The Impact of Dividend Policy on the Financial Performance of Nigerian Food and Beverages Industry

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ABSTRACT

This paper examined the impact of dividend policy on the financial performance of Nigeria food and beverages industry listed on the Nigeria Stock Exchange (NSE). Dividend policy has always been a source of controversies despite years of theoretical and empirical research. The key objective of this research is to determine the relationship between dividend policy and financial performance in Nigeria food and beverages industries. Five (5) firms quoted on the Nigerian stock exchange where studied. Data where gathered from the firm's annual reports and accounts a period of five years. Single regression model was used to define the relationship between the dependent variable (financial performance) and independent variable (dividend policy) while regression analysis was also used to determine the level of impact dividend policy on financial performance. E-views was used to run the analysis. The analysis review that financial performance and dividend policy are strongly related and that it has impact on dividend policy of a firm. It is recommended however, that food and beverages companies should make sure they make dividend payment as consistence as possible without fear during expansionary period, and also maintain a steady increase in earning as well as dividend payment so as to attract a divergent group of investors

1.1 Introduction

Dividend policy is the most controversial subject in finance because despite extensive researches to explain why companies should pay or not pay dividend, neither theoretical nor empirical studies have yet been agreed upon.

(Mohammed, 2007). Research on dividend policy has shown that only a general theory of dividend policy has remains elusive, but also corporate dividend practice varies over time and among firms. The most important aspect of dividend policy is to determine the amount of earnings to be paid as dividend to shareholders and amount to be retained in the firm. Retained earnings are the most significant internal sources of financing the growth of firm. On the other hand, dividend may be considered desirable, from shareholders point of view as they increase their current return (Pandey, 2005).

However, since Public limited liability companies are obliged by law to declare whether or not profit is arrived at during their business operations. It is the information of profit or no profit that usually serve as bases for management to declare dividend. Shareholders (owners) of every corporate entity usually anticipate or await dividend at every financial year end and honestly feel delightful if yield. Owners (shareholders) of business entities are motivated to inject more of their capital to the business as a result of the resilience observed from the part of the management in making sure effective business and managerial strategies are put in place to ensure maximum return on investors (shareholders) fund. Despite these, companies at times find it difficult to take up multiple opportunities in the market place.

This is because shareholder's equity which forms the bulk of their capital together with all the revenue reserves generated from undistributed profits in past years may be insufficient to pay dividend and as well finance expansion or development programmes. To counter these difficulties, the firms go for other sources of capital, normally from interest-bearing and time based loan facilities in form of issuance of preference shares, debentures and bonds. Shareholders have divergent expectation and conflicting objectives with the regards to payment of dividend, some shareholders like to receive their rewards of investment as dividend ignoring the investment opportunities of the firm which might result in higher dividend in the future. On the other hand, the second category prefers to retain certain proportion for extension purpose. Despite the above controversies the decision is based on the dividend policy of the company. The optimum dividend policy is the one that maximize the firm shares (Pandey, 2005).

Dividend policy refers to the decision regarding the magnitude of the dividend payout, the percentage of earnings pay to the shareholders in the form of dividend. Because, the amount to be plough back and the amount to distribute has been specified in the dividend policy. However, there has been emerging consensus that, there is no single explanation of dividends. According to Akinsulire (2006) there is no reason to believe that corporate dividend policy is driven by a single goal.

Also, dividend policy is how a firm decides to allocate the dividend in different proportion as to whether it should be received in cash in the case of a short-term investors or long-term investors who want to maximize their gains should consider reinvesting the dividends (moshood, 1999).

On the other hand, dividend is a payment a company makes to its shareholders (people who own stock in the company).It is also the money paid to stockholders, normally out of the corporation's current earnings or accumulated profits. Dividends are usually paid to the investor as cash, in which case the investor has the option to take the money or reinvest it by buying more shares. Sometimes companies will pay dividends in the form of additional stock shares instead of paying cash whatever the case may be.

In Nigeria, food and beverages companies engage primarily in the transformation of agricultural raw material into high quality food products, which serve the need of the consumers as well as satisfying their desires for convenience. Some of the companies started as simple trading organization, which latter incorporated as public company, quoted on the Nigerian Stock Exchange.

