# EFFECT OF DIVIDEND POLICY ON FIRMS PERFORMANCE

## Ogbuagu, Ngozi Maryrose.

*Department of Accounting Education Federal College of Education (Technical), Umunze, P.M.B 0189 Umunze Nigeria. 08039653149 Ngoziogbuagu21@Gmail.Com*

## ABSTRACT

*The study focuses on the impact of dividend policy on performance of firms listed on health care sector of Nigerian Stock Exchange. In order to establish the relationship between the dependent and independent variables in the study, some key proxy variables were used as thus; dividend per share (DPS), dividend cover (DC), dividend pay-out (DPO) and dividend yield (DY) while return on equity (ROE) was captured as a measurement for dependent variable. Data used for the study was collected from Nigerian Stock Exchange Factbook spanning from 2014 to 2018. The results of regression model used indicates that there is a significant positive relationship between return on equity (ROE) and dividend per share (DPS), dividend cover (DC), dividend pay-out (DPO) and dividend yield (DY) at 5% significant level. From our analysis also, it was found that the coefficient of determination ($R^2$) captured 64% which indicates that the variables considered in the model accounts for about 64% change in the dependent variable of ROE. Thus implies that the remaining 36% is as a result of other variables not addressed by this model. Based on this, the study concludes that dividend policy has exerted significant influence on firms' performance over the years. Hence this study supports the relevant theories of dividend policy. The study recommends among all that firms willing to maximize value should endeavour to consistently increase their dividend payment as this sends a signal that the firm is financially healthy.*

**Keywords: Dividend Policy, Firms Performance, Dividend Per Share, Dividend Pay-out, Dividend Cover, Dividend Yield, Return on Equity, Nigerian Stock Exchange**

## Introduction

Nigerian's capital market and advance corporate finance are facing issues from the actions of dividend policy. It is the very disputable issue in the field of advance corporate finance, but they are still keeping its prominent place. Different studies have already been done by different researchers and provided the practical evidences and theories regarding the determinants of dividend policy. But the main issue is still there and unresolved. Nevertheless, the studies do not have any strong arguments for the dividend behaviour of firms. The studies are yet to cover the factors that derive the dividend policy decision and the way these factors interact (Brealey and Myers, 2013).

Dividend policy is one of the most controversial issues in modern corporate finance. Fadio (2009) argues that "the harder we look at the dividend picture, the more it seems like a puzzle, with pieces that just don't fit together". This mystery led to the emergence of a handful of competing theoretical and empirical research to explain why companies pay or do not pay dividends. After decades of non-stop research, dividend policy is still listed as one of the top ten crucial unresolved issues in the world of finance in which no consensus has been reached

A stable dividend policy is expected to lead higher share prices because of the greater confidence of investors about future prospects of the company yet needs to be viewed in the wider context at the end of each financial year, each company ascertains its performance by establishing whether a profit has been made or not. Dividend policy remains one of the most consequential financial policies not only

from the perspective of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Uwuigbee 2012). It is usually expressed as a percentage of nominal value of the company's ordinary share capital or as a fixed amount per share. In corporate finance, the finance manager is commonly thought to face two operational decisions: the investment (or capital budgeting) and the financing decisions.

The term 'dividend policy' refers to "the practice that management follows in making dividend pay-out decisions or, in other words, the size and pattern of cash distributions over time to shareholders" (Lease 2010). Given the foregoing, the problem here is that in the real world, a change in the dividend policy is often followed by a change in the market value of stocks but in a developing economic the reverse may be the case subject to so many factors. Dividend decision is one of the most critical decisions in corporate finance. It adds to the shareholders' wealth and to the organizational value. That is the reason that numerous studies have been undertaken in this particular area.

In Nigeria, there are not sufficient studies available which have investigated the effect of dividend policy on firm performance and the available ones are greeted with conflicting and mixed results which calls further investigation. Previous researchers have mainly focused on financial service sector, oil and gas sector; industrial goods sector and consumer goods sector while none had concentrated on health care sector of NSE.

Thus, this study attempted to find out the effect of dividend policy on firm performance in health care sector of Nigeria Stock Exchange by developing a model fit that combined dividend pay-out, dividend per share, dividend cover and dividend yield in determination of its effect on firms' performance over the years.

## Objective of the Study

The main objective of this study is to examine the effect of dividend policy on performance of health care firms in Nigeria.

To examine the effect of dividend pay-out on performance of health care firms in Nigeria.
To determine the effect of dividend per share on performance of health care firms in Nigeria.
To ascertain the effect of dividend cover on performance of health care firms in Nigeria.
To examine the effect of dividend yield on performance of health care firms in Nigeria.

## Research Questions

To what extent does dividend pay-out influence the performance of health care firms in Nigeria?
What is the effect of dividend per share on performance of health care firms in Nigeria?
To what extent does dividend cover affect the performance of health care firms in Nigeria?
What is the effect of dividend yield on performance of health care firms in Nigeria?

## Research Hypotheses

In view of the objective of the study, the following hypotheses were formulated as thus;

**$H_{01}$:** Dividend pay-out has no significant effect on performance of health care firms in Nigeria.

**$H_{02}$:** Dividend per share has no significant effect on performance of health care firms in Nigeria.

**H₀₃:** Dividend cover has no significant effect on performance of health care firms in Nigeria.

**H₀₄:** Dividend yield has no significant effect on performance of health care firms in Nigeria.

## Review of Related Literature

This section deals with theoretical examination of all the relevant issues and variables inherent in the study. The review of literature undertaken for the purpose of this research aims at x-raying the opinion of experts and writers on the area of dividend policies.

