
DIVIDEND DECISIONS AND PROFITABILITY OF QUOTED FOOD AND BEVERAGES FIRMS IN NIGERIA

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ABSTRACT

This study examined the relationship between dividend policy decisions and profitability of quoted food and beverages manufacturing firms in Nigeria. The purpose of the study was to ascertain the direction and magnitude of dividend policy decisions' effects on profitability of quoted food and beverages manufacturing firms. Secondary data obtained from 10 quoted food and beverages manufacturing firms from 2010-2019 obtained from the Nigerian Stock Exchange FactSheet and annual reports of the food and beverage firms were used. Return on equity was used to represent profitability while retained earnings, dividend payout rate, dividend yield and dividend per share were employed as proxies of dividend policy decisions. The study employed panel data in the analysis while the fixed effects model was used as estimation technique at 5% level of significance. Fixed effects, random effects and pooled estimates were tested while the Hausman test was used to determine the best fit. The estimated regression results found that 77 per cent variation on return on equity of quoted food and beverages manufacturing firms in Nigeria can be traced to dividend policy decisions. Beta coefficient of the variables indicates that dividend policy decisions have positive and statistically significant relationship with debt financing of the quoted food and beverages manufacturing firms. The study concluded that dividend policy decisions affect profitability of quoted food and beverages manufacturing firms through return on equity; and recommends that quoted food and beverages manufacturing firms in Nigeria that seek increased profitability should adopt dividend policy decisions that prioritizes increased retained earnings, dividend yield, dividend per share and reduced payout ratios.

Keyword: Dividend policy decisions, profitability, retained earnings, dividend payout rate, dividend yield and dividend per share

INTRODUCTION

Dividend policy remains one of the most controversial issues in corporate finance. The relationship between dividend policy and stock prices of listed firms has remained a sharp point of departure among scholars in corporate finance. The intensity of the debate has remained largely unresolved in both the global and local arena. Empirical evidence has shown that dividend policy is relevant as formulated by Gordon (1960). The age-long debate on the relationship between dividend policy and stock prices or put differently, the value of the firm rages on and dates back to Walter's (1928) "Bird in Hand" theory, Gordon' (1960) dividend relevance hypotheses and Miller and Modigliani's (1962) dividend irrelevance hypotheses which have presented a serious challenge to academia and practitioners alike. Prior academic literatures have attempted to provide answers to questions on dividend policy and harmonize the theories

but mystery still shrouds the dividend policy decisions of corporate organizations in general and emerging financial market like Nigeria in particular.

To consider the relationship between dividend policy and profitability of Nigerian quoted firms is therefore, important due to the various macroeconomic and monetary policy reforms aimed at repositioning the environment to enhance the performance of listed firms. Again it is important to ascertain the application of the theories underlying the relationship between dividend policy and performance in emerging markets. This is because extant theories and empirical studies on the subject are based on stock markets and banking institutions of developed economies with well-functioning financial markets compared to the financial market of the emerging economies like Nigeria where the performance listed in the stock price cannot be determined by the market forces of demand and supply but by other factors such as managerial and stock brokers influence. It is also important to note that the theoretical assumption of Miller and Modigliani (1962) is unattainable in emerging financial market. Attah-Botchwey (2014) noted that the opinion of Miller and Modigliani on dividend policy irrelevance to the value of shares is incorrect, as all assumptions upon which it lies are related to meeting the realities of the market.

Furthermore, there is the problem associated with the fact that empirical studies on the effect of dividend policy on stock prices of listed firms have not reached a definite conclusion. For example, the information content of dividend as it relates to stock price is very trivial (Hashemiyoo, 2012; Chen, 2009; Kalay, 1982). Also, announcements on dividend convey information beyond what is already reflected in contemporary earnings number and that may affect stock price. Thus, the problem of lack of a clear-cut empirical analysis and findings on the impact of dividend on performance of listed firms stimulated this study. Although various studies have been conducted by various scholars in Nigeria on the subject, there is relative scarcity of studies that focus primarily on quoted food and beverage firms. This is even as food and beverage sector contribute significantly to the vibrancy of the economy. Thus, this study examined the impact of dividend policy on profitability of quoted food and beverage firms in Nigeria.

