ISBN: 978-0-9860419-1-4

Creating Global Competitive Economies:
2020 Vision Planning & Implementation

Proceedings of
The 22nd International Business Information Management Association Conference

November 13-14, 2013
Rome, Italy

Editor

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International Business Information Management Association
(IBIMA)

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Corporate Governance and Dividend Payout Policy: Evidence from Listed Firms in the Nigeria

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Abstract

This paper examined the relationship between corporate governance mechanisms and the dividend payout policies of firms in Nigerian. To achieve the objectives of this study, a total of 50 listed firms were selected and analyzed for the study using the judgmental sampling technique. Also, the annual reports for the period 2006-2011 were used for the study. The paper was basically modeled to examine the effects of board size, ownership structure, CEO duality and board independence on the dividend payout decisions of firms operating in Nigerian using the regression analysis method. Findings from the study revealed that board size, ownership structure, CEO duality and board independence had a significant positive effect on the dividend payout decisions of the sampled firms. The study therefore concludes that greater proportion of independent directors in a firm provides a positive influence on firms' dividend payout decisions with a view to reducing free cash flow.

Keywords: Nigeria; Dividend Payout; Ownership Structure, CEO Duality; Board Independence; Annual Report

Introduction

One of the main fundamental issues in corporate finance has been the dividend payout decision of firms, which has always been studied in relation to a firm's financing decisions. According to Uwuigbe (2012), dividend policy remains one of the most salient financial decisions not only from the viewpoint of firms, but also from that of the shareholders, consumers, employees and regulatory institutions. It is one of the salient components of firm policies and has been viewed as an interesting issue in the literatures. Firms' decisions relating to dividend policy have been a subject of debate in the financial literatures. It remains one of the most controversial topics and researched areas of corporate finance. According to Black (1976), the harder we look at the concept of dividend, the more it seems like a puzzle, with pieces that just do not fit together. Economics and finance researchers have long wondered why firms pay dividends even though cash allotments are less advantageous from a tax perspective than cash retention (Black, 1976).

Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behavior has been established. Brealey and Myers (2005) described dividend policy as one of the top ten most difficult unsolved problems in financial economics. Dividends as the term implies can be described as the as the reward for providing finances to a firm. According to