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Dividend Policy as a Driver of Corporate Growth in Sub-Saharan Africa: Evidence in Nigeria

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Abstract: Dividend policy remains an important topic in modern corporate finance. Researchers, managers, and business owners seek to understand the optimal dividend policy. This study examined dividend policy as a driver of corporate growth in sub-Saharan Africa: evidence in Nigeria. The ex-post facto research design was adopted to analyse how dividend policy spur the growth of active insurance companies in the Nigerian Stock Exchange using secondary data of the sampled firms for 2007 – 2018 while utilising descriptive and inferential (regression) statistics in data analysis. The findings reveal that dividend policy in terms of dividend payout has an insignificant negative effect on corporate growth of insurance companies in Nigeria ($\beta = -8.09E-05$, $p = 0.77$; Adjusted $R^2 = 0.4093$; $F(4, 139) = 3.29$; $p = 0.00$ with the controlling effect of efficiency, firm age and leverage which have a significant effect on corporate growth of insurance companies in Nigeria. Specifically, the study reveals that efficiency has a significant negative effect on corporate growth ($\beta = -5.29$, $p < 0.05$); while firm age discloses a significant positive influence on corporate growth ($\beta = 0.417$, $p < 0.05$); as leverage exerts a significant negative effect on corporate growth ($\beta = 0.052$, $p < 0.05$). Therefore, the study concludes that dividend policy does not significantly drive insurance companies' dividend payout growth. The study recommends that insurance companies' management retain more of their profits, improve their efficiency, and control their leverage to further growth.

Keywords: Dividend policy, corporate growth, dividend payout, efficiency, firm age, leverage.

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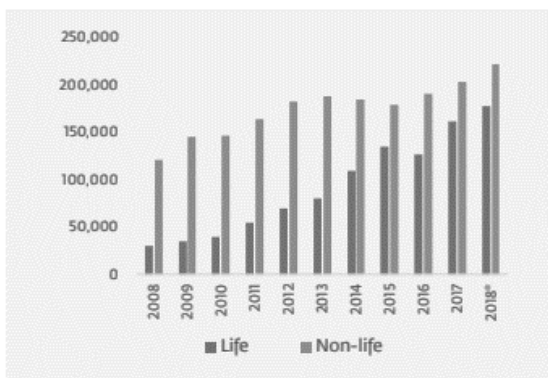
1. INTRODUCTION

Dividend payment for shareholders is one of the strategies that companies employ in attracting investors. While this has been very effective in pulling funds for companies in terms of equities, not all companies can embrace dividend payment for several reasons, particularly those faced with modest earnings growth. Earnings from the business operations are divided into two; retained earnings and dividend paid out. Retained earnings are part of the net profit reinvested in the company. Companies do set aside part of their profits for reinvestment to facilitate growth and ensure continuous business operations. The dividend payment is the part of the firm's profit shared among shareholders, aiming to give investors incentives for the business's funds invested.

Given that both retained earnings and dividend paid out make up the total net profit, it implies that when the payout increases, retained earnings declines, and vice versa, meaning that both retained earnings and dividend payments are essential. However, companies can only pay out dividends when they have an adequate capital base to sustain their business growth. The weak capital base is one of Nigeria's insurance companies' limitations, as many of them struggle with capital adequacy.

The Nigerian insurance industry has shown modest growth over the years, with only a 0.02% increase in 2018 relative to 2017 (Meristem, 2019). Furthermore, corporate evidence also revealed that the Nigerian Insurance industry's growth is nominal and not real (Coronation Merchant Bank Report, 2019). The trend pattern of total Gross Premiums for the past ten years; 2008 – 2018 (see Figure 1) changed when adjusted for inflation as well as the total industry Non-life gross premiums, which declined at a 10-year CAGR of 5.0%, and Life gross premiums that grew at a 10-year CAGR of 7.0% over the same period.