THEORETICAL FRAMEWORK

This study is premised on the relevance of dividend theory (Gordon, 1962) and the irrelevance of dividend theory (Miller & Modigliani, 1961). Gordon's (1962) relevance of dividend policy is based on uncertainty of future dividends. Gordon (1962) suggested a valuation models relating the market value of stocks with dividend policy. Gordon studied dividend policy and market price of shares and proposed that the dividend policy of firms affects the market value of stocks even in the perfect capital market. Gordon (1962) stated that investors may prefer present dividend instead of future capital gains because the future is uncertain even in perfect capital markets. Gordon (1962) explained that many investors may prefer dividend in hand in order to avoid risk related to future capital gain; and also proposed that there is a direct relationship between dividend policy and market value of share even if the internal rate of return and the required rate of return will be the same. In Gordon (1962) constant growth model, the share price of firm is subordinate of discounted flow of future dividends. (Diamond, 2005) selected 255 US based firms as a sample and studied the association of firm's value with dividends and retained earnings and reported that there is only weak evidence that investors prefer dividends to future

capital gain. The findings of Diamond (2005) also showed a negative association between growth of company and preference of dividend.

The irrelevance theory of Miller and Modigliani (1961) on the other hand suggest that shareholders' wealth is not affected by dividend policy. They argued that the value of firms is subject to their earnings which come from their investment policy. Evidence in literature suggests that dividend does not affect shareholders' value in a world without taxes and market imperfections; and that dividend and capital gain are two ways that contribute profits of firm. When a firm chooses to distribute its profits as dividends to its shareholders, then the stock price will be reduced automatically by the amount of a dividend per share on the ex-dividend date. So, in a perfect market, dividend policy does not affect shareholder's return.

Brennan (1970) supported the irrelevancy theory and concluded that any rejection of this theory must be based on denial of the principle of symmetric market rationality and the assumption of independence of irrelevant information. Brennan (1970) suggested that for rejection of latter assumption, one of the following conditions must exist: firstly, Investors do not behave rationally. Secondly, stock price must be subordinate of past events and expected future prospect. Hakansson (2006) supported the irrelevance theory and claimed that dividends, whether informative or not, is irrelevant to firm's value when investors have homogeneous belief and time additive utility and market is fully efficient.

CONCEPTUAL REVIEW

Dividend Policy

Dividend Policy refers to a company's policy which determines the amount of dividend payments and the amount of retained earnings for reinvesting in new projects. This policy is related to dividing the firm's earnings between payments to shareholders and reinvestment in new opportunities. It also involves the determination of payout policies that management follows in determining the size and pattern of cash distributions to shareholders over time (Lease et al., 2000). Deciding whether profits should be distributed to shareholders as dividend or reinvested in new opportunities; as well as deciding what proportion to distribute if part of profits should be distributed to shareholder and what proportion to returned to the business are important decisions in corporate finance. Thus, managers must consider what dividend policy could lead to maximizing shareholder's wealth; and how much of firm's income are required for investment. They must also consider the impact of their decision on stock price. Dividend policy is also related to capital structure indirectly and different dividend policies may require different capital structures. Dividend policy decisions become more complex and sensitive because both capital structure and dividend policy impact wealth of shareholders and dividend policy affect capital structure.

Dividend Payout Ratio

A company should reinvest its earnings if the prospective returns are greater than shareholders' cost of capital or required rate of return. Changes in dividend policy should reflect the company's investment opportunities. However, dividend policy can change in this way only if shareholders are indifferent to distinctions between dividends and capital gains. If capital markets are competitive, and there are no taxes, no transaction or flotation costs, then investors would be indifferent to the level of dividend payout. Any reduction in dividends would lead to a greater reinvestment of retained earnings and an equivalent increase in capital gains (Agwor & Akani,

2020; Rafiu *et al.*, 2012). Company operations in this situation would not be affected by the dividend payout ratio, because if retentions were insufficient to finance the company's investment programme, a rights issue could be made. If the dividend paid was insufficient for shareholders' income requirements, then they could sell a proportion of their holding to compensate for inadequate income. Similarly, if the dividend paid was in excess of their income requirements; they could reinvest the surplus in the company's shares. This argument has been given rigorous support by Modigliani and Miller (1962). The claim that in competitive capital market, shareholders could always reinvest surplus income or sell part of their capital in order to consume, whether such income was received in the form of dividends or capital gains was mere packaging (Serrasqueiro & Caetano, 2015).

