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Dividend Policy and Performance of Listed Microfinance Banks in Nigeria

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ABSTRACT: *This research focuses on Dividend policy and its impact on performance of listed micro finance banks in Nigeria between2006 and 2021.The ordinary least square estimation technique and multiple regression method of data analysis was utilized..It was discovered that all the explanatory variables ie Return on Assets ,Liquidity ratio, Debt ratio and size of banks did not significantly impact Dividend Policy surrogated by Dividend Payout within the period of the study .It was therefore suggested that micro finance banks should increase dividend payments to its shareholders and also expand their branch network .The Central Bank of Nigeria is also advised to step up its supervisory role by plugging all loop holes through which liquidity is being depleted illegally by some of these micro finance banks.*

KEY WORDS: Wealth maximization, shareholders' wealth, finance gap, hybrid dividend policy, real sector

INTRODUCTION

The idea of micro finance in Nigeria dates back to several centuries ago. In those days, the traditional microfinance institutions provided access to credit for rural and urban low income earners. These informal traditional financial institutions had limited outreach due primarily to paucity of funds. During the transition period, Nigerian government also initiated series of public financial microfinance outreach targeted at the poor. Noteable among such was the people's bank, the community banks, the agricultural cooperative bank, Nigeria Directorate of Employment etc. In the year 2000, the federal government merged the Nigeria Agricultural cooperative bank with the people's bank of Nigeria to form the Nigerian Agricultural cooperative and rural development Bank Ltd. (NACRDB) to enhance the financing of the agricultural sector of the economy. As at today, government has restructured the community banks to become micro finance banks to cater for larger segment of the rural poor and urban low income earners who are engaged in productive ventures.

The emergence of these micro finance banks has to a large extent bridged the finance gap hitherto experienced in the financing of real sector of the Nigerian economy. Three features distinguish micro financing from other formal financial products. These are the smallness of the loans or savings collected, the simplicity of operation and the absence of asset based collaterals. This peculiar nature of the services of microfinance bank enables them finance the poor segment of the

informal sector to enable them engage in income generating activities to expand or grow their small businesses.

To be able to perform these duties very well, it follows that microfinance banks must be operated as a commercial concern with a human face, unlike the deposit money banks. It must adhere to the codes of good corporate governance. This no doubt will attract private capital to share up its capital base so as to withstand the pressure from the target customers. From the foregoing, it stands to reason that finance managers are in a tight corner in determining not just the appropriate dividend policy at a particular time but also knowing how such policy affect the performance of micro finance banks in Nigeria. Many studies have been carried out in this area, but none has been able to use current time series data compatible with the relevant analytical tool. This study is therefore being carried out to fill this gap.

Objectives of the Study

The major objective of this study is to empirically investigate the impact of Return on Asset on Dividend payout ratio of microfinance banks in Nigeria. Other specific objectives include to:

- Determined effect of bank size on the dividend payout ratio of microfinance banks in Nigeria
- Ascertain the impact of debt ratio on the dividend payout ratio of microfinance banks in Nigeria
- Find out the effect of liquidity ratio on the dividend payout ratio of microfinance banks in Nigeria
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Accordingly, the following hypotheses were tested in the course of this study, they are:

Ho_1: There is no significant relationship between Return on Asset and dividend payout ratio of listed micro finance banks in Nigeria.

Ho_2: There is no significant relationship between banks size and dividend payout ratio of listed microfinance banks in Nigeria

Ho_3: There is no significant relationship between debt ratio and dividend payout ratio of listed micro finance banks in Nigeria.

Ho_4: There is no significant relationship between liquidity ratio and dividend payout ratio of listed microfinance banks in Nigeria.

