DIVIDEND POLICY AND PERFORMANCE OF PETROLEUM MARKETING COMPANIES IN NIGERIA

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Abstract

The study aimed at examining the effect of dividend policy on the performance of Petroleum Marketing Entities in Nigeria. The study adopts quantitative data technique using longitudinal data or panel data type constructed from the annual reports of the selected firms for the study. With a sample size of nine (9) Listed Petroleum Marketing companies, the hypotheses were tested using ordinary least square with the aid of Statistical Package of Social Sciences (SPSS) version 20. The findings indicated that Earnings per Share positively and significantly affect Return on assets; Dividend Payout Ratio indicates inverse relationship with return on asset. Also Earnings per Share positively and significantly affect Return on equity and Dividend Payout Ratio did not significantly impact on return on equity, it indicates negative showing an inverse relationship with return on equity. Based on the findings, this study concludes that for petroleum marketing companies in Nigeria to achieve their desired performance, they should improve on their dividend policy. In view of the foregoing, it was recommended that to increase internally generated fund to finance viable investment projects; which will in turn increase shareholders' wealth, petroleum marketing companies in Nigeria should strategically reduce the dividend payout ratio and increase retained earnings. Secondly, petroleum marketing companies should maintain a reduced and consistent dividend payout policy on a yearly basis instead of stopping to declare dividend for some years in order to increase internal finance, market valuation and in the long run maximizes the shareholder wealth. Finally, petroleum marketing companies in Nigeria should pay dividends in order to reduce agency cost and enhance their performance.

Key words: Dividend Policy, Performance of Petroleum Marketing Companies

Introduction

The concept of dividend policy has attracted great interest over the past decade. This is because dividend policy remains one of the most important financial policies not only from the

view point of the company, but also from that of the shareholders, the consumers, employees, regulatory bodies and the government (Velnampy, et al, 2014 & Uwuigbe, et al, 2012).

To the company, enhancing shareholders wealth and profit making are among the major objectives, and shareholder's wealth is mainly influenced by growth in sales, improvement in profit margin, capital investment decisions and capital structure decisions (Pandey, 2005, Azhagaiah & Priya, 2008 in Murekefu & Ouma, 2012). For this objective to be achieved, dividend policy should therefore serve as a veritable tool to set out the guidelines a company uses to decide how much of its earnings it will pay out to shareholders as dividend and how much it will retain to strengthen the financial position and investment capacity of the company. A firm performance in this context can be viewed as how well a firm enhances its shareholder's wealth and the capability of a firm to generate earnings from the capital invested by shareholders to the extent that income exceeds operating expenditure. Maximization of shareholders wealth, which is, increasing the market value of the ordinary share price of a company, is the major objective of a company.

The patterns of corporate dividend policies not only vary over time but also across countries, especially between developed, developing and emerging capital markets (Mohammed, 2007). Studies indicated that dividend policies in emerging markets differed from those in developed markets. They reported that dividend payout ratios in developing countries were only about two thirds of that of developed countries, with low dividend yields for emerging markets (Glen et al, 1995 & Ramcharran, 2001). There has been emerging consensus that there is no single explanation of dividends. Despite the lack of consensus, management must choose the form of the dividend distribution, generally as cash dividends or as a share buyback. Various factors may be taken into consideration: where shareholders must pay tax on dividends, firms may elect to retain earnings or to perform a stock buyback, in both cases increasing the valve of shares outstanding. Alternatively, some companies will pay "dividends" from share rather than in cash. Financial theory suggests that the dividend policy should be based upon the type of company and what management determines is the best use of those dividend resources for the firm to its shareholders. However, as a general rule, shareholders of growth companies would prefer managers to have a share buyback program, whereas, shareholders of valve or secondary stock would prefer the management of these companies to payout surplus earnings in the form of cash dividends (Timmer, 2011 ; Fama & French 2001).

The concept of dividend policy therefore become crucial as it is one of the obligations that companies must fulfill to it investors and it is considered to be one of the most important financial decisions that corporate managers encounter (Murekefu & Ouma, s2012 Baker & Powell, 1999).

Statement of the Problem

In Nigeria, the relationship between dividend policy and firm performance is still a conflicting issue. This conflicting issue manifested in Nigeria following the crash of the Nigerian Stock Exchange (NSE) Market in 2008, when it was difficult for managers to make decision based on their dividend payout policy. This difficulty was due to the fact that the confidence of investors in the capital market deteriorated as a result of the crash, which by implication deterred the ability of mangers to relate the success or market value of the organization to their dividend payout ratio (Chinenye, 2009 in Ijaiya et al 2013).

Furthermore, the results from studies conducted so far revealed lack of consensus in their findings (Ijaiya et al 2013; Uwuigbe, Jafaru & Ajayi, 2012). This could be influenced by government fiscal policies which tend to put some restrictions on the amount of dividend a company may pay. This invariably may have forced part of the realized profits to be ploughed back (Uwuigbe, Jafaru & Ajayi, 2012) and this was further strengthened by section 379 (2) of the Companies and Allied Matter Act 1990, which provide that the general meeting shall have power to decrease the amount recommended.

However, Petroleum Marketing Companies have been neglected. Presently, ten (10) Petroleum Marketing Companies are listed in NSE and little or no study has been conducted to the best of our knowledge to examine the impact of dividend policy on the performance of Petroleum Marketing Companies. The importance of Petroleum Marketing Companies cannot be overemphasized considering their place in the economic development and growth of Nigeria. As such, the contradictory and conflicting response to the question on the relevance of dividend policy on firm's performance informed the need for this study. The study aims at examining the possible effect that firm's dividend policy might have on the shareholder's wealth and the resulting impact it could have on the financial performance of Petroleum Marketing Companies in Nigeria.

Aim and Objectives of the Study

The study aims at examining the possible effect that firm's dividend policy might have on the financial performance of Petroleum Marketing Companies in Nigeria.

The specific objectives are;

1. To examine the effect of dividend payout ratio on return on asset of Petroleum Marketing Companies in Nigeria.
2. To investigate relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria.
3. To find out the impact of earnings per share on return on asset of Petroleum Marketing Companies in Nigeria.
4. To ascertain the influence of earnings per share on return on equity of Petroleum Marketing Companies in Nigeria.