Industry Life and Non-Life Premiums, nominal
Naira millions



Industry Life and Non-Life Premiums, inflation-adjusted
Naira millions

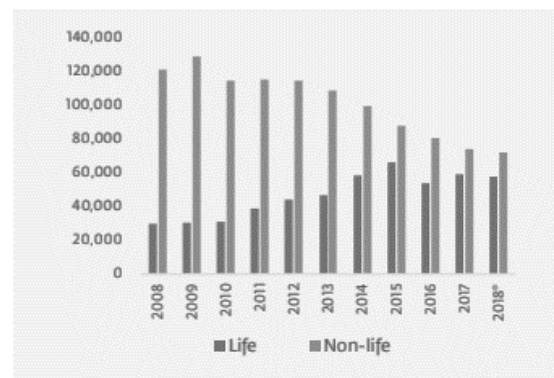


Figure 1. Nigerian Insurance Industry growth
Source: Coronation Merchant Bank Research Report: Insurance Industry

Coronation Analysts argued that the critical element lacking in the insurance industry in the past ten years is growth. This position is further buttressed by the financial performance of top-performing insurance companies. The table below revealed that the Nigerian insurance industry lacks profitability and struggles to meet its capital cost (Return on Equity). One can only guess that such realisation informed the NAICOM decision to recapitalise the industry effective from 31 December 2020.

Table 1. Financial Performance of top Nigerian Insurance Industry

	Fundamentals					Trailing			
	AT	NM	ROE	ROA	LEV	EPS	BVP	P/E	P/BV
AIICO	0.3	7.0%	8.7%	1.1%	7.8	0.17	1.96	3.7x	0.3x
CORNERST	0.3	8.1%	-7.3%	-2.2%	3.4	-0.04	0.54	-5.0x	0.4x
CUSTODIAN	0.5	19.9%	26.9%	11.5%	2.3	1.80	6.70	3.1x	0.8x
LASACO	0.8	8.0%	16.7%	10.3%	1.6	0.16	0.93	1.9x	0.3x
LAWUNION	0.5	16.1%	-10.7%	-6.5%	1.6	-0.17	1.55	-3.6x	0.4x
LINKASSURE	0.2	2.3%	12.8%	10.2%	1.3	0.31	2.45	2.3x	0.3x
MANSARD	0.4	10.7%	12.7%	3.7%	3.5	0.26	2.01	7.1x	0.9x
NEM	0.8	15.3%	26.6%	14.8%	1.8	0.54	2.05	5.0x	1.3x
WAPIC	0.4	3.3%	6.7%	3.4%	1.9	0.09	1.34	4.5x	0.3x

Source: Meristem Research Report, 2019.

Note: AT= Asset Turnover, NM=Net Margin, Lev= Leverage, BVP = Book Value per Share.

On the other end is low dividend payment inherent in the insurance industry relative to other industries' financial sectors. Only a few insurance companies pay the consistent dividend in the industry following NAICOM's regulation that restricts underwriters in Nigeria from paying dividends if such a firm has a weak capital base using the solvency ratio the capital adequacy of these firms. The solvency ratio is the difference between total admissible assets and total admissible liabilities divided by whichever is higher between the minimum capital requirement or 15% of the firm's premium income. If a firm has a solvency ratio between 100% and 130%, such a firm is not allowed to pay out dividends. Unfortunately, most insurance firms fall between 100% – 130%; and are not allowed to pay out dividends.

It was also observed that among the few companies such as NEM and AIICO, who consistently pay a dividend are also among the industry top performers. The chart below, which shows the top gainers for 2018, further revealed that among five of twenty-eight insurance stocks which recorded capital appreciation by close of 2018 was NEM as the best performer gaining 54% to close the year at NGN2.70. The above indications drove the research to understand and further pose the relationship between dividend policy, performance, and corporate growth.