REVIEW OF RELATED LITERATURES

Theoretical Literature:

his brings us to the question of dividend, which simply put is the return or reward to the shareholders for their investment There are two basic theories of dividend, they are:

- The dividend irrelevancy theory and
- The dividend supremacy theory

Dividend Irrelevancy Theory: This theory was first propounded by Modigliani and Miller (M&M) in 1961. It says that the payment of dividends is irrelevant and the amount paid does not affect the value of the company in the long run. These proponents went further to assert that in a tax free world for example shareholders will be indifferent between dividends and value of the company, which will be determined by the earnings power of the company's assets and investments. According to Akinsulare (2010) the dividend irrelevancy theory is anchored on the following assumptions:

- That the capital market is a perfect one where investors act rationally and have access to perfect and costless information
- That there is no floatation cost on securities issued by a firm
- Perfect certainty by every investor as to future investment and profit of the company.
- A world of no taxation, or if there is the same tax rate is applied to capital gain and dividend income.
- There is no risk of uncertainty
- A fixed investment income policy is maintained by company.

The dividend supremacy theory: This was propounded by Professor James Walter and M.J Gordon in 1959. They argued that dividends were all that matter in determining the share prices in accordance with the theory of share value. μ The following assumption underlie this theory

a) That the market value of a company's share depends on :

b)

i. The growth rate in dividend

ii. The shareholders required rate of return

c) That shareholders will want their company to pursue a retention policy of surplus income

d) That the company employs only internal financing in all investments which are financed through retained earnings.

e) That all earnings are either distributed as dividend or reinvested immediately.

In determining a dividend policy therefore, management must strike a balance between the firms need for funds and shareholder desire for stable income. This brings about dividend policy option by companies. One of such options is the **passive dividend policy**. When a firm follows this policy option, it means that it is treating dividend payment as residue. (Agbadua & Ohiokha, 2012). This implies that the determining factor as regard payment of dividend and how much to pay is the availability of profitable investment projects. These are project with positive Net Present Value (NPV). This policy implies that dividend are paid only after internal investment opportunities have been exhausted.

The next policy option is the **active dividend policy**. According to Akinsulire (2011), this policy regards dividend payment as critical factor in the determination of the value of the firm and hence the wealth of its shareholders. This policy treats dividend payment not just as a way of saving returns but as a retention of residue of profit.

Finally, there is also the **hybrid dividend policy**: Agbadua & Ohiokha (2012) described this policy as being between active policy and passive policy of dividend payment. Under this option, finance managers cannot follow both policy of stable dividend and a policy of long term commitment to capital investment, unless they have some tradeoff in times of need so as to achieve both with an objective of shareholders' wealth maximization.

Empirical Literature:
Forace (2003) examined the dividend policy of Australian and Japanese listed firm, and found that size is positively correlation with dividend payout but Simith and Watts (1992) found no correlation between the dividend payout ratio and firms' sizes. On their part, Benarti et al (1997) investigated what determines dividend payouts in American firms using correlation analysis between the period 1979-1991. They discovered that a positive correlation exists between earnings and dividend payout ratio.

Glen (1995) studied the dividend payout policy of firms in developing countries and found out that the dividend payout pattern of firms in advanced countries differs from that of emerging markets. Mehta (2012) conducted a study on dividend payout decisions of forty four firms in United Arab Emirates (UAE) over five years period,(2005 to 2009). Using multiple regression analysis method, he discovered that a negative relationship exist between dividend payouts and firm size. The study also revealed that profitability, liquidity and leverage ratio were positively correlated to dividend payout. Uzoaga, and Alozieuwa (1974) investigated the mode of dividend policy used by Nigerian firms during the indigenization policy in 1973. Using a sample of thirteen firms listed in the Nigerian Stock Exchange (NSE) over a four year period. It was revealed that no sufficient evidence existed to validate the factors that determine dividend payout in Nigeria. On his part Oyejide (1976) drawing from the report of Uzoaga and Alozieuwa (1974) decided to investigate the dividend policy in Nigeria using Lintner's model as modified in Brittan (1964). The outcome of the study revealed that dividend payout are explained by conventional factors such as target payout ratio, leverage, growth and profitability. On his part Edet et al (2014) discovered a negative correlation between dividend payout and liquidity. Gugler (2003) did a work on the relationship between dividend policy and shareholders wealth in Pakistan. Seventy- five firms listed in the stock exchange were used for a period of six years (2005-2010) using multiple regression approach. They discovered that the difference in average market value compared to book value of equity was highly significant between dividend paying firms and non paying firms Velnampy et al (2014) carried out a study on dividend policy and firm performance in firms listed in Colombo stock exchange. The study covered a five years period (2008-2012). They used dividend payout and earnings per share as measure for dividend policy while return on equity and return on assets were used for performance. Using, correlation analysis regression and descriptive statistics, they discovered that the determinants of dividend policy were not correlated to the firm performance. The regression result showed that dividend policies does not affect firms return on equity as well as return on Asset.

