

## Market Performance and Dividend Policy of listed Manufacturing Companies in Nigeria: Conceptual Framework

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**Abstract:** The objective of this paper is to examine the conceptual relationship between firm performance and dividend policy of listed manufacturing companies in Nigeria. The methodology adopted in this study was content analysis of existing literature on the effect of dividend policy on firm performance of various listed manufacturing companies. In line with the existing literature, dividend policy as independent variable was measured by dividend payout while firm performance as the dependent variable was proxied by the market-based measures which comprise of economic value added (EVA), market value added (MVA) and Tobin's Q. The findings of the study revealed that cash dividend was the most commonly used form of dividend among listed firms in Nigeria. It was concluded that dividend payout positively affects firm performance. In line with the foregoing, the paper recommends that the manufacturing companies should adopt increasingly consistent dividend payout in order to enhance their financial performance and having a robust dividend policy in place that will attract investments to the organization.

**Keywords:** Dividend policy, Firm performance and Market based measures

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### 1.0 Introduction

Distribution of generated profits is another essential management decision and managers have to decide carefully the amount of earnings to be distributed to shareholders and the portion of earnings to be reinvested in the company and earnings distributed to shareholders are called dividend (Pandey, 2011). Dividend is not just a source of income for shareholders, but act as an indicator to judge the performance of the firm (AlMalkawi, Rafferty & Pillai, 2010). Furthermore, companies formulate their own policies as regards dividend. This mostly is determined by many factors and conditions prevailing during that period.

Dividend basically refers to the benefit of shareholders in return for their investment. Meanwhile, managers at all levels have to decide whether to pay dividend or not, and if they decide to pay dividend for that year, they will face further question of how much they should pay for that year. Dividend policy refers to the sum total of decisions regarding the payment or otherwise of dividend by an organization. This is therefore, one of the most important decisions that corporate managers encounter in the discharge of their primary responsibilities as well as bearing in mind that one of the main objectives of a firm is shareholder's wealth maximization (Ajanthan, 2013). The decision is important for managers as it determines the source of cash flow to the shareholders and also provides information relating to firm's current and future performance (Ozuomba, Okora & Okoye, 2013).

Dividend policy of a firm provides a clear picture or position of the company's financial well-being as well as attract others willing to invest in the firm (Amarjit, Nahum & Rajendra, 2010). The policy affects the financial structure, flow of funds, corporate liquidity, stock prices, and the behaviour of stockholders. Dividend policy has gone beyond the scope of addressing the frequency of paying its shareholders a cash dividend or to retain earnings, but to include such issues as whether to distribute cash through share repurchase, bonus shares or through specially designated forms rather than regular cash dividends (Demsetz & Villalonga, 2014; Shan & McIver, 2011). Some stockholders prefer receiving maximum current returns on their investment, while others prefer reinvestment of earnings so that the company's capital will increase. If earnings are paid out as dividends, they cannot be used for company expansion which thereby diminishes the company's long-term prospects

(Mvita & Johanness, 2013). Companies tend to reinvest their earnings more when there are chances for profitable expansion. Thus, at times when profits are high, the amounts reinvested are greater and dividends are smaller, for similar reasons, reinvestment is likely to decrease when profits decline in the company, all these indicate the importance of performance to firm (Klapper & Love, 2012).

Dividend policy indicates the level of earnings paid to shareholders on their investment and it is also a critical decision because it relates with other financial and investment decisions (Abor & Bokpin, 2010). Dividend policy, in the context of this study, relates to firm's dividend payout policy that managers adopt in deciding the pattern and size of cash distribution to shareholders over time. Hence, it is the decision of management about the portion of income that is given to shareholders in the form of dividend.

The financial performance of firms serves as one of the means by which firms are rated, it is also used to measure the success or otherwise of the operations of the firm. There are several ways to evaluate firm performance but the most commonly used method is ratio which cover a number of concepts and can also be grouped into profitability, liquidity, leverage, activity and investment ratio (Kurfi, 2003; Thoa & Uyen, 2014). The firm performance provides a maximum wealth to shareholders when the stock prices rise, thus, the better the performance of a firm compared to other firms in the same industry or across industries, the higher the firm is rated (Nwidobie, 2013). Since the greater the amount of earnings generated by a firm as a result of good performance, the higher will be the amount of dividend payout, which in turn will boost the stock price of the company in the stock market (Jensen, 2010; Bunyasi, 2012).