### Conceptual Framework

### Dividend Policy

Bannock (1998) noted that a dividend is expressed as a percentage of the nominal value of a share or an absolute amount per share. Richard and Stewart (2003) noted the direct compensation and servicing of share capital involved in dividend paid to shareholders, adding that dividend policy is a trade-off between retained earnings and paying out cash as well as issuing new shares. Where there is no cash, a scrip issue or bonus share is given.

Chandra (2002) sees dividend policy as that which determines the proportion of earning paid to shareholders by way of dividends and what proportion is ploughed back in the firm for reinvestment purpose.

Lasher (2000) defined dividend policy as the rationale under which a firm determines what it will pay in dividends. It encompasses both the amount paid and the pattern under which changes in amount occur over time. That is, it entails striking a balance between future growth and payment of current dividends to firm's shareholders.

In the study own understanding, dividend policy is the decision arrived by participants involved in the dividend decision process on how and when the amount or percentage will be allocated to shareholders as returns on their equity investment and the portion reserved for precautionary, speculative or transactionary motives.

### Determinants of Dividend Policy

#### *Dividend Pay-out*

In the words of Akinsulire (2014), dividend pay-out is the ratio of ordinary dividends to retained earnings. It indicates the extent of the net profits distributed to shareholders as dividends and a high pay-out ratio simply indicates a liberal distribution of profits while a low pay-out ratio reflects a conservative distribution policy. However, from the share valuation model, Nwankwo (2014) asserts that the value of a share depends very much on the amount of dividend distributed to shareholders such that the higher the dividend pay-out ratio, the more attractive the share is to the shareholders.

Dividend pay-out refers to the decisions regarding the magnitude of the dividend payment paid by the firms, the percentage of earnings paid to the stockholders in the form of dividends (Akinsulire, 2014). It is based on the answers to several important questions such as how much dividend should a company distribute to shareholders? What will the impact of the dividend policy be on the company's share price? What will happen if the amount of dividend changes from year to year? By implication, dividend

policy of a firm is very important as it tells a firm when and how to make the payment and the extent of the payment to be made (Nickolas, 2011).

Dividend pay-out was used as a measurement for dividend policy in the apriori expectations of Dada, Malomo and Ojediran (2015), Uwuigbe (2012) etc.

However, for the purpose of this study, dividend pay-out was measured as dividend per share measured by earnings per share as used by Dada, Malomo and Ojediran (2015), Uwuigbe (2012).

This is expressed mathematically as DPO$=\frac{DPS}{EPS}$

*Dividend per Share*

Dividend per share (DPS) is the sum of declared dividends issued by a company for every ordinary share outstanding. The figure is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time by the number of outstanding ordinary shares issued (Radid and Wiame, 2016).

According to Uwalomwa, Jimoh and Anijesushola (2012), DPS is an important metric to investors because the amount a firm pays out in dividends directly translates to income for the shareholder, and the DPS is the most straightforward figure an investor can use to calculate his or her dividend payments from owning shares of a stock over time. Meanwhile, a growing DPS over time can also be a sign that a company's management believes that its earnings growth can be sustained.

Dividend per share was used as a measurement for dividend policy in the apriori expectations of Irtaza, Arslan and Syed (2016) etc.

However, for the purpose of this study, dividend per share was measured by dividing dividend with number of common stock.

This is expressed mathematically as   DPS$=\frac{DD}{\text{No of Common Stock}}$

*Dividend Cover*

Dividend cover, also commonly known as dividend coverage, is the ratio of company's earnings (net income) over the dividend paid to shareholders, calculated as net profit or loss attributable to ordinary shareholders by total ordinary dividend (Anandasayanan and Velnampy, 2016).

Generally, a dividend cover of 2 or more is considered a safe coverage, as it allows the company to safely pay out dividends and still allow for reinvestment or the possibility of a downturn. A low dividend cover can make it impossible to pay the same level of dividends in a bad year's trading or to invest in company growth. A negative dividend cover is both unusual and a clear sign that the company is in trouble. The higher the cover, the more unlikely it is that the dividend will fall the following year (Nawankwo 2014)

Dividend cover was used as a measurement for dividend policy in the a prior expectations of Anadasayanan and Velnampy (2016)

However, for the purpose of this study, dividend cover was measured by dividing earnings per share by dividend per share

This is expressed mathematically as DC= $\frac{EPS}{DPS}$

## *Dividend Yield*

The dividend yield, expressed as a percentage, is a financial ratio that shows how much a company pays out in dividends each year relative to its stock price. The reciprocal of the dividend yield is the dividend pay-out ratio. The dividend pay-out ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company.  Dividend yield is the financial ratio that measures the cash dividends paid out to shareholders relative to the market value per share (Sorin 2016)

According to Mohammad (2013), the dividend yield is an estimate of the dividend-only return of a stock investment. Assuming the dividend is not raised or lowered, the yield will rise when the price of the stock falls. And conversely, it will fall when the price of the stock rises. Because dividend yields change relative to the stock price, it can often look unusually high for stocks that are falling in value quickly. New companies that are relatively small, but still growing quickly, may pay a lower average dividend than mature companies in the same sectors. In general, mature companies that aren't growing very quickly pay the highest dividend yields. Consumer non-cyclical stocks that market staple items or utilities are examples of entire sectors that pay the highest average yield.

