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Accounting information and dividend payout prediction in Nigerian listed manufacturing firms

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Investors' curiosity on the worth of their investment could be resolved with the availability of sufficient information in predicting their returns and security. Several studies linked dividend payout to the performance of manufacturing firms in Nigeria but a few considered information as a signal to performance not necessarily to dividend. This paper examined the usefulness of accounting information in predicting the investors return especially dividend payout. Ex-post facto design was adopted using secondary data obtained from annual reports and accounts of 36 selected manufacturing firms for a period of 20 years (1997-2016). The results of the regression (fixed effects) analysis carried out revealed that lagged dividend, leverage and sales growth have significant positive effect on dividend payout while earnings per share, operating cash-flow and firm size influences dividend payout ratio negatively with the exemption of asset utilization ratio with insignificant effect. It is evident that accounting information is useful to investors' in predicting the returns on their investment and dividend payout. Investors should look beyond past dividend in forecasting expected returns but several factors as presented in the financial statements in taking informed investment decisions.

Key words: Accounting information, lagged dividend, asset utilization, returns prediction, investment.

INTRODUCTION

The two key fundamental qualities of good accounting information are to be relevant and faithfully presented. Information is said to be relevant when it possesses predictive and confirmatory features. Relevant and well-presented information enables the users to make crucial decision by examining the past, present and able to forecast the future occurrences through it (ICAN, 2014). One of the key users of financial statements is the investors; they are keen on information relating to their principal and the yearly yielded returns. However, accounting information is expected to serve as a guide in

predicting the returns on their investment in a firm.

Prior to 1968, at early development of modern corporations, investors were not driven by the returns (Scott, 1912). Dividend was introduced by East India Company in 1700 and it became pronounced due to its effect on the market price of stocks (Frankfurter et al., 2003). Nwidobie (2016) asserted that, investors perceived dividend as an indication of good corporate performance and thus encourages potential investors to invest in highly-dividend paying firms.

The board of directors is saddled with the responsibility

of determining the proportion of earnings to be paid as dividend viz-a-viz the portion to plough back. It is a crucial decision and several factors as investors' expectation, availability of liquid fund, growth and investment opportunities, perception of general public in respect to firm size and its long existence, as well as ability to generate fund through other source aside plough back profit, are paramount in determining the dividend payout ratio in a firm.

Several propositions have been made on dividend ranging from dividend irrelevance theory to dividend supremacy theory. Dividend was proclaimed to be the only reason for firm's existence (Graham and Dodd, 1934). Walter (1963) and Gordon (1963) asserted that, in an environment with economic and political instability coupled with fluctuating exchange rate, hyper-inflation, high interest rate, and market deregulations, investors would prefer having their returns in form of immediate cash than capital gains. According to Lintner (1956) signaling model, dwindling returns is a signal of firm's unproductivity to the investors; therefore, managers tend to sustain dividend payment once it is initiated. On the contrary, Miller and Modigliani (1961) propounded that in a perfect capital market where rational investors operate, investors should be indifferent to dividend policy when corporate and individual taxes are the same.

Appropriation of earnings to returns and retained profit has been the major challenge faced by the firms. Ozoani (1998) proposed that dividend should be least to consider in earnings appropriation; that firms should focus on funding viable growth and investment opportunities and distribute the residuals, if any, as returns to investors. Investors see dividend as a link to hidden information about firm's prospective profit and stability. Due to several controversies on dividend among various theorists on the investors' response to dividend policy, the policy cannot assume to rest on dividend theories but on firm's overall system behaviour.

However, looking at the dividend patterns of Nigerian firms, it still reflects the puzzle model of Black (1976) without specific pattern of dividend payment. There has been inconsistency in the pattern of dividend payment, thus the researcher is curious to know how the decision about the dividend payout ratio is derived by listed manufacturing firms in Nigeria.

REVIEW OF LITERATURE

Underpinning theories

This paper is anchored on Lintner's signaling theory, agency cost of free cash-flow hypothesis, Marris growth model, pecking order theory and normative stakeholders' theory.