Over the years the performance of manufacturing firms in Nigeria has been unimpressive. Records have shown that the contribution of the manufacturing sector to the total economic output in Nigeria has been negligible and it has been on the decline overtime. Statistics indicated that the manufacturing sector's contribution to the economy dropped from N8.97tn as at the end of December, 2015 to N8.89tn as at the end of December, 2016. It further decreased to N8.81tn at the end of the third quarter of 2017 (Central Bank of Nigeria, 2017; National Bureau of Statistics, 2017). The unimpressive performance of the sector is believed to have an adverse effect on the inconsistent payment of dividend as compared to the service sector where dividend payment is consistent, this is as a result of poor enabling environment which has led to the poor performance of the sector as well as withdrawal of investors from the sector which equally has multiplier effect on the development of manufacturing sector in Nigeria. Therefore, for any firm to be able to declare dividend to its shareholders, the company should be able to generate adequate earnings which can only be attainable when there is a stable and enabling environment to achieve these goals (Adediran & Alade, 2016).

Furthermore, in an effort to understand the consequences of unimpressive performance of manufacturing sector on shareholders in Nigeria, several studies have examined the relationship between dividend policy and firm performance as well as firm performance and dividend payout (Sunday, Ademola & Oyefemi, 2015; Oyinlola, Oyinlola & Adeniran, 2014; Oyinlola & Ajeigbe, 2014; Murekefu & Ouma, 2012). However, most of the studies have only looked at the impact of dividend policy on firm performance despite the fact that as dividend policy affects firm performance, also firm performance affects dividend payout to shareholders (Pascareno and Siringoringo, 2016; Mirza and Javed, 2013; Salehnezhad, 2013; Dwita & Simiati, 2013; Gul, 2012; Howatt, 2010). Hence, this implies that two groups of relationship exist between dividend policy and firm performance as well as firm performance and dividend policy. Moreover, existing studies have not been using market measures of firm performance although they are one of the fundamental measures of financial performance (Santos & Brito, 2013). The existing studies have only been focusing on accounting measures of firm performance such as; return on asset, return on equity, return on investment, net profit margin (Azeez & Latifat, 2015; Oyinlola & Ajeigbe, 2014; Murekefu & Ouma, 2012).

It is against this background that this study attempts to explore the relationships between dividend policy and firm performance of listed manufacturing companies in Nigeria. This study is set to fill this obvious gap by establishing whether there is a relationship between dividend policy and firm performance of companies or not. The methodology adopted in this study was content analysis of existing literature on the effect of dividend policy on firm performance of various listed manufacturing companies. This is justified because it is believed to be a systematic research method for analyzing and making inferences from text or other forms of information. To achieve the foregoing objective, this paper is structured into six sections. Section one presents the introduction. Section two reviews related literature on the relationship between dividend policy and firm performance of manufacturing firms. Section three conceptualizes the variables of the study. Section four discusses the theoretical framework. Section five presents the conceptual framework while section six gives the conclusion and recommendations.

## 2.0 Literature Review

Signaling theory contended that the rise in the stock price following a dividend increase conveys positive information, that is, managers use dividends to signal their views of future earnings prospects which

signify how well firms have been performing. The idea that changes in dividends have information content about the future performance of firms remains the perceived wisdom in corporate finance (Norton, 2008). Furthermore, this provides the evidence of relationship between dividend policy and firm performance of various companies. The structures of corporate dividend payout vary over time and across countries, especially between developed, developing and emerging capital markets (Lie, 2005). Velnampy, Nimalthasan and Kalaiarasi (2014) found that dividend policy in emerging markets differ from those in developed markets, and also the quantum of the studies conducted on dividend policy in relations to performance in developing economies were only about two thirds of that of developed countries. Therefore, the need for this study is very crucial as the country is also a developing economy.