Mathematically, dividend yield is expressed as Dividend per share/Market price per share DY= $\frac{DPS}{MPS}$

## **Factors that Influence Dividend Policy (Constraints on Paying Dividend)**

Most companies understand that most shareholders have a desire to receive dividends. However, company's decision regarding what to pay as dividend depends on a number of factors. These factors as proposed by Akinsulire (2014) are;

*a. Legal*: Company law allow the payment of dividend only out of distributable profits that is; profits arising from the use of the company's property, even though it is a wasting asset; revenue reserves; realized profit on a fixed asset sold, but where more than one asset is sold, the net realized profit on the assets sold; calculated on conventional accounting principles. It is forbidden to distribute dividend out of capital (Section 379 – 382 of CAMA).

b. *Government Regulation*: Government, through some guidelines restricts the amount of dividend payable to shareholders by restricting dividend payment to a certain percentage of the profit after taxation. However, from 1988, dividend payment has been deregulated.

c. *Statutory Requirement*: Some companies are required to transfer a given percentage of profit before tax (PBT)/ profit after tax (PAT) to statutory reserves. For example, insurance companies; Life – 10% OF PBT or 1% of total premium whichever is higher; Nonlife – 20% of PBT or 3% of total premium whichever is higher.

Banks; 30% of PAT if statutory reserve is less than minimum paid up capital, 15% of PAT if statutory reserve is less than minimum paid up capital, 10% of PBT to SME reserve.

**d.** *Liquidity***:** Regardless of other considerations, a company will be unable to pay a dividend if cash is not available to do so. It may however, sometimes borrow for example, by bank overdraft, for this purpose.

**e.** *Share Valuation***:** It has become part of the stock market that investors favour a company if its dividends are basically stable over time. A gentle upward movement is to be desired but violent fluctuations in either direction are not. These factors often lead many companies to adopt a very cautious dividend policy.

**f.** *Internal Re-investment Opportunities***:** If external finance is not available or only available by incurring significant transaction costs, then the payment of dividends may mean foregoing worthwhile investment opportunities. Dividend may have to be restricted to provide financing for such investments.

**g.** *Access to Capital Market***:** A company can raise new debt or equity from the capital market if it is not liquid enough to pay its dividend. The greater companies access to capital market, the greater its ability to pay dividend.

**Dividend Paying Methods**

According to Odion, Idewele and Murad (2017), it includes; 1. *Residual method:* In this case, dividends are only paid after the firm's capital needs have been met. Companies that use the residual dividend policy method chose to rely on internally generated equity to finance any new projects. These companies usually attempt to maintain a balance in their debt/equity ratio before making any dividend distributions, which demonstrates that they decide on dividend only if there is enough money left over after all operating and expansion are met. 2. *Stable method:* Stability or regulatory of dividends is considered as a desirable policy by the management of most companies' shareholders. The fluctuation of dividend created by the residual policy significantly contrasts with the certainty, which stable dividend policy method provides. Stable dividends have a positive impact on the market price of the share of a firm. Many financial managers strive to maintain steady dividend policies. No management of a company is willing to increase dividend if they are not certain of maintaining that increase over time (in the future). 3. *Hybrid method:* This is the combination of both residual and stable dividend policy approaches. In this case, the company tries to view the debt/equity ratio as a long term rather than a short term goal. The hybrid method is more common in firms today. Here, companies will generally have one set dividend, which is a set as a relatively small portion of yearly income, and can be easily maintained. On top of this, these companies will offer extra dividend paid only when income exceeds general levels. Conclusively, firms are expected to adopt only one of these three methods of dividend payment.

**Forms/Types of Dividend that Companies Pay-out**

There are various types of dividends that companies pay-out according to the apriori expectations of Enekwe, Nweze and Agu (2015)

*Cash Dividend: -* Most companies pay dividends in cash. A company should have enough cash in its bank account when cash dividends are declared. To make this possible, the firm would have taken adequate measures to ensure the availability of cash. Some firms take the precaution of holding their reserves in cash and marketable securities. When they declare dividends they dispose those securities to enable them have enough cash to meet their obligations to the shareholders. The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, both the total

assets and the net worth of the company are reduced when the cash dividend is distributed. The market price of the share and the value of the firms will drop in most cases by the amount of the cash dividend distributed.

***Bonus Shares: -*** An issue of bonus shares is the distribution of shares free of cost to the existing shareholders. Issuing bonus shares increases the number of outstanding shares of the company. The bonus shares are distributed proportionately to the existing shareholders. The declaration of the bonus shares will increase the paid-up share capital and reduce the reserves and surplus (retained earnings) of the company. The total net worth is not affected by the bonus issue. In fact, a bonus issue represents a recapitalization of reserves and surplus. It is merely an accounting transfer from reserves and surplus to paid-up capital.

***Stock Dividends: -*** There are times when firms consider its expedient to retain most or all of its earnings in order to facilitate growth and respond to corporate needs. When this happens the company will not want to distribute cash to shareholders, rather it will declare stock dividend to shareholders. There will of course be no change in the total capitalization of the firm as the assets and liabilities remains unchanged but there is going to be a drop in the earnings per share. Also there is going to be drop in the market price of the stock, while there is going to be a corresponding rise in the volume of equity shareholdings , the reserved or retained earnings is going to drop.

***Share Splits: -*** A share split is a method to increase the number of outstanding shares to a proportional reduction of the per value and the number of outstanding shares. The shareholders total funds remain unaltered.