Lintner (1956) propounded signaling hypothesis which stated that managers are often unwilling to cut dividend when it is introduced with the notion that it is an avenue of conveying hidden information of the firm to the investors. Also, it is believed that investors perceived dividend payment as evidence of good corporate performance. Fama and Miller (1971) opined that managers tend to be efficient when distributing excess cash flow as returns to shareholders rather than investing it in unprofitable investment opportunities. Agency cost theory postulated that shareholders usually quest for more returns when perceived that a firm has excess cash flow, thus reducing redundant fund in the care of the managers to avoid misappropriations. In contrast, pecking order hypothesis by Donaldson (1961) posited that firms rely mostly on internally generated funds in financing growth opportunities rather than distributing it as dividends; and could only opt for debt when investment opportunities exceeded their internal finance capacity. Marris (1964) asserted that firms with greater growth projects possibly have high retention ratio and pay low dividend to shareholders in the short-run but due to the returns on such investment, thus turn high-dividend paying firms in the long-run. Conclusively, normative stakeholders' theory propounded by Freeman and Evan (1990) posited that investors should consider several factors which could impair or being impaired by manager's decision in projecting returns on their investment in a firm.

Empirical review

Earnings as determinant of dividend payout

The study of Okoro et al. (2018) reported an insignificant positive relationship between earnings and dividend payout of Nigerian firms. In the same market, Kajola et al. (2015), Rihanat et al. (2016), Sanyaolu et al. (2017), Uwuigbe (2013), and Uwuigbe et al. (2012) found that earnings significantly and positively influence dividend decision while Morakinyo et al. (2018) and Okpara (2010) revealed a significant negative relationship between earnings and dividend payout. Studies carried out in other countries reported mixed results of earnings effect on dividend payout. In India, Gangil and Nathani (2018), Kumar and Sujit (2018), Ganesh and Suresh (2018), Nishant and Ramesh (2015), Acharya et al. (2012),n and Pandey and Ashvini (2016) discovered a significant positive relationship between earnings and dividend payout; Singhania and Gupta (2012) obtained an insignificant relationship while Brahmaiah (2018) reported a significant negative effect of earnings on dividend yield. Al-Najjar and Kilincarslan (2018) study revealed a significant positive effect of earnings on dividend payout of Turkish firms, similar results were obtained in the studies of Jaara et al. (2018) in Jordan; Gwahula and Mnyavanu (2018) in Tanzania, Lestari (2018), Fitri et al. (2016), Pangemanan et al. (2015), and Ahmad and

Wardani (2014) in Indonesia, and Yusniliyana and Suhaiza (2016) in Malaysia. On the other hand, results obtained by Nkrumah et al. (2018), Nadeem et al. (2018), and Mahdzan et al. (2016) revealed insignificant positive relationship; while Yong and Mazlina (2016) obtained an insignificant negative effect of earnings on dividend payout of Malaysian firms.

Lagged dividend as determinant of dividend payout

Lestari (2018), Jaara et al. (2018), Nadeem et al. (2018), Okoro et al. (2018), Fitri et al. (2016), Adhikari (2015), Rihanat et al. (2017), and Yensu and Adusei (2016) reported a significant positive relationship between past dividend and current dividend; their findings are in accordance with Lintner's (1956) signaling hypothesis. Lagged dividend has insignificant positive effect on dividend payout (Yusniliyana and Suhaiza, 2016). While the study of Brahmaiah (2018) reported an insignificant negative relationship between past dividend and current dividend, the result of the study conducted in Nigeria during stock market crisis in 2009 by Musa revealed a significant negative relationship between past dividend and current dividend pattern.

Leverage as determinant of dividend payout

The reports of Kumar and Sujit (2018), Jaara et al. (2018), Nkrumah et al. (2018), Gul et al. (2012), Gwahula and Mnyavanu (2018), Tahir and Mushtaq (2016), and Mahdzan et al. (2016) showed that leverage has significant negative effect on dividend payout. Similarly, Okoro et al. (2018), Nadeem et al. (2018), and Morakinyo et al. (2018) reported negative but insignificant relationship between leverage and dividend decision. On the contrary, the studies of Brahmaiah (2018), Pandey and Ashvini (2016), and Sindhu et al. (2018) revealed that leverage significantly influence firm's ability to pay dividend positively while Lestari (2018), Gangil and Nathani (2018), and Yong and Mazlina (2016) obtained an insignificant positive relationship between leverage and dividend payout.

