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Effect of Liquidity of Dividend Payout of Listed Consumer Goods Firms in Nigeria

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Abstract:

The study is designed to investigate the effect of liquidity on dividend payout of listed consumer goods firms in Nigeria. The study covers a period of ten years (2010-2019). The study employes correlational and ex-post facto research designs using 10 out of the 20 listed consumer goods firms in Nigeria. The study also employes secondary data where it is discovered at there is insignificant relationship of the two explanatory variables (sales growth, and liquidity) with dividend payout. The study recommends that the management of listed consumer goods firms in Nigeria should reduce current liability and increase stock, debtor collection and cash at bank in order it increase dividend payout.

Keywords: Consumer goods, dividend payout, liquidity, sales growth

1. Introduction

Dividend policy of a firm is a concern to management in determining part of the earnings to be dispersed as dividends to investors. It indicates the part of firm's earnings that are paid to equity shareholders as dividend. The distribution of this portion of firm's profit as cash dividend to equity shareholders is based on the number of shares held by the equity shareholders that is pro rata basis. Before arriving at residual profit appropriated to equity shareholders of the firm, statutory deductions are made. The indicator that a firm is healthy and has the capability of maintaining and improving upon both short and long run of the current level of financial performance depends on the dividend declared by the firms' Board of Directors at its annual general meeting (Ethel, Okwo, & Inyiama, 2015).

Liquidity of a firm is also one of the important factors in determining the dividend payout (Rehman & Takumi, 2012). Highly Liquid Firms are in a good position pay a reasonable dividend to their shareholders compared to liquid firms. Payment of dividend depends more on money streams which mirror the organisation's capacity to pay a dividend. A poor liquidity position implies less dividend because of the deficiency of cash. Nuhu (2014), in their examination, does in support of the significance of liquidity as one of the variables impacting dividend payout and found that liquidity is unimportant in affecting the profit payout choice. Lamia (2015) in their study determinants of dividend payout in Pakistan evidence from Karachi stock exchange for financial sector listed firms affirm that liquidity of a firm has a positive effect on its dividend payout. This implies that the result of the relationship between liquidity and dividend payout evidence from previous studies has been mixed. Is it possible for liquidity to have an influence on the determinant of dividend payout of listed consumer goods firms in Nigeria? The outcome of this research work will provide an answer to this.

Dividend decisions are among the most important decisions made by finance managers of any firm and are in line with shareholders wealth maximisation goal. These decisions involve determining an optimum dividend pay-out ratio which in turn depends on the liquidity of the firm. Firms with adequate liquidity are more likely to pay higher dividends than firms with lower liquidity. Liquidity has been analyzed as one of the factors affecting the dividend pay-out but the extent to which liquidity affects the dividend pay-out for a firm still remains a puzzle since various empirical studies conducted have produced inconsistent results. Furthermore, no universally accepted explanation for companies with adequate liquidity has observed uniform dividend payment behaviour. From the studies it is noted that researchers have focused mainly on developed markets while little attention has been paid in emerging markets like Nigeria. Absence of sufficient evidence on how liquidity impacts on the dividend payout would more likely lead to suboptimal dividend payout decisions. This would impact on the company's stock price and hence affect shareholders wealth maximisation goal of listed consumer goods firm in Nigeria. The purpose of the study was to examine the effect of liquidity on the dividend payout listed consumer goods firm in Nigeria. The study was guided by the following specific objectives:

To examine the effect of current ratio on dividend payout decision of listed consumer goods firm in Nigeria. To examine the effect of sales growth on dividend payout decision of listed consumer goods firm in Nigeria

Literature Review

Abdulrazaq (2009) opines that dividend is the profit paid to ordinary shareholders on a regular basis. Oye (2014) defines dividend as the amount of a firms profits paid to the proprietors of the firm i.e. shareholders of a company. In the word of Raymond (2012), the income of the ordinary shareholder is the residual, that is, after prior claims have been met. This may be either paid to him or her as a dividend or retained in the business for his or her ultimate benefit through its expansion. Also, Raymond (1992) defines dividend as part of the profit of a company which is distributed to its shareholders. It is common for a company to retain some proportion of its profits to finance expansion. In other words, when a business earns a profit larger than its dividend, the excess adds to retained earnings. The retained earnings account is the principal bridge between a company's income statement and its balance sheet; so as profits rise, retained earnings grow and loan needs decline (Higgins, 2012).