Research Questions

The following questions were addressed in this study:

1. To what extend does dividend payout ratio affect return on asset of Petroleum Marketing Companies in Nigeria?
2. Is there any relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria?
3. To what extent does earning per share impact on return on asset of Petroleum Marketing Companies in Nigeria?
4. To what extent does earning per share influence return on equity of Petroleum Marketing Companies in Nigeria?

Hypotheses

Ho_1: dividend payout ratio does not significantly affect return on asset of Petroleum Marketing Companies in Nigeria.

Ho_2: there is significant relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria.
Ho_3: earnings per share do not significantly impact on return on asset of Petroleum Marketing Companies in Nigeria.
Ho_4: earning per share does not significantly influence return on equity of Petroleum Marketing Companies in Nigeria.

Literature Review

Theoretical Framework

The following theories underpinned this study:

Bird-In-Hand Theory

The bird-in-hand argument suggests that investors need to realize wealth in order to consume and therefore have a preference for cash dividends over capital gains. This argument was first formally put forth by Gordon (1959) and Lintner (1962) but was theoretically contested by Miller and Modigliani (1961). Miller and Modigliani's seminal paper shows that capital gains and dividends substitute for each other. Also, investors could produce their "home-made dividends" by selling stock if they chose to do so.

The essence of this theory is not stockholders are risk averse and prefer current dividends due to their lower level of risk as compared to future dividends. Dividend payments reduce investor uncertainty and thereby increase stock value. This theory is based on the logic that ' what is available at present is preferable to what may be available in the future'- 'a birth in hand view'. Investors would prefer to have a sure dividend now rather than a promised dividend in the future (even if the promised dividend is larger). Hence dividend policy is relevant and does affect the share price of a firm. (Itzhak, 2010).

Self-Control

Thaler and Shefrin (1981) and Shefrin and Statman (1984) propose that investors favor dividends as a self-control mechanism. Without dividends, investors would be tempted to sell stocks and use the proceeds for consumption, and they might sell more stock than they originally intended. In this explanation, dividends help investors to pace consumption and avoid later regret from their own overconsumption. Black (1990) subscribes to the view that investors like dividends because they like the idea of readily available wealth that spares them from consuming out of their capital.

The Residual Theory of Dividend Policy

The residual theory of dividend policy holds that the firm will only pay dividend from residual earnings, that is dividends should be paid only if funds remain after the optimum level of capital expenditures is incurred i.e. all suitable investment opportunities have been financed. With a residual dividend policy, the primary focus of the firm is on investments and hence dividend policy is a passive decision variable. The value of a firm is a direct function of its investment decisions thus making dividend policy irrelevant.

The Tax Differential Theory

The theory was propounded by Graham and Dodd. This theory simply concludes that since dividends are taxed at higher rates than capital gains, investors require higher rates of

return as dividend yields increase. This theory suggests that a low dividend payout ratio will maximize firm value.

Conceptual Frameworks
Dividend policy

Overview of Dividend and Dividend Policy

According to the Institute of Chartered Accountants of India, dividend is "A distribution to shareholders out of profits or reserves available for this purpose."

The term dividend refers to that portion of profit (after tax) which is distributed among the owners / shareholders of the firm. It is the return that a shareholder gets from the company, out of its profits, on his shareholdings. In other words, dividend is that part of the net earnings of a corporation that is distributed to its stockholders. It is a payment made to the equity shareholders for their investment in the company.

As per the section 2(22) of the Income Tax Act, 1961, dividend is defined as "any distribution of accumulated profits whether capitalized or not, if such distribution entails a release of assets or part thereof". Dividend is a reward to equity shareholders for their investment in the company. It is a basic right of equity shareholders to get dividend from the earnings of a company. Their share should be distributed among the members within the limit of an act and with rational behavior of directors. (Rustagi, 2001 & Maheshwari, 1999).

Dividend policy determines the ultimate distribution of the firm's earnings between retention (that is reinvestment) and cash dividend payments of shareholders (Moyer, 2001).

According to Ronald et al (2000) dividend policy means the practice that management follows in making dividend payout decisions, or in other words, the size and pattern of cash distributions over the time to shareholders." In other words, dividend policy is the firm's plan of action to be followed when dividend decisions are made. It is the decision about how much of earnings to pay out as dividends versus retaining and reinvesting earnings in the firm. Dividend policy means policy or guideline followed by the management in declaring of dividend. A dividend policy decides proportion of dividend and retains earnings. Retained earnings are an important source of internal finance for long term growth of the company while dividend reduces the available cash funds of company. As long as the firm has investment project whose returns exceed its cost of capital, it will use retained earnings to finance these projects (Janis & Vanhorn 1975).

There is a reciprocal relationship between retained earnings and dividend. that is, the larger the retained earnings, lesser the dividend and smaller the retained earnings, larger the dividend.

Walter (1963) says "Choice of dividend policy almost affects the value of the enterprise."

Dividend policy must be evaluated in light of the objective of the firm namely, to choose a policy that will maximize the value of the firm to its shareholders. Financial Management and Policy.

As we know in corporation, owners are shareholders but management is done through Board of directors. It is the Board of Directors to decide whether to pay dividend or retain earnings for future projects. It is a matter of conflict between shareholders and directors. Shareholders expect a quick return on their capital. On the other hand, directors have to consider a number of factors in determining divided policy.

Investors must keep an eye on the company's dividend policy for most companies regular boosts in the face of irregular earnings can be a warning signal. So can the refusal of Management to lower dividends when earning fall or capital requirement rise. Companies with high dividend and rising debt may be borrowing money to pay shareholders. For investors who are seeking stock that will advance on their performance and earning and earnings per share, lower dividend may mean high returns (Adopted from the Quality of earnings - Thornton Glove 1987).

The dividend policy of a company reflects how prudent its financial management is. The future prospects, expansion, diversification mergers are effected by dividing policies and for a healthy and buoyant capital market, both dividends and retained earnings are important factors.

Most of the company follows some kind of dividend policy. The usual policy of a company is to retain a position of net earnings and distribute the

Types of Dividends

Classifications of dividends are based on the form in which they are paid. Following are the different types of dividends: Cash dividend. Bonus Shares referred to as stock dividend in USA, Property dividend interim dividend, annual dividend; Special- dividend, extra dividend etc; Regular Cash dividend; Scrip dividend' Liquidating dividend; Property dividend

1. Cash dividend:

Companies more often than not pay dividends in cash. A Company should have enough cash in its bank account when cash dividends are declared. If it does not have enough bank balance, arrangement should be made to borrow funds. When the Company follows a stable dividend policy, it should prepare a cash budget for the coming period to indicate the necessary funds, which would be needed to meet the regular dividend payments of the company. It is relatively difficult to make cash planning in anticipation of dividend needs when an unstable policy is followed. The cash account and the reserve account of a company will be reduced when the cash dividend is paid. Thus, both the total assets and net worth of the company are reduced when the cash dividend is distributed. The market price of the share drops in most cases by the amount of the cash dividend distributed.