Amidu (2007) examined the effect of dividend policy on firm performance in Ghana. The study used a sample of 25 companies listed on the Ghana Stock Exchange for a period of eight years (1997-2004). The study adopted ordinary least squares model to estimate the regression equations. While return on assets and economic value added were used as the dependent variables and dividend policy was proxied by dividend payout ratio as the independent variable. The results show a positive and significant relationship between economic value added and dividend policy. The findings of the study indicated that when a firm has a policy to pay dividend it influenced its profitability and performance. The study has been criticized based on the period of the study used as well as the samples of the study was considered small. However, if larger samples were used and the period of the study was extended to 2017 there is every likelihood to have a different result from the study.

Merekufu and Ouma (2012) conducted a study in Kenya on the relationship between dividend policy and firm performance. The study was based on a sample of 41 companies listed on the Nairobi securities exchange from 2002-2010. The technique employed for data analysis was regression analysis to determine the relationship between dividend payout and firm performance. Net profit margin and market value added were proxies for the dependent variable, while dividend payout was the independent variable. The study found a positive and strong relationship between the variables of the study; thus, dividend was a significant factor that affected firm performance. The study was conducted in the year 2010 with a sample size of 41 listed companies in the Nairobi stock exchange, if the same study was conducted in Nigeria the result of the study would be significantly different due to different policy of operation in the country stock exchange which is different from that of Kenya as well as the period of the study if changed from 2012-2017 the findings of the study will be significantly different.

Oyinlola, Oyinlola and Adeniran (2014) investigated the impact of dividend policy and firm performance on two major brewery firms quoted on the Nigerian Stock Exchange for the period 2002-2010. Regression analysis was adopted in establishing the relationship between the variables of the study. The result of the study indicated a positive relationship exists between the dividend policy and performance. The findings revealed that dividend policy is relevant and that a firm's dividend policy is seen as a major determinant for a firm's performance. The study was criticized because it considered only the brewery subsector of the manufacturing which is the consumer goods sector out of the seven sectors of the manufacturing. Therefore, if all sectors are fully included the results of the findings will be different from what was obtained from the study.

Fathima and Mohamad (2014) investigated the impact of dividend payout on corporate profitability in the manufacturing companies listed on Colombo stock exchange in Sri Lanka. Data for the study were extracted from the annual reports of 21 manufacturing companies during the period from 2007– 2011. Regression model was used to estimate the relationship between dividend payout and corporate profitability which is the performance of the company. The study also employed a control variable in order to arrive at a conclusion with regard to the impact of dividend policy on corporate profitability. The results of the study revealed that there was a significant relationship between dividend payout and corporate profitability in terms of return on assets, return on equity, earnings per share and market value added. A positive significant relation was found between dividend payout and return on assets, market value added and return on equity for the whole sample while significant negative relationship was found between dividend payout and earnings per share as far as the dividend paying firms are concerned. The results of the study could be different if similar study was to be conducted in an emerging economy like the case of Nigeria.

Velnampy, Nimalthasan and Kalaiarasi (2014) conducted a research to examine the relationship between dividend policy and firm performance of listed manufacturing companies in Sri Lanka. Secondary source of data was used for the period of 2008 to 2012. Multiple regression was used as a technique of analysis of data. The regression results of the study showed that dividend policy does not influence companies return on asset and return on equity. The findings of the study thus support the dividend irrelevance theory. However, if similar study is conducted in an emerging economy like the case of Nigeria and the variables of the study are extended as well as the period of the study the results of the will be different.

The reviewed literature signifies the importance of dividend payment towards enhancement of performance especially as it relates to the manufacturing sector. However, it portrayed that there are few studies which

examined the effect of dividend policy on firm performance in manufacturing sector. Virtually, most of the studies focused on the impact of dividend on financial performance and revealed positive relationship. Furthermore, most of the studies conducted in Nigeria have not considered market values as measure of financial performance. This gap in the literature paved way for further research on the relationship of dividend policy and firm performance in the manufacturing sector in Nigeria.

## 2.1 Conceptualization

### Firm Performance

A good corporate performance will be a factor driving up the stock market value of a company which in turn increases the firm's value as well as its performance. Company performance is related to how companies utilized the resources they have in achieving its goals. Company's performance is also related to the prospect of the company in the future (Namachanja, 2016).

For investors, information on company performance can be used to determine if they will maintain their investment in the company or search for other alternative sources (Taufik & Bastian, 2018).