Higgins (2012) defines sales (revenue) as the inflow of resources to a business for a period from the sale of goods or provision of services. If you want to drive sales growth, it boils down to understanding and then implementing one strategy: Content builds relationships, relationships build trust, and trust equals build sales. Think about that statement for a minute. It is true in your personal and business life right now (Buck, 2018).

Chorafas (2002) sees liquidity is ammunition, permitting quick mobilization of monetary resources, whether for defensive reasons or to take advantage of business opportunities. Every firm, every market, and every financial instrument has an element of liquidity characteristics of its own. He further recognized that good liquidity makes it easier to clear up the liabilities side of the business, settling the accounts by matching assets and debts. They also stressed that liquidity analysis is the process of measuring a company's ability to meet its maturing obligations. Holding liquid assets and assets that can be converted into cash quickly without loss of value is an obligation that companies usually position themselves for. Liquid assets include cash in hand, cash generated from operations (accounts receivable), balances due from banks, and short-term lines of credit.

Non-financial firms on Nairobi Securities Exchange equally invested to determine the factors affecting dividend payout ratio by Musiega (2013). Analysis of the study is done using data drawn from the audited financial report of these listed firms. The study reveals a negative insignificant relationship between growth in sales and dividend payout. Also, determination of dividend policy of 105 non-financial in Saudi Arabia from 2004 to 2010 is explored by Turkiiand Al-khadhiri (2013). It is discovered that sales growth is insignificant with the dividend payout. Implies that dividend payout is not influenced by growth in sales. Equally, determinants of target dividend payout ratio were carried by Demirgüneş (2015) using panel autoregressive distributed lag analysis. The financial statement covers the period of 2002-2012 of non-metallic mineral products (mostly cement) manufacturing industry in Turkey. The result of the regression analysis documents that growth in sales has a negatively significant influence on dividend payout.

Factors influencing determinants of dividend payout in money deposit banks in Kenya are studied out by Odawo and Ntoiti (2015), CFC Stanbic bank as target population and descriptive research design with secondary data covering eleven years period (2003-2013). The results reveal that liquidity had a negative influence on dividend payout. Also, Dada (2015) investigates the factors influence determinants of dividend payout ratio of money deposit banks in Nigeria covering six years' period. They conclude that firms' liquidity is negatively significant with dividend payout. This is in agreement with Demirgüneş (2015) who documents that liquidity is statistically significant and negative relationships with dividend payout. This is based on their study done on determinants of a target dividend payout ratio of non-metallic mineral products (mostly cement) manufacturing industry in Turkey covering 2002 to 2012.

2. Research Methodology

The correlational and ex-post facto research design is used for the study. The correlation research design establishes or ascertaining the relationship between the liqudity and dividend payout and also making predictions about the relationship.

The population of the study consists of twenty (20) listed consumer goods firms in Nigeria as of December 2020. The study uses census sampling method but faced with difficulties as a result of the nature of the study, then the filter method is used to select the sample of the study. One of these difficulties that prevent the research of not using census sampling method is the incomplete data needed in measuring the invariables within the period of study and the other difficulty is regarding some of the firms delisted on the trading floor of the Nigeria Stock Exchange (NSE) within the period of the study (2010 - 2019). Filter method is employed to eliminate 10 ifirms leaving 10 firms. However, the remaining 10 were utilized as a sample of the study.

This study uses secondary data generated from audited annual reports and accounts of the selected listed consumer goods firms listed in Nigeria. The data generated from the audited annual report include sales, dividend per share, earnings per share, current assets, and current liability.