Dividend Payout Policy

Dividend payout policy is one of the most debated topics within corporate finance and many academics have been trying to find the missing pieces in the dividend puzzle for more than half a century (Baker, 2009). However, some of the most successful companies during the last years such as Apple and Google have chosen not to pay dividends (Ciaccia, 2012). This indicates that it is possible to be successful without paying dividends, so why do firms pay dividends at all? Since the publication of the original Miller and Modigliani (1961) irrelevance propositions, this question has puzzled financial economists. Traditionally, finance scholars emphasize explanations for dividends that are based on the desire to communicate information to shareholders or to satisfy the demand for payouts from heterogeneous dividend clienteles (Allen & Michaely, 2003; Akani & Lucky, 2020). According to Forte (2007) although there is a polyphony of literature on the subject, researchers have merely contributed to the multiple paradoxes of corporate dividend policy, thereby adding more pieces to an enlarged puzzle rather than finding the final matching piece that would provide a more precise and complete understanding of the determinants of dividend policy.

Policy of Retained Earnings

Retained earnings are the earnings ploughed back into the company for expansion programmes. The price at which equity shares are traded in the stock market is their market value. Generally the earnings and their distribution have positive reflection on share prices. Every year a company retains a part of its earnings (Nunkoo & Boateng, 2009). The level of earnings before interest and tax, the rate of tax payable and the volume of dividend distributed influence the amount of retained earnings. This amount of retained earnings gets accumulated to form a significant source of internal finance. The amount of earnings retained represents a source of fund, which is relatively cheaper. Whenever there is requirement for fund, the company can safely bank upon its retained earnings.

The amount retained by the company acts as a cushion that absorbs adverse business outcomes. It also enables a company maintain a stable dividend policy. The amount of earnings a company can generate depends not only on its efficient use of funds but also on factors like market for the product manufactured and their quality, state of competition, company's after sales service and government regulations. The earning capacity of a company is an indicator of its continuity (Nunkoo and Boateng, 2009). Higher level of earnings, results in higher market value of the company. Sufficient amount of earnings enable a company to tide over adverse business conditions (Drobtetz & Gruninger, 2007). A company that earns more can maintain a dividend

policy that can satisfy shareholders; and by capitalizing earnings, expansion programmes may be undertaken.

EMPIRICAL REVIEW

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 analyzed the impact of dividend policy on corporate profitability of 23 listed firms between 2009 and 2014 using dividend payout 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 firms. Thus, it was recommended that firms should ensure that dividend policies put in place are robust enough to enhance their profitability.

Relatedly, Rachid and Wiame (2016) analyzed the relationship between dividend payments and firms performance with focus on listed firms in Morocco. Employing regression analysis based on secondary data collated from the annual reports of firms, the study found a strong positive relationship between dividend policy variables and performance of firms, The study thus concluded that dividend policy affect firms' performance; that dividend policy is relevant and that managers should devote adequate time to designing dividend policies that could enhance the performance of their firms and therefore, improve shareholders' value.

In another study, Dada, Malomo and Ojediran (2015) critically evaluated the determinants of dividend policy in the Nigerian banking sector using panel data of banks listed on the Nigerian Stock Exchange (NSE) from 2008 to 2013. Data were analyzed with least square regression analysis. The results showed that dividend payment positively relate to leverage, performance, corporate governance and last year dividend; and negatively related to firm's liquidity.