There are several ways to evaluate company's performance but the most commonly used in the stock market by researchers, analyst and investors is financial performance. Since the study is on listed manufacturing companies and there are various indicators of financial performance (Adekunle & Aghedo, 2014). Financial performance can be in form of ratios which cover a number of concepts and can also be grouped into profitability, liquidity, leverage, activity, investment ratios and market test ratios (Kurfi, 2003; Thoa & Uyen, 2014). The objective of firm performance on shareholder is to provide maximum wealth to shareholders when the stock prices rise, thus, for a better performance of a firm, the greater the amount of dividend payout the higher the stock price of a company in the stock market and the higher the wealth of the shareholders (Walker, 2000; Jensen, 2010; Ndirangu, 2014).

Musyoka (2015) defined financial performance as the measurement of the outcome of firm strategies, policies and operations in monetary terms. Adams and Mehran (2005) defined financial performance as the end result of primary utilization of firm assets to generate proceeds during ordinary business operations. However, in the context of this study, financial performance can also be viewed as a general measure of firm overall financial level over a particular period of time and can be used for comparison of the general performance of different firms operating in the same industry. Hence, financial performance is a gauge used to express the general financial productivity of an organization in a given financial period as well as assist in comparison of financial results of other firms in the same sector and the level of financial performance explains the extent to which a firm has succeeded (Wasike & Jagongo, 2015). There is no one universally accepted proxy for measuring financial performance of a firm and from a broader perspective, financial performance of a firm takes both accounting and market-based dimensions (Waggoner, Neely & Kennerley, 1999).

The accounting-based proxies used to measure financial performance are diverse and some of these measurements are; return on assets, return on equity, earnings per share, net profit margin, gross profit margin and operating cash flows (Santos & Brito, 2013). The shortcomings of using accounting based indicators is that it represents a short term financial performance measure to the management and also their values are determined from historical data and therefore they cannot be fully relied upon to make future firm decisions, another limitation of using these proxies are that they are anchored on accounting based professional rules, regulations and standards (Klapper & Love, 2012). The market-based indicators are commonly used in measuring financial performance of a firm. Some of these proxies are; economic value added, market value added, total shareholders return, Tobin's Q, market to book value, dividend yield and price earnings which are futuristic and long term in nature and these market-based proxies represent the expectations of the shareholders on the firm future performance (Kimunduu, Mwangi, Kaijage & Ochieng, 2017).

Financial performance is a measure of how well a firm uses asset from its primary mode of business to generate revenues and expand its operations (Kajola, Adewumi, & Oworu, 2015). Demsetz and Lehn (1985), opined that the use of financial ratios from financial statements are good sources of data to measure financial performance. In other words, it is the measurement of firm on the use of financial data provided by the financial report of the respective firms (Adekunle & Aghedo, 2014).

Financial performance is a way of satisfying investors' needs and can be represented by profitability, growth and market value (Santos & Brito, 2013). Profitability measures a firm's ability to generate returns, growth demonstrates firm's ability to increase its size at the same or increasing profitability level, while market value represents the external assessment and expectation of firms' future performance (Ifuero & Iyobase, 2016). Hence, for the purpose of this study financial measure of performance will be considered as the measurement pattern that depends on the use of accounting data from the financial report of companies in order to ascertain the performance of a company in a given period of time.

Furthermore, this study will focused on market based measure of performance proxied by: economic value added (EVA), market value added (MVA), total shareholders return (TSR) and Tobin's Q (TQ), this is justified based on the fact that the study deals with performance of firm and the market based measure is believed to be a measure of performance, most of the previous study were mainly on accounting based measures of performance which includes return on asset (ROA), return on equity (ROE), return on investment (ROI), net profit margin (NPM), return on capital employed (ROCE).

**Economic Value Added (EVA):** Economic value added is the measurement of the true economic profit generated by a firm (Sharma & Kumar, 2010). It is also referred to as economic profit because it provides a measurement of a company's economic success (or failure) over a period of time.

Stern and Stewart (1991) developed the Economic Value Added (EVA) performance measure. It measures the amount of value of the firm's return in excess of its opportunity cost (Bodie, Kane, & Marcus, 2014). Hall (2013) listed a number of studies that adopted the use of EVA (Stewart and Stern, 1991; O'Byrne, 1996; Dodd and Chen, 1997; Bodie, Kane and Marcus, 2014; Khan, Nadeem, Islam and Gill, 2016; Sabol and Sverer, 2017) confirming the superiority of the valuation using economic value added as compared to traditional accounting performance indicators. EVA as a measure of company's performance places the emphasis on the creation of value by the management for the owners since it takes into account the cost of capital employed. Furthermore, from the investor's perspective, EVA provides a better predictor of market value of a company than other measures of operating performance (Sabol & Sverer, 2017).

