DIVIDEND POLICY AND CORPORATE PERFORMANCE OF NIGERIAN FIRMS

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ABSTRACT
Managing corporate dividend had forever being a fragile task that requires understanding and consideration of the managerial and business growth variables that are attached to it. This study examined the relationship between corporate dividend policy and the corporate performance of Nigerian manufacturing firms, via three of the literature posited corporate performance indicators: Firm's Profitability, Investments, and Earnings-per-Share, which existing related studies had ignored. The study was built on Ross and Mitnick's 1973 and 1975 Agency theory of corporate behaviour. It is a quantitative research design that x-rays a sectoral population of about 173 NSE's listed Nigerian manufacturing companies, from which twenty-five (25) stratifiedly selected manufacturing samples were tested, covering a period of 10 years (i.e., 2014 to 2024). Two of the dividend theories (Irrelevance and Flow-of-funds) were empirically verified in quest to ascertain their relevance and position. Data gathered were empirically analyzed using, Econometric and Multiple-regression technique, coupled with the t-test reliability mechanisms. The study in its contribution to the wealth of knowledge, established in contrast to most existing related studies that significant positive relationship exists among a firm's dividend policy, its corporate investments, profitability, and earnings-per-share: the tested indicators of firm' corporate performance. And it is on the basis of these revelations that the study recommends to the managers of manufacturing companies in Nigeria, to adopt much flexible dividend policy pattern that is educative and communicative enough, to assist them, motivate and convince corporate investors towards prioritizing the need for re-investment of their dividend yields over immediate cash-out in their contribution towards aiding improved corporate performances and desired growth.

Introduction

Over the last two decades, financial scholars' attention has been drifted to some managerial issues regarding modern corporate dividend management. This is because of the debatable role; a firm's dividend policy could play on corporate performances and growth. However, despite the large numbers of studies on dividend management, little or no attention has been given to the roles of some of the firm's-specific based-endogenous variables, such as: firm's profitability, investment, earnings-per share, degree of corporate ownership, shareholders' demands to just name a few of the theoretically postulated indicators of corporate performance. This neglect has created lacuna in this area of study and thus, leave some questions to be answered (Frank & Gray, 2024).

Extant studies in sizeable numbers have argued how so many factors affect the performances of corporate organizations and, one of those literature posited factors is, Dividend policy (Su, 2024). Dividend policy has been described in Corporate Finance and Accounting literature as one of the controlling mechanisms for taking corporate economic advantages (Bo & Lesink, 2015). In last decade of study, empirical studies had shown that interaction among major elements of corporate performance indicators, to a large extent, needs to be addressed, given the alarming deterioration rate in global corporate performances and conflict of interest between the owners of the business and their managerial teams. In response to this call, some studies attempted to verify how various market frictions in the economic world have been driving linkages among corporate performance indicators but at expense of: Profitability, Investments and Earnings-per-Share, which this study aimed at addressing in order to fill the gaps found in this area.

In general, if we are to go by the saying that the value of a firm is the function of its dividend payouts, the tendency of dividend policy directly impacting the companies' cost of capital would be high (Kempner 2021). And if this happens, to curb the multiplier effect of high cost of capital and other vices that could be distorting corporate growth, there would be need to understand the relationship between a firm's Dividend policy and its corporate performances. Another question that needed to be answered is: Could corporate Profitability, Investments and Earnings-per-Share of a firm, be influencing its Dividend choices? And if answers to all of these queries are positive, it therefore negates the assertion of Irrelevance theory and several extant studies' position on the irrelevance of Dividend payouts policy on corporate performances.

Statement of the Problem

The alarming rate of theoretical contradictions and empirical neglect of salient managerial issues with regards to corporate financial decisions, especially of those involving shareholders' interest, which studies have established to be one the genesis of corporate conflicts that usually informs poor business performances and retard growth, prompted this study. Conventional literature in corporate finance has long been criticized for overlooking the importance of dividend policy in determining aspects of corporate behaviour, as well as the theoretical development that relate to overall corporate performances and advances in econometric techniques (Knight, 2011). Theory of dividend irrelevance and flow-of-funds postulation and approach to managing firm's dividend decisions, which has generated a lot of debates amongst academics in the last decade, is set to be tested in this study, as a quest to ascertain its stands through empirical efforts.