***Reasons for Share Split:*** The following are reasons for splitting of a firm's ordinary shares: ☐ To make trading in shares attractive. ☐ To signal the possibility of higher profits in the future. ☐ To give higher dividends to shareholders.

***Script Dividend: -*** It is the dividend given in the form of promissory note to pay the amount at a specific future date. The promissory note is known as Scripts or Dividend Certificate. When a company is a regular dividend paying company temporary, its cash position is affected due to lack of funds. Which are likely to be released shortly, the opinion is preferred. Script may or may not be interest bearing.

***Bond Dividend: -*** In case the company does not have sufficient funds to pay dividend in cash it may issue bonds for the amount due to the shareholders by way of dividends, it has longer maturity date then Script dividend, it always carry interest thus, bond holders get regular interest on their bonds besides payment of bonds money on the due date but it practice is not seen in Nigeria nor legally allowed.

***Property Dividend: -*** **In** case of such dividend the company pays dividend in the form of asset other than cash. This may be in form of company's product; this type of dividend is not popular in Nigeria.

**Financial Performance**

Nwankwo (2014) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This is the financial status of a firm over a period of time on the basis of certain criteria like Return on Assets, Returns on Investments, Earnings Per share, acid ratio, etc. These measures are used to verify the extent to which resources of the firm are adequately utilized to create an acceptable financial stand.

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Okeke, 2015).

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt. Return on Equity was used as a performance measurement in the prior expectations of Mohammad (2013), Irtaza, Arslan and Syed (2016)

For the purpose of this study, return on equity (ROE) was used. i.e. Return on Equity (ROE) was used to measure financial performance This was captured as Net Profit After Tax divided by Total Equity i.e. (ROE) This is expressed mathematically as

$$ROE = \frac{NPAT}{\text{Total Equity}}$$

**Theoretical Framework**

There are several theories which have been identified in dividend policy and firm performance studies. However, they are viewed from different perspectives in relation to the context of their work. The following theories are used to underpin this study, they include: Agency theory, signalling theory and dividend relevance theory.

*Agency Theory***: -** The agency theory was propounded by Jensen and Meckling (1976). The theory is based on the assumption that the firm as a collection of groups of individuals with conflicting interests and self-seeking motives. They posits that the agency relationship as a contract under which one or more persons referred to as the principal engage another person referred to as the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. The management may conduct actions which are not in the best interest of the shareholders. Such conflicts lead to increased agency costs. In such cases, firms will prefer to increase their dividends and reduce agency cost by distributing the free cash flow.

*Signalling Theory***: -** The theory was propounded by Modigliani and Miller (1961) who argued that dividend may have a signalling effect. Proponents of this theory posits that dividends have a signalling effect and investors or potential investors forecasts the profit of the company, which in fact is influenced by the rate of dividend. Firms have to distribute dividends among shareholders and high dividend payments are considered positive sign of profitability by shareholders. The payments of dividends have a signalling effect as dividend payment gives information about company to the market. On the basis of dividend announcements, investors, shareholders, and potential investors predict the position of company in context of profitability and when there is an increase in dividend payments, it is a good sign for firm; it increases its goodwill and its reputation in the mind of customers and share price increases.

*Dividend Relevance Theory***: -** The dividend relevance theory was propounded by Walter (1963). He argued that the choice of dividend policies almost always affect the value of the firm. His model, shows the importance of the relationship between the firm's rate of return and its cost of capital in determining

the dividend policy that will maximize the wealth of shareholders. Walter's model is based on the following assumptions:

First, the firm finances all investment through retained earrings; that is, debt or new equity is not issued. Secondly, the firm's rate of return and its cost of capital are constant. Thirdly, all earnings are either distributed as dividends or re-invested internally immediately. Fourthly, the values of earning per share and dividend remain constant. Lastly, the firm has a very long or infinite life.

It is believed that this model is quite useful to show the effects of dividend policy on an all equity firm under different assumptions about the rate of return. However, the simplified nature of the model can lead to conclusions which are not true in general, though true for Walter's model

**Empirical Review**

From the empirical literature the relationship between dividend pay-out ratio and performance is mixed. Uwuigbe (2012) investigate the relationship between the financial performance and dividend pay-out among the listed firms in Nigeria for 2006 to 2010. Result shows a significant and positive association between the performance of firms and the dividend pay-out.

Salehnezhad (2013) investigates corporate performance and dividend policy in companies listed in Tehran Stock Exchange for the period 2010 to 2012. Using fuzzy regression analysis, the result shows that a positive relationship exists between financial performance (stock returns) and dividend. Using regression models, the result shows no significant relation between dividend policy and performance. Interestingly, insignificant relationship occurs between dividend policy and other four explanatory variables (free cash flow, financial leverage, business risk and tax paid on dividend payment ratio).

Velnampy (2014) in his research on dividend policies and corporate performance" sample was taken of 28 manufacturing firm in Bangladesh, the data was used of 2007 – 2011indicate that there is no correlation between corporate performance and dividend policies adopted by that firm. Regression model exposed that ROE is not affected by the dividend policies. Nimalathasan (2009) scrutinized the link between dividend policies and Commercial bank's profitability in Sri Lanka over last 10 years. They understand that, there is a positive relationship between dividend policies and profitability ratios excluding operating profit, ROI (return on equity).

Sorin (2016) in his study on the impact of dividend policy on firm value - a panel data analysis of Romanian listed firms over the period of 2001-2011. The statistical tools used for analysis include mean, standard deviation, correlation analysis and Hausman test. The result of the study suggested that the leverage and firm size has a positive effect on firm value.