Based on the research conducted by Stern and Stewart (1991), economic value added theoretically and empirically was proven to have a high correlation with firm performance and the creation of value in the stock market. Due to the fact that Economic Value Added is not just seen as the rate of return generated but also the risks facing the company, which are reflected by the cost of capital. In general, investors will choose the company that is able to create a rate of return that is greater than its cost of capital, so that the reaction of investors to make investments could increase the company's share price, and this justify the used of EVA as performance measure indices.

Economic profit can be calculated by taking a company's net after-tax operating profit and subtracting from it the product of the company's invested capital multiplied by its percentage cost of capital. It can be mathematically expressed as:

$$EVA = NOPAT - \text{Invested capital} \times \text{Cost of capital}$$

AL Khalayleh, (2011) investigated the relationship between accounting performance indicators and market performance indicators for a sample of (40) Jordanian public companies listed in Amman Security Exchange. The market performance indicator results indicated a significant and positive relationship between economic value added and dividend payout. Based on the research conducted by Stern Stewart (1991), Economic Value Added theoretically and empirically was proven to have a high correlation with firm performance and the creation of value in the stock market. Hence, for the purpose of this study economic value added will be considered as performance measurement concept that measures the true economic value of a company as well as the maximization of shareholders' value as opposed to mere maximization of net profit.

**Market Value Added (MVA):** Market value added (MVA), is simply the difference between the current total market value of a company and the capital contributed by investors including both shareholders and bondholders (Kurfi, 2006). MVA is a wealth metric, measuring the level of value a company has accumulated over time. As company performs well over time, it will retain earnings. This will improve the book value of the company's shares, and investors will likely bid up the prices of those shares in expectation of future earnings, causing the company's market value to rise. As this occurs, the difference between the company's market value and the capital contributed by investors (MVA) represents the excess price tag the market assigns to the company as a result of its past operating successes (Marfo-Yiadom & Agyei, 2011). MVA is mathematically expressed as:  $MVA = \text{Company Market value} - \text{Invested Capital}$ .

Dita and Murtaqi (2014) studied the relationship between market value added, net profit margin, price to book value and stock returns in the Indonesian consumer goods industry during the period 2009-2013. The samples of the study constituted consumer goods companies listed in Indonesia Stock Exchange during the period of 2009 – 2013. The technique of multiple regression analysis was used as tool of data analysis. The findings of the study revealed that market value added, net profit margin, and debt equity ratio have significant effects towards stocks return. Since, the variables used in the study are part of the proxies of firm performance, it can be justified that market value added can as well be used in the Nigeria stock market in order to ascertain its effect company performance. Therefore, for the purpose of this study market value added will be viewed as performance measurement tool that measures the overall market value of company in

relation to what have been contributed by the shareholders and bond holders of the company in a given financial year.

**Tobin's Q (TQ):** This is a measure of the impact of inflation to replacement costs of the asset of a firm and when there is rise in pricing (inflation), the book value underestimates the replacement cost (Kurfi, 2006). The q ratio can be considered as the ratio of market value of firm's equity and debt to the replacement cost of its assets. This is mathematically expressed as:

$$Q = \frac{\text{Market value of assets (debt + equity)}}{\text{Estimated replacement cost of assets}}$$

Tobin argued that firm have an incentive to invest when q is greater than 1 (when capital equipment is worth more than its replacement costs), and that they will stop investing only, when q is less than 1. This signifies that the equipment is worthless than its replacement cost). When q is less than 1 it may be cheaper to acquire assets through merger rather than buying new assets (Kurfi, 2006).