Also, the deterioration rate in the last fifteen years of corporate operations in Nigeria, as recorded in the Nigerian stock exchange's annual market value reports of manufacturing firms in Nigeria, has as well spurred this study. It is evident that companies of high repute are facing difficulties in scaling through both internal and external economic and managerial challenges (Akanni, 2024). One notable area of concern to institutional managers is the signaling effect of dividend payouts to shareholders. If this sectoral need is not addressed, the multiplier effect on Nigerian economy at large could be disastrous. In general, the study logic here is to assist in addressing theoretical, variable, methodical, sectoral, and geographical study gaps, found in the existing studies, thereby contributing to the wealth of knowledge in academics, literature and as well, providing empirical evidences that will assist Nigerian manufacturing Industry and Nigerian economic and financial policy makers on salient areas, requiring reliable information and guidance during planning.

Research Questions

Given the prevailing problems as discussed above, the underlying questions are:

i. Is there significant relationship between Dividend Policy and Corporate Performance?

ii. Do corporate Profitability, Investment and Earnings-per-Share inform Dividend choices?

Objectives of the study

The mission of this study is to examine on general basis, the role of a firm's Dividend Policy on its Business Performance, while its specific objectives are to:

i. Ascertain the relationship between dividend policy of manufacturing firms and corporate Profitability.

ii. Determine the relationship between dividend policy of manufacturing firms and corporate Investment activities.

iii. Establish if there exist, relationship between dividend policy of manufacturing firms and Earnings-per-Share.

Research Hypotheses

Following the study's mission of enquiry and the underlying questions to be answered, these underlisted null Hypotheses are raised:

$H0_1$: There is no significant relationship between Dividend policy and corporate Profitability.

$H0_2$: There is no significant relationship between Dividend policy and Investment choices.

$H0_3$: There is no significant relationship between Dividend policy and Earnings per Share.

The test results of these hypotheses will assist this study in establishing some facts that would end theoretical debates and nullifies those that are poorly postulated or un-empirically supported.

Conceptual Clarifications

This section appraised and provides definitions and simple interpretation of the terms, employed in this study. The idea is to aid quick understanding of this study in its entirety.

Dividend is the name given to the financial returns that accrues to a firm' shareholders as a result of the money (capital) they invests in the business through acquisition of corporate stocks of that company (Kempner 2021). *Dividend Payouts* on the other hand, are the percentage amount of money from the corporate earned profits in a production year, which the company expends to the corporate stockholders based on their held shares (Eriki & Okafor, 2024). *Dividend Policy* is the statutory and agreed set of corporate rules and guidelines that a company adopts and followed to decide its dividend activities, especially how much of its operational profits are to be distributed to shareholders as dividend and other affiliated dividend decisions' components (Knight, 2011). Going by these definitions, it showed that dividend management is a tricky financial decision of a firm that cut across the employed managers of shareholders' wealth; the wealth owners; and prospective investors. This is because each of these parties is interested as followed: *The Managers*: What perception will our wealth owner and prospective investors be having on our managerial acumen and sensitivity to their needs and interests? *Shareholders*: Is my capital invested in this company, yielding fast and as desired? What rationale is the part of profit accrued to me? Are the managers conceding profit information from us or not? *Prospective Investors*: Is this company worthy to be invested in, based on their dividend declaration information and policy? What prospects do I, if joined and what benefit do I stand to gain in the nearest future? These and many other worrying questions run through the mind of these set of stakeholders, which only corporate dividend policies could answer. Also, an aspect of the theory of dividend policy is a part of continuum of control allocations between managers and investors, and hence, cross-sectional variations in dividend policy are driven by this underlying factor.