Eyigege (2015) examined dividend payout and financial performance of manufacturing firms quoted on the Nigerian Stock Exchange. A total number of fourteen manufacturing firms were sample in the study over a period covering 2004 to 2013; the study analyzed data collated using regression analysis and found that earnings per share, profitability (ROE), liquidity and sales growth are positively related to dividend payout, while financial leverage and corporate tax are negatively related. The study recommends 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 increased performance of firms. In a similar study, Abdul and Muhibudeen (2015) analyzed the relationship between dividend payout and performance of oil companies in Nigeria from 1999 to 2013. The study used data collated from annual report of the firms and used regression analysis to data analysis. The study discovered that a significant relationship between dividend payout and performance. Also, Uwalomwa *et al.* (2012) investigated the relationship between financial performance and dividend payout among fifty sampled listed firms in Nigeria between 2006 and 2010; and found a significant positive association between performance of firms and dividend payout. Amidu (2017) affirmed these results by stating that dividend policy affects firms' performance through profitability.

The problem observed in some of the identified prior studies on this subject is that they did not consider how dividend policy affects the financial position of firms and most of them did not

introduce control variable(s) in their model that could be a yardstick to ascertain the extent to which dividend payout affects profitability, and also ascribe to the fact that other extraneous factor(s) could be responsible for the performance or non-performance of a firm. Nunkoo and Boateng (2019) studied non-financial Canadian companies between 1996 and 2004 using panel data and a dynamic regression model. Their result suggested that firms have long-term target debt ratios, but with a slow adjustment ratio. They also found that profitability and tangibility have positive effect on amount of leverage a company has, while there was a negative effect based own size and growth opportunities.

Frank and Goyal (2014) did a similar study but on publicly traded U.S firms from 1950 to 2000; and discovered that firms tend to have lower levels of debt the more profitable they are. They also found that dividend-paying firms have less leverage and that leverage tends to be higher when the US inflation rate is high; and that pecking order theory does a poor job in explaining capital structure. They conclude that larger firms tend to have more leverage compared to smaller firms.

Frydenberg (2014) conducted one of the few empirical studies on capital structure of Norwegian firms. They study focuses on firms in the Norwegian manufacturing sector between 1990 and 2000; and found that profitable firms tend to have less debt and that firms with large amount of fixed assets tend to increase long-term debt and decrease short-term debt. The effect of the non-debt tax shield is significant and negative in his study which indicates that firms substitute debt for such tax shields. The results of this study provide significant support for the pecking order theory.

Bancel and Mittoo (2014) surveyed managers in sixteen European countries on the determinants of capital structure; and discovered that financial flexibility is the most important factor when issuing debt, while earnings per share dilution are the primary concern when issuing common stock. In their survey, 91% of managers' rank financial flexibility as important compared to only 59% of US CFO's in a survey conducted by Graham and Harvey (2001). This difference may suggest that European companies would try to preserve financial flexibility by keeping a lower level of debt. The results of Bancel and Mittoo (2014) and Akani and Tony-Obiosa (2019a) suggest that the differences in firms' financial decisions across countries are more significant between Scandinavian and Non-Scandinavian firms.

Mateev *et al.* (2013) investigated the determinants of capital structure in SMEs in Central and Eastern Europe. By carrying out a panel data analysis on 3,175 SMEs from seven Central and Eastern European countries, for the years 2001-2005, they find strong support of the pecking order theory. They estimate a model on leverage ratio by using the cash flow ratio as an explanatory variable. In line with previous research, they also find evidence of a negative correlation between leverage and profitability and argue that the level of leverage depends on the firms' size and age. They also confirm that the cash flow ratio is a strong determinant of leverage, even after controlling for growth opportunities, liquidity, revenue growth, and assets structure determinants, especially for medium-sized firms, implying that firm size is a crucial factor which influences external financing needs. Nevertheless, the pecking order theory has certain limitations when it comes to perfectly explaining the capital structure decisions of SMEs.

