. The population of the study consists of all consumer goods firms quoted on the Nigeria Stock Exchange as at April, 2021. 17 of these firms formed the sample for the study. This is about 85% of the target population. The sample size is justified by the claim that a good sample covers at least 10%-30% of the representative population (Husna & Satria, 2019).

Table 1: List of consumer goods firms quoted on the Nigerian Stock Exchange as at April, 2022.

SN	Name of Company	Acronym
1	Cadbury Nigeria Plc.	CADBURY
2	Champion Brew. Plc.	CHAMPION
3	Dangote Sugar Refinery Plc	DANGSUGAR
4	DN Tyre & Rubber Plc	DUNLOP
5	Flour Mills Nig. Plc.	FLOUR
6	Golden Guinea Brew. Plc.	GOLDBREW
7	Guinness Nig Plc	GUINNESS
8	Honeywell Flour Mill Plc	HONYFLOUR
9	International Breweries Plc.	INTBREW
10	Mcnichols Plc	MCNICHOLS
11	Multi-Trex Integrated Foods Plc	MULTITREX
12	Northern Nig. Flour Mills Plc.	NNFM
13	Nascon Allied Industries Plc	NASCON
14	Nestle Nigeria Plc	NESTLE
15	Nigerian Breweries Plc.	NB
16	Nigerian Enamelware Plc.	ENAMELWARE
17	P Z Cussons Nigeria Plc.	PZ
18	Unilever Nigeria Plc.	UNILEVER
19	Union Dicon Salt Plc.	UNIONDICON
20	Vitafoam Nigeria Plc.	VITAFOAM

***Sources**: Nigerian Stock Exchange (2022). http://www.nse.com.ng/issuers/listed-securities/listed-companies*

Model Specification

The models are developed in line with the specific objectives of the study. Five models are developed as follows:

Model of Firm Profitability and Dividend Policy Nexus

The model for objective two aims to regresses profitability variables on dividend policy. The present model is at variance with the models employed by extant studies (See Nos 17 to 23 on Table 1). However, unlike Kristianti and Foeh, (2020) that employed Return on Asset and controlled for firm size and ownership structure (OS), the present study modified it to include net profit margin and return on equity and controlled them with only size. Thus, the present model is:

DPR = f(ROA, FS)

Where:

DPR = Dividend payout ratio

ROA = Return on Asset

FS = firm size

The Model is modified by introducingnet profit margin and return on equity

DPR = f(ROA, FS,NPM, ROE)

The Econometric Equation Form of the Model is:

$DPR_{it} = \alpha_{it} + \beta_1 NPM_{it} + \beta_2 ROA_{it} + \beta_3 ROE_{it} + \beta_4 FS_{it} + \mu_{it}$

Where:
DPR = Dividend payout ratio
ROA = Return on Asset
FS = firm size
NPM = Net profit margin
ROE = Return on equity
μ is the error term
β_{1-3} are the coefficient of regression for the three firm profitability variables
t is the time period spanning 2011 to 2020, and
i is the cross section of firms.

Method of Analyses

Panel regression model are developed for the study. The Fixed Effect Model and Random Effect Model will be used for the analysis. The pre-estimation analysis will include descriptive statistics covering mean, and standard deviation of the variables; and the Hausman test that will determine the most suitable tool of analysis. The post estimation analysis will be the diagnostic test that will cover the multicolinearity. Heteroskedasticity, and normal distribution test.

Decision Criteria

The hypotheses were tested at 0.05 level of significance. The decision rule is to reject null hypothesis when the computed probability value is less than 0.05 level. Otherwise, accept null hypothesis when the computed probability value greater than 0.05 level.

DATA ANALYSES

Descriptive Statistics

The descriptive statistics include mean, standard deviation, Maximum, minimum, Skewness and Kurtosis, as well as the Jacque Bera statistics for the individual variables. The mean and standard deviation will be used to explain the nature of the data while the Jacque Bera captures the behaviour relation to time series. Mean is the average value of the series, and Standard deviation measures dispersion in the series.

The Jarque-Bera Statistics and its corresponding probability values examined the normality of the distributions in the individual variables. The null hypothesis is that "the variables are normally distributed". The decision rule is to reject the Ho when p. value is less than 0.05 level of significance.

These are used to explain the nature of the data for the study. Descriptive statistics of the variables are shown on Table 3, 4, 5, 6 and 7, for each of the models.

Table 2: Analysis of the Descriptive Statistics of the Dividend Policy and Profitability Variables

	DPR	NPM	ROA	ROE	FS
Mean	1.22	25.98	5.25	18.94	17.98
Std. Dev.	4.87	21.02	8.24	35.82	1.07
Jarque-Bera	3320.95	9.00	5.18	108.76	2.32
Probability	0.00	0.011	0.07	0.00	0.31
Observations	71	71	71	71	72

The descriptive statistics for firm profitability is shown on Table 4. The mean is NPM (25.98), ROA (5.25), and ROE (18.94) with corresponding standard deviations are 21.02, 8.24 and 35.82, respectively. That the standard deviation for most of the profitability variables (ROA and ROE) are larger than the Mean, suggest a wide variation capable of instigating non-normal distribution in the series. The test for normality from Jacque Bera statistics and corresponding p. values for NPM, ROA and ROE as 9.00 (0.011), 5.18 (0.07) and 108(0.00), respectively. Since the p. values are less than 0.05 level of significance, the study rejected the null hypothesis and posit that profitability variables lack normal distribution.