Growth as determinant of dividend payout

Gwahula and Mnyavanu (2018) discovered that a growing firm has low propensity to pay dividend. The report corroborated the findings of Kumar and Sujit (2018), Gangil and Nathani (2018), Fitri et al. (2016), Sanyaolu et al. (2017) and Rihanat et al. (2016), who discovered a significant negative relationship between firms growth and dividend decision. Similar but insignificant findings were reported by Lestari (2018), Nadeem et al. (2018) and Mahdzan et al. (2016). On the contrary, Nkrumah et al. (2018) and Yusniliyana and Suhaiza (2016) obtained an insignificant positive

relationship between growth and dividend decision; while Tahir and Mushtaq (2016) discovered that growth has significant positive effect on dividend payout.

Firm size as determinant of dividend payout

The proportion of distributable profits payable to investors as returns is directly related to the firm's size. Larger firms have tendency to pay higher dividends (Kumar and Sujit, 2018; Jaara et al., 2018; Morakinyo et al., 2018; Yensu and Adusei, 2016; Tahir and Mushtaq, 2016; Yong and Mazlina, 2016; Al-Najjar and Kilincarslan, 2018; Sindhu et al., 2016; Nguri and Jagongo, 2017). Similar but insignificant results were obtained by Gwahula and Mnyavanu (2018), Rihanat et al. (2016) and Sindhu (2014) while Gangil and Nathan (2018), Brahmaiah (2018), and Okoro et al. (2018), reported an insignificant negative relationship between firm size and dividend decision. On the contrary, Mahdzan et al. (2016), Lestari (2018) and Bushra and Mizra (2015) concluded that the larger the firm, the lower the propensity to pay dividend.

Agency cost as determinant of dividend payout

Kumar and Sujit (2018) and Nishant and Ramesh (2015) reported that dividend decision is positively and significantly influenced by the agency cost. On the other hand, the result of Mahdzan et al. (2016) and Bushra and Mirza (2015) study showed an insignificant negative relationship between agency cost and dividend decision while Matthias et al. (2013) revealed that agency cost has significant negative effect on dividend payout.

Operating cash-flow as determinant of dividend payout

The result of the study carried out by Lestari (2018), Al-Taleb (2012) and Imran (2011) revealed that cash-flow exerts a significant negative influence on firm propensity to pay dividend. Similarly, Demirgüneş (2015) and Soodur et al. (2016) found negative but insignificant relationship between cash-flow and dividend payout. On the contrary, Musa (2009), Nishant and Ramesh (2015), Rihanat et al. (2016), and Wasike and Ambrose (2015) concluded that cash-flow and dividend payout are directly and significantly related while Yusniliyana and Suhaiza (2016) and Al-Najjar and Kilincarslan (2018), and Echchabi and Azouzi (2016) reported an insignificant positive relationship between cash-flow and dividend decision.

METHODOLOGY

This research is a reflection of causal-effect relationship between accounting ratios and dividend payout ratio of listed firms in Nigeria

(manufacturing sector with the exclusion of ICT and agricultural firms). The study is an *expost-facto* research. Seven hundred and twenty (720) year-observations of firms were considered, being twenty (20) years of study of thirty-six (36) selected listed manufacturing firms (2007-2016). Data used in this study was obtained from the audited and reported annual reports and accounts of the selected firms within the time frame of the study.

Understanding the dividend pattern of a firm is very important to the investors, therefore this paper sought to examine the influence of accounting information in predicting the dividend payout ratio of selected manufacturing firms in Nigeria. This study developed its model from the modified model of Okoro et al. (2018) as:

$$DPR = \alpha_0 + \alpha_1 D_{it-1} + \alpha_2 EPS_{it} + \alpha_3 AUR_{it} + \alpha_4 LEV_{it} + \alpha_5 OCF_{it} + \alpha_6 FS_{it} + \alpha_7 FG_{it} + \varepsilon_{it}$$

where DPR = Dividend Payout Ratio; LLD = Natural logarithm of preceding year dividend; EPS = Earnings per Share; AUR = Asset Utilization Ratio; LEV = Leverage; OCF = Operating Cash flow; FS = Natural logarithm of Total Assets; and FG = Firm's Growth.