Serrasqueiro and Caetano (2015) assessed capital structure in Portuguese SMEs by testing which theoretical model among the trade-off and the pecking order theory best explains financing decisions. The capital structure theories are tested with the LSDVC dynamic estimator on a sample of SMEs from 1998 to 2005. Results showed that SMEs adjust their actual debt towards the optimal level of debt and firms' size leads to a greater use of debt financings, which explains the trade-off theory. However, older and more profitable SMEs use less debt, but increase their debt level depending on their size, which is consistent with the pecking order theory. Therefore, the study confirms the explanatory power of both theories regarding capital structure decisions. In a related study, Hoque *et al.* (2016) examined the credit rationing of SMEs in Bangladesh using a sample of 200 SMEs. The outcome of the study revealed that 89% of SMEs obtained loans from microfinance institutions, while 60% obtained credits from banks, and 48 % obtained less than desired to obtain. Akani and Akani (2020) and Taiwo *et al.* (2016) explored the roles of microfinance banks on SMEs and the benefit derived from credit schemes of microfinance banks. These studies found that recapitalization of microfinance banks in Nigeria would improve their capacity to grant credit to SME for growth and development. Hoque *et al.* (2016) noted that improving the accessibility of credit facility to SMEs was significant to the development of SMEs in Bangladesh. Erdo an (2015) examined firm-level determinants of funding sources and structure of operational funds of Turkish SMEs. The study used a cross-sectional data set of 1, 278 SMEs for the year 2013 and found that larger firms with international standard quality certification had a lower proportion of working capital from internal sources.

LITERATURE GAP

From the empirical literature examined above, the following gaps are identified. Firstly, prior studies did not establish a relationship between components of dividend policy and profitability of quoted firms in emerging financial markets like Nigeria using return on equity. The study of Rafiu *et al.* (2013) was carried out in Jordan; hence, relying on their findings and that of Akani (2019) on the relationship between dividend policy and profitability of quoted firms in Nigeria can lead to type 1 error. Therefore, this study intends to disaggregate dividend policy and financing decision. Secondly, the findings of previous studies do not align with some theories of dividend policy and profitability. This study intends to validate the application of the trade-off theory of capital structure and financing decision. Finally, most of the studies covered above focused on financial institutions such as commercial banks; this study focuses on quoted food and beverage manufacturing firms in Nigeria.

METHODOLOGY

This study used ex-post facto research design to x-ray the relationship between dividend decisions and profitability of quoted food and beverages firms. The population of the study comprises all 22 quoted food and beverages manufacturing firms in Nigerian. The study adopted stratified random sampling techniques to select 10 quoted food and beverages manufacturing firms. The secondary data that were used in this study comprise quantitative data on dividend policy and profitability of quoted food and beverages manufacturing firm. Manufacturing firms' annual statements and reports are deemed to be reliable because they are statutorily required to be audited by recognized auditing firms before publication.

Model Specification

In order to achieve the objectives of this study, a functional relationship in form of multiple linear regression model consisting dependent and independent variables were formulated. The regression models are presented as follows;

Pooled regression specification

$$ROE = \alpha_0 + \alpha_1 DPR_{it} + \alpha_2 RR_{it} + \alpha_3 DY_{it} + \alpha_4 DPS_{it} + \epsilon_{it} \quad (1)$$

Fixed Effect Model Specification

$$R = \alpha_c + \alpha_1 D + \alpha_2 R + \alpha_3 D + \alpha_4 D + \sum_i^9 = 1 \alpha_i i + \epsilon_{1it} \quad (2)$$

Random effect model specification

$$R = \alpha_c + \alpha_1 D + \alpha_2 R + \alpha_3 D + \alpha_4 D + \mu + \epsilon_{1it} \quad (3)$$

Where

ROE = Return on equity

DPR = Dividend payout rate proxy by percentage of corporate profit to dividend payout

RR = Retained Earnings payout rate proxy by percentage of corporate profit to retained earnings

DY = Dividend yield

DPS = Dividend per share

ϵ_{1it} = Stochastic or disturbance/error term.

t = Time dimension of the variables

α_0 = Constant or intercept.

Prior Expectation of the Result

The a-priori expectation of the variables proposes that an increase in the explanatory variables lead to increase in the dependent variable. Therefore it can be mathematical stated as follows: $\alpha_1, \alpha_2, \alpha_3, \alpha_4 > 0$.