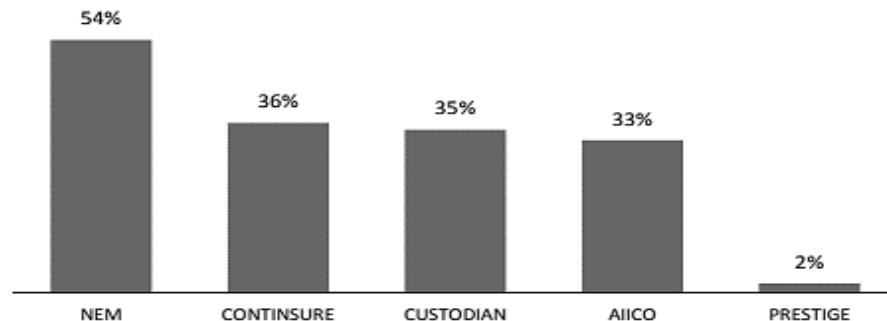


Figure 2. Top Gains in the Stock Market by the 2018 year-end

Source: Meristem Research Report, 2019

In literature, the relationship between dividend policy and performance has continued to be a topic of debate. Though theoretical stance is clearly stating that retained earnings should be reinvested at the cost of equity, or higher, as shareholder wealth is better grown by cutting dividends. Reality has proven to be more difficult where theoretical assumptions are not feasible. Not all investors are logical, transaction costs exist, and other market limitations interfere.

In the past, several research works have been dedicated to this area of study, but the results obtained continue to vary. Among the literature reviewed, there are studies on the relationship between dividend policy and share prices, market value, or financial performance of firms from different industries ranging from banking to manufacturing, fast-moving consumer goods, oil and gas, conglomerates, and small and medium scale enterprises. A very few of these studies have analysed the relationship between dividend policy and corporate growth recently, and none, to the best of our knowledge, has been recently conducted on the insurance companies of Nigeria in the past four years; hence, the need to carry out this research for requisite evidence for decision making. Another clear departure of this study from available literature is the choice of variables to proxy corporate growth. Its perceived best-suit informed the decision to use the growth of total assets to proxy corporate growth. Also, there is minimal use of growth of total assets to proxy corporate growth in current literature save for a few studies carried out in Amman, Kuala Lumpur, and Vietnam Stock Exchange, whose scope ended in 2016. The research objective was to ascertain whether dividend policy is a driver of corporate growth in Sub-Saharan Africa, emphasising Nigeria.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Empirical reviews of literature and hypotheses developments were undertaken here following numerous arguments advanced by various researchers on the topic:

2.1 Dividend Policy and the Growth of the Industry

Chauhan, Ansari, Taqi, and Ajmai (2019) evaluated the impact of dividend policy on the profitability of Indian Information Technology (IT) companies listed on the Bombay Stock Exchange using the correlation matrix panel regression model. The study's significant findings revealed that the selected companies do not follow a consistent dividend payment pattern. The association between Price Earnings Ratio (PER) and Dividend Pay-out Ratio (DPR) is low but positive. However, there is a strong relation between ROE-ROA.

Kunle and Oloruntoba (2019) examined dividend policy's impact on share price with specific reference to Zenith bank Plc, Nigeria, for 2007-2016. The results showed that dividend yield, earnings yield, and payout ratio have a negative and insignificant impact on Zenith bank's share price. This implies that dividend policy measured by dividend yield, earnings yield, and payout ratios is a weak predictor of Zenith bank's share price. Usman and Olorunnisola (2019) evaluated the effects of dividend policy on corporate performance in selected Nigeria Deposit Money banks (NDMBs) over ten years (2009-2018). The results showed that RE, EPS, and DPS had a significant positive effect on CP. It was concluded that dividend policy has a significant effect on the corporate performance of NDMBs.

