Managers' Perception of Factors Influencing Dividends Decision in Nigeria

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Abstract

Dividends decision constitutes one of the most crucial business decisions as it affects the organization's value and shareholders' wealth. This study examines the opinions of managers on factors influencing dividends decision in Nigerian listed firms. The study employs survey research design and obtained primary data from selected managers through the administration of questionnaire. The result of the study reveals that pattern of past dividends, level of current earnings, current degree of financial leverage, availability of alternative source of capital; liquidity constraints such as availability of cash, growth and investment opportunities have significant influence on dividend decision in Nigeria. The study recommends that future researchers should investigate the relationship between dividend payment and firms' value.

Keywords: *Business Decisions, Dividends, Nigeria, Quoted Companies.*

Introduction

Business decisions can be grouped into three main classes as follows: financing, investment and dividend decisions [1]. Financing decision requires a proper mixture and blend of capital from accessible sources, investment decisions are concerned with the well-organized deployment of capital funds, meanwhile, dividend decision involves the intervallic determination of fraction of a firms total distributable earnings that is payable to its shareholders.

Among the three main classes of business decisions, dividends decision remains one of the most crucial decisions as it affects the organization's value and shareholders' wealth [2]. Dividend policy however remains a controversial issue in corporate finance since the question as to why firms pay dividends remains a puzzle [3]. Although various reasons have been presented in previous studies as to what influences organizations dividend decisions; nevertheless the results of these studies have been contradictory. Besides, most of these previous studies were conducted in the advanced market economies, only limited studies have so far been carried out in developing economies particularly Nigeria; thus calling for further studies.

In view of the limited studies on dividend policy in the developing economies, the main objective of this study is to investigate the perceptions of managers in Nigeria on the main factors influencing dividend decisions. Specifically, the study sets out to:

- Investigate whether the pattern of past dividends influences dividend decisions in Nigeria.
- Examine whether the level of current earnings influences dividend decisions in Nigeria.
- Investigate whether the current degree of financial leverage influences dividend decisions in Nigeria.
- Explore whether the availability of alternative source of capital influences dividend decisions in Nigeria.
- Investigate whether liquidity constraints such as availability of cash influence dividend decisions in Nigeria.
- Examine whether growth and investment opportunities influence dividend decisions in Nigeria.

The following research questions have been developed mainly based on the development of literature on dividend decisions:

- Does the pattern of past dividends influence dividend decisions in Nigeria?
- Does the level of current earnings influence dividend decisions in Nigeria?
- Does the current degree of financial leverage influence dividend decisions in Nigeria?

- Does the availability of alternative source of capital influence dividend decisions in Nigeria?
- Do liquidity constraints such as availability of cash influence dividend decisions in Nigeria?
- Do growth and investment opportunities influence dividend decisions in Nigeria?

In order to be able to test the significance of the relationship that exists between each of the identified factors and dividend decisions, the following hypotheses have been formulated:

Ho$_i$: The pattern of past dividends does not significantly influence dividend decisions in Nigeria.
Ho$_{ii}$: The level of current earnings does not significantly influence dividend decisions in Nigeria.
Ho$_{iii}$: The current degree of financial leverage does not significantly influence dividend decisions in Nigeria.
Ho$_{iv}$: The availability of alternative source of capital does not significantly influence dividend decisions in Nigeria.
Ho$_v$: Liquidity constraints such as availability of cash do not significantly influence dividend decisions in Nigeria.
Ho$_{vi}$: Growth and investment opportunities do not significantly influence dividend decisions in Nigeria.

Literature Review

Dividends can be described as the financial benefits or returns accruable to any shareholder of a corporation for his investment [4]. Thus, dividend represents a form of reward for investment in corporate organizations [5]. The term also refers to that portion of profits of a company which is distributed by the company among its shareholders. It is the reward of the shareholders for investments made by them in the shares of the company [6].