1.2 Statement of the Problem

Management of companies are often in a dilemma about whether to pay a large, small or zero percentage of their earnings as dividends or to retain them for future investments (Nissim & Ziv, 2001). This has come about, as a result of the need for management to satisfy the various needs of shareholders. However, Miller& Modigliani (1961), Jose & Stevens (1989) believed that, dividend are irrelevant and still others believe that dividends decrease shareholder wealth Litzenberger & Ramaswamy, (1979). It is imperative to management of entities to pay dividend to especially holders of ordinary shares (share interest) as a result of the definite expectation of return on their investment. Although in practice, most firms pay cash dividends, although paying dividend is costly in various ways. Thus, empirical evidence on whether dividend policy affects a firm's performance offers a contradictory advice to corporate managers hence, many academicians, professionals and corporate managers still debate whether or not dividend policy matters. In Nigerian setting, the work of Musa & Mamman (2004) provided substantial support to dividend relevance theory; they showed that, dividend policy affects the financial performance of firms in Nigeria. Although many studies were conducted on dividend policy and financial performance of firms in areas like banking and findings which supported that, dividend policy positively affect the financial performance of banks in Nigeria. (Kantudu & Isah, 2005). But the impact of dividend policy and financial performance of food and beverages firms has remained elusive (Black, 1976). Dividend payout (DPO), dividend per share (DPS), dividend ratio (DR), and earnings per share (EPS) were adopted as independent variable, while return on equity (ROE) and return on asset (ROA) as dependent variable with the view to examine the extent of the relationship between the dividend policy and financial performance Nigeria food and beverages industry.

1.3 Objective of the Study

The aim this study is to examine the relationship between dividend policy and financial performance of Nigerian food and beverages industry. Other objectives of the research include:

1. To examine the significant relationship between dividend policy and financial performance of Nigerian food and beverages industry.
2. .

To determine the effect of paying dividend on the financial performance (earnings) of food and beverages companies in Nigeria.

3. To examine whether or not high payout ratio enhance financial performance of food and beverages companies in Nigeria.

1.4 Hypotheses of the Study

In line with the stated problem, the following hypotheses were formulated for the study:

Hypothesis 1

H_0: There is no significant relationship between dividend policy and financial performance in Nigeria food and beverages industry.

Hypothesis 2

H_0: Paying dividend has no effect on the financial performance (earnings) of Nigeria food and beverages industry

Hypothesis 3

H_0: High payout ratio does not enhance financial performance of food and beverages companies in Nigeria.

1.6 Significant of the Study

This study will be beneficial to existing investors, potential investors, tax authorities, and even financial analyst since an improved dividend policy will increase investment decision and shareholder's wealth, tax authorities will assess firm tax liabilities base on financial performance, and financial analyst will have the chance of evaluating and monitoring the trend of the industry. The study will also provide additional empirical evidence which will serve as reference point to future studies.

2.0 Literature Review

This section reviews relevant literatures that are pivotal to the problem under investigation. Furthermore, theories propounded by reputable scholars were also reviewed.

2.1 Concept of Dividend and Dividend Policy

Dividend simply means payments made by a company to its shareholder members. Kurfi (2003), define dividend as the return of investment to the shareholders (both equity and preference), who have stake in the business of the firm. Akinsulire (2006), also viewed dividend as the amount and proportion of companies earning to be distributed to the shareholders as return on their investment.

On the other hand, Osaze & Anao (1990) stated that, the decision of what should be paid to shareholders and what should be retained out of the company's earnings reflects the dividend policy of the firm. Aborade (2005), views dividend policy as the guiding principles for determining the portion of a firm's net profit after tax to be paid out to shareholders during a particular financial year. Baker, Powell & Veit (2001), describe dividend policy as payout policy that managers follow in deciding and size and pattern of cash distributions to shareholder's overtime. Thus, a significant aspect of dividend policy is to determine the amount of earning to be distributed to shareholders and amount to be retained.

2.1.1 Types of Dividend Policy

Dividend policy is one of the most widely researched topics in finance. Yet, researchers have different views about it. The various types of dividend policies are:

2.1.1.1 Constant Dividend per Share Policy

A number of company's follow the policy of paying a fixed amount per share, as a dividend

every year, irrespective of the fluctuations in the earnings. This does not mean that, the dividend per share will never increase when the companies reach new earnings and expect to maintain it the annual dividend per share may be increase. However, it is easy to follow this policy, when earning is stable, but if the pattern of the company is fluctuating, it's difficult to maintain such policy from one year to another. In the same vein, the investors who have dividend as the only sources of their income may prefer the constant dividend policy, because they do not accord much importance to the changes in share prices. In the long run, this may help to stabilize the market price of the share (Pandy, 2005).