Simon-Oke and Ologunwa (2016) evaluated the effect of dividend policy on corporate performance in Nigeria, using OLS multiple regression analysis techniques to establish the relationships among the variables. The findings revealed that dividend policy in Nigeria remains a function of vital dynamic variables such as return on investment (ROI), earnings per share (EPS), and dividend per share (DPS).

Adesina, Uwuigbe, Uwuigbe, Asiriwa, and Oriabe (2017) examined dividend policy and share price valuation in the Nigerian insurance firms for ten years; 2006 – 2016. The findings revealed a significant positive relationship between earnings per share and

market price, concluding that insurance firms should put an efficient and robust dividend policy and leverage the new e-dividend payment initiative to perform better. Considering the different arguments from various scholars, the study hypothesised that:

H₀₁: Dividend policy does not significantly drive the growth of the insurance industry

2.2 Dividend Payout and the Growth of the Industry

Odum, Odum, Omeziri, and Egbunike (2019) examined the impact of dividend payout ratio on the firm's value. Profitability, leverage policy ratio, dividend policy ratio, cash holding, and the firm's size of breweries and beverage companies listed on the Nigerian stock exchange were studied using Panel Ordinary Least Square Regression Techniques for the periods 2007-2016. The results showed that profitability ratio and leverage ratio positively and significantly impact the value of the firm.

Another study from Omar and Echchabib (2019) on the role of dividend payouts in influencing the fund managers and investors in recommending or selecting a stock, and for various stocks' performance assessment; as well as the possible effect of taxation on dividends payout using semi-structured interviews revealed that dividend payouts are not solely used as a basis for stock recommendation and assessment of companies' performance by fund managers in Malaysia.

Idewele and Murad (2017) investigated the relationship between fifteen Deposit Money banks' financial performance and dividend policy from 2009 to 2014 using the Pooled Least Squares estimation technique. The study revealed that there is a positive and significant relationship between dividend payout ratio and financial performance. However, there is a negative and insignificant relationship between dividend yield and financial performance.

The study of Omilabua, Alao, and Situ (2018) concentrated on the insurance industry. The result revealed that insurance firms' dividend payout ratio and total assets significantly affect the profit after tax of insurance firms in Nigeria. In contrast, their dividend per share has no significant effect on their profit after tax.

Yusuf (2015) examined the impact of performance on the dividend payout ratio of some selected financial institutions in Nigeria for the periods - 2004 and 2013 steered by explanatory research design. Leverage, profitability, and dividend payout ratio were studied using correlation and multiple regressions analysis. The findings revealed that the dividend payout ratio is negatively related to insurance firms' leverage and profitability. The study concluded that the dividend payout ratio is inversely related to deposit money banks' performance in Nigeria. Considering the diverse arguments from various scholars, the study hypothesised that:

H₀₂: Dividend payout does not have any significant effect on the growth of insurance companies in Nigeria

3. METHODOLOGY

The study adopted an *ex-post-facto* research design. The study population consisted of the insurance companies in Nigeria put at 59 (NSE, 2018). A purposive sampling technique was utilised to select the active (23) insurance companies out of the 59 listed

on the Nigerian Stock Exchange. Secondary data were obtained from Bloomberg verified with the insurance companies' annual reports in Nigeria from 2007 to 2018. Bloomberg is a renowned international database for financial data.

3.1 Model Specification

Based on Penrose's theory on the firm's growth, which suggests that profits and managerial efficiency are the necessary conditions for corporate growth, we develop a model to confirm the assertion that dividend policy (corporate treatment of profits) is necessary for growth. This also follows Crespo, Palokangas, and Tarasyev (2013), which establishes a relationship among related variables in a growth model.