Changes in earnings and existing dividend rates are the most important factors influencing an organization's dividend decision. Meanwhile, in another study Miller and Modigliani recommended the irrelevance proposition and demonstrated that in a perfect capital market, organization's dividend decision is not a thing of importance at all. Beside these foundational studies, several other studies have been carried out on dividend decision and its influencing factors in corporate organizations.

Similarly, Baker, Veit and Powell [7] examined the factors influencing dividend policy decisions of National Association of Securities Dealers

Automated Quotation (NASDAQ) listed firms. Respondents in the study were requested to provide their opinions on 22 different factors which may influence dividend decisions. The result revealed that many of the managers of the selected firms made dividend decisions that are consistent with Lintner survey results and model. Similarly, Baker, Dutta and Gandhi [8] carried out a research on the determinants of dividend policy among Canadian managers and reported that the rate of present and prospective earnings, pattern of the dividend payment, and nature of the industry have significant influence on corporate dividend decisions.

George and Kumudha [9] investigated the determinants of dividend policy and reported that current year's profit is more important than previous year's dividend while deciding the dividend policy. Furthermore, John and Muthusamy [10] examined the factors that influence dividend decision in Indian paper industry with particular emphasis on the influence of leverage. Using Lintner dividend model and its extended versions, the study analyzed the factors influencing dividend decisions in India. The results of the study revealed that leverage is negatively associated with dividend payout in Indian paper industry.

El-Sady, Hamdy, Al-Mawazini and Alshammari [11] carried out a survey on the perception of corporate managers of Kuwaiti firms using questionnaire as research instrument. The study reported the level of current and future earnings, liquidity constraints such as availability of cash as the most influencing factors on dividend decision.

Baker and Powell [12] carried out a study on dividend policy in Indonesia by using mail survey to obtain relevant information from the executives of the selected firms. The results of the study revealed that managers are of the opinion that stability of earnings and the level of current and expected future earnings are the most important determinants of dividends. They are also of the opinion that the effects of dividends on stock prices and needs of current shareholders are important determinants. The result revealed that managers of Indonesian firms perceive that dividend policy affects firm value. Their study suggests that no universal set of factors is likely to be appropriate to all firms in setting dividend policy.

The study adopts a survey research design. Five-point rating scaled questionnaire starting from

strongly agreed (SA), agreed (A), undecided (U), disagreed (D), and strongly disagreed (SD) was used to collect data from 30 randomly selected listed firms in Nigeria. A total number of 280 copies of the questionnaire were administered, out of which 239 copies (representing 85%) were retrieved and usable. The questionnaire was designed in such a way that every question in the questionnaire was related to the research questions.

Chi-square test with 5% level of significance was employed in testing the hypotheses. The decision rule is to reject the null hypothesis if the calculated value is greater than the critical value and accept if otherwise. Chi-square is calculated with the help of the following formula.

$$X^2 = \frac{\sum (O_{ij} - E_{ij})^2}{E_{ij}}$$

Where O_{ij} = represents observed frequency; E_{ij} = represents expected frequency

$$E = \frac{\text{Number of questionnaire}}{\text{Number of response}}$$

Level of significant= 0.05; Formula for degree of freedom= n-1; Therefore the degree of freedom df= 5-1 = 4. Thus, the value of X^2 from that 4 degree of freedom at 5% significance is 9.49

Results and Discussions

The perceptions of the respondents on the various statements put forward in the questionnaire are analyzed as follows:

Table 1: Analysis of responses to statement 1 in the questionnaire: The pattern of past dividends influences dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	98	41.00
2	Agreed	107	44.77
3	Undecided	21	8.79
4	Disagreed	7	2.93
5	Strongly disagreed	6	2.51
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number one reveals that 205 (representing 85.77%) of the respondents agreed that the pattern of past dividends influences dividend decisions in Nigeria. Meanwhile the remaining 14.23% of the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the pattern of past dividends influences dividend decisions in Nigeria.