Tobin's q ratio has been used in various situations in the financial literature to examined different financial phenomena and decisions. The ratio has been used in research related to investment and diversification as well as to explain the relationship between managerial ownership and firm value (Jose, Nichols and Stevens, 1986; Liang, Rajeev & Mohinder, 2016). Lang and Stulz (1994) and Berger and Ofek (1995); Surroca, Tribo & Waddock (2010) as well as Khan et al., (2016) used the Tobin's q ratio to determine the relationship between diversification and firm performance. Wernerfelt and Montgomery (1988) used Tobin's q as a measure of firm performance to estimate the relative importance of industry, focus, and share effects of firms in the United State. As a result of its widespread usage in empirical finance, the q ratio may be considered an important variable of measurement of firm performance and this justifies the used of Tobin q as a measure of performance of firm.

Liang, Rajeev and Mohinder (2016) examined the relationship between Tobin q ratio and future operating performance for a sample 56,719 of publicly traded US firms for five years using a multiple regression analysis, the result of the study indicated that there is a high correlation between the q ratio and the future operating performance. Therefore, the empirical analysis of the study demonstrated that Tobin's q ratio has significant effect on the firms' future operating performance. Hence, it is confirmed that as a proxy for the future investment opportunities, firms with higher q ratios experience superior operating performance in the long run, this justified the use of Tobin q as a proxy of firm performance. Hence, for the purpose of this study Tobin's q will be viewed as performance measurement tool that measures the actual market value of asset to the replacement cost of asset in relation to the general increase in the prices of the assets during inflation.

### Dividend Policy

Dividend policy of firm refers to the rules specifying the modalities (what, when and how much) is the payment of dividend in the company. A good and healthy dividend policy is an indication of confidence in the future performance of the firm, which will equally signal to both actual and prospective investors about the position of the firm (Pandey, 2011).

Dividend policy can be proxied either by dividend payout or dividend yield. However, for the purpose of this paper dividend payout will be adopted as it was done in the empirical studies conducted by (Sunday, Ademola & Oyefemi, 2015; Adekunle & Aghedo, 2014; Oyinlola & Ajeigbe, 2014; Uwuigbe, Jafaru & Ajayi, 2012). Dividend payout is the distribution of the portion of the firm's earnings to the shareholders of the company, usually it is the distribution of the after tax profit of the firm (PAT), while dividend yield is the ratio that shows the percentage of income from shares, that is dividend in relation to the market value of the share (Chew, 2017).

Dividend payout is the proportion of profits that is distributed to shareholders in a proportional amount to the number of shares owned (Chew, 2017). Dividend payout is important because it determined what amount of funds flow to investors of the firm for their investment (Ross, Westerfield & Jordan, 2011). Moreover, it provides information to stakeholders concerning the company's performance. Firm investments determine future earnings and future potential dividend to be paid to investors (Foong, Zakaria & Tan, 2007). Welch (2010) viewed dividend payout as the ratio of dividend to net income or measures of percentage of earnings that is paid out as dividend to shareholders of the company.

Dividend payout involves the determination and the proportion of a firm's total distributable earnings that is payable to shareholders (Adesola & Okwong, 2009). Dividend payout is important to both actual shareholders and potential investors in showing the earnings generated by the company. However, for the purpose of this study dividend payout will be viewed as amount of money made available to be distributed

among shareholders of a company out of the profit generated in a given financial year for their investment. Dividend payout is mathematically expressed as:

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend Per Share}}{\text{Earnings Per Share}} \times 100$$

Dividend payout among manufacturing companies in the world are different and such include cash dividends which consist of regular cash dividends, extra dividends, special dividends and liquidating dividends (Ross, Westerfield, & Jordan, 2011). Regular cash dividends are made to shareholders in the regular course of business mostly four times a year while extra cash dividend indicates that the extra part may or may not be repeated in the future, special dividend is viewed as a truly unusual dividend payment made by company once or onetime event and it won't be repeated and liquidating dividend means that some or all of the business has been liquidated (Ross et al., 2011).

Stable dividend payment is where investors received dividend in a consistent manner, it is also the payment of certain minimum amount of dividend regularly to shareholders (Fumey & Doku, 2013). According to Ross et al. (2011) stable dividend can be established in three forms: a) Constant dividend per share where firms adopt paying fixed dividends per share irrespective of the level of earning year after year. b) Constant payout ratio means payment of fixed percentage of net earnings as dividend every year. The amount of dividend paid fluctuates in direct proportion to the earnings of the company. c) Stable dividend plus extra dividend which is a method of paying constant low dividend per share plus extra dividend in the years of high profits.