2. Bonus Shares: (OR Stock -dividend in USA)

Bonus share is the distribution of shares free of cost to the existing shareholders, In India, bonus shares are issued in addition to the cash dividend and not in lieu of cash dividend. Hence, Companies in India may supplement cash dividend by bonus issues. Issuing bonus shares increases the number of outstanding shares of the company. The bonus shares are distributed proportionately to the existing shareholder. Hence there is no dilution of ownership.

The declaration of the bonus shares will increase the paid-up Share Capital and reduce the reserves and surplus retained earnings) of the company. The total net-worth (paid up capital plus reserves and surplus) is not affected by the bonus issue. Infect, a bonus issue represents a recapitalization of reserves and surplus. It is merely an accounting transfer from reserves and surplus to paid up capital.

The following are advantages of the bonus shares to shareholders:

i. Tax benefit: One of the advantages to shareholders in the receipt of bonus shares is the beneficial treatment of such dividends with regard to income taxes.
ii. Indication of higher future profits: The issue of bonus shares is normally interpreted by shareholders as an indication of higher profitability.
iii. Future dividends may increase: if a Company has been following a policy of paying a fixed amount of dividend per share and continues it after the declaration of the bonus issue, the total cash dividend of the shareholders will increase in the future.
iv. Psychological Value: The declaration of the bonus issue may have a favorable psychological effect on shareholders. The receipt of bonus shares gives them a chance sell the shares to make capital gains without impairing their principal investment.

3. Special dividends: In special circumstances Company declares Special dividends. Generally company declares special dividend in case of abnormal profits.

4 Extra- dividend: An extra dividend is an additional non-recurring dividend paid over and above the regular dividends by the company. Companies with fluctuating earnings payout additional dividends whenever their earnings warrant such payment and there is available cash, rather than fighting to keep a higher quantity of regular dividends.

5 Annual dividends:
When annually company declares and pay dividend is defined as annual dividend.

6 Interim dividends: During the year any time company declares a dividend, it is defined as Interim dividend.

7 Regular cash dividends: Regular cash dividends are those the company exacts to maintain every year. They may be paid quarterly, monthly, semiannually or annually.

8 Scrip dividends: These are promises to make the payment of dividend at a future date: Instead of paying the dividend now, the firm elects to pay it at some later date. The 'scrip' issued to stockholders is merely a special form of promissory note or notes payable.

9 Liquidating dividends: These dividends are those which reduce paid-in capital: It is a pro-rata distribution of cash or property to stockholders as part of the dissolution of a business.

10 Property dividends: These dividends are payable in assets of the corporation other than cash. For example, a firm may distribute samples of its own product or shares in another company it owns to its stockholders.

The Dividend Decision - Who Makes Dividend Decision?

The company's Board of Directors makes dividend decisions. They are faced with the decision to pay out dividends or to reinvest the cash into new projects (Lintner and John 1956).

The dividend policy decision is a trade-off between retaining earnings and paying out cash dividends. Dividend policies must always consider two basic objectives:

1. Maximizing shareholders' wealth
2. Providing sufficient financing for investment purposes

While determining a firm's dividend policy, management must find a balance between current income for stockholders (dividends) and future growth of the company (retained earnings).

According to Damodaran (2000), in applying a rational framework for dividend policy, a firm must consider the following two issues:

1. How much cash is available for paying dividends to equity investors, after meeting all the needs of debt payments, capital expenditures and working capital (i.e. Free Cash Flow to Equity - FCFE)
2. To what extent are good projects available to the firm (i.e. Return on equity - ROE > Required Return)

The potential combinations of FCFE and Project Quality and the generalizations of the dividend policy to be adapted in each situation are presented below: Significant Dates

Factors	FCFE> Dividends	FCFE<Dividends
ROE> Cost of Equity	Good Projects Cash flow surplus No Change	Good Projects Decrease Dividends Invest in Projects
ROE< Cost of Equity	Poor Projects Cash flow surplus Increase Dividends Reduce Investment	Poor Projects Cash flow Deficit Decrease Dividends Reduce Investment

Figure 3.1: Dividend Decision Matrix

N/B: Free Cash Flow to Equity - FCFE

The Dividend Pay-out Ratio and Return on Equity

The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company. The amount that is not paid out in dividends to stockholders is held by the company for growth. The amount that is kept by the company is called retained earnings.

Dividend payout ratio is the fraction of net income a firm pays to its stockholders in dividends:

$$\text{Dividend payout ratio} = \frac{\text{Dividend}}{\text{Net profit for the period}}$$

The part of the earnings not paid to investors is left for investment to provide for future earnings growth. Investors seeking high current income and limited capital growth prefer companies with high Dividend payout ratio. However investors seeking capital growth may prefer lower payout ratio because capital gains are taxed at a lower rate. High growth firms in early life generally have low or zero payout ratios. As they mature, they tend to return more of the earnings back to investors. Note that dividend payout ratio is calculated as DPS/EPS.

In corporate finance, the return on equity (ROE) is a measure of the profitability of a business in relation to the book value of shareholder equity, also known as *net assets* or *assets minus liabilities*. ROE is a measure of how well a company uses investments to generate earnings growth.

$$\text{ROE} = \frac{\text{Net income}}{\text{Shareholder Equity}} \times 100$$

ROE is equal to a fiscal year net income (after preferred stock dividends, before common stock dividends), divided by total equity (excluding preferred shares), expressed as a percentage.

ROE is especially used for comparing the performance of companies in the same industry. As with return on capital, a ROE is a measure of management's ability to generate income from the equity available to it. ROEs of 15-20% are generally considered good.[2]

ROEs are also a factor in stock valuation, in association with other financial ratios. In general, stock prices are influenced by earnings per share (EPS), so that stock of a company with a 20% ROE will generally cost twice as much as one with a 10% ROE. (Woolridge, J. Randall & Gray, G, 2006)

ROE and sustainable growth

The benefit of low ROEs comes from reinvesting earnings to aid company growth. The benefit can also come as a dividend on common shares or as a combination of dividends and company reinvestment. ROE is less relevant if earnings are not reinvested (Richard Loth (2016)

The sustainable growth model shows that when firms pay dividends, earnings growth lowers. If the dividend payout is 20%, the growth expected will be only 80% of the ROE rate.