Table 2: Analysis of questionnaire based on Hypothesis 1

Observed (O)	Expected (E)	(O – E)	(O – E)²	(O – E)²/E
98	47.80	50.20	2,520.04	52.7205
107	47.80	59.20	3,504.64	73.3188
21	47.80	-26.80	718.24	15.0259
7	47.80	-40.80	1,664.64	34.8251
6	47.80	-41.8	1,747.24	36.5531
		X^2		212.4434

Source: Field Survey, 2013

The result of the hypothesis one indicates an x^2 value of 212.4434 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that the pattern of past dividends does significantly influence dividend decisions in Nigeria.

Table 3: Analysis of responses to statement 2 in the questionnaire: The level of current earnings influences dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	128	53.56
2	Agreed	97	40.59
3	Undecided	8	3.35
4	Disagreed	4	1.67
5	Strongly disagreed	2	0.83
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number two reveals that 225 (representing 94.15%) of the respondents agreed that the level of current earnings influences dividend decisions in Nigeria. Meanwhile the remaining 5.85% of the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the level of current earnings influences dividend decisions in Nigeria.

Table 4: Analysis of questionnaire based on Hypothesis 2

Observed (O)	Expected (E)	(O – E)	(O – E)²	(O – E)²/E
128	47.80	80.20	6,432.04	134.5615
97	47.80	49.20	2,420.64	50.6410
8	47.80	-39.80	1,584.04	33.1389
4	47.80	43.80	1,918.44	40.1347
2	47.80	-45.80	2,097.64	43.8837
		X^2		302.3598

Source: Field Survey, 2013

The result of the hypothesis two indicates an x^2 value of 302.3598 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that the level of current earnings does significantly influence dividend decisions in Nigeria.

Table 5: Analysis of responses to statement 3 in the questionnaire: The current degree of financial leverage influences dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	92	38.49
2	Agreed	131	54.81
3	Undecided	9	3.77
4	Disagreed	6	2.51
5	Strongly disagreed	1	0.42
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number three reveals that 223 (representing 93.31%) of the respondents agreed that the current degree of financial leverage influences dividend decisions in Nigeria. Meanwhile the remaining 6.69% of the respondents do not agree to the statement. This implies that most of the respondents are of the opinion that the current degree of financial leverage influences dividend decisions in Nigeria.

Table 6: Analysis of questionnaire based on Hypothesis 3

Observed (O)	Expected (E)	(O -E)	(O-E)²	(O–E)²/E
92	47.80	44.20	1,953.64	40.8711
131	47.80	83.20	6,922.24	144.8167
9	47.80	-38.80	1,505.44	31.4946
6	47.80	-41.8	1,747.24	36.5531
1	47.80	-46.8	2,190.24	45.8209
		X^2		299.5564

Source: Field Survey, 2013

The result of the hypothesis three indicates an x^2 value of 299.5564 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that the current degree of financial leverage does significantly influence dividend decisions in Nigeria.

Table 7 Analysis of responses to statement 4 in the questionnaire: The availability of alternative source of capital influences dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	91	38.08
2	Agreed	145	60.67
3	Undecided	2	0.84
4	Disagreed	1	0.41
5	Strongly disagreed	-	0.00
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number four reveals that 236 (representing 98.74%) of the respondents agreed that the availability of alternative source of capital influences dividend decisions in Nigeria. Meanwhile the remaining 1.26% of the respondents does not agree to the statement. This implies that most of the respondents are of the opinion that the

availability of alternative source of capital influences dividend decisions in Nigeria.

Table 8: Analysis of questionnaire based on Hypothesis 4

Observed (O)	Expected (E)	(O – E)	(O – E)²	(O – E)²/E
91	47.80	43.20	1,866.24	39.0427
145	47.80	97.20	9,447.84	197.6536
2	47.80	-45.80	2,097.64	43.8837
1	47.80	-46.80	2,190.24	45.8209
-	47.80	-47.80	2,284.84	47.8000
		X^2		374.2009

Source: Field Survey, 2013

The result of the hypothesis four indicates an x^2 value of 374.2009 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that the availability of alternative source of capital does significantly influence dividend decisions in Nigeria.