2.1.1.2 Constant Percentage of Net Earnings

The ratio of dividend of earning is known as payout ratio some companies may follow a policy of constant payout ratio by paying affixed percentage of net earnings every year. With this policy the amount of dividend will fluctuate in direct proportion to earnings. The rationale behind this policy is that, if the company incurs losses, no dividends shall be paid to shareholders. Pandy (2005) noted that, internal financing with retained earnings is automatic when this policy is followed. However, Akinsulere (2002) stated that, a constant dividend policy is expected to lead to a higher share prices because of the greater confidence of investors about future prospects of the company.

2.1.1.3 The Regular Plus Extra Dividend

Brealy & Myers (1996) suggest that, companies with fluctuating earnings, the policy to pay a minimum dividend per share with a step up feature is desirable. The small amount of dividend per share is fixed to reduce the possibility of ever missing dividend payment. However, Pandy (2005) posit that, these types of policy enable the company to pay a constant amount of dividend regularly without a default and allows a greater deal of flexibility for supplementing the income of the shareholders only, when the company's earning and higher than the usual. Certain shareholders like the policy because of the certain cash flow in the form of dividend and the option of earning extra dividend occasionally.

The above statements portray several interesting pattern to be followed by a firm as dividend policies; therefore, dividend as returns to shareholders has different behavior, it may be constant and this is appropriate when earnings are stable, some policy fluctuate in direct proportion to earnings.

2.1.2 The Concept of Financial Performance

The phrase performance is a concept of two tiers, namely efficiency and effectiveness. While efficiency is the ratio between output and input. Effectiveness is the degree of goal achievement for an organization. Organizational operations are pursuits of successful outcome that combine efficiency with effectiveness. According to the motivational theory of management science, it is interpreted as “a price of work completed by an employee” (Wang, 1997). The science of organizational behavior, nevertheless, refers to performance as “an integrated success consisting of efficiency, effectiveness, and efficacy” (Xie, 2006). According to Xu (2007), operating performance is the degree of a company achieving its strategic goals, as well as an indicator for the examination of the company's overall competitiveness. When conducted properly, the evaluation of organizational performance will give an organization's managers an idea of the current condition of his/her organization. The evaluation indicators used the

most often are an organization's income, production capacity and profitability. Xu, argues that efficiency and effectiveness should be integrated into the concept of organizational performance.

Drucker (1966) gives a good interpretation of efficiency and effectiveness by that the former is "doing things in the right way", and latter is "doing the right things". Neither efficiency nor effectiveness should be neglected, although that doesn't mean they have equal significance. We surely wish to enhance efficiency and effectiveness simultaneously. But if that is unlikely, we must prioritize effectiveness and manage to boost efficiency later. There is a massive amount of previous studies and researches addressing the measurement dimensions of organizational performance. Since the benefits of organizational performance will eventually be feedback to the financial dimension, most scholars in the field adopt financial performance as one of the measurement indicators. In an environment characterized by convenient ways of information delivery and rapid changing markets, nevertheless, a company nowadays shall never solely reply on financial performance to achieve survival and competiveness. That is to say, it is impossible to sufficiently gauge to organizational performance using financial performance as the sole indicators (Hug & Hong, 2010). The definition of performance giving by Xu, (2007) seems to be the most comprehensive.

2.2 Theoretical Framework

The literature in finance has at least two distinct dividend theories namely; dividend relevance theory and dividend irrelevance theory.

2.2.1 Dividend Relevance Theory

The proponents of this school posit that the choice of dividend policies almost always affect the value of the firm. The prominent of this school include Williams (1938), Gordon (1959), & Walter (1963). Walter argues that the choice of dividend policies almost always affect the value of the firm. His model was among one of the earlier theoretical works showing 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 the shareholders, Walter's model is based on several assumptions, which include internal financing, firm finance its investment through earning, required rate of return, and cost of capital is usually constant 100%, payment of retention of earnings. There is constant earning per share and dividend per share. The firm is a going concern i.e. infinite time. His theory was however subjected to several criticisms leading to the conclusion that, his model is not absolutely true. However, Gordon develops one very popular model explicitly relating the market values of shares to dividend policy, among the assumption of Gordon model are; the firm is an all equity firm. No external financing is available, retain earnings will be used to finance any expansion. Constant internal rate of return, constant cost of capital e.t.c.