The allocation of control between the manager and investors is important not because of Agency or private information problems, but because of its potentially divergent believe that can lead to a disagreement about the value of the project available to the company and, the underlying factor here is, the Corporate Performance. *Corporate performance* is at the heart of managerial function of every organization, as it depicts the company's market presence, capital sources and bases, branches and institutional structures, growth rate, caliber of corporate investors, size of the firm, catchments, products, amongst many other valuables and parameters that their business portfolio carries (Samuel, 2023). Corporate performance simply means how well and fast a firm is doing. And in real life, are mostly premised on several economic factors and growth determinants, which are measured over time through the corporate success record, in line with corporate goals. Theoretically, analysis of a corporate performance is premised on the development of a modeling methodology to help in the diagnosis of past performances, and thus provide a framework for evaluating the effect of the changes in operating parameters as a guide for future planning. This Organizational performance is usually measured in practice, by the choice of the management form of wealth to be held. If the performance of an organization is good, there will be little or no disagreement between the firm's management and their shareholders (Ghosh & Subrata, 2020). To ensure efficient evaluation of the corporate performance, most emphasis is on the assessment of the current corporate behavior of such organization. This has to do with firm's goals that must be well structured in line with specific measure to achieve such goals. Each of the company's set perspective must therefore be considered critically and simultaneously, so as to ensure its overall efficiency and effectiveness to succeed. And if any aspect of the evaluation is over-bloated, the performance evaluation therefore becomes 'unbalanced' (Davidson, 2023).

Earnings-per-Share implies portion of a company's profit that is allocated to each outstanding share of its common stock. It is a crucial metric for investors to gauge a company's profitability and overall financial health (Wilkes, 2005). It is worthy of note that corporate owners consider all their investment returns as accruing, not just from dividend payments, but from the additional gains from capital appreciation on their shares. Normally, an investor does not intend to hold the share in perpetuity, but rather wishes to sell the shares and obtain capital gains. When he sells the shares, the buyer is also simply purchasing a stream of future dividend expectations. The reason the capital gain expectation arises is because of the future dividend streams that could between the time the investor purchased the shares and when he sells them, improves. This can simply be demonstrated thus:

Suppose an investor or shareholder buys a share with the expectation to hold it for two years, the value of the share held is the present value of the two years dividend payments, plus discounted value of the price he expects to receive on selling the share in the future.

So, if Po = Price of share today P2 = Price of share at the end of the 2nd year

D1 = Dividend per share to be received at the end of 1st year

i = Discount rate; and D2 = Dividend at end of 2nd year, Then Po = D1 + D2 + P2 divided by (1+i) 2 (1+i) 2 (1+i) 2 respectively. The shareholder/investor who buys the share at the end of the 2nd year pays P2 for it and expects to hold it for two further years. So, looking at it from time 0 (zero), it will give us: P2 + D3 + D4 + P4 divided by (1+i) 2 (1+i) 2 (1+i) 2 (1+i) 2 respectively.

It is important to note that most of the firms listed on the Nigerian Stock Exchange clearly have well defined dividend policies that are basically based on the general dividend practice in their respective industries. In the above model, a higher agreement between the manager and investors implies a higher stock price. So the above model simply predicts leverage and dividend payout ratio to be inversely related to the firm's stock price.

Methodology

This study is designed, a quantitative empirical research. The lens of the study is on the Nigerian firms. The specific target population is the 173 NSE's listed Nigerian manufacturing companies, from which 25 stratifiedly selected manufacturing samples were taken for scientific examination. A firm is considered worthy for selection, once it possesses all study requirements in terms of: Age; Industrial classification; Products portfolios; Assets;

Liabilities; Profit & Loss information; NSE's listing status; Shareholders' size, Dividend payouts information, amongst other sampling criteria. The period of enquiry covers year 2014 to 2024 (i.e., a 10 year). The data for this study are purely secondary, which were generated from the selected sampled firms' annual reports and books account. Information related to business capital formation, profits, cash flows, share held, earnings allotted to shares, previous and current dividend payout policy, the capital investments, amongst other important variables were extracted from the data sources. All the information are then carefully analyzed, using multiple regression analytical approach, through the aid of e-view software and t-test apparatus, to verify the study's hypotheses. To actualize the general and the specific intentions of this study, all encompassing Econometric Model was adopted from Luke's (2021) study of corporate relationship, which this study deemed fit to improve, in order to assist in filling the lag methodical gap found in related extant studies. The model is therefore stated thus:

DIVP = f (ROCE, FIXA, EPS)

Specifying in econometric format; we have:

DIVP = ao + a1ROCE +a2FIXA + a3EPS + ut

Where: DIVP, a0, a1, a2, a3, ut represent dividends paid to shareholders, intercept term, impact on ROCE, impact on FIXA, impact on EPS and error term respectively.

ROCE, FIXA and EPS represent Return on Capital Employed, fixed Assets and Earnings-Per-Share respectively.