Irtaza, Arslan and Syed (2015) conducted the study on "Impact of Dividend Policy on Shareholder's Wealth". The paper examined the relationship between dividend policy and shareholder's wealth with the help of multiple regression model. Sample of thirty companies from Karachi Stock Exchange was selected which includes companies from cement, chemical and textile sector for the period of five years (2007 – 2011). The study concludes that there is strong relationship between shareholder's wealth and dividend policy.

Manjunatha (2013) studied "Impact of Debt-Equity and Dividend Pay-out Ratio on the Value of the Firm". The study tried to understand the impact of debt-equity & dividend pay-out ratios on the value of the firm. Multiple regression model was used to find out the relationship between the value of the firm & capital structure and dividend policies of the twenty nine companies which are listed in BSE

and NSE for the time period of ten years from 2000-2001 to 2009-2010. The study concluded that debt-equity & dividend pay-out ratio and value of the firm are not depending on each other.

Mohammad (2013) investigated "Effect of Dividend Policy on Shareholder's Wealth – A Study of Sugar Industry in Pakistan". The objective of this study to investigate the relationship between dividend policy and shareholders wealth. They have taken a sample of thirty three listed companies of sugar industry at Karachi Stock Exchange for a time horizon of six years from 2006 to 2011. In this study the Market Price per Share is the dependent variable and Dividend Per Share, Earnings Per Share, Lagged Market Price Ratio, Lagged Price Earnings Ratio, Price Earnings Ratio, Retained Earnings Ratio are the independent variables. Descriptive statistics and multiple regression analysis are used in this study to analyse the results. The result shows that the significant relationship between dividend policy and shareholder's wealth.

Anandasayanan and Velnampy, (2016) carried out an econometric analysis of the connection between dividend policy and corporate performance of listed manufacturing firms in Sri Lanka. The study specifically analyse the impact of dividend policy on corporate profitability of 23 listed firms over a period of 2009 to 2014 using dividend pay-out ratio and dividend yield as dividend policy variables, and return on equity and return on asset as measures of corporate profitability. Using regression analysis, it was discovered in the study that dividend policies has significant impact on corporate profitability of the selected firms. Thus it was recommended in the study that firms should ensure that dividend policies put in place are robust enough to enhance their profitability

Rachid and Wiame, (2016) analyse the relationship between dividend payments and firms performance with focus on listed firms in Morocco. The model developed two models in the bit to provide and empirical validation for both bird-in-hand Modigliani and Miller's dividend theories. employing regression analysis using secondary data collated from the annual reports of firms, it was discovered in the study that dividend policy is an important factor affecting firm performance as there is strong and positive relationship between dividend policy variables performance of selected firms hence the study concluded that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value. Management of companies should also invest in projects that give positive Net Present Values, thereby generating huge earnings, which can be partly used to pay dividends to their equity shareholders

Dada, Malomo and Ojediran (2015) focused on critical evaluation of the determinants of the dividend policy of Nigerian banking sector using panel data of selected banks that listed on the Nigerian Stock Exchange (NSE) during 2008 to 2013. Data were analysed with least square regression analysis. The results showed that dividend payment is positively related with leverage, performance, corporate governance and last year dividend while it is negatively related with firm's liquidity.

Eyigege, (2015) examined of dividend Pay-out on financial performance of manufacturing Firms quoted on Nigerian Stock Exchange. A total number of fourteen manufacturing firms were sample in the study over a period covering 2004 to 2013; the study analysed data collated using regression analysis and found out that earnings per share, profitability (ROE), liquidity and sales growth are positively related with dividend pay-out, while financial leverage and corporate tax are negatively related. The study thus recommended that earnings per share, profitability (ROE), liquidity and sales growth should be strengthened to maintain stable dividend payment that will encourage prospective investors and that retained earnings should be seen a panacea to increase performance of the firms among others.

Abdul and Muhibudeen, (2015) analysed the relationship between dividend pay-out and performance of selected oil companies in Nigeria between 1999 to 2013, using data collated from annual report of the selected firms and techniques of estimation such as correlation and regression analysis. From the result of the study it was discovered that there is significant relationship between dividend pay-out and performance of the sampled firms. Uwalomwa, Jimoh and Anijesushola (2012) investigated the relationship between the financial performance and dividend pay-out among fifty sampled listed firms in Nigeria between 2006 and 2010. Their findings were that there is a significant positive association between the performances of firms and the dividend pay-out

Fodio (2009) conducted an empirical analysis of dividend policy of 53 firms quoted on Nigeria stock exchange, over a period of 1993 to 2002. the study analyse the connection between dividend policy and performance of the selected firms using five metric variables including previous dividend, current earnings, cash flow, investment and net current assets and three non-metric variables. Model estimation was done using regression analysis, and it was discovered that there is significant positive relationship between dividend changes and earnings as well as cash flow, but significant negative relationship between dividend changes and previous dividend. Investment is found to be negatively related and net current assets positively related to dividend changes. However, the relationships for both of them are found to be statistically insignificant

## Methodology

This study adopts ex-post facto design. This was adopted based on the fact that our data is secondary data that exists already which cannot be manipulated or controlled. The population of the study consists of the entire 10 firms quoted under health care sector of NSE as at 2019 business list covering from 2014-2018. The use of quoted companies on NSE could be justified based on availability and reliability of their financial data. Out of 10 firms that formed our population, 1 firm has empty financial information within the period under study (*Evans Medical Plc.)* which was removed. Based on this, a total of 9 firms formed our sample size with 72 observations.