Gordon Concludes that marker value of firm shares is equal to the present value of an infinite stream dividend received by the shareholders. Lintner (1956) surveyed corporate chief executive officer and chief financial officer and found that dividend policy is an active decision variable because managers believe that stable dividends lessen negative investor reactions. The active determination of dividend policy implies

that the level of retained earnings and savings is a dividend decision by products. Some of the arguments used by this school are questionable, but some have a reasonable basis impact.

2.2.1.2 The Bird in the Hand Explanation

One argument that a relationship exists between firm performance and dividend payout is that, dividend represents a sure thing relative to share price appreciation. Because dividends are supposedly less risky than capital gains, therefore, firms should set a high dividend payout ratio and offer a high dividend yield to maximize share price.

Dividend and capital gains are not always perfect substitutes (even in a world without taxes and transaction costs) because of a lack of self-control to delay gratification (Thaler & Sherfrin, 1981). In financial theory, dividends and capital gains have the same value but, this is not the case in a world using the theory of self-control. Dividends are appreciated more than capital gains and provide an automatic control device on spending levels (Thaler, 1980).

Gordon (1959) buttresses that, shareholders do have a preference for current dividend payout ratio and that, and there is a direct relationship between dividend policy and value of the firms. He argues that, investors are generally risk averters and attach less risk to current earning as oppose to future dividend or capital gain. Thus "Bird in hand" argument suggests that, a firm's dividend Policy is relevant since investors preferred some dividend now in order to reduce their uncertainty. Gordon argument concerns with relevancy of dividend which are much acceptable than Miller & Modigliani agreement of irrelevancy of dividend, since in the real world, there is the general belief that, dividend are relevant and each firm must develop a dividend policy, that will fulfilled the goals of its owner and maximize their wealth in the long run.

2.2.1.3 Information Content of Dividend (Signaling)

The role of dividends in conveying useful information about the future performance of the firm is a contentious issue in finance. The proponents of signaling theories believe that, a corporate dividend policy used as a means of putting the message of quality across has a lower cost than other alternatives. The use of dividends as signals implies that, alternative methods of signaling are not perfect substitutes.

If market participants at least partially recognize the relationship between current dividend change and future changes in risk and profitability, then this should be reflected in the initial market reaction. The argument using the Gordon Growth Model is that, the share price could increase, after a dividend increase announcement due to the decline in systematic risk in spite of the decline in profitability too.

Accordingly, the price of share is affected by the changes in dividend policy. Baker & Powell (1999) contended that dividends may offer tangible evidence of the firm's ability to generate cash and as a result, the dividend policy of the firm affects the share price. He states that, "in an uncertain world in which verbal statement that speaks louder than a thousand words". The reaction of market to dividend actions depends upon the establishment dividend policy of the company. If the long established policy of the firm is to pay 50 percent earning to shareholder and has increased dividends in the permanent basis an increase in dividends will communicate very convincing information that the earning of the company has growth (March & Merton, 1987).

2.2.1.4 The Tax-Preference Explanation

Researchers call this school of taught, the tax clientele effect According to the tax preference theory; investors may favour retention of funds over the payment of dividends because of tax-related reasons. Black-Scholes (1974), (leftist party) explain, that, anytime dividend is greatly taxed than capital gains, firm should therefore, pay less cash dividend.

The model developed by Farrar & Selwyn (1967) assumes that, investors maximize after-tax income. In a partial equilibrium framework, investors have two choices. Individuals choose the amount of personal and corporate leverage, and also whether to receive corporate distributions as dividends or capital gains. This model contends that; no dividend should be paid rather share repurchase should be used to distribute corporate earnings. Explicitly, available cash should be retained or used to repurchase shares by rotating their distribution policies thus, corporation can transform dividend into capital gains.

2.2.1.5 The Agency Cost Explanation

The agency cost hypothesis, dividend payouts serve to reduce agency costs. By distributing free cash flows in the form of a dividend, management can divert fewer funds to projects that are in their best interests, but not in the interest of their shareholders. Firms with high cash flow volatility are also those with the greatest potential agency costs.