The model is depicted in a schematic form as follows:

$$Y = f(X_1, X_2, X_3, X_4) \dots\dots\dots 1$$

$$GTA_{it} = \beta_0 + \beta_1 DIP_{it} + \beta_2 EFF_{it} + \beta_3 FAG_{it} + \beta_4 LEV_{it} + \mu_i \dots\dots\dots \text{main model}$$

Where:

- GTA_{it} = Growth of Total Assets of *ith* bank at year *t*.
- DIP_{it} = Dividend paid of *ith* bank at year *t*.
- EFF_{it} = efficiency proxied by sales/total asset of *ith* bank at year *t*.
- FAG_{it} = Firm Age of *ith* bank at year *t*.
- LEV_{it} = Leverage proxied by Debt to Asset ratio of *ith* bank at year *t*.
- μ_i = disturbance term.
- β_0 = intercept.
- $\beta_1 - \beta_4$ = coefficient of the independent variables.

The test above is carried out at 5 percent test statistics.

3.2 Method of Analysis

The study examined the effect of dividend policy on the corporate growth of insurance companies in Nigeria. To achieve this, descriptive analysis and correlation analysis were carried out for the pre-estimation stage to evaluate the characteristics and the appropriateness of the distribution series. In contrast, panel linear regression analysis was used to test the study's hypotheses. T-test, F-test, and Adjusted R² were used to evaluate the model.

4.0 EMPIRICAL ANALYSIS

4.1 Descriptive Analysis

As presented in Table 2, every naira of total assets' growth is 0.24 percent on average. In comparison, the least is -1.00 percent, and most are 19.80 percent. 1.00 percent indicates periods of losses; that is, the insurance companies reported losses at some periods within this study's time frame. The insurance firms also paid 72.16 kobo as dividend per share on average, with periods of non-declaration of dividend (minimum of 0) and the maximum amount declared as N49.87k. The average efficiency of 0.46 is relatively low, with a minimum value of infinitesimal 0, indicating that there were periods when insurance firms'

efficiency was abysmal. The insurance firms reported 1.33 as the highest efficiency. The firm size stood at 27.25 on average while leverage averagely equates to 42.14.

Table 2. Descriptive Statistics

	GTA	DIP	EFF	FAG	LEV
Mean	0.24	72.16	0.46	27.25	42.14
Std. Dev.	2.04	561.74	0.22	170.38	18.36
Min.	-1.00	-1716.98	0.00	0.00	0.00
Max.	19.80	4987.51	1.33	2019	88.77
Obs.	139	139	139	139	139

4.2 Correlation Analysis:

The correlation analysis result shows a low negative correlation between the growth of total assets and dividend payout ($r = -0.13$) and efficiency ($r = -0.16$). This implies that corporate growth may decrease as dividend payout and efficiency increases. Though leverage has a strong relationship with the growth of total assets, there is a negative correlation between the two variables with $r = -0.73$, implying an increase in insurance firms' leverage tends to decrease corporate growth. Firm age, the only variable with a positive relationship with the growth of total assets, has a low degree of correlation ($r = 0.14$). Therefore, as firm age increases, corporate growth may also increase.

Table 3. Correlation Result

	Growth of Total Assets	Dividend Payout	Efficiency	Firm Age	Leverage
Growth of Total Assets	1.000				
Dividend Pay-out	-0.013 (0.87)	1.000			
Efficiency	-0.163 (0.05)	0.003 (0.96)	1.000		
Firm Age	0.142 (0.09)	-0.037 (0.65)	-0.084 (0.32)	1.0000	
Leverage	-0.062 (0.46)	-0.038 (0.65)	0.071 (0.40)	-0.071 (0.40)	1.000

Though the negative result for efficiency seems not to make economic sense, it can be quickly overlooked when you consider the insignificance of the correlation probability of the variables implying that the expected association between all the variables is inconsequential.