Multiple regression and correlation is adopted as a technique of data analysis to examine the study. Furthermore, regression analysis was employed because the study wants to determine the causes and effect of the relationship of each variable and correlation shows the relation between the dependent variables and independent variable and also between the independent variable. In this multiple regression, if any of the explanatory variables is significant at 1% or 5%, it implies that the explanatory variable can influence the explained variable. Also, if the Wald chi2 is significant at 1% or 5%, it signifies that the variables are well selected combined and used. The study conducted a robustness test in order to improve the validity and reliability of the statistical inferences drivable from the regression model. The variance inflation factor (VIF), according Gujarati (2013) rule of thumb, says that if the VIF of value exceeds 10 and Torrance exceeds 2, that value is said to be highly collinear. For the heteroscedasticity, Gujaratii (2013) opines that if heteroscedasticity test is significant means there is a problem of heteroscedasticity. The Hausman test determines the more suitable methodology

between fixed and random effect. If the test is significant, if effect model will be optimal for the study; if not further test need to be conducted that is, the Breusch-Pagan Lagrange Multiplier (LM) test to determine the more suitable method between random effect and pooled OLS regression. If the test is significant at 1% or 5% significant level, it implies random effect is most appropriate for the study. Also the criteria for accepting or rejecting hypothesis is that if p-value is not significant at 11% or 5% level of significance we accept the null hypothesis but if the p-value is significant at i1% or 5% level of significance we reject the null hypothesis and accept the alternative hypothesis

The following model was used to empirically test the hypotheses formulated

 $\begin{array}{l} dpo_{it}=\beta 0_{it}+\beta_{1}cr_{it}+\beta_{2}sg_{it}+\epsilon_{it}\\ Where:\\ \beta_{1}-\beta_{2}=Coefficients of Determination\\ dpo=Dividend Payout Ratio\\ \beta 0=Intercept of the regression line\\ \end{array}$

cr = Current ratio

sg = Rate of Sales growth

 ε = Residual or error term.

3. Result Presentation and Discussion

The following table presents the correlation matrix table for the analysis of relationship between the independent invariable and the dependent variable.

	Dpo	cr	sg
Dpo	1		
Liq	-0.0756	1	
	0.4548		
Sg	-0.1434	-0.1407	1
	0.1546	0.1626	

Table 1: Correlation Matrix Source: Stata 13.0 Output 2020 **. Correlation Is Significant at the 0.01 Level (2-Tailed) *. Correlation Is Significant at the 0.05 Level (2-Tailed)

The correlation matrix of all variables included in the study is shown in table 1. The result from the correlation analysis indicates that there is insignificant relationship between dividend payout with current ratio and sales growth, indicating that increases or decrease in current ratio or sales growth has a no potential to increase or decrease in dividend payout of listed consumer goods firms in Nigeria.

The following table presents the VIF to checks for the impossibility of multicollinearity and heteroscedasticity. Also, present here is the Hausman test and the Breusch-Pagan Lagrange Multiplier (LM) test.

	Prob> chi2	VIF	1/VIF
Liq		1.47	0.680153
Sg		1.13	0.887574
Mean		1.11	
Hottest	0.0434		
Hausman Test	0.657		
xttest0	0.0345		

Table 2: Robustness Tests Source: STATA 13.0 Output 2020

Table 2 shows the robustness test to checks for the impossibility of multicollinearity. The Variance Inflation Factor (VIF) reveals the absence of it as all factors are below 10 and tolerance values are below 1. This is based on Gujarati (2013) rule of thumb, who says that if the VIF value exceeds 10, that value is said to be highly collinear. Table 2 also presents the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity which shows p-value of 0.0434, indicating an absence of heteroscedasticity as the p-value is greater than 0.05. This is based on Gujarati (2013) who says that if heteroscedasticity test is significant means there is a problem of heteroscedasticity.

Panel data was tested using a fixed effect, random effect, and pooled OLS regression models. In order to determine which of the models was appropriate for the study, two main tests were conducted. These are the Hausman test and the Breusch-Pagan Lagrange Multiplier (LM) test. The Hausman test determines the more suitable methodology between fixed and random effect, whiles the Breusch-Pagan Lagrange Multiplier (LM) test determines the more suitable method between random effect and pooled OLS regression.

The result in Table 2 also indicates that we fail to reject the null hypothesis that the differences between the coefficients of the fixed and random effect models are not significant. This is because the prob Chi2 of 0.657 is greater than 0.05. Therefore, the test concludes that fixed effect is not the optimal model to be employed in this study, but does not at the same time guarantee that the random effect model is also optimal. In order to test whether the random effect model is

optimal, the Breusch-Pagan Lagrange Multiplier (LM) test is employed to compare the random effect model and the pooled OLS regression model.