The agency costs theory was advanced by Jensen & Meckling (1976) and extended by Rozeff (1982) & Easterbrook (1994). This theory derives from the conflict of interest between corporate managers (agents) and outside shareholders (principals) for example, management can consume excessive perquisites out of undistributed corporate earnings and invest the retained funds sub optimally. This conflict leads to agency costs. Agency theory posits that, the dividends mechanism provides an inventive for managers to reduce the costs related to principal/agent relationship. Barclay & Smith (1996) suggested that, there is a conflict of interest among bond holders and shareholders that lead to agency problem. As a result, proper monitoring system is needed to safeguard the interest of the stakeholder. Casey & Theis (1997) study the petroleum industry in U.K. and find support for dividend policy to be related to agency problem and risk, but not investment opportunities or size.

2.2.3 Dividend Irrelevance Theory

Miller and Modigliani (1961), were the first proponent of dividend irrelevance theory. Essentially, their model is a one-period model under certainty. Given a firm's investment program, the dividend policy of the firm is irrelevant to the firm value, since a higher dividend would necessitate more sale of share to raise finances for the investment program. The crucial assumption here is that, the future market value will remain unaffected by current dividends They further said, if a firm does not pay any dividend, a shareholder can create a “homemade dividend” by selling a part of his share at a market (fair) price in the capital market for obtaining cash. Therefore, Miller and Modigliani consider dividend to the irrelevant in determining value of firm.

Miller and Modigliani also assert that, dividend policy does not affect share prices and suggest that, the positive effects of dividend increase

some share prices and attributed not to dividend rather, to the information content of dividend that causes owners to bid up the price of share based on their expectation of future earnings. Miller and Modigliani argument may lead to the belief that, when acceptable investment opportunities are not available, the firm should distribute the whole net earnings to the owners (Shareholders who can invest the money in order to get higher reward.

Black and Scholes (1974) conclude that, it is not possible to show the best empirical method that, the return of high-yielded securities are different from the return on low-yielded securities either before or after taxes.

Miller & Scholes (1978) provide an ingenious scheme to convert dividend income to capital gains income. Kurfi (2003) notes that, Miller and Modigliani provide the most comprehensive argument for the irrelevance of dividends. This is because they premised their analysis on the effect of dividend policy on current price of shares in ideal worlds characterized by a perfectly capital market.

Dividend irrelevance postulated that, firm policy concerning the proportion of net earnings paid out to shareholders, as dividend does not affect its share price, they further assert that, it does not matter to the shareholders in which pattern he receives his dividend.

3.0 Research Methodology

This section highlights the research procedures such as design, population of the industry under investigation, sample size, data collection techniques and method of data analysis. The entire population of food and beverages industry in Nigeria consist of eighteen (18) listed firms in Nigerian Stock Exchange (NSE). Probabilistic (simple random sampling) technique was adopted to select food and beverages companies with available financial information. This is because the companies in the population are known and each company in the population would have an equal and independent chance of being included, due to the randomness in selection process. Secondary method of data collection is used in this research study as 4a result of the availability of the annual reports and accounts of the sampled companies. Data on the food and beverages net income, total assets, price per share, total equity, return on equity, return on assets, asset turnover, earning per share, dividend payout, dividend per share, retained earnings, dividend ratio were collected from the annual report and accounts of the sampled food and beverages companies. And this covers a financial period of five (5) i.e. from 2012-2017. A regression analysis was conducted. The data was presented in a tabular form. For easy computation and analysis and to have a comprehensive understanding of the computed findings through Microsoft excel presentation and extracting the data to E-views statistical package. The pooled data will be analyzed using regression analysis in estimating the parameters of the model. And as such, the method has the capacity to show the clear relationship that exit between the dependent variable and independent variable and also the impact which will be examined in this research. Thus, the model specification is;

Financial performance = f (dividend policy)

ROE + ROA = f (EPS, DPS, DPO, DR)

4.0 Results and Discussion

This section presents and discusses the analyses conducted on each and every hypotheses of the study. However, table 4.1 shows the regression result.