4.3 Regression Analysis

Table 4. Test of Hypothesis

	Growth of Total Assets				
	FIXED EFFECT REGRESSION MODEL				
Variable	Coeff	Std.Err	t-test	Prob	
Dividend Pay-out	-8.09	1.47	-4.37	0.00	
Efficiency	-5.29	0.00	-0.28	0.77	
Firm Age	0.41	1.12	-4.72	0.00	
Leverage	-0.05	0.06	6.00	0.00	
Constant	-6.46	0.01	-3.06	0.00	
Adj. R ² ; F-Stat (Prob)	0.2850; 3.2922 (0.00)				
Hausman Test	chi ² ₍₄₎ = 57.44 (0.00)				

5. DISCUSSION OF FINDINGS

The Hausman test results for both models determine the most appropriate estimating technique between the Fixed Effect and Random Effect conducted at a significance level

of 5 percent, with p -values of 0.00 (< 0.05) reveal that while Fixed Effect is the most appropriate for the Model. Based on the diagnostic test results, the model is estimated using the Fixed Effect (LSDV) Regression.

$$GTA_{it} = \beta_0 + \beta_1DIP_{it} + \beta_2EFF_{it} + \beta_3FAG_{it} + \beta_4LEV_{it} + \mu_i$$

$$GTA_{it} = -6.46 - 8.09E-05DIP_{it} - 8.09E-05 - 5.29EFF_{it} + 0.41FAG_{it} - 0.0526LEV_{it} + \mu_i$$

The multiple linear regression estimates of the model show that dividend payout ratio has an insignificant negative effect on corporate growth measured by the growth of total assets ($\beta = -8.09E-05$, $p(0.77) > 0.05$; efficiency has a significant negative effect on corporate growth measured by the growth of total assets ($\beta = -8.09E-05$, $p(0.00) < 0.05$) which is inconsistent with the *a priori expectation* that efficiency ratio has a positive effect on corporate growth. In contrast, firm age has a significant positive effect on the growth of total assets ($\beta = 0.41$, $p(0.00) < 0.05$); and is consistent with the *a priori expectation* that the firm age ratio has a positive effect on Corporate growth. Also, leverage has significant negative effect on growth of total assets ($\beta = -0.05$, $p(0.00) < 0.05$).

Based on the size and sign of the independent variable coefficients; an N1 increase in dividend payout should on an average result in a 0.000008 percent decrease in corporate growth; 1 percent increase in efficiency should on the average result in a 5.26 percent dip in corporate growth; a year increase in firm age should on an average result to 0.0041 percent increase in corporate growth; 1 percent increase in leverage should on an average result to 0.05 percent drop in corporate growth.

Furthermore, the Adjusted R-squared shows 0.4093 that about 40.93 percent variations in the growth of total assets can be attributed to dividend payout, efficiency, firm age, and leverage; hence 59.07 percent variation in growth of total assets are attributed to other factors not included in the model. From the result of the F-statistics, with p -values of 0.00, it is deduced that all the variables jointly influence the corporate growth of insurance companies in Nigeria, significantly using the growth of total assets as a measure of corporate growth. The test statistic of the cross-section dependency test was not available (see appendix). Other diagnostic tests are not available for this fixed effect regression model in E-views 9 used in conducting this research study. Conclusively, this study does not reject the null hypothesis, stating that "dividend policy does not drive insurance companies' corporate growth in Nigeria."

6. CONCLUSION AND RECOMMENDATION

Following the regression analysis findings, which reveal that dividend payout, efficiency, and leverage have a negative effect on the growth of total assets. While efficiency and leverage have a significant relationship with asset growth, dividends have an insignificant relationship with asset growth. Among the explanatory variables, only firm age has a significant positive relationship with assets growth. Therefore, we conclude that dividend policy does not drive insurance companies' corporate growth in Nigeria in terms of dividend payment but could be retained.

In line with this study's findings, it is recommended that the management of the insurance companies in Nigeria should pay fewer dividends and retain more profit to drive corporate and industry real growth. Furthermore, there is a need to manage insurance companies

effectively, improving their efficiency to spur more significant growth. They need to pay attention to their companies' leverage as it weighs significantly on their companies' growth.

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