From table 2, the results of the LM test conclude that random effect model is the better model to use with the impanel data. This is because the prob<chi2 0.0345 is not greater than 0.05 that there is a significant difference in the variance across the selected companies. Therefore, we reject the null hypothesis that there is ion variance across the selected companies. Consequently, we conclude that random effect is the impost appropriate model for the study. The table 3 presents the iregression iresults.

Variables	Coefficient	t value	p value
Constant	4342068	6.56	0.000
Cr	0548513	-1.24	0.215
Sg	1776294	-1.21	0.226
R2			0.4546
Wald chi2			62.80
F-sig			0.000

Table 3: Summary of Regression Result Source: STATA 13.0 Output 2020

The regression table shows a negative and no significant relationship between the dependent variable and explanatory variables. The result implies that upward movement in dividend payout is not accompanied by an increase or decrease in current ratio or sales growth.

The R2 overall (0.4546) which is the total variation of effect gave the proportion of the total variation in the dependent variable explained by the independent variable jointly. Hence, it signified that 45.46% of the total variation in a dividend payout of listed Consumer Goods firms in Nigeria was caused by their current ratio and sales growth.

The Wald Chi2 of 62.80 which is significant at 1% indicates that the dividend payout and the effect model is fit. This indicates that the model is fit and the independent variables are properly selected, combined and used. The value of Wald Chi2 which is statistically significant at a level of 0.000, means that there is a 99.9% probability that the relationship between the variables was not due to a mere change.

Table 3 displays that there is no significant relationship between liquidity and the dividend payout of listed Consumer Goods Firms in Nigeria. This can be perceived from the unstandardized value of the beta coefficient of -0.1045045 with P-value 0.215 which is not significant even at 10%. This suggests that the liquidity has no effect on the dividend payout of listed Consumer Goods Firms in Nigeria. The suggestion of the result is that, as liquidity increases or decreases have no impact on the dividend payout of listed Consumer Goods Firms in Nigeria. This validates the finding of Musiega (2013) who establishes that liquidity is negatively and statistically insignificant on dividend payout. This is not in line with Lamia (2015) found a positive influence of liquidity on the dividend payout.

The same table 3 reveals that there is no significant relationship between sales growth and the dividend payout of listed Consumer Goods Firms in Nigeria. This can be perceived from the unstandardized value of the beta coefficient of -.1776294 with P-value 0.226 which is not significant even at 10%. This suggests that sales growth has no effect on the dividend payout of listed Consumer Goods Firms in Nigeria. The insinuation of the result is that, as sales growth increases or decreases has no influence on the dividend payout of listed Consumer Goods Firms in Nigeria. This can be perceived from the unstandardized value of the beta coefficient of -.1776294 with P-value 0.226 which is not significant even at 10%. This suggests that sales growth has no effect on the dividend payout of listed Consumer Goods Firms in Nigeria. The insinuation of the result is that, as sales growth increases or decreases has no influence on the dividend payout of listed Consumer Goods Firms in Nigeria. This support the finding of Turki and Al-khadhiri (2013) and Musiega et al (2013) who saw an insignificant influence of sales growth over dividend payout.

4. Conclusion and Recommendations

The study concludes as follows:

Liquidity has an insignificant association with the dividend payout of listed consumer goods firms in Nigeria. As the listed consumer goods firms in Nigeria focus mostly channel their liquidity towards profitable investment, liquidity would not influence its dividend payout.

In addition, the study concludes also that sales growth has Ian insignificant influence on the dividend payout of listed consumer goods firms in Nigeria. equally implies that the position of sales growth in any financial year would not have an influence on the dividend of listed consumer goods firms in Nigeria.

The study recommends that

The management of listed consumer goods firms in Nigeria should avoid current liability and increase stock, debtor collection and cash at bank in order to increase dividend payout.

The study equally recommends that the management of listed consumer goods firms in Nigeria should develop a new technique to improve their market retention in order to improve turnover and paying of the dividend.

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