The original model of Okoro et al. (2018):

$$DPO = \alpha_0 + \beta_1 MV_{-1} + \beta_2 PROF + \beta_3 LEV + \beta_4 SIZE + \beta_5 PDO_{-1} + \mu;$$

where DPO = Dividend Payout; MV = Market Value; PROF = Profitability, SIZE = Firm Size; PDO = Preceding Dividend Payout; was modified to suit the purpose of the current study and in accordance with the underpinning theories.

Three-staged procedural estimation analysis was carried out to investigate the relationship between accounting information and dividend payout ratio of listed firms in Nigeria (manufacturing sector). Nature of association among the series in the distribution was examined at first stage using correlational matrix and variance inflation factor tests. This was done to affirm the appropriateness of the combinations of the variables in the model. Pooled ordinary least square, fixed effects model and random effects model of analysis were conducted for the main analysis; while diagnostics tests, which are: serial-correlation, cross-sectional dependence and heteroskedasticity tests were carried out at the third stage to establish if: the residuals and the beta-factor of each variables in the model are uncorrelated; the residuals in the model across firms are unrelated; and there exist a constant variations among the residuals of the model within the time frame.

The individual influence and joint effects of explanatory variables on dividend payout was evaluated using t-tests and F-test at 90% confidence level, while coefficient of determination was used to examine the extent to which accounting information affects dividend payout. The analysis was carried out with the aid of Stata/IC 11.0.

RESULTS

Pre-estimation analysis

The pre-estimation tests were carried out to examine the appropriateness of the series in the distribution and ensure healthy association among the explanatory variables. The results of the tests are shown in Tables 1 to 3, respectively.

Descriptive statistics

The result of the preliminary analysis shown in Table 1 depicts the features of the series in the distribution and ensures the appropriateness.

Interpretation

The standard deviation, skewness and kurtosis values of the size (0.81, 0.17 and 2.4) reveal that firms operating in Nigerian manufacturing industry are relatively equal in asset capacity and evenly spread within the time frame. The skewness and kurtosis values of DPR and lagged dividend showed that dividend is averagely spread over the years; while there are periods of non-payment, there were also instances of almost 100% appropriation of earnings to dividend. Earnings reported in most of the periods are positively and widely dispersed from the mean value and there are periods of reported losses as indicated in the minimum value of -466.34.

Negative shareholders fund were reported in few periods resulting to minimum value of financial risk of -89.34. The minimum, maximum, standard deviation and skewness of the operating cash flow indicated that reported cash flow from operating activities over the period are widely below the mean value. Standard deviation of agency cost as measured as ratio of sales to total assets of 0.62 showed that assets are averagely transformed to sales; it is an indication of management efficiency. Over the years, the industry experienced minimum percentage decrease in sales of -90.7, maximum increase of 233.24 with an average increase of 13.05. The probability of the skewness and kurtosis revealed that all the series are trending, which is expected in a panel data due to heterogeneity of the firms which constitute the panel.

Multicolinearity test

A non-causal effect association among the variables was tested using Pearson correlation matrix; this is to know whether there is multicolinearity problem among the series. Variance inflation factor test was also conducted confirming the result of the correlation test.

The result of the Pearson correlation test shown in Table 2 reveals that there exist positive associations among lagged dividend, earnings per share, operating cash-flow, firm size and growth. The nature of association aligned with Lintner's signaling theory, agency costs of free cash-flow hypothesis and Marris growth maximization theory. On the other hand, financial risk is negatively associated with lagged dividend, earnings per share, agency cost and size; this is in accordance with pecking order theory and agency cost theory. It was also discovered that agency cost and size are negatively associated; this is a signal of agency problem, managers of large firms tend to have more resources in use thus leading to inefficient utilization. All the correlation coefficients depicted in the Table 2 with the least and highest value of -0.14 and 0.56 being lower than the

Table 1. Descriptive statistics.

