

**THE PROPENSITY TO PAY DIVIDENDS AMONG
NIGERIAN LISTED COMPANIES**

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COMPANIES**

By

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**Thesis Submitted to
School of Economics, Finance and Banking,
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ABSTRACT

This study examined the disappearing dividend phenomenon in the Nigerian market from 2003 to 2012. It also investigated the impact of financial crisis on the payout decisions. The dividend pattern was explained using descriptive analysis. Panel logistic regression was employed to explain the determinants of the choice "to pay" or "not to pay" dividends while multinomial logistic regression was used to examine the determinants of four mutually exclusive payout choices. Findings indicate a reduction in the proportion of dividend payers and the amount of dividends paid in the latter years. Determinants of the choice "to pay" or "not to pay" include foreign ownership, retained earnings to total equity, profitability, cash flow and past dividends. Thus, the study supports the clientele effect, free cash flow hypothesis and dividend smoothing hypothesis in explaining the decision "to pay" or "not to pay" dividends. However, the implication stated in the catering theory is not supported in the binomial model. Multinomial estimates revealed that firms alter their payout decisions in line with the necessity to maintain financial flexibility and to mitigate going concern risks during the crisis. Firms with higher leverage and lower cash flows have a higher likelihood to omit dividends during the crisis. Thus, free cash flow and transaction costs hypothesis became relevant during crisis. Clientele effect which was supported in the pre-crisis period became insignificant during the crisis. Catering theory became relevant during crisis as investor's demand for dividends have a positive impact on dividend- increase decisions. In consistency with dividend smoothing hypothesis, results indicate that some firms endeavour to maintain their dividend levels despite the crisis. Profitability as a characteristic of a dividend payer is significant in the crisis and the non-crisis periods. The study found no evidence in support of the implication stated in the life cycle theory.

Keywords: disappearing dividend, dividend payout, foreign ownership, financial crisis

ABSTRAK

Kajian ini meneliti fenomena dividen yang hilang dalam pasaran di Nigeria bagi tahun 2003 hingga 2012. Ianya juga mengkaji kesan krisis kewangan terhadap pembayaran dividen. Corak pembayaran dividen dijelaskan melalui analisis deskriptif. Kaedah logistik diguna untuk menerangkan faktor-faktor yang menyumbang kepada keputusan sama ada pembayaran dividen dibuat ataupun tidak. Sementara itu, kaedah multinomial logistik diguna untuk mengkaji faktor-faktor penentu kepada empat pilihan pembayaran yang berbeza. Hasil kajian menunjukkan bilangan pembayar dan jumlah dividen yang dibayar menurun pada tahun-tahun terakhir kajian. Pemilikan asing, nisbah perolehan tertahan kepada jumlah ekuiti, keuntungan, aliran tunai, dan dividen tahun lalu adalah penentu kepada pilihan sama ada dividen dibayar ataupun tidak. Hasil kajian menyokong kesan pelanggan, hipotesis aliran tunai bebas dan hipotesis *dividend smoothing* dalam menjelaskan keputusan sama ada pembayaran dividen dibuat ataupun tidak. Namun begitu, implikasi yang dinyatakan oleh teori *catering* tidak dapat disokong oleh model binomial. Hasil yang diperolehi daripada kaedah multinomial logistik menunjukkan bahawa syarikat mengubah keputusan pembayaran mereka seiring dengan keperluan untuk mengekalkan kelenturan kewangan dan mengurangkan risiko semasa krisis. Syarikat dengan hutang yang tinggi serta aliran tunai yang rendah lebih cenderung untuk tidak membayar dividen semasa krisis. Oleh itu, hipotesis aliran tunai bebas dan hipotesis kos transaksi menjadi tidak relevan semasa krisis. Kesan pelanggan menjadi tidak relevan semasa krisis, berbeza dengan hasil yang diperolehi sebelum krisis berlaku. Teori *catering* menjadi tidak relevan semasa krisis kerana permintaan untuk dividen yang dibuat oleh pelabur memberi kesan yang positif terhadap keputusan untuk meningkatkan pembayaran dividen. Selaras dengan hipotesis *dividend smoothing*, hasil kajian menunjukkan bahawa beberapa syarikat berusaha untuk mengekalkan tahap dividen yang dibayar walaupun ketika krisis berlaku. Keuntungan sebagai ciri pembayar dividen adalah signifikan semasa krisis berlaku dan juga semasa krisis tidak berlaku. Kajian ini tidak menemui bukti untuk menyokong implikasi yang dinyatakan oleh teori kitaran hayat.

Kata kunci: dividen yang hilang, pembayaran dividen, pemilikan asing, krisis kewangan.

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LIST OF ABBREVIATIONS

AMCON	Asset Management Corporation of Nigeria
AME	Average Marginal Effect
AMEX	American Stock Exchange
CAMA	Companies and Allied Matters Act
CBN	Central Bank of Nigeria
CEE	Central Eastern European Region
CGT	Capital Gains Tax
CITA	Companies Income Tax Act
CPI	Consumer Price Index
CSCS	Central Securities Clearing System
ETF	Exchange Traded Funds
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
IIA	Independent Irrelevant Alternative
ICT	Information and Communication Technology
ISA	Investment and Securities Act
MEM	Marginal Effect at Means
MM	Miller and Modigliani
MNL	Multinomial Logit
NASDAQ	Nasdaq Stock Market
NEPD	Nigerian Enterprise Promotion Decree
NIPC	Nigerian Investment Promotion Council
NSE	Nigerian Stock Exchange
NYSE	New York Stock Exchange

OLS	Ordinary Least Square
PITA	Personal Income Tax Act
PCP	Percentage of Correct Predictions
REITS	Real Estate Investment Trusts
SEC	Securities and Exchange Commission
UK	United Kingdom
US	United States
USD	US Dollar
VIF	Variance Inflation Factor
WHT	Withholding Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

One of the key aspects in maximizing the wealth of shareholders is payment of regular and sustainable income in the form of dividends. Understanding dividend payout policy is imperative as firms give back to shareholders considerable amounts of capital through payment of dividends. Kalay and Lemmon (2008) for instance reported that the US firms distribute between 40% to 70% of their earnings to the shareholders which equals to 2% to 5% of the aggregate market capitalization during 1972 to 2003. Cash dividend made up 54% of the total distributed earnings in 2003 while the remaining was paid through stock repurchase¹. The literature has shown that firms carefully guard their payout policy so that they achieve both objectives of meeting investor's expectations and maintaining sufficient financial slack to support future growth.

It is as a result of this that many finance scholars have carried out extensive research and have built different models to explain dividend behavior. Regardless of this fact, payment of dividends remains one of the crucial concerns in corporate finance that researchers are still trying to resolve. This has long been recognized by Black (1976) who referred to dividend as a puzzle. Black (1976) noted that "the harder we look at the dividend picture, the more difficult it seems like a puzzle, with pieces that just don't fit

¹ Stock repurchase is an alternative method to distribute earnings to the shareholders. Outstanding shares could either be bought back in the open market, through tender offer, auction or private negotiation with selected major shareholders. Kalay and Lemmon (2008) showed that repurchase became an important form of payout in the US since 1983.

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