Data Analysis Technique

Panel data regression was considered appropriate in view of the fact that it helps in establishing relationship, cause and effect between variables. In order to determine the best choice of analysis technique, the study ran three types of regression; Ordinary Least Square (OLS), Fixed Effect and Random Effect regression. All these method have various assumptions and conditions that must be fulfilled in order to achieve efficient estimates. However, the best techniques will be decided by the Hausman Specification test (either fixed effect or random effect regression) and Lagrangian Multiplier Test (either random effect or OLS). The random effect has the advantage of accounting for the panel effect in the data as opposed to OLS, which pools the data and treats it as if it were obtained from a single entity. In order to achieve reliability of the result, robustness tests like Multicollinearity test, Hausman test, Lagrangian multiplier test for random effect and Heteroscedasticity test were conducted (Gujirati, 2003). The t-test was used to test the hypothesis that a particular coefficient is significantly different from zero or whether the estimated coefficient value occurred by chance in equation (2). The tests were performed at both 95% and 99% levels of confidence. The F-statistic is important to test the hypothesis that the whole relationship provided by equation (2) is significantly different from zero, i.e. whether the independent variables' characteristics scores explain the variation in growth indicators for each of the individual firms. The test was performed at both 95% and 99% levels of confidence. The R-squared (R^2) value ranging from "0" to "1" or the "corrected R-squared" (R^2) which is adjusted for degrees of freedom indicates the explanatory power (goodness of fit) of the model.

RESULTS AND DISCUSSION OF FINDINGS

Table 1: Test of Fixed and Random Effect Models

Redundant Fixed Effects Tests			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.481978	(9,105)	0.9097
Cross-section Chi-square	4.817338	9	0.940
Correlated Random Effects - Hausman Test			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.534183	4	0.0000

Source: Computed from E-View windows 9.0

In testing the validity of the models, the fixed effects on the cross section Redundant Fixed Effect- Likelihood Ratio, the P- value is 0.000 indicating that the effects are significant. Select the random effect and perform the Correlated Random Effects- Hausman test, testing the random effects model against the fixed effects model. The null hypothesis in that case is that both tests are consistent estimators and the random effects model is efficient. Under the alternative hypothesis, only the fixed effect is consistent. Since the p- value is 0.000, the null hypothesis is rejected and, therefore, the fixed effects model is to be preferred.

Table 2: Dividend Policy Decisions and Return on Equity

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Pooled Regression Results				
DPR	1.597119	1.019936	1.565901	0.1201
DPS	0.220601	0.947215	0.232895	0.8163
DY_	0.753639	0.802638	0.938953	0.3497
RR	1.509350	1.011415	1.492315	0.1384
C	-108.8872	101.4438	-1.073374	0.2854
R-squared	0.033037	Mean dependent var		50.87395
Adjusted R-squared	0.000892	S.D. dependent var		10.05456
S.E. of regression	10.05904	Akaike info criterion		7.495929
Sum squared resid	11535.01	Schwarz criterion		7.612699
Log likelihood	-441.0078	Hannan-Quinn criter.		7.543346
F-statistic	0.973710	Durbin-Watson stat		2.529159
Prob(F-statistic)	0.424845			
Fixed Effect Regression Results				
DPR	1.281277	1.093220	1.172021	0.0438
DPS	0.338201	1.068062	0.316650	0.7521
DY_	0.465678	1.013294	0.459568	0.6468
RR	1.182409	1.080955	1.093856	0.0465
C	-75.76251	108.0214	-0.701366	0.4846
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.771399	Mean dependent var		50.87395
Adjusted R-squared	0.643570	S.D. dependent var		10.05456
S.E. of regression	10.27126	Akaike info criterion		7.606708
Sum squared resid	11077.38	Schwarz criterion		7.933664
Log likelihood	-438.5991	Hannan-Quinn criter.		7.739474
F-statistic	4.621027	Durbin-Watson stat		2.589653
Prob(F-statistic)	0.001792			

Random Effect Regression Results				
DPR	1.597119	1.041454	1.533547	0.1279
DPS	0.220601	0.967199	0.228083	0.8200
DY_	0.753639	0.819571	0.919552	0.3597
RR	1.509350	1.032753	1.461482	0.1466
C	-108.8872	103.5840	-1.051196	0.2954
Effects Specification				
			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			10.27126	1.0000
Weighted Statistics				
R-squared	0.533037	Mean dependent var		50.87395
Adjusted R-squared	0.400892	S.D. dependent var		10.05456
S.E. of regression	10.05904	Sum squared resid		11535.01
F-statistic	3.973710	Durbin-Watson stat		2.529159
Prob(F-statistic)	0.004845			
Unweighted Statistics				
R-squared	0.033037	Mean dependent var		50.87395
Sum squared resid	11535.01	Durbin-Watson stat		2.529159