4.1 The Regression Result

Dependent Variable: FP	Sample: 2012 – 2017
Method: Panel Least Squares	Periods included: 5
Date: 02/02/19 Time: 15:23	Cross-sections included: 5

Total panel (balanced) observations: 25

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	171.4802	176.9892	0.968874	0.3442
DPO	1.560725	3.065947	0.509052	0.6163
DPS	-1.479441	1.603979	-0.922357	0.3673
DR	49.62867	22.63692	2.192378	0.0404
EPS	0.209421	0.547883	0.382237	0.7063

R-squared	0.256643	Mean dependent var	446.0420
Adjusted R-squared	0.107972	S.D. dependent var	192.0360
S.E. of regression	181.3728	Akaike info criterion	13.41584
Sum squared resid	657921.7	Schwarz criterion	13.65962
Log likelihood	-162.6980	Hannan-Quinn criter.	13.48346
F-statistic	1.726243	Durbin-Watson stat	1.624487
Prob (F-statistic)	0.183742		

Given the nature of the research topic, the researcher narrowed his ambit of analysis to the probability values to be the bases of his interpretation and judgment.

The regression equation is given by:

Financial performance=171.4802 + 0.6163dpo + 0.3673dps + 0.0404dr + 0.7063eps

Looking at the single model (i.e. ROE+ROA=financial performance) adopted for the regression, the R-square value at 0.256643 which is approximately 26%. It actually means that the four independent variables comprising of the dividend per share, dividend payout, dividend ratio, and earnings per share actually explains one-fourth variation of the dependent variable which is financial performance. So also, the model is significant as the R-square value is

far less than the average probability values.

However, the decision rule says; if p value is greater than 5% you should accept the null hypothesis, otherwise you reject the null hypothesis and accept the alternate hypothesis.

i. Dividend Policy and Financial Performance of Firm

One of the key objectives of this research work is to establish whether dividend policy affects the financial performance of food and beverages industry in Nigeria and to also ascertain their relationship. The previous researches by DeAngelo, DeAngelo and Skinner (1992), Moinoma (2001) has failed to make a clear explanation as to how dividend policy has affected or has effect on the financial performance of food and beverages industry in Nigeria.

However, this research used a variant regression to establish the effect of dividend policy on the financial performance in the Nigeria food and beverages industry, as well as to test the hypotheses on the study. Table 4.1 shows the results of the regression test and table 4.2 shows the table of analyses and interpretation. As define in chapter three, the independent variables in this research comprises of dividend pay-out, dividend per share, earning per share, dividend ratio, while the financial performance of the firms is the dependent variable which also comprises of return on equity, and return on asset proxied by their summation i.e. (ROE + ROA =dependent variable).

As computed, the constant (C) t-statistics=0.968874 which is less than

0.05/2=0.025= 2.064 which indicates that t-statistics is less than t- tabulated as such we accept the null hypothesis which says that, There is significant relationship between dividend policy and financial performance in Nigeria food and beverages industry. Also its p-value =34.42% which is greater than 5%. Therefore, we also accept the null hypothesis following the p-value decision rule which says accept the null hypothesis if the p-value is greater than 5% and reject if p-value is less than 5%.

So also, the DPO, DPS, and EPS t-statistics =0.509052, 0.922357, 0.382237 respectively which is also less than earnings as dividends or to retain them for future investments (Nissim & Ziv, 2001). Dividend is those cash distributions that many companies payout regularly to shareholders from earnings, send a clear, powerful message about future prospect and financial performance. That is to say, a company, willingness and ability to pay steady dividends over time and its power to increase them provide good clues about its fundamentals.

From the table above, it has shown that the p-value of dividend ratio (DR) which stands to represent the portion of dividend usually meant to be paid to shareholders is 0.0404 = 4.04%. However, the t-statistics value = 2.192378 and t-tabulated value =

0.05/2=0.025= 2.064. We there, reject the null hypothesis which says that, “Paying dividend has no effect on the financial performance (earnings) of Nigeria food and beverages industry” and accept the alternate hypothesis which says that, “Paying dividend has effect on the financial performance (earnings) of Nigeria food and beverages industry” following the decision rule that state accept alternate hypothesis when p-

value is less than 5%.

"The only thing that gives me pleasure is to see my dividend coming in." – John D. Rockefeller. This is a quotation that tries to explain how shareholders feel excited when paid dividend.

