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Dividend Decisions and Financial Performance of Listed Firms: Evidence from Developing Countries

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ABSTRACT: Many listed firms in developing countries are not performing well. There are other factors that may affect their performance; however, the study reviewed the past studies on the impact of dividend decisions on financial performance of listed firms: Evidence from developing countries. While the results of some past studies on the impact of dividend decisions on listed firms in developing countries revealed that the dividend decisions had a positive significant impact on financial performance, others showed that dividend decisions had a negative significant impact on financial performance of listed firms in developing countries. Thus, the study recommends that the management of listed firms in developing countries should continue to pay dividends to their investors on regular basis with a reasonable amount whenever they make reasonable profits in order to retain the existing investors and at the same time attract new ones and by so doing the share price of their firms will appreciate in value.

KEYWORDS: Dividends, decisions, firms, policy, countries, developing

1.0 INTRODUCTION

Dividend decision is one of the basic business finance decisions that companies have to make. It is an internal yardstick used by a firm in deciding what proportion of the profit of the firm should be shared to shareholders (Panda & Mohapatra, 2022). The distribution of dividend is the reward for investors who had invested their capitals in the business. The implication on the firm, the distribution of dividend, is that it reduces the internal capital that is available to it.

Zou and Bai (2022) claim that the dividend distribution is the main factor that affects capital structure as well as corporate financing decisions of a company. Dividend decision is an important financing decision that a manager should make (Ghimire, 2022). It involves the payment of profits to investors for capital invested.

The policies that companies use concerning dividend present an issue of concern in corporate finance (Bassman et.al, 2022). Dividend decision indicates the performance of companies and their future growth (Ali, 2022). Dividend can address the agency problem (Rozeff, 1982). Regular dividend payout can make a manager to source for external financing when more money is required. This affords shareholders and potential investors the opportunity to examine the performance of firms as well as the intentions of managers.

A firm will not be able to pay dividend without cash flow available even if it makes a lot of profits and any attempt to borrow to pay dividends may change the capital structure and cost of capital of companies (Emeka et al, 2022). When a firm pays dividend, the proportion of capital that should have been invested in viable investment will be reduced.

Although several studies were conducted on the impact of dividend policy decisions on the financial performance of listed firms in developing countries, their findings were inconsistent. The findings of the studies conducted by Bassman et al. (2022), Chhatwal and Mahalwala (2022) showed that dividend decisions had a positive significant impact on financial performance of listed firms while the results of the studies carryout by Nguyen et al. (2021), Maqbool and Sheikh (2022). Maria and Hubs (2021) revealed a positive and significant impact of dividend decisions on financial performance of listed firms. In addition, the study conducted by Maria and Hubs (2021) showed a positive insignificant impact of dividend decision on financial performance of listed firms.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

Determinants of Dividend Policy Decisions

(i) Types of Industries: A more consistent dividend policy might be formulated by industries that are characterized with stability of earnings than those industries that their flow of income is not even.

(ii) Need for Additional Capital: How frequently the management plough back the profits into the companies has a considerable effect on the dividend policy. The management might conserve the profits in order to meet the increased demands of working capital as well as future expansion.
(iii) Age of the firm: The firm that is set up newly will need most of its earnings for either expansion or for plant improvement whereas a firm that has been in operation for a long time which has achieved a longer earning experience can formulate a simple and understandable dividend policy and might be liberal in the sharing of dividends.

Types of Dividends
(i) Cash dividend: This is the payment of cash that management of firms make out of earnings to their investor. The management usually but not always on regular basis pay cash dividends to their investors. The payment of this type of dividend can be monthly, quarterly or yearly. Cash dividend serves as an incentive to shareholders to own shares in firms.
(ii) Bonus Issues: These are share dividends that a firm allocates to reward its investors. The management issues bonus shares out of the reserves of the firm.

Types of Dividend Policy
(i) Stable Dividend Policy: Under this policy the percentage of profits that the management will pay to investors as dividends is fixed which means that irrespective of the amount of returns that are earned for the financial period the management will pay the same percentage of profits as dividends to the investors.
(ii) Constant dividend per share policy: This is the type of dividend policy in which firms distribute a fixed of amount cash dividends to investors. It is more suitable to a firm that its earnings remain stable over a long period of time.