Model Estimation

The panel regression techniques were used for the estimation of the models that addressed the specific objectives of the study. Two techniques (Fixed Effect and Random Effect) were conducted and the Hausman test was employed to determine the most suitable for the interpretation of result.

Effect of Firm Profitability on Dividend Policy

Table 11: Regression result of the relationship between firm profitability and dividend policy
Dependent Variable: DPR
Sample: 2015 2022
Periods included: 8
Cross-sections included: 9
Total panel (balanced) observations: 72

Independent Variables	Fixed Effect Model			Random Effect Model ***Preferred**		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
NPM	0.0277	5.9395	0.0313	0.0296	6.0167	0.0130
ROA	0.0276	3.2136	0.0316	0.0406	0.3562	0.7228
ROE	0.0064	0.2275	0.8208	0.0023	0.0865	0.9313
FS	-0.5555	-0.9131	0.3649	-0.4802	-3.8045	0.0240
C	10.751	0.9793	0.3315	9.3395	0.8639	0.3908
R-Squared	0.3349			0.4470		
F-statistic (Prob)	4.8363 (0.0051)			12.8139 (0.0208)		
Durbin Watson (DW)	2.4148			2.3978		
Hausman test	4.5325 (0.3387)					

***Source**: Extract from Eviews Results presented on Appendix 3.*

The analysis for the interpretation of objective two is shown on Table 11. The Table showed least square regression results based on Fixed Effect and Random Effect. The Hausman test was employed to determine the most suitable tool of analysis between the fixed and random effect models. The result of the Hausman statistics is 4.5325 with0.3387 probability value.

Since the p. value is greater than 0.05 level of significance, the study did not reject the null hypothesis that the random effect model is preferred. Hence, the study adopted to random effect model to interpret the effect of firm profitability on dividend policy amongst consumer goods firms in Nigeria. The result indicates that both cross-section and period effect influence the outcome of the analysis.

From the results, the R-square is 0.4470 which indicates that about 45% of the changes in dividend policy of the consumer goods firms in Nigeria can be explained by firm profitability variables (NPM, ROA and ROE). This implies that about 55% of the factor that influence dividend policy was not accounted for by firm profitability. The F-statistics is used to test the overall effect of the model. The F-statistics is 12.8139 with p.value of 0.0208 which is less than 0.05 level of significance. Since the p.value is less than 0.05 level of significance, the study concludes that firm profitability accounts for about 45% of the dividend policy quoted of the consumer goods sector firms in Nigeria.

The results of the coefficient of independent variable are used to produce equation of the relationship from the model as given below:

DPR_{it} = 9.3395 + 0.0296NPM* + 0.0406ROA+ 0.0023ROE-0.48023FS**
****significant at 5%, *significant at 1%**
From the above equation and Table 11, the model for firm profitability and dividend policy nexus revealed that firm profitability indicators have positive relationships with dividend policy. The coefficients are NPM = 0.0296, ROA = 0.0406 and ROE = 0.0023. This implies that a unit increase in net profit margin (NPM), return on asset and return on equity will lead to about 3%, 4% and 0.2% rise in dividend payout ratio, respectively. However, firm size (FS) had a regression coefficient value of -0.48023 which indicates negative relationship with dividend policy. As such, unit increase in firm size is expected to result in a 48% fall in firm propensity to pay dividend.

The t-statistic and the corresponding p.values for the variables are: NPM = 6.0167 (0.0130), ROA = 0.3562 (0.7228), ROE = 0.0865 (0.9313), and FS = -3.8045 (0.0240). The probability values for NPM and FS are less than 0.05 level of significance, andhence we rejected the null

hypothesis of no significant effects. Then ROA and ROE had p.values greater than 0.05 and thus the study could not reject the null hypothesis.

Conclusion

Corporate characteristics are determinants of dividend policies of quoted firms in Nigeria. This study showed that corporate governance, firm profitability, firm liquidity, and firm size are drivers of dividend policies in Nigeria. Among these variables, board independence, net profit margin ratio, current ratio, total asset and market capitalization showed significant positive effects and hence are the drivers of firm high dividend payout ratio. However, institutional ownership and Chief Executive Officer Duality had significant negative effects, and thus causes low dividend

payout ratio among quoted consumer goods firm in Nigeria. These results emanated from Radom effect models which imply that these outcomes are common among the quoted firms at all times. The study concludes that corporate characteristics are determinants of dividend policies of quoted consumer goods firms in Nigeria

Recommendations

The study recommends that investors with risk adverse attitude needing quick return on investment should consider larger firms that have higher propensity to pay dividend. Management of consumer goods firms should try and increase their net profit margin, return on assets and return on equity as to enable them pay higher dividends. Consumer goods firms should put in place strategies to enhance their liquidity and improve on total asset, total sales and market capitalization to improve dividend policy.

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