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METHODOLOGY

This study uses the expost facto research design method. The time series data were sourced from the published financial statements of six publicly quoted or listed micro finance banks in Nigeria. The study was restricted to these banks because they were the only micro finance banks that were listed in the Nigeria stock exchange as at April, 2021. Meaning that they adhere strictly to the codes of good corporate governance and meet the minimum standard required by the Central Bank of Nigeria and the Nigeria stock exchange for licensed Microfinance Banks.

The ordinary least square regression method was used to estimate the time series data using the multiple regression technique. The period of fifteen years (2006-2021) was considered for the study. The choice of this period is important because the listing of Microfinance bank in the NSE is a recent development as more than seventy-five percent are not still listed as at today.

Model Specification

Therefore, the model for investigating the impact of dividend policy on the performance of microfinance banks in Nigeria is first stated functionally as:

DPR=f (ROA, SIZE, DTR, LIQR)

The econometric model is based on the theoretical model adopted by Gugler (2003) and Aivazian et al (2003). They studied the determinants of dividend policy of companies in emerging markets using dividend payout ratio as surrogate for dividend policy. However prior studies used performance indicators like growth rate, level of debt lagged price earnings ratio and size as control variables in their model (Baskin,1989) Hence the econometric model for this study can be stated as follows:

$$Dpr = \beta_0 + \beta_1 Roa + \beta_2 Size + \beta_3 Dtr + \beta_4 liqr + Ut$$

Where
Dpr = Dividend Payout Ratio
Roa =Return on Asset (profitability ratio)
Size = Firm Size
Liqr =Liquidity Ratio
Dtr = Debt Ratio (leverage ratio)
Ut = Error Term

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Presentation and Discussion Result:

Table 1 : Descriptive Statistics

	SIZE	ROA	LIQR	DTR	DPR
Mean	53328189	25951526	6607.533	268138.3	575741.8
Median	53214231	13123423	5672.000	132123.0	611214.0
Maximum	73214573	70123457	14321.00	732121.0	812113.0
Minimum	23425672	2346578.	1211.000	14321.00	311213.0
Std. Dev.	12714396	23150398	3821.097	268158.7	178703.5
Skewness	-0.458715	0.525204	0.333776	0.699997	-0.135007
Kurtosis	3.405599	1.858594	2.240338	1.914533	1.658525
Jarque-Bera	0.628868	1.503853	0.639195	1.961389	1.170289
Probability	0.730202	0.471457	0.726441	0.375051	0.557025
Sum	8.00E+08	3.89E+08	99113.00	4022075.	8636127.
Sum Sq. Dev.	2.26E+15	7.50E+15	2.04E+08	1.01E+12	4.47E+11
Observations	15	15	15	15	15

Source: e-views 10 0utput

The maximum DPR is 842112 and the minimum is 643212 the observed difference is marginal meaning that the performance of the selected microfinance banks for the study were close to each other. It further shows that the banks are homogenous in nature. Also with the study period under consideration, the banks have an average positive dividend payout ratio of 5757 41.8. while the minimum is 311213. The observed difference is not on the high side, meaning that the banks selected for the study have similar characteristics and performances were similar. The mean value for ROA is 25951526, while the maximum 70123457, the minimum is 23446578. The wide margin between the maximum and minimum implies that some of the banks performed poorly in terms of profitability. It further means that the banks with profitability equal to or higher than the mean performed well while those below the mean performed very poorly in terms of profitability. Other explanatory variables followed a similar trend as captured in the output result. The skewness which measures the asymmetry of the series has values greater than zero in most of the study period indicating that the distribution is positively skewed to the right. Only bank size and DPR were negatively skewed.