Source: Computed from E-View windows 9.0

The results in model one found that 77 per cent variation on return on equity of quoted food and beverage firms can be traced to dividend policy. This implies that 23 per cent can be traced to factors not captured in the model. The f- statistics and probability confirms that the model is significant and can predict the variation on the dependent variable. The Durbin Watson statistics proved that there is presence of serial autocorrelation among the variables. Beta coefficient of the variables indicates that independent variables have positive relationship with return on equity of the quoted food and beverage manufacturing firms.

The regression results presented in Table 2 established the relationship between dividend policy and profitability of the quoted food and beverages firms within the periods covered in this study. Dividend payout rate have positive and statistically significant relationship with return on equity of quoted food and beverage firms. This implies that variation in dividend payout ratio will significantly affect debt financing. The regression coefficient indicates that if dividend payout ratio is increased by 10 per cent, return on equity will increase by 12 per cent. This finding confirms the opinion of Gordon that dividend policy is relevant. The findings also confirm the dividend information content and the clientele effect theory. The findings of the study confirm the a-priori expectation and the empirical findings of Mesqita and Lara (2013) that in the short-run, there is possible relationship, while in the long-run there is inverse relationship between debt and profitability. However, the study established that dividend payout ratio have negative but no significant relationship with equity financing. Increase in dividend payout ratio will reduce equity financing by 1.8 per cent.

Retained earnings' positive and significant relationship with return on equity of quoted food and beverage firms implies that variation in retained earnings will significantly affect return on equity. The regression coefficient indicates that if retained earnings are increase by 10 per cent, return on equity will increase by 11 per cent. This finding confirms the opinion of Gordon that dividend policy is relevant; confirms the dividend information content and the clientele effect theory; and confirms the findings of Mesqita and Lara (2013) that in the short-run, there is

possible relationship, while in the long-run there is inverse relationship between debt and profitability.

The finding that dividends yield positive and no significant relationship with return on equity of the quoted food and beverage manufacturing firms implies that variation in yields in dividends will have no significant effect on return on equity. The regression coefficient indicates that if dividend yield are increase by 10 per cent, return on equity will increase by 4 per cent. The findings also confirm the dividend information content and the clientele effect theory; and confirms the findings of La Porta *et al.* (2016) that countries' legal rules matters for size of a country's capital markets and that differences in shareholder rights, bankruptcy law and the quality of law enforcement have strong impact on capital structure. Furthermore, the result that dividend per share have positive but insignificant relationship with return on equity of the quoted food and beverage manufacturing firms implies that variation in dividend per share will have no significant effect on return on equity. The regression coefficient indicates that if dividend yield are increase by 10 per cent, return on equity will increase by 15 per cent. The findings confirm the dividend information content and the clientele effect theory; and supports the finding of La Porta *et al.* (2016) that countries' legal rules matters for the size of a country's capital markets and that differences in shareholder rights, bankruptcy law and the quality of law enforcement have strong impact on capital structure.

CONCLUSION AND RCOMMENDATIONS

This study examined the effect of dividend decisions and profitability of quoted food and beverages manufacturing firms in Nigeria. The study concluded that dividend policy decisions affect the return on equity of the quoted food and beverages manufacturing firms. This is based on the findings of the study of a significant relationship between dividend payout ratio and return on equity of the quoted food and beverage manufacturing firms; an insignificant relationship between retention rate and return on equity of quoted food and beverages manufacturing firms; an insignificant relationship between dividend yield and return on equity of quoted food and beverages manufacturing firms; and an insignificant relationship between dividend per share and return on equity of quoted food and beverage manufacturing firms. The study thus recommends that quoted food and beverages manufacturing firms that seek to achieve increased profitability should adopt dividend policy decisions that prioritizes increased retained earnings and reduced payout ratios. The study also recommends that quoted food and beverages manufacturing firms that aspire to increased profitability should appraise their dividend policies since the information content of dividend policy affects profitability.

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