Table 9: Analysis of responses to statement 5 in the questionnaire: Liquidity constraints such as availability of cash influence dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	129	53.97
2	Agreed	99	41.42
3	Undecided	10	4.18
4	Disagreed	-	0.00
5	Strongly disagreed	1	0.43
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number five reveals that 228 (representing 95.40%) of the respondents agreed that liquidity constraints such as availability of cash influence dividend decisions in Nigeria. Meanwhile the remaining 4.60% of the respondents does not agree to the statement. This implies that most of the respondents are of the opinion that liquidity constraints such as availability of cash influence dividend decisions in Nigeria.

Table 10: Analysis of questionnaire based on Hypothesis 5

Observed (O)	Expected (E)	(O – E)	(O – E)²	(O – E)²/E
129	47.80	81.20	6,593.44	137.9381
99	47.80	51.20	2,621.44	54.8418
10	47.80	-37.80	1,428.84	29.8921
-	47.80	-47.80	2,284.84	47.8000
1	47.80	-46.80	2,190.24	45.8209
		X^2		316.2929

Source: Field Survey, 2013

The result of the hypothesis five indicates an x^2 value of 316.2929 which is greater than the critical value of 9.49. Therefore, we reject the null hypothesis and accept the alternative hypothesis. Thus we conclude that liquidity constraints such

as availability of cash do significantly influence dividend decisions in Nigeria.

Table 11: Analysis of responses to statement 6 in the questionnaire: Growth and investment opportunities influence dividend decisions in Nigeria

S.No.	Responses	No. of responses	% of Responses
1	Strongly agree	72	30.13
2	Agreed	99	41.42
3	Undecided	34	14.22
4	Disagreed	16	6.69
5	Strongly disagreed	18	7.54
Total		239	100

Source: Field Survey, 2013

The analysis of responses to statement number six reveals that 171 (representing 71.55%) of the respondents agreed that growth and investment opportunities influence dividend decisions in Nigeria. Meanwhile the remaining 28.45% of the respondents does not agree to the statement. This implies that the majority of the respondents are of the opinion that growth and investment opportunities influence dividend decisions in Nigeria

Table 12: Analysis of questionnaire based on Hypothesis 6

Observed (O)	Expected (E)	(O – E)	(O – E)²	(O – E)²/E
72	**47.80**	24.80	585.64	12.2519
99	47.80	51.20	2,621.44	54.8418
34	47.80	-13.80	190.44	3.9841
16	47.80	-31.80	1,011.24	21.1556
18	47.80	-29.80	888.04	18.5782
		X²		110.8116

Source: Field Survey, 2013

The result of the hypothesis six indicates an x^2 value of 110.8116 which is greater than the critical value of 9.49. Therefore, we reject the null

hypothesis and accept the alternative hypothesis. Thus we conclude that growth and investment opportunities do significantly influence dividend decisions in Nigeria.

The findings of this study could be summarized as follows: (i) the pattern of past dividends does significantly influence dividend decisions in Nigeria; (ii) the level of current earnings does significantly influence dividend decisions in Nigeria; (iii) the current degree of financial leverage does significantly influence dividend decisions in Nigeria; (iv) the availability of alternative source of capital does significantly influence dividend decisions in Nigeria; (v) liquidity constraints such as availability of cash do significantly influence dividend decisions in Nigeria; and (vi) growth and investment opportunities do significantly influence dividend decisions in Nigeria.

Conclusion

From the literature review and analysis of data, it could be concluded that each of the identified variables of: pattern of past dividends, the level of current earnings, current degree of financial leverage, availability of alternative source of capital, liquidity constraints such as availability of cash, growth and investment opportunities has a significant influence on dividend decision in Nigerian. The study has revealed the important factors which influence dividend decision in Nigerian firms. It is recommended at this juncture that future researchers should investigate the relationship which exists between dividend payment and the value of firms.

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