The study used data from secondary sources which are quantitative in nature. The data were obtained from the NSE Factbook. The technique of data analysis employed in this study is the regression model. The study adopted this technique to ascertain the effect of the dividend policy (DPO, DPS, DC & DY) on firms' performance measured using return on equity (ROE). The data was analysed using SPSS statistical package, and the outcome was used to test the hypothesis formulated for the study after conducting necessary tests. Various robustness tests such as test for multi-colinearity between the independent variables were carried out to improve the validity of the results obtained. It includes; Durbin Watson Statistics (DWS), Variance Inflation Factor (VIF) and Tolerance Value (TV)

### Operationalization and Measurement of Variables

*Dependent Variable:-* The dependent variable in this study is financial performance and was proxy using return on equity which is in harmony with the study of Velnampy (2013), Dada, Malomo and Ojediran (2015).

*Independent Variable: -* Independent variables were captured using dividend pay-out (DPO) as used by Dada, Malomo and Ojediran (2015), dividend per share (DPS) as used by Irtaza, Arslan and Syed (2015, dividend cover (DC) as used by Anandasayanan and Velnampy, (2016), and dividend yield (DY) as used by Sorin (2016).

**Model Specification and Justification**

The study adapted and modified the models of Uwuigbe (2012) and Anandasayanan and Velnampy, (2016).

Uwuigbe (2012): ROA = $\beta_0$ + $\beta_1$DPO+ $\beta_2$DPS + $\mu$ …….....................................……….    I

Anandasayanan and Velnampy, (2016):

ROE = $\beta_0$ + $\beta_1$DC+ $\mu$ …….......................................................................... II

ROA = $\beta_0$ + $\beta_1$DC+ $\mu$ …….......................................................................... III

The modified model for the study is shown as thus:

ROE = $\beta_0$ + $\beta_1$DPO+ $\beta_2$DPS + $\beta_3$DC + $\beta_4$DY +   $\mu$

Where

DPR = Dividend Pay-out

DPS = Dividend per Share

DC = Dividend Cover

DY = Dividend Yield

$\mu$ = error term

**Results and Discussion**

This section presents the results from the analysis of data and its interpretation

**Table 4.1:  Descriptive Statistics**

|  | Mean | Std. Deviation | N |
|---|---|---|---|
| ROE | .1980 | .33082 | 45 |
| DPO | 60.4000 | 37.82169 | 45 |
| DPS | 123.9600 | 51.83433 | 45 |
| DC | 139.2800 | 36.27319 | 45 |
| DY | 67.1200 | 46.11341 | 45 |

*Source: SPSS Computational Results (2019).*

Table 4.1 above shows that a positive return on equity (ROE) value of 0.1980. This is an indication that most of quoted health care firms have a positive return on equity.

Similarly, dividend pay-out (DPO) shows a positive mean value of 60.4 at a risk of 37.8. In other words, large number of our sampled firms paid out dividend to shareholders. The dividend per share

(DPS) mean value stood at 123.9 which is an indication that higher dividend was paid to shareholders beyond the preceding years not covered in the study. Dividend cover (DC) average value stood at 139 which is an indication that higher dividends were paid. The higher the cover, the more unlikely it is that the dividend will fall the following year. Similarly, dividend yield mean value stood at 67.12 which also indicate that dividend yield higher within the year under coverage relative to stock price.

In an effort to establish and ascertain whether or not multi-colinearity exists as a result of the correlation between variables, table 4.2 is incorporated for such purpose.

**Table 4.2: Colinearity Statistics**

| Tolerance Value | VIF |
|---|---|
| .239 | 4.176 |
| .376 | 2.658 |
| .707 | 1.415 |
| .504 | 1.983 |

*Source: SPSS Computational Results (2019).*

From the table above TV ranges from 0.239 to 0.504 which suggests non-multi-colinearity feature. The VIF which is simply the reciprocal of TV ranges from 1.415 to 4.176 also indicates non-multi-colinearity feature. Multi-colinearity feature according to Sabo, Rabi, Usman, Fatima, and Tjjani (2015) exists when the value of TV is less than 0.20 or where VIF exceeds 10 i.e VIF>10

## Test of Hypotheses

$H_{01}$: Dividend Pay-out has no significant effect on firms performance

$H_{02}$: Dividend Per Share has no significant effect on firms performance

$H_{03}$: Dividend Cover has no significant effect on firms performance

$H_{04}$: Dividend Yield has no significant effect on firms performance

**Model: ROE = $\beta_0$ + $\beta_1$DPO+ $\beta_2$DPS + $\beta_3$DC + $\beta_4$DY + μ**

Decision Rule: accept $H_o$ if P-value > 5% significant level otherwise reject Ho

**Table 4.3: Result on Effect of Dividend Policy on Financial Performance of Firms**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 0.923 | 1.436 | | 2.454 | .029 | | |
| | DPO | 0.301 | 0.003 | 0.138 | 1.376 | .031 | .239 | 4.176 |
| | DPS | 0.641 | 0.161 | 0.423 | 1.104 | .034 | .376 | 2.658 |
| | DC | 0.505 | 0.007 | 0.340 | 1.411 | .032 | .707 | 1.415 |
| | DY | 0.774 | 1.845 | 0.661 | 1.628 | .021 | .504 | 1.983 |
| a. Dependent Variable: ROE | | | | | | | | |