The growth rate will be lower if earnings are used to buy back shares. If the shares are bought at a multiple of book value (a factor of x times book value), the incremental earnings returns will be reduced by that same factor (ROE/x).

New investments may not be as profitable as the existing business. Ask "what is the company doing with its earnings?"

ROE is calculated from the company perspective, on the company as a whole. Since much financial manipulation is accomplished with new share issues and buyback, the investor may have a different recalculated value 'per share' (earnings per share/book value per share)

Profitability relates to how much money a firm can make after accounting for the various expenses and inputs required to generate those earnings. Ideally, little money is spent, few resources are used, and a lot of money is made. One very important profitability metric relates profits to equity, termed return on equity (ROE). Equity is the money that the owners of capital (i.e., the shareholders) have invested in the business—and a higher ROE means that more profits are being made relative to their cumulative investment in the firm.

The Dividend Discount Model (DDM)—The Finance Theory Link In the finance literature, return on equity is critically linked to dividend growth and intrinsic value of companies through the dividend discount model (DDM).[1] The DDM for stock valuation states: The Value of a stock = DPS (1) / (R-G) Where: • DPS (1) = Dividends per share expected to be received in one year • R = The required rate of return for the investment • G = Growth rate in dividends = ROE x earnings retention[2] (or 1 minus dividend payout ratio) The growth rate equals the return on equity times the reinvestment rate; simply stated, the growth of dividends is determined by what fraction of earnings is put back into the firm and how profitable those earnings are in their subsequent use. When earnings are put back into the firm in this way, they accumulate as part of the equity capital held by the shareholders. A high ROE over time indicates that this money is being used efficiently, generating more profits. Considering the aforementioned framework, we believe that it makes a compelling case for how a sustainable dividend growth rate is linked in finance theory to ROE.

Operational Conceptual Framework for Dividend Policy and Performance of Petroleum Marketing Companies

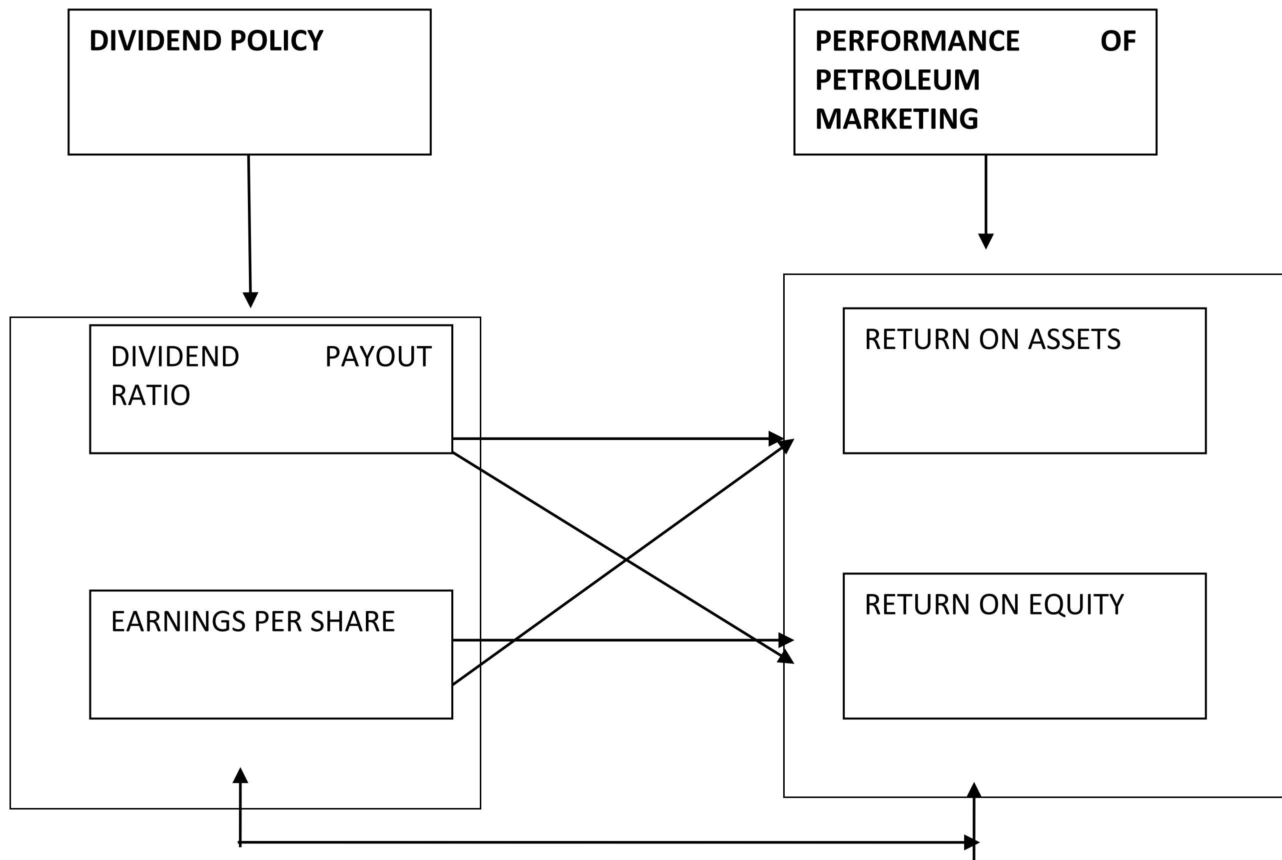

Fig. 2.1: the operational conceptual framework of the variables

Empirical Review

Abdul and Muhibudeen (2015) studied the Relationship Between Dividend Payout and Firms' Performance: Evaluation Of Dividend Policy Of Oando Plc. The study examined the relationship between dividend payout and profitability of Oando Plc. From 1999 to 2013.Secondary data were collected from the annual reports of the Oil Company purposively selected for the study. These data were analyzed to test hypothesis by using SPSS software through descriptive and inferential statistics such as Correlation analysis. Regression and analysis of variance were used to analyze the data. Based on the hypothesis, the study observed that that firm's performance has a significant impact on the dividend payout of Oando Plc. The dividend payout has a positive impact on profitability; hence the null hypothesis is rejected. This result is in tandem with the earlier findings of Ajanthan (2013) and (Priya & Nimalathasan, 2013). Also from the results of the study, it is apparent that Oando Plc has low dividend payout and that has contributed to its growth and expansion in Nigeria. However, this policy contradicted the findings of Arnott and Asness (2003) which revealed among other things that future earnings growth is associated with high rather than low dividend payout and that substantial reinvestment of retained earnings may not fuel faster future earnings growth. They in addition declared that low dividend payout would increase agency costs. In line with the

above findings and conclusion, it is therefore, recommended that managers should devote adequate time in designing a dividend policy that will enhance firm's performance and shareholder value. Again, the company should review its dividend policy in order to reduce agency cost and maximise the value of the company. However, the study consisted of only one firm and a period of 15 years (199-2013). This was insufficient. These can be improved by increasing number of firms and by taking larger time period.