The Jarque Bera which test the normality of the series indicate probability value that is greater than 5 percent in most of the cases implying that the errors are normally distributed. Hence any recommendation made will be representative of the entire population of the study.

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Table 2: OLS Result of regression Equation

Dependent Variable: DPR
Method: Least Squares
Date: 03/26/22 Time: 04:49
Sample: 2007 2021
Included observations: 15

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DTR	0.314802	0.198232	1.588049	0.1434
LIQR	-18.61805	12.20819	-1.525046	0.1582
ROA	-0.000690	0.002171	-0.317624	0.7573
SIZE	-0.001019	0.003062	-0.332971	0.7460
C	686611.7	221507.9	3.099717	0.0113

R-squared	0.579295	Mean dependent var	575741.8
Adjusted R-squared	0.411013	S.D. dependent var	178703.5
S.E. of regression	137146.9	Akaike info criterion	26.75669
Sum squared resid	1.88E+11	Schwarz criterion	26.99271
Log likelihood	-195.6752	Hannan-Quinn criter.	26.75418
F-statistic	3.442408	Durbin-Watson stat	1.788112
Prob(F-statistic)	0.051352		

Source: e-views 10 output

TPR = 686611.7 - 0.000690 (ROA) - 0.001009 (size) + 0314892(Drt) - 18.61805(Liqr)
(3.097717) - (0.317624) - (0.332971) + (1.588049) - (1.525046)
$R^2 = 0.58$
R^2 adjusted = 0.41
f-statistic = 3.49
DW = 1.78

Note: figure in brackets are t-value, from equation 2 above the calculated R^2 is 58 percent implying that 58 percent of the total variation in the dependent variable i.e dividend payout ratio (DPR) is explained by the explanatory variables which are debt ratio, liquidity ratio, bank size and Return on Asset. The remaining 42percent is explained by factors outside the model but capured by the error term. Also the computed F-ratio of 3.49 is greater than the table value of 3.44, thus we reject the null hypothesis that the entire model is not statistically significant and then accept the alterative hypothesis. The computed Durbin Watson of 1.78 can be approximated to 2 whole numbers. This implies that there is no autocorrelation in the model.

Hypotheses Testing

There is no significant relationship between Return on Asset and Dividend Payout ratio of microfinance banks in Nigeria. From the result of this study displayed above, the calculated t-value of -0.317642 with a probability ratio of 0.7573 is lesser than the table value of 1.76. We therefore accept the null hypothesis as stated above and reject the alternative which says there is a significant relationship between dividend payout ratio and return on assets of microfinance banks in Niger. The result of this study is in consonance with that of Velnampy et al (2014) which found out that dividend policy does not affect firms return on equity as well as return on Asset. In the Nigeria case very few micro finance banks are actually paying dividend regularly from our study, therefore, it is not surprising that dividend payout has not been impacted significantly ROA .

Again the coefficient of return on asset is -0.00690, implying that the result does not satisfy the apriori expectation. It further implies that a unit change in return on Asset will result in -0.000690 change in dividend payout ratio.