*$R^2$ 0.640, Adjusted $R^2$ 0.583, Prob (F-statistics) 0.039, F Stat 2.868, Durbin-Watson Stat 2.090*

*Source: SPSS Computational Results (2019).*

The coefficient of determination $R^2$ shows 0.640 indicating that the overall model explained 64 percent of the total variations in the dependent variable. Thus shows that these variables (DPO, DPS, DC & DY) can only explain 64 percent of change in firms' return on equity leaving 36 percent unexplained. This is to say that there are other determinants of firms financial performance other than dividend policy

The sig. (or p-value) is .039 which is below the .05 level; hence, we conclude that the overall model is statistically significant, or that the variables have a combined or joint effect on the dependent variable. With this, the researcher affirms the validity of the regression model adopted in this study.

**Discussion of Findings.**

The results of the regression are therefore slated below as follows:

**H01:** Dividend Pay-out has no significant effect on firms performance

This hypothesis was tested and the result of this regression indicates that the relationship between DPO and ROE is positive and significant; this can be justified with the P-value (significance) of 0.031 which is less than the 5% level of significance adopted. Likewise the result of positive coefficient of 0.301 is proving that, an increase in DPO while other remaining variables remain constant increases firms' ROE. Thus implies that companies that pay higher dividend attracts more investors

We therefore rejected null hypothesis and accepted alternate hypotheses which contends that corporate firms' DPO has a significant impact on firms' ROE

This observation is in agreement with the findings of Dada, Malomo and Ojediran (2015), who noted that dividend payment is positively related with performance

This disagrees with the observations of Salehnezhad (2013) who found insignificant positive association between dividend pay-out and firms performance

**H02:** Dividend Per Share has no significant effect on firms performance

This hypothesis was tested and the result of this regression indicates that the relationship between DPS and ROE is positive and significant; this can be justified with the P-value (significance) of 0.034 which is less than the 5% level of significance adopted. Likewise the result of positive coefficient of 0.641 is proving that, an increase in DPS while other remaining variables remain constant increases firms' ROE.

We therefore rejected null hypothesis and accepted alternate hypotheses which contends that corporate firms' DPS has a significant impact on firms' ROE.

This is in tandem with the study of Mohammad (2013) who argues that The result shows that the significant relationship between dividend per share and financial performance.

**H$_{03}$:** Dividend Cover has no significant effect on firms performance

This hypothesis was tested and the result of this regression indicates that the relationship between DC and ROE is positive and significant; this can be justified with the P-value (significance) of 0.032 which is less than the 5% level of significance adopted. Likewise the result of positive coefficient of 0.505 is proving that, an increase in DC while other remaining variables remain constant increases firms' ROE. Thus implies that firms should have positive disposition towards their dividend cover as it improves firms performance and thus attracts much investors

We therefore rejected null hypothesis and accepted alternate hypotheses which contends that corporate firms' DC has a significant impact on firms' ROE.

This agrees with the status quo of Anandasayanan and Velnampy, (2016) who noted that divided cover is positively and significantly related with corporate performance.

**H$_{04}$:** Dividend Yield has no significant effect on firms performance

This hypothesis was tested and the result of this regression indicates that the relationship between DY and ROE is positive and significant; this can be justified with the P-value (significance) of 0.021 which is less than the 5% level of significance adopted. Likewise the result of positive coefficient of .774 is proving that, an increase in DC while other remaining variables remain constant ensures firms' firms' ROE.

We therefore rejected null hypothesis and accepted alternate hypotheses which contends that corporate firms' DY has a significant impact on firms' ROE

This is in agreement with the priori expectations of Sorin (2016) who found significant positive association between dividend yield and financial performance over years.

**Conclusion**

In this study the impact of dividend policy on financial performance of listed firm under health care sector of NSE from 2014-2018 was taken. It can be observed that from the above analysis that there is a positive relationship between dividend policy and firm financial performance. The main purpose of this study was to find out whether dividend policy has any significant effect on the performance of health care sector of NSE and whether this effect is positive or negative. For this purpose, a sample of 9 firms was chosen from health care sector and the data was taken from 2014 to 2018.

Dividend per Share (D.P.S), Dividend Pay Out (D.P.O), Dividend Cover (D.C) and Dividend Yield (D.Y) were taken as the independent variables and return on equity (R.O.E) as dependent variable. Findings show that there is a significant and positive relationship between dividend per share (DPS), Dividend Pay Out (DPO), Dividend Cover (DC), Dividend Yield (DY) and return on equity (ROE) at 5 % significant level. Thus implies that if dividend per share increases, the return on equity also increases and vice versa. Also if dividend pay-out increases, the return on equity also increases and vice versa. Similarly, an increase in dividend cover and dividend yield increase return on equity of health care firms in Nigeria. Therefore, this study supports the relevant theories of dividend policy. Based on this, the study concludes that dividend policy having an impact on firm performance.

## Recommendation

Based on findings, the following recommendations were made:

1. Firms willing to maximize firms value should endeavour to consistently increase their dividend pay-out ratio as this sends a signal that the firm is financially healthy.

2. Since dividend per share can affect the financial performance of the firm, the firm should establish and formulate policies that will ensure efficiency and effectiveness of the firm's assets to bring about profitability for the firm

3. Since there is a positive association between dividend cover and firms performance, there is a need for firms to ensure that they have higher dividend cover as thus attracts more investors.