Description and Measurement of Study's Variables

i. Dividend Payout (DIVP): This is used as the measure for corporate dividend policy tested. It is the amount a firm pays-out to its shareholders from the corporate operational profits, as yield on his/her capital invested in the company. DIVP is therefore measured as: Total Ordinary Dividend *divided by the* Number of Ordinary Shares.

ii. Return on Capital Employed (ROCE)*:* This is used as the measure for corporate profitability tested. It is the aggregate measurement of a firm's operating money efficiency and timely yields. ROCE is therefore measured as: Operating Profit *divided by the* Capital Employed, ^{x} 100.

iii. Fixed Assets (FIXA): This is used as the measure for corporate investments tested. These are capital assets owned by a firm, which are meant to yield more money over a long period of time. FIXA is measured as: Summation of all long-term real assets the tested firms.

iv. Earnings-per-Share (EPS): This is the measure for the tested corporate shareholders' earnings per shares held. EPS is the portion of a company's profit that is allocated to each of outstanding share of the common stock**.** It is therefore measured as the: Profit after Tax *divided by* Number of ordinary issued shares, ranked on the basis of Dividend payouts, ^{x} 100.

Theoretical Framework

Given the nature and scope of this study, the study adopts Agency theory as its central theoretical framework due to its explicit description and analysis of corporate structure and practices. It is an economic and managerial supposition that extensively addressed corporate behaviour and other corporate contractual relationship and performances, which is in line with behavioural approach adopted by this study. Ross (1973) and Mitnick (1975) postulates the Agency theory of corporate management as a theory that balance corporate rifts, which states that: a corporation is a nexus of contracts between various stakeholders, primarily the shareholders and their managers, who definitely may have different interests and goals, but must align them all, in order to balance-off and actualize their common goals (Imran, 2022). Some of the areas touched by this theory are: issue of corporate growth, corporate control, conflict of interests, ownership separations, agency motivation, risk and uncertainties, including several other corporate and economic issues. It is a corporate theory propounded in the early part of 70's from two independent theories of economics and management, the result of combined efforts of Ross and Mitnick in the years 1973 and 1975 that this study considered the most grounded basis to best explain the nitty-gritty of corporate financial decision

making, interrelationship of corporate growth determinants and of the overall business performances.

To bring out the best of this study, since the issue of dividend is the one we are treating here, Irrelevance theory of dividend and Flow-of-Funds dividend management approach as postulated by Merton Miller and Franco Modigliani in the year 1961 are also adopted as the study's specific theoretical framework that best explain this type of dividend issue. Modigliani and Miller (1961) observed that 'The theoretical principles underlying the dividend policy and its impact on a firm performance can be described either in terms of the Dividend irrelevance or Dividend relevance theory'. Therefore, Dividend policy is irrelevant for the cost of capital and the value of the firms in a world without taxes or transaction cost. This therefore shows that when investors creates any income pattern by selling and buying shares, the expected returns required to induce them to still hold such a firm's shares, which should/will be invariant to the way the firm packages its dividend payments and new issues of shares. It is to be observed that a firm's assets, investments opportunities, expected future net cash flows and cost of capital are not affected by the choices of dividend policy.

On the other hand, the Flow-of-funds approach is based on the argument that corporate finance, investment, and dividend payout decisions are interrelated. Dhrymes and Kurz (2010) posit that a company faces an outflow of fund mainly through its variable and fixed costs in the form of tax, dividend payout, and investment outlays. It is obvious that most companies rely so much on inflow of funds from sales and proceeds of various forms from external finance sources such as profits from operations, loan/debt or stock issuance. The argument of flow–of–funds approach is that companies will have to consider extensively, their fund-raising choices alongside their fund-spending plans before trading-off between outlays for capital investment and dividend payouts, especially in a situation where capital market is gravely imperfect (Agrawal & Jayaraman, 2024). In general, this study chose to test the postulations of these two theories (Irrelevance and Flow-of-Funds) so as to ascertain their stands and relevance on corporate dividend management. If this study's empirical tests support their suppositions, it therefore justifies them but if not, it will then call for amendments or total rejection.

