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The effect of Dividend Policy on Performance of Nigerian manufacturing companies: A case of Dangote Cement Plc.

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Abstract

The study tempted to analyze the effect of dividend policy on the performance of Nigerian manufacturing companies a case of Dangote Cement Company. The data used for analysis was extracted from the annual report and account of Dangote Cement Company. The methods used for data analysis were descriptive statics, correlation and regression analysis. The result of the study revealed that the

independent or explanatory variables (dividend payout ratio, earnings per share and dividend yield) have significant and are positively effect on the dependent variable (net profit).

Introduction

Background to the Study

There have been a lot of controversies as to the right dividend policy that will impact positively on the market value added or share price of the firm. There are two schools of thought in this regard (1) the dividend irrelevant school of thought and (2) the dividend relevant school of thought. Therefore, according to Okpara (2010), corporate dividend policy has been a thing of concern to firms at large. They are faced with the dilemma of declining dividends and making provision for retained earnings so as to make room for more investments and variability increase in the market value of the firm. Dividend policy decision is concerned about how much earnings could be paid as dividend by the firm and how much could be retained. According to Miller and Modigliani (1961), the payment of dividend increases the share price of a company and this has the counter effect of reducing the capital gain of the same company, thereby making dividend payment ineffective. The dividend irrelevant hypothesis of Miller and Modigliani (1961) was further supported by Black and Scholes (1974) when they submitted that each investor has his/her own implicit conclusions regarding preference between high cash dividend benefits or their retention according to the circumstances he/she is experiencing, such as tax category into which he/she falls.

However, the planned growth rate, cash flow and capital changes can have a significant impact on a company's dividend policy. Companies usually adopt a revenue sharing policy that is proportional to the life cycle in which they currently participate. High-growth companies with large cash flows and small projects pay the same amount as their income. Furthermore, the company's dividend policy may follow some interesting patterns which makes the decision more difficult. The dividend policy determines how much shareholders should share in the company's earnings and how long the company's investment objectives need to be retained (Chenhehen and Mensah, 2015). Dividend policy refers to long-term administrative decisions about how to allocate cash flows, the amount of investment and the amount returned to shareholders (Nita, 2016). It is one of the most complicated aspects of the financial sector. There are three main policies; stable dividend policy, constant dividend policy and residual dividend policy.

A stable dividend policy requires stable and predictable dividend payments every year regardless of income. However, constant dividend policy involves a company paying a percentage of its earnings as dividends every year. On the other hand, residual dividend policy involves a company paying out what dividends remain after having paid up its capital expenditures and working capital. However, it has been debated that the implementation of the dividend policy will increase the company's profit margins, thereby increasing the value of the stock market, which will automatically affect the wealth of a shareholder and the return on investment of assets and shareholders (Eniola & Akinselure, 2016).

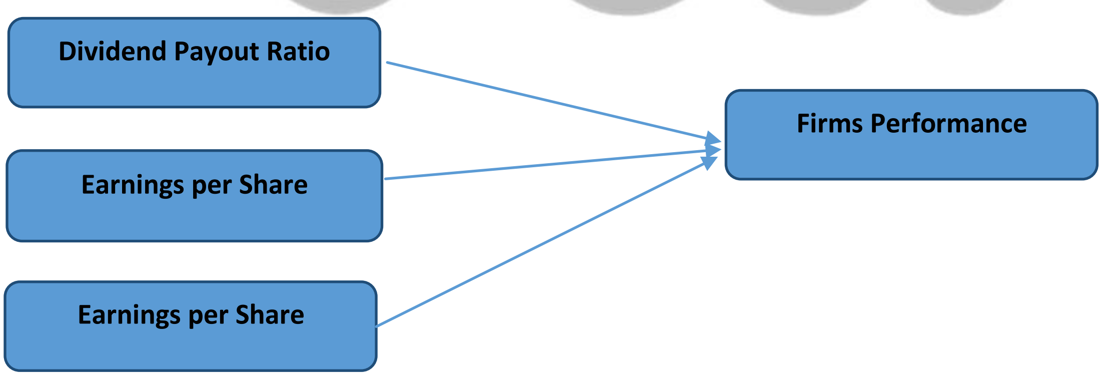
Statement of the Problem

Suggestion by previous studies may be considered as a gap by recommending future researchers to indulge and make an in-depth analysis on the suggested area that was not covered, i.e Wijekoon and Senevirathna (2019) that recommended future studies should be extended using other proxy (ies) like net profit and earnings before interest and tax other than market share price in the developing countries. This study is an attempt to fill this identified gap.