Velnampy Nimalthasan and Kalaiarasi (2014) examined Dividend Policy and Firm Performance: Evidence from the Manufacturing Companies Listed on the Colombo Stock Exchange. - The main thrust of the study was to find out the relationship between dividend policy and firm performance of listed manufacturing companies in Sri Lanka. A set of listed manufacturing companies have been investigated using the data representing the periods of 2008 – 2012.Returns on equity and return on assets were used as the determinants of firm performance whereas dividend payout and earnings per share were used as the measures of dividend policy. The statistical tests conducted includes: descriptive statistics, correlation and regression analyses. To conclude, listed companies under the Colombo stock exchange (CSE) are practicing dividend policy system. The results of the study provide evidence that the dividend policy measures are not significantly correlated with earnings per share and dividend payout as dividend policy, return on equity and return on assets as firm performance measures. So that hypotheses are rejected. R2 Value of liquidity and corporate governance 5.7% and 7.9% of the observed variability in liquidity can be explained by the differences in both the independent variables namely earnings per share and dividend payout. Further dividend policy did not contribute to firm performance of earnings per share and dividend payout

Murekefu and Ouma (2012) studied The Relationship Between Dividend Payout And Firm Performance: A Study Of Listed Companies In Kenya. This research sought to establish the relationship between dividend payout and firm performance among listed firms in the Nairobi Securities Exchange. Regression analysis was carried out to establish the relationship between dividend payout and firm performance. The findings indicated that dividend payout was a major factor affecting firm performance. Their relationship was also strong and positive. This therefore showed that dividend policy was relevant. It can be concluded, based on the findings of this research that dividend policy is relevant and that managers should devote adequate time in designing a dividend policy that will enhance firm performance and therefore shareholder value.

Ijaiya et al (2013) researched on Dividend Policy and Financial Performance: A Survey of Selected Quoted Firms in Nigeria. This paper examines the relationship between dividend policies and financial performance of selected listed firms in Nigeria. Data were sourced through secondary means from the annual reports of the sampled quoted firms and was analyzed using panel data regression model. Two models were developed in an attempt to provide a theoretical explanation on the birds-in-hand dividend relevance theory and the Modigliani and Miller's (MM) dividend irrelevance theory. The result from the findings shows an insignificant relationship between dividend payout ratio and financial performance of the selected quoted firms in Nigeria from the first model, while the result from the second model shows a significant but inverse relationship between dividend payout ratio and earnings per share, implying that companies retained earnings as a means of increasing their earnings per share. Based on the findings, the study recommends that firms should maintain a reduced but

stable dividend payout in order to increase internal finance, market valuation and in the long run maximizes the shareholder wealth.

Samuel and Edward (2011) examined Dividend Policy and Bank Performance in Ghana. The main thrust of this study is to find out the relationship between dividend policy and performance of banks in Ghana. The study used panel data constructed from the financial statements of 16 commercial banks in Ghana for a period of 5 years, from 1999-2003. These financial statements were obtained from the Banking Supervision department of Bank of Ghana. STATA was used for the data analysis. From the results of the study, the average dividend paid by banks over the study period was 24.65%. Also, it is apparent that banks that pay dividend increase their performance. The results also reinforce earlier findings that leverage, size of a bank and bank growth enhance the performance of banks. The age factor presents mixed results. Generally, the result is in tandem with earlier studies that dividend policy has an effect on firm value.

Mula et al, (2016) examined the Impact of Dividend Policy on Firm Performance: An Empirical Evidence From Pakistan Stock Exchange. The basic objective of this study is to examine either the dividend policy makes an influence on the firm performance in Pakistan. Data which is used for research collected from the reports of firms which are listed from 2010-2015. OLS technique was used to check the regression analysis. Findings show that there is a positive relation between return on assets, dividend policy, and growth in sales. Mostly the results of the research make similarity with the previous research. Results show that dividend payout ratio and leverage have significant negative relation with the return on equity. The Basic purpose of study is to investigate how the dividend policy affects the performance of the firms which are listed in the Pakistan stock exchange.

Mohammed (2007) How Does Dividend Policy Affect Performance of the Firm on Ghana Stock Exchange? The study examines whether dividend policy influences firm performance in Ghana. The analyses are performed using data derived from the financial statements of listed firms on the GSE during the most recent eight-year period. Ordinary Least Squares model is used to estimate the regression equation. In order to operationalise 'dividend policy'; the study coded: '1' to represent the company has a policy to pay dividend; while '0' to represent the company has a policy not to pay dividends. The results show positive relationships between return on assets, dividend policy, and growth in sales. Surprisingly, study reveals that bigger firms on the GSE perform less with respect to return on assets. The results also reveal negative associations between return on assets and dividend payout ratio, and leverage. The results of the study generally support previous empirical studies. The main value of this study is the identification of how dividend policy affects performance of firms listed on the Ghana Stock exchange.

Charles, Joseph and Jane. (2014) examined the Effects of Dividend Policy on Firm's Financial Performance: Econometric Analysis of Listed Manufacturing Firms in Kenya. Dividend policy occupies a major role in the financial management of an organization and serves as a mechanism for control of a managerial opportunism. The objective of the study is to ascertaining the relationship between dividend policy and firm's profitability, Investment and Earning Per Shares. Data for the study were extracted from annual report and accounts of Nine (9) quoted manufacturing companies in Kenya. These data were subjected to regression analysis, using e-view software and the findings indicate that; there is a significant positive

relationship between dividend policies of organizations and firm's profitability, there is also a significant positive relationship between dividend policy and investments and there is a significant positive relationship between dividend policy and Earnings Per Share. It is recommended that Organizations should ensure that they have a good and robust dividend policy in place because it will enhance their profitability and attract investments to the organizations.