4.1.6 High Payout Ratio and Financial Performance of firm

The third objective of this study is to examine whether or not high payout ratio enhances financial performance of Nigeria food and beverages industry. In a bid to ascertain the reality behind this issue, any proportion of earnings paid out as dividends to shareholders, typically expressed as a percentage is referred to as "dividend payout ratio." It is also a key financial metric used to determine the sustainability of a company's dividend payments (Mainoma, 2001).

In a pursuit to examine the topical issue, p-value of dividend payout ratio (DPS) is = 0.6163 = 61.63% is in direct proportion of the financial performance and significantly high, therefore, we reject the null hypothesis which states that, "High payout ratio does not enhance financial performance of food and beverages companies in Nigeria" and accept the alternate hypothesis which states that, "High payout ratio does not enhance financial performance of food and beverages companies in Nigeria." The bottom line of this is consistent with the second school of thought of dividend theory consisting of litzenerger & Ramaswamy (1979), believe that, financial performance are negatively correlated with dividend payout levels.

4.2 Summary of Findings

One of the simplest self-comforting ways for companies to communicate financial well-being and shareholders' value is to say "the dividend check is in the mail."(Bhattacharya, 1979). The bottom line of the findings of this paper is that dividend matters evidence of financial performance and profitability of every Nigeria food and beverages company. So also, the results of the regression indicated that, the variation in the financial performance of food and beverages industry in Nigeria is highly explained by the independent variables (dividend pay-out, dividend per share, dividend ratio, earning per share).

5.0 Conclusions and Recommendations

The interesting aspect of dividend policy is to determine the amount of earnings to be paid to shareholders and amount retained in the firm.

The dividend relevance theory: this school believes that, dividend policy always affects the financial performance of firms; the proponents of this school includes Williams (1938), Gordon (1959) and Walter (1963). The researcher has present four common explanations as regards dividend relevance namely; the bird-in-hand, information content of dividend, tax preference and agency explanation. In contrast Miller and Modigliani (1961), Black and Scholes (1974) and Gordon and Bradford (1980) asserts that a firm's performance is not affected by its dividend policy

The samples of the study are five (5) out of 18 companies that make up the population. The population of this study is made up of all the eighteen (18) food and beverages companies in Nigeria which are publicly listed on the Nigeria Stock Exchange (NSE) market. However, secondary data were used as and single variant regression was used as method of data analysis, the variables of the study are return on equity and return on asset (as depended variable), as a proxy of financial performance of Nigeria food and beverages industry, while dividend payout, dividend per share, dividend ratio, and earnings per share are the independent variable.

The following conclusions are drawn;

i. There is positive relationship between dividend policy and return on equity and return on asset of food and beverages industry, the relationship is as a result of positive coefficient between the

variables. Similarly, the result of test table reveals that, the variability in return on equity and return on asset is significantly explained by the independent variable. This indicates that, dividend policy of food and beverages companies in Nigeria has impact on the financial performance of their return on equity and return on asset.

ii. Dividend payout, dividend per share, and earnings per share have effect on the financial performance of food and beverages industry in Nigeria with 61.63%, 36.73%, 70.63% respectively. But as for dividend ratio is less effective with a less than 5%.

iii. Shareholders always prefer higher dividend payout ratio. Investors always prefers dividend over retained earnings because they fear that retained earnings might be used by insiders for their own benefits against the interest of outsiders (investors).

The Recommendation highlighted are;

Base on the findings of the research work, the researcher hereby comes up with the following recommendations.

Since the dividend policy and financial performance of food and beverages industry are strongly related as provided by the findings of the research, the food and beverages companies should make sure they make dividend payment as

I. consistent as possible without fear during expansion period.

ii. Food and beverages companies should try as much as possible to maintain a steady increase in earnings as well as dividend payment so as to attract a divergent group of investors in the capital.

iii. The companies should try to put into consideration the shareholders interest when formulating the dividend policy by paying high portion of their earnings as dividend which is considered as a way to mitigate the agency problem by giving shareholders their share.

iv. Cash flow is also a direct measure of liquidity and liquidity is expected to be a contributing factor in establishing dividend policies, therefore firms should develop ways of improving liquidity through proper monitoring of debtors, creditors, unproductive asset which will all ensure proper cash flow availability for distribution as cash dividend to shareholders.

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