Results from Data Analysis

Table 1:

Sampled Nigeria Manufacturing Firms and Extracted Data Summary

S/N.	Name of Companies Examined	Dividends Per Share (N/K)	Profitability (Return on Capital Employed) (%)	Earnings Per Share (N/K)	Investments (Fixed Assets) (N)'000
1.	Fidson Healthcare Plc.	1.00	33.6	23.58	13,976,234
2.	Nestle Nigeria Plc.	1.50	72.81	403.50	12,567,832
3.	Nigeria Breweries Plc.	3.00	89.45	94.89	21,875,467
4.	PZ Cussons Plc.	0.08	31.8	0.89	15,987,647
5.	Unilever Nigeria Plc.	0.50	9.68	5.50	34,756,544
6.	Vita-foam Nigeria Plc.	0.65	15.8	9.91	9,234,675
7.	Dangote Cement Plc.	0.08	6.0	1.47	18,389,354

8.	Flour Mills of Nigeria Plc.	0.25	14.29	0.50	11,128,648
9.	Cadbury Nigeria Plc.	0.10	18.97	7.45	26,320,289
10.	Total Oil Nigeria.	7.00	64.77	132.34	41,564,738
11.	BUA foods Nigeria Plc.	0.14	9.12	1.36	14,322,987
12.	Mobil Oil Nigeria	5.00	96.02	117.16	15,904,124
13.	Beta Glass Plc.	1.00	10.24	3.16	19,204,563
14.	Cutix Plc.	0.30	39.50	3.75	22,446,874
15.	Indorama Petrochemicals Ltd.	0.25	6.51	3.70	34,453,467
16.	DN Tyre & Rubber Plc.	0.75	17.53	43.12	9,456,876
17.	Union Dicon Salt Plc.	0.05	2.21	0.05	6,125,986
18.	United Nigerian Textiles Plc.	1.25	102.96	110.22	10,756,986
19.	Honeywell Flour Mill Plc.	0.10	5.57	1.24	8,344,863
20.	Sunflag Nig. Textiles Ltd.	4.00	236.44	34.20	7,578,984
21.	Okomu Oil Palm Plc.	0.25	23.58	6.59	31,865,146
22.	Nord Automobile Plc.	0.08	3.25	1.54	12,865,765
23.	Dangote Oil Nigerian Plc.	100	13.06	127	1,006,503,718
24.	Guinness Nigeria Plc.	90.0	2.86	150	158,052,582
25.	Innoson Motors Nigeria Ltd.	125	12.6	7.27	18,579,292

Source: Nigeria Stock Exchange's Fact Books, Annual Reports and Accounts (2025).

N.B: These data were analyzed in line with the earlier stated Econometric-Model for the study, using e-view software apparatus.

Table 2**:**

Iterative Regression Analysis Results

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.653247	3.368612	-1.381354	0.1832
ROCE	0.021953	0.019774	1.110180	0.2808
FIXA	6.56E-08	5.83E-09	11.25369	0.0000
EPS	0.013386	0.012564	1.065397	0.3000
AR(1)	1.659286	0.130175	12.74662	0.0000

R-squared	0.940729	Mean dependent var	14.21177
Adjusted R-squared	0.928251	S.D. dependent var	35.49828
S.E. of regression	9.508569	Akaike info criterion	7.525316
Sum squared resid	1717.845	Schwarz criterion	7.770743
Log likelihood	-85.30379	F-statistic	75.39051
Durbin-Watson stat	1.983739	Prob(F-statistic)	0.530000

Source: Researcher's E-view Regression software (2025).

Table Interpretation and Discussion of Findings

From the results presented in the Table2 above, we can depict that autonomous DIVP is negative when all other variables are held constant. Consequently, a unit change in DIVP will result into a positive change of about 0.021953 units in ROCE less the autonomous component when all other variables are held constant. Also a unit change in DIVP will result in a positive change of about 6.56 units in FIXA less the autonomous component and all other variables held constant. And if they are specified in econometric format, we therefore have it as:

DIVP = -4.653247 + 0.021953ROCE + 6.56FIXA + 0.013386EPS

T-Ratio = (-1.381354) (1.110180) (11.25369) (1.065397)

R-Squared = 0.940729, R – Squared Adjusted = 0.928251

D.W Stat =1.983739 f-stat = 75.39051

Furthermore, a unit change in DIVP will result in a positive change of about 0.013386 units in EPS less the autonomous component and all other variables held constant. Using the T- ratio to test for their statistical significance, we find out that the FIXA variable is statistically significant. This is due to the fact that it's observed T-value is positive and more than the rule of thumb of 2. The other variables are not statistically significant because their observed t-values are lesser than the rule of thumb of 2. From the R-squared of 0.940729, the regression co-efficient indicate that about 94% of the changes in the dependent variable is explained by the changes in the independent variables. The D.W statistic of 1.983739 indicates the absence of auto – correlation since it is in the neighborhood of the rule of Thumb of 2.