Uwuigbe, Jafaru and Ajayi (2012) researched on Dividend Policy And Firm Performance: A Study Of Listed Firms In Nigeria. This study basically investigates the relationship between the financial performance and dividend payout among listed firms' in Nigeria. It also looks at the relationship between ownership structures, size of firms and the dividend payouts. The annual reports for the period 2006-2010 were utilized as the main source of data collection for the 50 sampled firms. The regression analysis method was employed as a statistical technique for analyzing the data collected. We find that there is a significant positive association between the performance of firms and the dividend payout of the sampled firms in Nigeria. The study also revealed that ownership structure and firm's size has a significant impact of the dividend payout of firms too.

Priya and Nimalathasan (2013) studied Dividend Policy Ratios and Firm Performance: a case study of Selected Hotels & Restaurants in Sri Lanka. In this study, an attempt has been made to analyze the Dividend policy Ratios and Firm Performance during 2008 to 2012 (5 years) financial year of Selected Hotels & Restaurants in Sri Lanka. For the purpose of this study, the data was extracted from the annual reports of sample companies. Correlation and multiple regression analysis are used for analysis. The results revealed that dividend policy ratios has a great impact on all firm performance ratios except return on investment (ROI) and return on equity (ROE). Further EPS, P/E and PB are significantly correlated with ROA 5 percent level of significance. At the same time P/E is significantly correlated with ROE at 5 percent level of significance. Finally EPS and PB are significantly correlated with ROE at 1 percent level of significance.

Identification of Gap

Judging from the literature and the empirical reviewed above, it is clear that the petroleum marketing entities have been ignored exception of study by Abdul and Muhibudeen, (2015) who examined the Relationship Between Dividend Payout And Firms' Performance: Evaluation Of Dividend Policy Of Oando Plc. Presently 9 Petroleum marketing companies are listed in the Nigerian stock exchange and no study has been conducted to examine the impact of dividend policy on the performance of these firms especially in this period of economic recession and dwindling price oil in international market. This is the gap in literature that this study aimed at filling.

Materials and Methodology

Research design:

The study adopts quantitative data technique using longitudinal data or panel data type constructed from the annual reports of the selected firms for the study. Samuel and Edward (2011) and Oppong (2015) also used this method. Listed petroleum marketing companies are considered for the analysis focusing on the most recent ten year data obtained from their annual records. Panel data refers to multi-dimensional data frequently involving measurements

over time. It contains observations of multiple phenomena obtained over multiple time periods for the same firms (Fitzmaurice, Laird, & Ware, 2004, Diggle, et al 2002).

Population for the Study

The population for the study comprises quoted companies listed in the Nigerian Stock Exchange (NSE).

Sample and Sampling Techniques

The sample size is made up of nine (9) Listed Petroleum Marketing companies, in which their data are available and currently listed in the on Nigerian Stock Exchange (NSE) as November, 2016. As such, the census approach will be use as it is unnecessary for sampling technique to be used in determining the sample size. This method is consistent with the study conducted by Umobong and Akani, (2015).

Sources Of Data/ Instrumentation

Data used in this study are collected from secondary sources. Relevant data will be extracted from the corporate financial statements of the studied firms, Nigerian Stock Exchange (NSE) and the websites of the companies.

Methods of Data Analysis

Descriptive Statistics in the form of tables will be used to present the studied variables

Pearson correlation analysis was carried out to find out the relationship between determinants of dividend policy and the measures of firm performance.

Ordinary Least Square; To test the hypotheses, the researcher adopted the Ordinary Least Square as the statistical tool. The analyses were conducted using Statistical Package for Social Science (SPSS) version 20

Model Specification:

Given the theoretical underpinning and the empirical review earlier made in this study. I construct and specify dividend policy – firm's performance model patterns after multivariate regression as follows;

$Y = f(x_1, x_2)$

Where Y = dependent variables

F = coefficient of the independent variables

$x_1, x_2 =$ the independent variables.

Therefore;

Model 1

ROA = f(DPR, EPS)

$ROA = \alpha_0 + \alpha_1 DPR + \alpha_2 EPS + e$ …………………………………… 1

Model 2

ROE = f(DPR, EPS)

$ROE = \alpha_0 + \alpha_1 DPR + \alpha_2 EPS + e$ …………………… ……………11

Where;

α_0 = constant

α_1, α_2 = coefficient of the independent variables

ROA = Return On Assets

ROE = Return On Equity
DPR = Dividend Payout Ratio
EPS = Earnings Per Share
e =error term

Variables and Their Measurement

1. for the dependent variables;

$$\text{Return On Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Return On Equity (ROE)

This measure the profitability of a business in relation to the book value of shareholder equity

$$\text{Return On Equity (ROE)} = \frac{\text{Net Profit} \times 100}{\text{Shareholders' funds}}$$

2. for the independent variables

Dividend Payout Ratio (DPR)

This is the amount of dividends paid to stockholders relative to the amount of total net income of a company.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Net profit for the period}}$$

Earnings Per Share (EPS)

This is the amount of net profit for the period that is attributable to each ordinary share which is outstanding during all or part of the period;

$$\text{EPS} = \frac{\text{profit after tax} - \text{preference share dividend}}{\text{Numbers of ordinary shares issued}}$$

Results and Discussions

Data Presentation

The data obtained from the Nigeria stock exchange for Earning per share, return on asset, return on equity and dividend payout ratio from 2010 – 2015 are presented below.