Methodology

The data was extracted from the annual report of Dangote Cement for the period of five (5) years from 2016 to 2020. Dangote Cement was selected as the sample of the study because it is the major producer among the cement companies in Nigeria. The techniques for data analysis used in analyzing data for the study were descriptive statistics, Pearson Correlation Analysis, and Multiple Regression Analysis. Assumptions in Multiple Regression used in interpretation of the result is normality test.

Research Framework



Hypothesis

H0I**:** Dividend Payout Ratio has no significant effect on net profit of the Dangote Cement

H0II: Earnings per Share has no significant effect on net profit of the Dangote Cement

H0III: Dividend Yield has no significant effect on net profit of the Dangote Cement

Data Presentation, Analysis and Interpretation

This section presents analysis and interprets the results obtained from regression and correlation analysis. The data from each hypothesis were presented and analyzed base on the dependent and independent variable. The data collected from the annual report of the Dangote cement were analyzed to determine the effect of independent variables on the dependent variable.

Result and Discussion

Correlation Matrix

	np	dy	eps	dpor
np	1.0000			
dy	0.5580	1.0000		
eps	0.3242	0.4761	1.0000	
dpor	0.6658	0.8743	0.2649	1.0000

Source: stata output, version (15) 2021

The above table shows the correlation matrix between the variables of the study. The values of the correlation coefficient vary from -1 to 1. The sign of the correction coefficient indicates the bearing of the relationship whether positive or negative. The complete value of the correlation coefficient indicates the strength with larger values, indicating stronger relationships. The correlation coefficients on the main diagonal are 1.0 because each variable has an absolute positive linear relationship with itself.

The relationship between net profit and dividend yield is positively moderate from the coefficient of 0.5580. Also, positively moderate relationship exists between net profit and earnings per share with the coefficient of 0.3242. It also revealed positive strong relationship between net profit and dividend payout ratio with the coefficient of 0.6658. While the relationship between earnings per share and dividend payout ratio is positively moderate with the coefficient of 0.2649. Strong positive relationship exist between dividend yield and dividend payout ratio with the coefficient of 0.8743. It is also revealed positive moderate relationship between dividend yield and earnings per share with coefficient of 0.4762.

Interpretation of Regression Results

The regression result of the dependent variable (net profit) and independent variables (earnings per share, dividend yield and dividend payout ratio) are presented with the interpretations of the relationship between the dependent and each independent variable. The OLS results contain the slope coefficient and related p-value of the independent variables, F-statistics and R square.

Regression results

np	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
dy	-542728.8	1041201	-0.52	0.621	-3090456	2004999
eps	2356.235	3269.721	0.72	0.498	-5644.485	10356.95
dpor	113168.5	79090.42	1.43	0.202	-80358.79	306695.8
_cons	100838.7	42584.33	2.37	0.056	-3361.423	205038.8

R squared =0.4899 Adjusted R squared =0.2349 F-statistics =0.2274

Source: stata output, version (15) 2021

The table above present the model summary of the R squared is 0.4899 which is coefficient of determination that explain the variability of a dependent variable due to the independent or explanatory variables. In this study, the dependent is net profit whereas independent variables are DY, DPOR and EPS. Here the value of R squared is0.4899 indicate 49% variation in dependent variable i.e Net profit explained by independent or explanatory variables, i.e DY, DPOR and EPS. The unexplained portion 51% exist in other factors that include in the error term of the econometric model. An adjusted R-square value is 0.2349 which is consistent with the value of R-square 0.2349. That is, there different between the values of R-square and adjusted R-square which is emphasis on the acceptability of the model. Here it is also said that all include explanatory variables in the model are relevant to explain the variation of the dependent variable. F-statistics value is 0.2274 which are statistically significant at 5% significant level that indicates goodness of the model.

Hypothesis I

The regression model indicates p-value of 0.621 which mean the earnings per share has a significant effect on net profit of Dangote Cement. That means we failed to accept null hypothesis which stated earnings per share has no significant effect on net profit.

Hypothesis II

The regression model indicates p-value of 0.498 which mean the dividend payout ratio has a significant effect on net profit of Dangote Cement. That means we failed to accept null hypothesis which stated dividend payout ratio has no significant effect on net profit.

Hypothesis III

The regression model indicates p-value of 0.202 which mean the dividend yield has a significant effect on net profit of Dangote Cement. That means we failed to accept null hypothesis which stated divided yield has no significant effect on net profit.

Conclusion

The study concluded that, the independent or explanatory variables (dividend payout ratio, earnings per share and dividend yield) have significant and are positively effect on the dependent variable (net profit) of the selected firm (Dangote Cement). This paper will help policymakers, financial executive, and other stakeholders to take their dividend decision more precisely. This paper also contributes to enriching current literature of dividend decision as well as becomes a guideline to enhance the existing study. In future the researchers may extend this study by covering large sample size and other explanatory variables like market price per share.

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