Gitau (2011) suggested that firms that pay high dividend without considering investment needs may therefore experience lower future earnings. Hence, an increase in dividend may be the result of the management's decision to keep investors satisfied and prevent them from selling the stock at the time when future earnings are expected to decline or current losses are expected to continue, furthermore, an increase in dividend may be the result of good performance in previous period which is likely to continue into the future (Ozuomba, Okora & Okoye, 2013).

## 2.2 Theoretical Framework

Corporate dividend payout has been the subject of intense theoretical modeling and empirical examination that has captured the interest of economists, academicians and researchers over the last few years, probably as a result of the position of dividend payment in stock valuation. These theoretical and empirical models of corporate dividend are divided based on the predictive ability of the effect of dividend payments to investors and on share price (Al Haddad, 2011). In the light of the above, it is obvious that there are several dividend theories that supported the prepositions on dividend payment. These theories are often used to explain the relationship between dividend payment, performance and value of firms as previously used in the works of Murekefu and Ouma, (2012), Oyinlola and Ajeigbe, (2014), Sunday, Ademola and Oyefemi, (2015), Adediran and Alade, (2016). Notwithstanding the existence of theories like the M&M hypothesis (1961) that propose dividend irrelevance, a lot of more recent theories have proved the existence of positive relationship between dividend payout and firm performance.

### Bird-in-hand Theory

Bird in hand theory proposes that a relationship exists between firm value and dividend payout. It states that dividends are less risky than capital gains since they are more certain. Therefore, investors would prefer dividends to capital gains (Amidu, 2007). Because dividends are supposedly less risky than capital gains, firms should set a high dividend payout ratio and offer a high dividend yield to maximize stock price. The essence of the bird-in-the-hand theory of dividend policy (Litner, 1962; Gordon, 1963) argued that outside shareholders prefer a higher dividend policy. Consequently, investors would value high payout firms more highly.

In addition, when making dividend payouts, the firm gets a higher rating from rating agencies as compared to a firm not making any dividend payout with a better rating, the firm will be able to raise finance more easily from capital markets since credit institutions will be willing to give loans to the firm this is because payment of dividend indicates that the firm has the ability to meet its obligations.

### Signaling Theory

According to the signaling hypothesis, investors can infer information about a firm's performance and future earnings through the signal coming from dividend announcements, both in terms of the stability of dividend and changes in dividend. However, for this hypothesis to hold, managers should first have possessed private information about a firm's prospects, and have incentives to convey this information to the market (Mutisya, 2014). A firm with poor performance would not send false signals to the market by increasing dividend payments. Thus the market must be able to rely on the signals to differentiate among firms. If these

conditions are fulfilled, the market should react favorably to the announcements of dividend increase and unfavorably otherwise (Ajanthan, 2013).

It has been empirically established that when dividends are increased or initiated, prices of the associated common stocks tend to go up, and when dividends are cut or omitted, prices fall (Ajanthan, 2013; Egu, 2009; Simon-Oke & Ologunwa, 2016). Lintner (1956), Mirza and Javed (2013) argued that firms tend to increase dividend when managers believed that profitability has permanently increased. This suggested that dividend increase implies long-run sustainable earnings. Many theorists contended that the rise in the stock price following a dividend increase conveys positive information, that is, managers use dividends to signal their views of future earnings prospects which signify how well firms have been performing. The idea that changes in dividends have information content about the future performance of firm remains the perceived wisdom in corporate finance (Kibet, Jagongo & Ndede, 2016; Kajola, Adewumi, & Oworu, 2015). Furthermore, this provides evidence of relationship that exist between dividend policy and firm performance of listed manufacturing companies.

Signaling theory proposed that dividend payment can be used as a device to communicate information about a firm's future prospects to investors. Cash dividend announcements convey valuable information, which shareholders do not have, about management's assessment of a firm's future profitability which reduces information asymmetry (Onanjiri & Korankye, 2014). Investors may therefore use this information in assessing a firm's share price and dividend payment under this model is relevant (Al-Kuwari, 2009). Furthermore, where managers have private information about the current and future fortunes of the firm that is not available to outsiders, here, managers are believed to have the incentive to communicate this information to the market. Bhattacharya (1979), John and William (1985), and Miller and Rock (1985) argued that information asymmetry between firms and outside shareholders may induce a signaling role for dividends. They show that dividend payments communicate private information in a fully revealing manner. The most important element in their theory is that firms have to pay out funds regularly. An announcement of dividends increase is taken as good news and accordingly the share price reacts favorably, and vice-versa (M'rabet & Boujjat, 2016). Hence, only good quality firms can send signals to the market through dividends and poor quality firms cannot do same simply because of the poor performance.