4. The board of directors of health care sector firms should be prudent in declaring dividend yield as higher dividend yield at tracts more investors

## REFERENCES

Abdul, A., & Muhibudeen, L. (2015). Relationship between dividend pay-out and firms' performance: evaluation of dividend policy Of Oando plc. *International Journal of Contemporary Applied Sciences*, *2*(6), 56-71

Akinsulire, J. (2014). Determinants of the dividend pay-out ratio in Ghana, *Journal of Risk Finance,* *7*(2), 136-145.

Anandasayanan, S., Velnampy, T (2016). Dividend policy and corporate profitability: econometric analysis of listed manufacturing firms in Sri Lanka, *International Journal of Commerce and Management Research*, *2*(1) 53-58

Bannock, S. O (1998) Dividend policy and corporate performance In Nigeria, *American Journal of Social and Management Sciences*, *4*(2): 71-77

Brealey, R. A., & Myers, S.C., 2013). Principles of corporate, finance, Boston: Irwin/McGraw Hill Corporations.

Chandra, J. O. (2002). The effect of dividend policy on the market price of shares in Nigeria: case study of fifteen quoted companies, *International Journal of Accounting*, *2*(1), 78-89

Dada, F.B., Malomo, E., & Ojediran, S. (2015). Critical evaluation of the determinants of dividend policy of banking sector in Nigeria. *International Journal of Economics Commerce and Management, 3*(2), 1-11.

Enekwe, C., Nweze, A., & Agu, C. (2015). The effect of dividend pay-out on performance evaluation: evidence of quoted cement companies in Nigeria, *European Journal of Accounting and Finance Research, 3*(11), 40-59

Eyigege, A.I (2015).Dividend pay-out of manufacturing firms quoted on the Nigerian Stock Exchange and its impact on financial performance, *International Journal of Advanced Research in Engineering & Management, 1(*9), 60-86

Fodio, M.I. (2009). The dividend policy of firms quoted on the Nigerian stock exchange: An empirical analysis. *African Journal of Business Management*, *3*(10), 555-566

Irtaza, M., Arslan, C., & Syed, C. (2016). Why individual investors want dividends, Journal *of Corporate Finance, 1* (12), 121-158.

Jensen, L., & Meckling, W.S. (1976). Dividend policy in the introduction to corporate finance (2nd edition), Canada: John Wiley & Sons Publishing

Lasher, E. (2000). An empirical study of dividend policy of quoted companies in Nigeria, *Global Journal of Social Sciences, 8* (1), 85-101.

Lease, J.O. (2010) Measuring and analysing the effects of dividend policy in banking profits and growth, *Journal of Policy and Development Studies, 9*(1), 167-178

Manjunatha, P. (2013). Dividend policy: a review of theories and empirical evidence, *International Bulletin of Business Administration, 1*(9), 171-200

Miller, M. H., & Modigliani, F. (1961). Dividend policy, growth, and the valuation of shares. *The Journal of Business, 34*(4), 411-433.

Mohammad, C. I. (2013).The effect of dividend pay-out on performance evaluation: evidence of quoted cement companies in Nigeria, *European Journal of Accounting, Auditing and Finance Research 3*(11), 40-59

Nickolas, A. (2011). Determination of dividend policy: evidence from Saudi Arabia, *International Journal of Business and Social Science, 2* (30), 5-11

Nimalathasan, N. (2009). The information content of concurrently announced earnings, cash dividends, and stock dividends: an investigation of the Chinese stock market, *Journal of International Financial Management and Accounting, 2* (13), 101-124.

Nwankwo, E. T.  (2014).Revisiting Managerial Perspectives on Dividend Policy, *Journal of Economics and Finance* (26), 267-283.

Odion, I., Idewele, E., & Murad, A. (2017). Dividend policy and financial performance; a study of selected deposit money banks in Nigeria, *African Journal of Business Management, 13*(7) 239-255

Okeke, M. (2015). Determinants of financial performance of firms in Nigeria, *Journal of Accounting and Finance*, *4*(5), 78-91

Rachid, S., & Wiame, L.E (2016) Does dividend policy affect firm earnings? Empirical evidence from Nigeria, *International Journal of Financial Research*, *7*(5), 77-86

Sabo, M., Rabi, U., Usman. Fatima, B., & Tjjani, B. (20 15). The Effect of Working Capital Management on Corporate Profitability: Evidence from Nigerian Food Product Firms. *Applied Finance and Accounting, 1, 2-4*

Salehnezhad, S. M. (2013). *The effect of dividend policy on the financial performance of firms listed at the Nairobi Securities Exchange* (Unpublished MBA Research Project, University of Nairobi, Kenya).

Sorin, I. (2016). Why do firms pay dividends? International evidence on the determinants of dividend policy, *Journal of Financial Economics, 89* (1), 62-82

Uwalomwa, U., Jimoh, J & Anijesushola, A. (2012). Dividend policy and firm performance: a study of listed firms in Nigeria, *Accounting and Management Information Systems, 11*(3), 442–454.

Uwuigbe, U (2012). Dividend policy and firm performance: a study of listed firms in Nigeria, *Accounting and Management Information Systems, 11*(3), 442–454,

Velnampy, T. (2014). Dividend policy and firm performance: Evidence from the manufacturing companies listed on the Colombo stock exchange, *Global Journal of Management and Business Research, 2*(1), 34-45

Walter, J. E. (1963). Dividend policy; it influence on the value of the enterprise, *Journal of Finance*, *1*, 280-291.