Statistic/Variable	DPR	D_{t-1}	EPS	AUR	LEV	OCF	FS	FG
Mean	0.34	3.83	140.58	1.12	1.25	-313.86	6.64	13.05
Minimum	0	0	-466.34	0.07	-89.34	-168778	4.74	-90.7
Maximum	0.99	7.63	3749.53	4.14	543.98	5593.82	8.73	233.24
Std. Dev.	0.31	2.41	367.7	0.62	20.82	6358.16	0.81	29.12
Skewness (P-value)	0.42 (0.00)	-0.66 (0.00)	5.04 (0.00)	1.31 (0.00)	24.57 (0.00)	-25.92 (0.00)	0.17 (0.06)	1.83 (0.00)
Kurtosis (P-value)	1.90 (0.00)	1.98 (0.00)	36.47 (0.00)	5.95 (0.00)	643.22 (0.00)	686.48 (0.00)	2.40 (0.00)	12.78 (0.00)

Source: Author's Computation (2018).

Table 2. Result of Pearson Correlation Matrix Tests.

Variable	D_{t-1}	EPS	AUR	LEV	OCF	FS	FG
D_{t-1}	1						
EPS	0.41	1					
AUR	0.24	0.09	1				
LEV	-0.06	-0.01	-0.02	1			
OCF	0.05	0.03	0.05	0	1		
FS	**0.56**	0.43	**-0.14**	-0.02	0.05	1	
FG	0.01	0.11	0.18	0.03	0.08	0	1

Source: Author's Computation (2018).

threshold of 0.8 is an indication that the combinations of the variables are appropriate.

Variance inflation factor test results showed the highest value of 1.79 which is below the threshold of 10 as presented in Table 3 corroborated the result of the correlation matrix that there is no multicolinearity problem among the series in the distribution.

Regression results

Based on the result of the Hausman and diagnostic tests conducted which reflect that fixed effects is the most appropriate analysis method but due to the results of the Modified Wald Test and Wooldridge Test which revealed that there exists an econometric problem in the model (heteroskedasticity and serial correlation problem), the standard errors of the model was adjusted with Driscoll-Kraay to correct the errors in the model and thus, the fixed effects regression with Driscoll-Kraay standard errors was used to estimate the effect of D_{t-1}, EPS, AUR, LEV, OCF, FS and FG on DPR and the results are presented in Table 4.

The results presented in Table 4 reveal the strength and importance of each of the accounting information measures in predicting the dividend payout. The result of the regression analysis shows that lagged dividend, leverage and sales growth have significant direct relationship with dividend payout while earnings per share, change in operating cash-flow and firm size affect dividend decision negatively. The study also discovered that asset utilization ratio has insignificant negative relationship with dividend payout ratio.

DISCUSSION

The significant positive effect of past dividend on dividend payout ratio reported in this study aligned with signaling hypothesis of Lintner (1956). The

Table 3. Result of the variance inflation factor (VIF) test.

Variable	VIF	1/VIF
D_{t-1}	1.79	0.56
EPS	1.33	0.75
AUR	1.26	0.80
LEV	1.01	0.99
OCF	1.01	0.99
FS	1.79	056
FG	1.06	0.95
Mean VIF		1.32

Source: Author's Computation (2018).

Table 4. Regression result.

Variable	Coeff	t-stat	Std. Err	Prob
D_{t-1}	0.101	13.99	0.01	0.00*
EPS	-0.001	-2.95	0.00	0.01*
AUR	-0.020	-0.59	0.04	0.56
LEV	0.001	1.79	0.00	0.09*
OCF	-0.007	-1.94	0.00	0.07*
FS	-0.083	-5.88	0.01	0.00*
FG	0.001	2.53	0.00	0.02*
Constant	0.5271	4.96	0.11	0.00

$R^2 = 0.404$, $F_{(7, 19)} = 105.5$, Prob> F = 0.00; Hausman Test: $Chi^2_{(6)} = 15.8$, Prob> $chi^2 = 0.015$*; Test Parameters (testparm): $F_{(35, 658)} = 18.7$, Prob> F = 0.00*; Rho Test: $F_{(35, 677)} = 6.46$, Prob> F = 0.00*; Pesaran CD Test: $Chi^2 = 0.48$, Prob = 0.63; Modified Wald Test: $Chi^2_{(36)} = 11611$, Prob> $chi^2 = 0.00$*; Wooldridge Test: $F_{(1, 35)} = 14.49$, Prob >F = 0.001*. Dependent Variable: DPR; Confidence level: 90%
Source: Author's Computation, 2018.

finding corroborated the reports of studies conducted in Nigeria by Rihanat et al. (2017) and Okoro et al. (2018). Also, by Lestari (2018) and Fitri et al. (2016) in Indonesia, Jaara et al. (2018) in Jordan; Nadeem et al. (2018) in Pakistan; Adhikari (2015) in Nepal, and Yensu and Adusei (2016) using African countries. The result negates the findings of Musa (2009) carried out in Nigeria. The contrast between the findings of this study and Musa (2009) could be as a result of the timing of the research. The negative relationship between dividend payout and past dividend might be based on the occurrence of global financial market crisis that hit Nigeria economy in 2008.