This study is underpinned by the signaling theory, and this is justified based on the fact that the information signaling effect of dividend policy can be seen to address both the issues of dividend payout as well as performance of firm. Oyinlola et al. (2014) stated that healthy dividend payout indicates that firms are generating real earnings from their performance. Samuel and Edward (2011) affirmed this fact in a study conducted in Ghana, which revealed dividend payout to have a positive relationship with the performance of firms in Ghana. Ehikioya (2015) conducted the study found that firms in Nigeria pay dividend to their shareholders in order to increase profitability. In this manner, management could be seen to be paying out dividends to shareholders as a way to signal good performance and be perceived in good faith. On the other hand, it is also important to note that non-payment of dividends may be seen by shareholders and other stakeholders as signaling adverse effect of economic activities of the firm on its performance based on the reviewed literatures.

### 2.3 Conceptual Framework

Given the importance of dividend to overall firm performance, academicians and researchers have developed several theoretical models describing the factors that managers should consider when making dividend payout decisions (Amarjit, Nahum & Rajendra, 2010). However, there has been emerging consensus that there is no single explanation of dividend payments and there are many reasons as to why companies should pay or not to pay dividend to their investors. Meanwhile, firms that have a long-standing history of stable dividend payment would be negatively affected by lowering or omitting dividend distributions, while companies without a dividend history are generally viewed favourably when they declare new dividends (Amarjit et al., 2010).

In line with the literature, this paper comes up with the framework of the relationship of dividend policy and financial performance of manufacturing companies. The conceptual framework is a pictorial representation of the relationship between the variables. Meanwhile, the framework if properly articulated and presented, assist the researcher to make meaning of the findings of the study under review. It can be used to explain the possible connections and relationship between the variables of the study (Saunders, Lewis & Thornhill, 2009). Hence, the proposed conceptual framework of the study, explains the relationship that exists between the independent variables and dependent variable of the study as presented below.

**Independent Variable****Dependent Variable****Market Performance dividend Policy**

Economic Value Added  
Market Value Added  
Total Shareholder Return  
Tobin's Q



Dividend payout

Figure1. Conceptual Framework

Source: Author (2018)

The conceptual framework above represents the relationship between dividend policy and firm performance. As shown by the framework, dividend policy is the independent variable (IV) of the study and is measured by dividend payout. On the other hand, firm performance is the dependent variable and is represented by Economic Value Added (EVA), Market Value Added (MVA) and Tobin's Q.

### 3.0 Conclusion and Recommendations

This paper examines the conceptual framework of relationship between dividend policy and firm performance of listed manufacturing companies in Nigeria. The study has been able to establish the relationship that existed between the variables of the study in which dividend policy was used to represent the independent variable and measured by dividend payout while firm performance which was the dependent variable was proxied by economic value added, market value added and Tobin's q. In line with the existing empirical studies, the study concludes that dividend policy affects firm performance and that the relationship is strong and positive. This corroborates with the findings of Oyinlola, Oyinlola and Adediran (2014); Fatima and Mohamad (2014); Murekefu and Ouma (2012); and Amidu (2007). In addition, the conceptual framework signifies the importance of dividend payment in order to enhance firm performance especially as it relates to the manufacturing sector. However, it portrayed that there are few studies which examined the effect of dividend policy on firm performance in manufacturing sector. Virtually, most of the studies focused on the impact of dividend on financial performance and confirm the existing relationship. Further, most of the studies on Nigeria have not considered market based measure of financial performance. In the light of the foregoing, the study recommends that organizations should ensure that they have a good and robust dividend policy in place, which will enhance their performance and attract investments to the organizations. Management of companies should also invest in projects that will yield positive returns, thereby generating huge earnings, which can be partly used to pay dividend to their shareholders. This will encourage investors both local and foreign to have stake in more firms that pay dividends consistently.

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