Table 1

EARNING PER SHARES OF 10 PETROLEUM FIRMS 2010 - 2015

S/N	ENTITIES	2010	2011	2012	2013	2014	2015
1	OANDO PLC	8.29	11.32	8.29	1.26	0.23	20.76
2	CONOIL PLC	4.02	4.32	1.03	4.42	1.20	1.33
3	FORTE OIL PLC	2.54	14.46	0.61	4.25	2.42	4.39

4	MRS OIL PLC	0.00	4.08	0.81	2.50	2.94	3.68
5	TOTAL NIG. PLC	16.01	11.23	13.76	15.71	15.89	16.24
6	MOBIL NIG. PLC	12.93	12.14	8.56	9.65	17.73	13.51
7	CAPITAL OIL PLC	0.11	0.02	0.01	0.09	0.16	0.28
8	JAPAUL MARITIME	0.13	0.14	0.92	0.10	0.38	0.46
9	SEPLAT OIL	0.00	0.27	0.13	1.37	0.53	0.24

Source: computed from Firms Annual Report & Accounts

Earnings per share are calculated by dividing the company's profit attributable to ordinary equity holders by the number of ordinary shares held.

$$EPS = \frac{\text{profit attributable to ordinary equity holders}}{\text{Number of ordinary shares held.}}$$

Table 2

RETURNS ON ASSETS OF 10 PETROLEUM FIRMS 2010 - 2015

S/N	ENTITIES	2010	2011	2012	2013	2014	2015
1	OANDO PLC	3.45	0.87	1.93	0.89	(36.84)	(23.03)
2	CONOIL PLC	8.27	4.85	0.86	2.98	1.17	0.43
3	FORTE OIL PLC	(11.11)	(7.45)	(8.50)	7.02	2.82	7.29
4	MRS OIL PLC	0.00	0.85	0.37	0.97	1.29	1.40
5	TOTAL NIG. PLC	9.96	6.49	3.84	3.29	4.63	0.24
6	MOBIL NIG. PLC	16.27	12.63	4.62	8.55	12.98	9.01
7	CAPITAL OIL PLC	0.00	2.38	1.34	(25.56)	(7.72)	(3.76)

8	JAPAUL MARITIME	0.00	7.79	7.85	0.076	(7.08)	(19.90)
9	SEPLAT OIL	0.00	7.96	12.12	42.62	11.21	2.38

Source: computed from Firms Annual Report & Accounts

Return on asset is calculated by dividing the net profit by total assets

$$\text{Return On Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Table 3

RETURNS ON EQUITY OF 10 PETROLEUM FIRMS 2010 - 2015

S/N	ENTITIES	2010	2011	2012	2013	2014	2015
1	OANDO PLC	11.99	2.61	7.62	2.22	(362)	(144.37)
2	CONOIL PLC	18.28	17.97	4.57	12.24	6.29	2.18
3	FORTE OIL PLC	(11.61)	(7.65)	(8.64)	37.14	2.18	36.82
4	MRS OIL PLC	0.00	3.24	1.08	3.23	3.69	4.46
5	TOTAL NIG. PLC	60.89	38.03	25.87	17.57	7.68	1.58
6	MOBIL NIG. PLC	65.20	94.83	37.29	36.50	47.18	31.72
7	CAPITAL OIL PLC	0.00	2.90	1.79	(50.04)	(15.95)	(8.13)
8	JAPAUL MARITIME	0.00	3.92	4.64	0.17	(19.25)	(98.83)
9	SEPLAT OIL	0.00	50.04	59.99	75.16	18.99	4.62

Source: computed from Firms Annual Report & Accounts

Return on equity measures the profitability of a business in relation to the book value of shareholder equity

$$\text{Return On Equity (ROE)} = \frac{\text{Net Profit} \times 100}{\text{Shareholders' funds}}$$

Table 4

DIVIDEND PAYOUT RATIO OF 10 PETROLEUM FIRMS 2010 - 2015

S/N	ENTITIES	2010	2011	2012	2013	2014	2015
1	OANDO PLC	0.24	3.95	0.15	2.18	0.089	0.00
2	CONOIL PLC	0.37	0.46	2.43	0.00	2.74	0.00
3	FORTE OIL PLC	0.00	0.52	1.55	0.00	1.63	0.57
4	MRS OIL PLC	0.00	0.00	0.99	0.11	0.26	0.22
5	TOTAL NIG. PLC	12.96	14.51	16.26	18.21	0.69	0.00

6	MOBIL NIG. PLC	0.74	0.71	0.90	0.68	0.37	0.49
7	CAPITAL OIL PLC	0.00	0.00	0.00	50.04	15.95	0.00
8	JAPAUL MARITIME	0.00	0.00	0.14	0.00	0.00	0.00
9	SEPLAT OIL	0.00	0.24	0.18	0.00	0.27	1.09

Source: computed from Firms Annual Report & Accounts

Dividend payout ratio is the amount of dividends paid to shareholders relative to the amount of total net income of a company.

$$\text{Dividend payout ratio} = \frac{\text{Dividend per share}}{\text{Net profit for the period}}$$

Data Analysis

Table 5

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Dividend Payout Ratio	54	.00	50.04	2.8313	7.94502	4.509	.325	23.954	.639
Earning Per Share	54	.00	20.76	5.1454	6.06312	1.014	.325	-.357	.639
Return On Asset	54	-36.84	42.62	1.5740	11.20879	-.371	.325	5.274	.639
Return On Equity	54	-362.00	94.83	2.5537	62.37748	-4.083	.325	22.500	.639
Valid N (listwise)	54								

Source: SPSS version 20

Table 4.5 presents summary of descriptive statistics of 4 variables of the entire panel of 9 Petroleum Marketing Entities for 6years (2010-2015). The average Dividend Payout Ratio is 2.83% with standard deviation of approximately 7.95%. This means that the Dividend Payout Ratio can deviate from mean to both sides by 7.95%. The highest Dividend Payout Ratio recorded is 50.04% and the minimum Dividend Payout Ratio recorded is 0.00%. In the same vein, the average Earning Per Share is N5.15 with a maximum Earning Per Share of N20.76 and a minimum N0.00. also, the average Return On Asset is N1.57, with a maximum Return On Asset of N 42.62 and a minimum of N (36.84) and finally, the average Return On Equity is N2.55, with a maximum Return On Equity N94.83 and a minimum of N(362.00).