Empirical Literature Review
Bassman et al. (2022) examined the impact of dividend policy on financial performance of listed firms in Ghana from 2015-2019. The technique of data analysis used was dynamic general method of moment estimation and the secondary data was obtained from the Ghana Stock Exchange. The sample of the study comprised 11 financial firms and 18 non- financial firms. The results of the study showed that dividend decision had a positive significant impact on the financial performance of listed firms in Ghana.
Chhatwal and Mahalwala (2022) examined the impact of dividend decision on firm performance of listed companies in India from 2013-2021. The sample of the study was 50 NIFTY companies and the source of data was secondary. Multiple regression technique was used to analyze the data. The findings revealed that dividend decision had a positive significant impact on firm performance of listed firms in India.
Maria and Hubs (2021) evaluated the impact of dividend policy on financial performance of listed manufacturing firms in Nigeria from 2015-2018. The secondary data was used for the purpose of the study. The technique of data analysis was multiple regression and the sample size of the study was 5 listed manufacturing firms in Nigeria. The findings showed that dividend policy had a positive insignificant impact on financial performance of listed manufacturing firms in Nigeria.
Nguyen et al. (2021) examined the impact of dividend payment on financial performance of listed firms in Vietnam from 2008-2019. The source of data was secondary while the sample size of the study was 450 firms. Panel data regression technique was used to analyze the data.
The findings of the study revealed that dividend payment had a negative significant impact on financial performance of listed firms in Vietnam.
Maqbool and Sheikh (2022) examined the effect of dividend decision on firm performance in Pakistan from 2013-2018. The sample size used in the study was 292 listed firms in Pakistan and the secondary data used in the study was extracted from the Pakistan Stock Exchange website. The technique of data analysis was multiple regression. The results showed that dividend decision had a negative significant effect on firm performance of listed firms in Pakistan.

2.2 Theoretical Framework
Dividend Irrelevance Theory
Miller and Modigliani (1961) propounded dividend irrelevance theory. The theory states that the payment of dividends does not make a firm’s potential profitability to increase or its stock price to increase. The theory offers a suggestion that shareholders are not better off owing shares of firms that give dividends than those firms that do not issue dividends.

The Bird in Hand Theory
Gordon and Lintner (1956) developed the bird in hand theory. The theory states that an investor prefers dividends that are earned from equity instead of capital gains because of the inherent uncertainty of the capital gains. This theory specifies that an investor chooses the certainty of being paid a dividend over the possibility of earning considerably more capital gains.

3.0 METHODOLOGY

This study reviewed past studies on the impact of dividend policy decisions on the financial performance of listed firm developing countries from 1961-2022. The previous studies on the impact of dividend policy decisions were the sources of data for this study. The nature of this study does not require population or sample size because it is not empirical in nature.

4.0 DISCUSSION OF THE REVIEWED STUDIES

The researchers had reviewed many previous studies conducted on the impact of dividend decisions on the financial performance of listed firms both in developing countries; however, their findings were inconsistent. While the studies carried out by Bassman et al. (2022), Chhatwal and Mahalwala (2022) showed that dividend decisions had a positive correlation with financial performance, the results of the studies conducted by Nguyen et al. (2021), Maqbool and Sheikh (2022) revealed that dividend decisions had a negative significant impact on financial performance. Regarding the study conducted by Maria and Hubs (2021), the findings showed a positive and insignificant impact of dividend decisions on financial performance of listed firms.

Dividend decisions are the decisions made by the management of a company concerning how much of the excess profits on the investments of investors should be distributed to them as a reward for investing their capitals. In the course of reviewing the previous studies on the impact of dividend decisions on the financial performance, the researchers noticed that investors had different perceptions about dividends. While some investors preferred dividends to capital gains, others were indifferent to either dividends or capital gains.

CONCLUSIONS

Since the empirical findings of the several previous studies reviewed by the researchers on the impact of dividend decisions showed that dividend decisions had a positive significant impact on the financial performance of listed firms in developing countries, the study concludes that dividend decisions have a positive correlation with the financial performance of listed firms in developing countries.

RECOMMENDATIONS

In line with the findings of the past studies reviewed on the impact of dividend decisions on the financial performance of listed firms in developing countries, the study recommends that:

(i) The management of listed firms in developing countries should continue to pay dividends to their investors on regular basis at a reasonable amount whenever they make reasonable profits in order to retain the existing investors and at the same time attract new ones and by so doing the share price of their firms will appreciate in value.

(ii) The management of listed firms in developing countries should not declare dividends to their investors when there are no excess profits in order to avoid paying dividends out of capitals. This is because when the management pay dividends out of capitals, the capitals of their firms will diminish and the diminishing of their capitals could make them to miss good opportunities for good investments that would have yielded good returns for investors.

(iii) The management of listed firms in developing countries should run away from taking loans from money lenders to pay dividend to investors because the loans taken for the distribution of dividends do not generate returns for the firms and instead the management pay interest on the loans. The payment of interest on the loans that do not bring in profits to the firms is a loss to the firms; it adds no value to the firms. In this case the management could also miss good opportunities for good investment that would have generated handsome profits for investors because the capitals that would have been used for viable investment had been used for the servicing of loans.

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