Looking at the next explanatory variable which is size and measured by the asset base of the listed microfinance banks in Nigeria, the result generated from the computation is not better, with a value of -0.332971 and a probability ratio of 0.7460, we can see that the computed value is lesser than the table value of 1.76 and the probability ratio is greater than 0.005 implying an acceptance of the null hypothesis which states that there is no significant relationship between dividend payout ratio and size of his micro finance banks in Nigeria. This is in agreement with the work of Mehta (1012) who found out in United Arab Emirate (UAE) that a negative correlation exist between dividend payout and firms asset. On the other hand the result is at variance with that of Edet et al,2014). He discovered that the dividend payment ratio of Nigeria banks were positively related to; size leverage and board independenc., Our result does not come as a surprise because most listed micro finance banks do not have good branch network which enhances acquisition of assets hence bank size which relies on asset base has negatively impacted DPR within the study period.

Another explanatory variable is Debt ratio (Dtr). The coefficient of Debt ratio is 0.314802 and is not rightly signed. It means that when there is a unit change in debt ratio, Dividend payout ratio will change by 0.314802. And with a t-value of 1.58804922 and a probability ratio of 0.1434 we can conclude that dividend payout is not statistically significant to performance of microfinance bank surrogated by debt ratio in this case. This is not in conformity with the study conducted by Edet et al (2014) which found out that bank size, leverage (Debt ratio) and board independence were positively related to dividend payout ratio . This result is so probably because in the case of microfinance banks, the federal and state government are always implementing policies and programmes which support their capital adequacy in order to enhance their performance in supporting small and medium scale firms so as to accelerate the economic transformation of the country.

The last of the explanatory variable in this study is liquidity ratio (Liqr). It has a t-value of -1.525046 and a probability ratio of 0.1582. It is very clear that the t-value is lesser than the table value of 1.76 and probability ratio greater than 0.005. this implies an acceptance of the null

hypothesis that liquidity ratio is not statistically significant in influencing changes in dividend payout ratio of listed microfinance banks in Nigeria. Again this is not in conformity with the study conducted by Metha (2012) in United Arab Emirate (UAE) where he found out that a positive correlation exist between dividend payout firms and profitability, liquidity and leverage ratios.
In the case of listed microfinance banks in Nigeria, the result above, liquidity ratio has negatively impacted dividend payout ratio probably due to the fact that adequate or high liquidity does not necessarily implies that the banks have made enough profit that could translate to high dividend payout. A lot of other factors like insider trading in foreign exchange and other sharp practices of some banks these days might result in less liquidity which gave rise to its negative impact on dividend payout.

CONCLUSION

All the explanatory variables: Return on Asset (ROA) Debt ratio, bank size as well as Liquidity ratio of micro finance banks in Nigeria could not significantly impact Dividend Payout ratio within the period of the study.

Recommendations

The fact that return on Asset which is one of the best parameters to measure profitability impacted dividend ratio negatively shows that though micro finance banks were making profit, their dividend payout records were not encouraging. Therefore, they are advised to increase their dividend payments to their shareholders as this is the only way to retain their investment and avoid capital flight or divestment.

It is also recommended that listed micro finance banks should also increase their branch network instead of operating as a unit bank in most cases. This is likely the reason why bank size which is based on asset acquisition did not impact dividend payout positively.

The regulatory authority which in this case is the Central Bank of Nigeria should step up its supervisory role by ensuring that insider trading which tend to undermine liquidity position in most of these banks are checked from time to time. All things being equal this is one of the best avenues liquidity can impact Dividend Payout regularly.

Policy Implication of the Study

One of the policy implications of this study is that the supervisory arm of the Central Bank of Nigeria has not been doing enough in the area of monitoring and ensuring that micro finance banks operate within the approved guidelines. This has resulted in overcrowding of many of the banks in the city centre rather than spreading their branch network into the rural areas to cater for farmers and other medium scale producers which form the nucleus of the real sector of the economy.Again it was revealed that liquidity did not impact dividend payout significantly, implying that even though micro finance banks were making profits, dividends were not being paid commensurately. This is probably why only six micro finance banks out of more than 800 were qualified to be listed in the Nigerians stock exchange. This scenario is unhealthy for a developing economy like ours.

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