It was observed that Nigerian manufacturing firms have high retention ratio which could have been the cause of significant negative relationship between earnings and dividend payout ratio. This implies that as earnings increase, the appropriated profit to the investors as returns reduces. The significant negative effect of EPS on dividend payout is in consonance with pecking order theory that stated that managers maximize the use of their earnings in financing growth opportunities rather than borrowing or issuing fresh stock, thus having high

retention policy. The findings also aligned with the reports of Morakinyo et al. (2018), Okpara (2010), and Brahmaiah (2018) who also obtained a significant negative relationship between earnings and dividend decision.

The asset utilization ratio with β-value of -0.02 and ρ-value of 0.56 indicates a statistically insignificant negative relationship between asset utilization ratio and dividend payout ratio. This negates the conceptual belief that a high yielded return is a function of efficient utilization of assets by the management. This result corroborated the reports of Mahdzan et al. (2016) and Bushra and Mirza (2015). These findings point to inefficient or under-utilization of assets in Nigerian listed manufacturing firms or indication of presence of agency problem whereby managers tend to trade-off shareholders return to shield their self-interest.

The significant positive effects of leverage and sales growth aligned with the postulations of Donaldson (1961) pecking order theory and Marris (1964) growth maximization theory. Donaldson believed that a firm tends to opt for debt when its growth and investment

opportunities exceed its internal finance capacity while Marris asserted that returns generated from such investment would lead to more profits in the long run and high dividend payments. The report of this study on relationship between leverage and dividend decision supported the findings of Brahmaiah (2018), Pandey and Ashvini (2016), and Sindhu et al. (2018). Similarly, the significant positive effect of sales growth on dividend payout as reported in this study corroborated the report of Tahir and Mushtaq (2016).

The coefficient of the percentage change in operating cash flow of -0.007 with ρ-value of 0.07 implies that firms with high operating cash flow tend to low propensity to pay dividend. This result negates the postulation of Fama and Miller (1971) agency cost of free cash flow hypothesis but aligned with the reports of Lestari (2018), Al-Taleb (2012) and Imran (2011). The negative mean value of -313.86 is an indication that Nigerian listed firms actually experienced high percentage reduction in their operating cash flows over the years, and this could be the result of the negative relationship between percentage change in operating cash flow and dividend payout.

This study also discovered that larger firms tend to low propensity to pay dividend as reflected in the negative coefficient of firm size of -0.083 with ρ-value of 0.00. This means that firm size has significant negative effect on dividend payout ratio of listed manufacturing firms in Nigeria. The result corroborated with the findings of Mahdzan et al. (2016), Lestari (2018) and Bushra and Mizra (2015).

The coefficient of determination measured by adjusted R^2 of 40.4% reflect the combined influence of earnings, past dividend, asset utilization ratio, leverage, size, sales growth and operating cash flow on dividend payout ratio. This implies that 40.4% variation in dividend payout ratio of Nigerian listed manufacturing firms is explained by the accounting information.

CONCLUSION AND RECOMMENDATION

The study investigated the predictive power of accounting information on shareholders returns using earnings, past dividend, asset utilization ratio, firm size, sales growth, leverage and operating cash flow as measure of accounting information and dividend payout ratio as dependent variable. It was observed that accounting information is useful to investors in forecasting the returns on their investment.

Generally, it is expected that larger and highly profitable firms should be highly rewarding in terms of returns to their shareholders but the reports of this study negate the conceptual beliefs. Based on the findings of this study, it is opined that investors should critically evaluate all relevant contents of accounting information within their reach in examining the returns as well as security of their investments in a firm.

CONFLICT OF INTEREST

The authors have not declared any conflict of interest.

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