Table 4.6

Correlations

		Dividend Payout Ratio	Earning Per Share	Return On Asset	Return On Equity
Dividend Payout Ratio	Pearson Correlation	1	.092	-.262	-.030
	Sig. (2-tailed)		.507	.056	.831

	N	54	54	54	54
Earning Per Share	Pearson Correlation	.092	1	.127	.152
	Sig. (2-tailed)	.507		.361	.273
	N	54	54	54	54
Return On Asset	Pearson Correlation	-.262	.127	1	.822**
	Sig. (2-tailed)	.056	.361		.000
	N	54	54	54	54
Return On Equity	Pearson Correlation	-.030	.152	.822**	1
	Sig. (2-tailed)	.831	.273	.000	
	N	54	54	54	54

**. Correlation is significant at the 0.01 level (2-tailed).

Table 4.6 shows the result of the correlation among the criterion variables and the predictor variables. The results reveal a moderate downhill correlation (-.262) between dividend payout ratio and return on asset, r = (-.030) between dividend payout ratio and return on equity. However, the result of the correlation r= (.092) between dividend payout ratio and earnings per share, r = (.127) between earnings per share and return on asset, r = (.157) between earnings per share and return on equity, indicates a weak uphill relationship. Return on asset strongly correlate (r = .822) with return on equity. The results of correlation matrix depicts that there is no problem of auto correlation among the variables. Finally, the result above shows that the predictor variables (dividend payout ratio and earnings per share) are not statistically significant (sig. = .507, .056, .831, .361, and .273) with the criterion variables (return on asset and return on equity)

The Result of Regression Analysis Using Ordinary Least Square

Model 1 for hypotheses 1 & 3 - $ROA = \alpha_0 + \alpha_1 DPR + \alpha_2 EPS + e$

Ho_1: Dividend payout ratio does not significantly affect return on asset of Petroleum Marketing Companies in Nigeria.

Ho_3: earnings per share do not significantly impact on return on asset of Petroleum Marketing Companies in Nigeria.

Table 4.7

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.227	1.996		.615	.541
	Dividend Payout Ratio	-.389	.189	-.276	-2.059	.045
	Earning Per Share	.282	.248	.152	1.137	.261

a. Dependent Variable: Return On Asset

Table 4.7 indicates that Earning Per Share (beta = .152, t= 1.137, sig = .261), positively and significantly affect Return on assets. Therefore the null hypothesis, which state thus, "Ho3: earnings per share do not significantly impact on return on asset of Petroleum Marketing Companies in Nigeria." is rejected and the alternate hypothesis accepted. However, Dividend Payout Ratio indicates (beta = -.276, t = -2.059, sig = .045) negative showing an inverse relationship with return on asset. The null hypothesis (Ho1: dividend payout ratio does not significantly affect return on asset of Petroleum Marketing Companies in Nigeria) is accepted.

Model 2 for hypotheses 2 & 4 - ROE = $\alpha_0 + \alpha_1$ DPR + α_2 EPS + e

Ho_2: there is significant relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria.

Ho_4: earning per share does not significantly influence return on equity of Petroleum Marketing Companies in Nigeria.

Table 4.8

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.722	11.506		-.410	.683
	Dividend Payout Ratio	-.346	1.090	-.044	-.318	.752
	Earning Per Share	1.605	1.429	.156	1.123	.267

a. Dependent Variable: Return On Equity

Table 4.8 indicates that Earning Per Share (beta = .156, t= 1.123, sig = .267), positively and significantly affect Return on equity. Therefore the null hypothesis, which state thus, "Ho_4: earning per share does not significantly influence return on equity of Petroleum Marketing Companies in Nigeria." is rejected and the alternate hypothesis accepted. However, Dividend Payout Ratio indicates (beta = -.044, t = --.318, sig = .752) negative showing an inverse relationship with return on equity. The null hypothesis (Ho_2: there is significant relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria.) is accepted.

Discussions of Findings

The findings from the analyses above revealed the followings;

1. Earnings Per Share positively and significantly affect Return on assets
2. Dividend Payout Ratio indicates negative showing an inverse relationship with return on asset.
3. Earnings Per Share positively and significantly affect Return on equity
4. Dividend Payout Ratio did not significantly impact on return on equity, it indicates negative showing an inverse relationship with return on equity.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The aim of this study was to examine the effect of dividend policy on the performance of Petroleum Marketing Entities in Nigeria. The findings of this study are summarized in the table below

Table 5.1 SUMMARY OF FINDINGS

S/N	HYPOTHESES	STATISTICAL TOOL (or Model)	RESULTS	DECISIONS	CONCLUSION
1	Ho_1: dividend payout ratio does not significantly affect return on asset of Petroleum Marketing Companies in Nigeria	Ordinary Least Square	beta = -.276, t = -2.059, sig = .045	Accepted	Insignificant
2	Ho_2: there is significant relationship between dividend payout ratio and return on equity of Petroleum Marketing Companies in Nigeria.	Ordinary Least Square	beta = -.044, t = -.318, sig = .752)	Accepted	Insignificant
3	Ho_3: earnings per share do not significantly impact on return on asset of Petroleum Marketing Companies in Nigeria	Ordinary Least Square	beta = .152, t= 1.137, sig = .261	Rejected	Significant
4	Ho_4: earning per share does not significantly influence return on equity of Petroleum Marketing Companies in Nigeria.	Ordinary Least Square	beta = .156, t= 1.123, sig = .267	Reject	Significant

Source: researcher's compilation, 2016

Conclusion

Based on the findings of this study, it is clear that petroleum marketing companies in Nigeria uphold the management decision of dividend policy; however Dividend Payout Ratio did not significantly impact on return on equity and return on asset. This result is in tandem with the earlier findings of Velnampy, Nimalthasan and Kalaiarasi (2014) and Ijaiya et al (2013). .Also from the results of the study, it is apparent that petroleum marketing companies have low dividend payout, in most cases dividend will not even be declared from profit made in some of companies and this negatively affected the return on asset and return on equity and that has contributed to its growth and expansion in Nigeria. Earnings per share was consistent thereby positively influencing returns on asset and returns on equity.

Recommendations

Based on the findings and conclusion, it was recommended that to increase internally generated fund to finance viable investment projects; which will in turn increase shareholders' wealth, petroleum marketing companies in Nigeria should strategically reduce the dividend payout ratio and increase retained earnings.

Secondly, petroleum marketing companies should maintain a reduced and consistent dividend payout policy on a yearly basis instead of stopping to declare dividend for some years in order to increase internal finance, market valuation and in the long run maximizes the shareholder wealth.

Finally, petroleum marketing companies in Nigeria should pay dividends in order to reduce agency cost and enhance their performance.

Contributions to Knowledge

This study has filled the gap in literature by examining the impact of dividend policy on the performance of all the 9 Petroleum marketing companies listed in the Nigerian stock exchange which was the suggestion made in a study conducted by Abdul, & Muhibudeen, (2015) that examined the Relationship Between Dividend Payout And Firms' Performance: Evaluation Of Dividend Policy Of Oando Plc. especially in this period of economic recession and dwindling price oil in international market.

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