Test Result of Study's Hypotheses

The following study hypotheses were tested as stated below:

$H0_1$: There is no significant relationship between Dividend policy and corporate Profitability.

$H0_2$: There is no significant relationship between Dividend policy and Investment.

$H0_3$: There is no significant relationship between Earning per Share and Dividend policy.

The hypotheses above were tested by considering the f-tabulated and f-calculated values.

Decision Rule: Reject the null hypothesis if the f-calculated is greater than the f–critical (i.e., the t-test's table value) at 5% level of significance.

Decision: A comparative analysis of both the f-calculated value of 75.39051 and f-tabulated of 0.5300 shows that the f-calculated values were all higher than the f-tabulated values. It therefore means that the studies reject the 3-null hypotheses and accept alternate hypotheses which means that there is a significant positive relationship between Dividend policies, corporate profitability, Investments and Earnings-per-Share of the tested corporate organizations, that are representing the Nigerian conglomerates of manufacturing firms. This outcome negates the tested Irrelevance dividend theory and supports the Flow-of-funds' supposition, which is n tandem to Adediran and Alade (2013) findings, positing that significant positive relationship exists between Dividend policy and its profitability.

Thrust of the Work

This study has provided fundamentals for addressing some of the practical challenges, facing the Nigerian manufacturing sector, in its quests to provide insights and guidance on corporate policy formulation, control, and performance management. It also addresses and put to rest the age-long gaps found in the theoretical and empirical studies, specifically addressing, sectoral, methodical, variable, and geographical lacunas. In its contribution to the growing body of literature in field of Accounting, Finance and Managerial Science, this study successfully verified the supposition of Modigliani and Miller's Irrelevance theory, postulating the irrelevance of dividend decision to corporate performances and its affiliated corporate financial decisions, which empirical evidence from this study negated. The regression and other tests results of this study revealed the fact that there exists, significant positive relationship amongst Dividend policies, corporate profitability, Investments and Earnings-per-Share as against most related

existing studies. And since the study had rejected all 3-null formulated hypotheses in acceptance of the alternatives, it can therefore be said that the corporate dividend test on the twenty-five (25) stratifiedly sampled manufacturing Nigerian firms' performance, is positive, and that the four variables tested, have direct impact on one another.

In another contribution of this study to knowledge, empirical evidence from this study shows that the Flow-of-funds' supposition is supported. It simply means that a firm's flow of funds, informs its corporate performance, going by the fact that any steady inflow of funds will give rise to an impressive investment activities and dividend payouts.

In general, it can be said at this juncture that a firms' dividend policy is an important part of its corporate life, given the fact that its payouts have ability to establish and sustain corporate peace, agency trusts, give operational direction, and signal corporate performance to stakeholders, which the Agency theory that this study is built upon, extensively argued.

Conclusion

Since the study' decision rules favour the existence of significant relationship between the tested variables, the study therefore concludes that:

i. On general basis, there exists, significant relationship between a firm's Dividend policy and its corporate performances.

ii. And on specific basis, there exists, significant positive relationship between a firm's Dividend policy and its Profitability;

iii. There also exists, significant positive relationship between a firm's Dividend policy and its Investment activities;

iv. And that there exists, significant positive relationship between a firm's Dividend policy and its shareholders' Earnings-per-Share (EPS).

Recommendations

Following the findings and the conclusions of this study, it is therefore recommended that:

The corporate managers of the Nigerian manufacturing firms should consider the adoption of a flexible Dividend Policy pattern that fits into their mission and vision statements, and which is self-explanatory and convincing enough to motivate and convince their corporate existing and prospective investors, towards prioritizing the need for re-investment of their dividend yields over immediate cash-out, in order to aid improved corporate performances and desired growth.

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